

**Provincial Government Western Cape
Provincial Treasury**

**Financial Governance Review
& Outlook
2010
Working Paper**

**Provincial Departments,
Public and Trading Entities**



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Foreword

The Financial Governance Review and Outlook (FGR&O) 2010 is a Provincial Treasury initiative that provides an independent assessment of the financial management capability levels of departments and their entities. It continues to build on the work done in the previous three FGR&O assessments and provides comparative analysis to gauge progress made by departments and their entities, as well as to address areas where further improvements are required to take the financial management capability of the Provincial Government to level 3+. The FGR&O is structured around the various disciplines in Provincial Treasury, namely budgets, revenue, expenditure, accounting, corporate governance, cash management, financial systems, supply chain and asset management. It also provides a strong foundation to support the twelve strategic objectives of the WC Provincial Government.

To effectively comply with section 18 of the PFMA and to drive the improvement of the Financial Management Capability of departments and entities to level 3+, Provincial Treasury annually conducts financial management capability assessments in order to monitor progress and implement strategies to address shortcomings.

The Provincial Treasury will continuously endeavour to improve the financial management capability of departments and their entities to achieve a level 3+ by 2015. Progress will be monitored and evaluated very closely by the Provincial Treasury through the FMIP action plans and interventions stemming from the virtuous cycle. Provincial Treasury will provide the necessary strategic support to departments and their entities to improve their financial management capability.

The Financial Governance Review and Outlook 2010 is a team effort that drew on the knowledge and expertise of those in the various disciplines within the Provincial Treasury.



DR JC STEGMANN

HEAD OF DEPARTMENT

DATE: 15 November 2010

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Abbreviations

AC	Audit Committee
ABET	Adult basic education and training
AFS	Annual Financial Statements
APP	Annual Performance Plan
AGSA	Auditor-General of South Africa
AO	Accounting Officer
AR	Annual Report
BAS	Basic Accounting System
BEE	Black Economic Empowerment
BIP	Broad Implementation Plan
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
FET	Further Education and Training
FGR&O	Financial Governance Review and Outlook
FIFA	Federation of International Football Association
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
MTEF	Medium Term Expenditure Framework
NT	National Treasury
PDC	Provincial Development Council
PERSAL	Personnel and Salary Administration System
PFMA	Public Finance Management Act, 1999
PRF	Provincial Revenue Fund
PT	Provincial Treasury
QPR	Quarterly Performance Report
RAF	Road Accident Fund
REAL	Revenue, Expenditure, Assets and Liabilities
SCM	Supply Chain Management
SCoA	Standard Chart of Accounts
SCOPA	Standing Committee on Public Accounts
SITA	State Information Technology Agency
SLA	Service Level Agreement
SMART	Specific, Measureable, Achievable, Realistic, Time Bound
SMME	Small, Medium and Micro Enterprise
SMS	Senior Management System
SP	Strategic Plan
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 2010 presents a fourth round of annual assessments and continues to build on previous work done on the financial management capability of departments and their entities, and to monitor progress made towards a level 3+ auditable organisation.

The assessment frameworks applied by the Provincial Treasury are based on a financial management capability model that has remained basically unchanged, with minor revision of certain assessment criteria to best reflect the policy direction of the Province. Assessment frameworks were developed by the following disciplines within Provincial Treasury to assess departments and entities:

- Budgets
- Public Finance
- Accounting
- Normative Financial Management
- Enterprise Risk Management and Governance systems
- Liabilities Management (Cash)
- Supply Chain Management
- Moveable 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. These assessments are mainly based on SPs, APPs, QPRs, ARs, AGSA reports, IYM reports and various other sources of information.

Audit Outcomes 2009/10

The audit outcomes of the Western Cape Provincial Government for the 2009/10 financial year have shown a marked improvement when compared to the previous financial year as analysed below:

Provincial departments, including the Provincial Legislature (13)

Of the 13 provincial departments analysed, including the Provincial Legislature, eight (62 per cent) registered improved audit outcomes, five (38 per cent) remained unchanged, while none (0 per cent) regressed.

It is important to note that seven (54 per cent) departments, including the Provincial Legislature registered a clean audit opinion for the year under review.

Improvements (8)

Moving from an unqualified opinion with other matters to an unqualified opinion with no other matters:

- Agriculture
- Community Safety
- Cultural Affairs and Sport
- Economic Development and Tourism
- Environmental Affairs and Development Planning
- Provincial Treasury
- Provincial Legislature

Moving from a qualified opinion to an unqualified opinion with other matters:

- Transport and Public Works

Unchanged (5)

- Education
- Health
- Local Government and Housing
- Premier
- Social Development

Provincial entities (13)

In 2008/09, one entity has been liquidated, bringing the total of entities reported on to 13 in the current year under review.

The liquidated entity is the Western Cape Youth Commission, which received a qualified opinion in 2008/09.

Of the 13 entities analysed for the 2009/10 financial year, 6 (46%) registered improved audit outcomes, 7 (54%) remained unchanged, while none regressed.

It is quite pleasing to note that four (33%) entities registered a clean audit opinion for the year under review.

Improvements (5)

Moving from an unqualified opinion with other matters to an unqualified opinion with no other matters:

- The Heritage Western Cape
- Destination Marketing Organisation (T/A Cape Town Routes Unlimited)
- Western Cape Gambling and Racing Board
- Western Cape Nature Conservation Board

Moving from a qualified opinion to an unqualified opinion with other matters:

- Western Cape Liquor Board
- Western Cape Housing Development Fund

Unchanged (7)

Unqualified opinion with other matters:

- Western Cape Cultural Commission
- Cape Medical Depot
- Government Motor Transport
- Western Cape Investment and Trade Promotion Agency
- Western Cape Language Committee
- Western Cape Provincial Development Council

Unqualified with no other matters:

- Casidra (Pty) Ltd

Financial Management Capability assessments

The detailed outcomes of the assessments per department and their entities can be found in Chapter 3 of the Review. These assessments are mainly based on Strategic Plans (SP), Annual Performance Plans (APP), Quarterly Performance Reports (QPR), Annual Reports (AR), Auditor-General of South Africa (AGSA) reports, In-year Monitoring (IYM) reports and various other sources of information.

Department of the Premier

As part of its strategic position in the Province, the Department's internal performance environment and service delivery focus areas have been largely redefined and influenced by the Modernisation Process and 'blueprints' driving this process.

The performance-related documents generally reflect consistency in terms of units of performance measurement as well as with regard to format compliance. The APP generally reflects targets which are SMART. Engagements with the Department had revealed a departmental commitment to improve systematic costing/quantitative analysis. The Department is further committed to align the programme/budget structure as well as the organisational structure. According to the performance management framework the Department is almost operating as a level 3 auditable organisation.

The Department needs to refine the systems used to facilitate the preparation of performance reports and institute adequate control processes and procedures to ensure the accuracy, completeness and validity of reported predetermined objectives/performance information in order to move beyond a level 3 auditable organisation in terms of performance-related documents.

From a public finance perspective, the Department of the Premier generally managed its budget at a financial management capability rating of level 3.

On the accounting of REAL (revenue, expenditure, assets, liabilities) transactions, the Department needs to improve controls over irregular expenditure, assets and ensure that all invoices are paid within 30 days of receipt. In this regard the Department is operating close to a level 3 financial management capability rating.

In terms of ERM (enterprise risk management), the Department has achieved a rating of level 1, as the Department has not met all the set criteria for level 2 which includes strategic and operational risk assessment.

Generally the Department improved their overall audit findings when compared to the previous year. However, the high vacancy rate in the CFO's Office needs to be addressed. In terms of Corporate Governance the Department performs at a financial management capability level of 2.5.

On the management of cash resources (liability management), the Department obtained an overall rating of 3 (nominal compliance) which is in line with the 2009/10 financial year.

With regards to Supply Chain Management, the Department has not reflected improvements but has nevertheless made attempts at correcting some of the deficient areas within the SCM unit and the SCM processes. The

Department has also shown signs of stagnation as some issues emanating from the 2008/09 SCM compliance assessment have not been rectified. The overall rating of the Department is at a level 1+.

In terms of moveable asset management, the Department is performing at a level 2 based on the asset management assessment conducted in the 2009/10 financial year. The Department has not made progress, in particular with the requirements of the Broad Implementation Plan of National Treasury.

The assessment of the Department in the area of efficient use of the financial systems (BAS, PERSAL and LOGIS) revealed an overall financial management capability rating of level 3 and in terms of skilled and capacitated users, a level 2 rating due to all officials not being trained in accordance with their profiles.

Provincial Development Council

The AGSA reported that a proposal has been approved by the Premier and the Cabinet of the Western Cape Provincial Parliament for the repealing of the PDC Act and the establishment of a non-statutory forum for social dialogue in the province. The PDC will only operate until the end of the 2010/11 financial year.

Provincial Treasury

Analysis of the guidelines and legislative requirements of the 2009/10 APP and QPR, the 2009/10 AR and the 2010/11 APP reveals that the Department is, according to the performance management framework, almost operates at a level 3 financial management capability rating. The area of focus going forward is the development of an appropriate system to manage performance information in order to validate reported information on the predetermined objectives.

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

On the accounting of REAL (revenue, expenditure, assets and liabilities) transactions the department needs to improve the accuracy of asset information provided in the AFS and the management of controls over payments to move the financial management capability rating of a 2+ to a level 3.

In terms of ERM (enterprise risk management), the Department has achieved a rating of level 2, as the Department has not met all the set criteria for level 3 which include operational risk assessments.

Generally the Department is operating close to a level 3 maturity level in terms of Corporate Governance.

On the management of cash resources (liability management), the Department obtained an overall rating of 3 (nominal compliance).

The assessment of the Department in the areas of efficient use of financial system (BAS, PERSAL and LOGIS) revealed an overall financial management capability rating of level 3, except for LOGIS where a level 2 financial management capability was achieved. On training and skills of system users of the Department, a financial management capability rating of level 2 is achieved mainly due to the high percentage of officials who confirmed but did not attend courses, as well as all officials not being trained in accordance with their profiles.

In terms of the SCM assessment model the Department achieved a financial management capability rating of level 2, thus maintaining the same level as for the 2009 Review. Although certain level 3 criteria may have been met, the Department has not met all the requirements of level 3.

In view of the Asset Management verification assessment findings, the reporting on the Broad Implementation Plan and historical data, the Department achieved a level 2 financial management capability rating.

Western Cape Gambling and Racing Board

In terms of an assessment, of performance information presented and reported on, the WCGRB is operating as a level 3 auditable organisation.

An examination of the WCGRB's revenue information is reflective of an organisation operating at a level 3 financial management capability rating, with revenue estimates being credible.

On the accounting of REAL (revenue, expenditure, assets and liabilities) transactions the entity is operating consistently at a level 3 and only has minor issues to address to move to the next level.

Department of Community Safety

Overall, the Department complied with the requirements of the QPR, APP and the AR. According to the performance management framework, the Department has complied with some of the aspects of Financial Management Capability Model level 3. In order to reach a financial management capability level 4, which measures how the resources are used, the Department should move beyond compliance and focus on costing outputs and instituting practices that would identify critical outputs that would have a knock-on effect on achieving departmental outcomes.

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

On the accounting of REAL (revenue, expenditure, assets, liabilities) transactions the department needs to improve controls over the accounting of assets, supporting documentation, expenditure – payments and journals, recording and maintenance of state guarantees, and the management of lease liabilities in order to improve from a level 2+ to a level 3 financial management capability rating.

In terms of ERM (enterprise risk management), the Department has achieved a rating of level 2.8, as the Department has not met all the set criteria for level 3 which include strategic risk assessments.

Generally, in terms of Corporate Governance the Department operates at a financial management capability rating of a level 3. However, the Department needs to address the vacancies of key posts in Supply Chain Management.

In terms of cash management, the Department achieved an overall rating of 3 (nominal compliance), which is in line with the 2009/10 financial year.

The assessment of the Department on the efficient use of financial system (BAS, PERSAL and LOGIS) revealed an overall financial management capability rating of level 3. On the capacity and skills of users of all three systems, the Department achieved a financial management capability rating of level 2 due to the inadequate levels of training of system users.

The 2009/10 Financial Managing Capability rating for SCM remains at a level 2 due to poor internal control and non compliance with policies. Remedial steps have been implemented that will be assessed in the next Review.

In terms of the Moveable Asset Management assessment model, the Department has improved marginally to a financial management capability rating of level 1+ for the period under review and when compared to the previous assessment the Department has not been able to elevate itself to the next level. The Department needs to develop and implement an asset management strategy, including an acquisition, replacement and disposal plan as part of the strategy, as well as addressing the other recommendations.

Department of Education

An evaluation of the Department's APP, QPR and AR in terms of guidelines and legislative requirements of the 2009/10 APP and QPR, 2009/10 AR and the 2010/11 APP revealed that, according to the performance management framework, the Department is almost operating fully at a financial management capability rating of a level 3, moving towards level 4. To reach a financial management capability rating of level 4, which measures how resources are used, the Department should also move beyond compliance to focus on costing outputs and instituting practices that would identify those critical outputs that would have a knock-on effect to achieving departmental outcomes.

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.

On the accounting of REAL (revenue, expenditure, assets, liabilities) transactions the department needs to improve controls over the management of suspense accounts and debtors, the settlement of payments within the prescribed period and to ensure that sufficient supporting documentation is on debtor files in order to improve its current rating of level 2+ to a level 3 financial management capability rating.

In terms of ERM (enterprise risk management), the Department has achieved a rating of level 1, as the Department has not met all the set criteria for level 2 which includes addressing the risk response strategies and processes, risk management philosophy, risk appetite defined, controls identified and action plans developed.

In terms of Corporate Governance, it is evident that the Department has made significant strides towards operating at a level 3 auditable organisation.

In terms of the criteria of the cash management assessment model, the Department achieved an overall rating of 2.8 (partial compliance).

The assessment of the Department on the efficient use of financial system (BAS, PERSAL and LOGIS) revealed an overall financial management capability rating of a level 3. On the capacity and skills of users of all three these systems, the Department achieved a financial management capability rating of level 2 due to the inadequate levels of training of system users.

In terms of the SCM assessment model, the Department achieved a rating of level 2+ for the period under review which is a progression from level 2 achieved in the previous review. In order to achieve a level 3 rating, the Department needs to finalise the standardisation of SCM requirements by developing internal policies, practice notes and procedural notes.

The Department has been rated at a level 3 against the financial capability model for Asset Management. Full compliance on the Asset Register and incorporating Operation and Maintenance schedule to the policy for Operation and Maintenance Plans will ensure that the Department proceeds to the next level of capability.

Department of Health

A high level of consistency exists between the AR 2009/10 and the 2009/10 APP in terms of performance indicators and targets that enables an assessment of the actual performance of the Department against the targets set in the APP. However, the Department should ensure that the information reported on can be relied upon, and that systems to collect data and provide evidence of performance information be developed. To reach a financial management capability rating of level 4, which measures how resources are used, the Department should also move beyond compliance to focus on costing outputs and instituting practices that would identify those critical outputs that would have a knock-on effect to achieving departmental goals and outcomes.

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

On the accounting of REAL (revenue, expenditure, assets, liabilities) transactions the Department needs to reinforce the internal controls and inter alia ensure that financial instructions are rolled out and also address the issues identified by the AGSA, in order to move from its current level of 2+ to a level 3 financial management capability rating.

In terms of ERM (enterprise risk management), the Department has achieved a rating of level 2.5, as the Department has not met all the set criteria for level 3 which includes event identification, risk assessment and control activities.

Generally the Department is operating at a level 2.6 maturity level in terms of Corporate Governance. In order to achieve a level 3, the Department needs to fill all key vacant post and address outstanding audit issues.

The assessment of the Department on the efficient use of financial system (BAS, PERSAL and LOGIS) revealed an overall financial management capability rating of level 3. On the capacity and skills of users of all three these systems, the Department achieved a financial management capability rating of level 2 due to the inadequate levels of training of system users.

While the Department maintains its SCM Financial Management Capability rating of level 2+, and close to a level 3 for the 2009/10 financial year at the Head Office level, at institutional level it has not moved from the previous level 2 rating. It must be noted that for previous reviews the rating was kept separate, however since the bulk of the Department's budget for goods and services is spent at the institutional level it would be prudent that better control measures and a monitoring and evaluation environment is in place for the Department as a whole. Hence for the purpose of this assessment the overall rating for SCM for the Department is at level 2.

In view of the Department's Moveable Asset Management verification assessment findings, the reporting on the National Treasury Broad Implementation Plan, the AGSA report for 2009/10 and historical data, the Department is rated at a level 2+ in terms of the Financial Management Capability Model for Asset Management. This rating infers that the Department has made some progress and although certain level 3 criteria may have been met, it has not met all the requirements of level 3 as yet.

Western Cape Medical Supplies Centre

In terms of the management and accounting for revenue, expenditure, assets and inventory the WCMSC has made progress in terms of moving from a level 2 to a level 3 financial management capability rating when compared to the 2009 Review. The implementation of an accrual accounting system will improve financial management of the institution and should receive high level management attention.

Department of Social Development

The evaluation in terms of guidelines and legislative requirements of the 2009/10 APP and QPR, the 2009/10 AR and the 2010/11 APP reveals that the Department is, according to the performance management framework, operating close to a level 3 auditable organisation. The Department also operates according to some of the criteria at control level. To reach a financial management capability rating of level 3, which measures compliance and control, the Department should follow the AR Guideline on General and Performance Information supplied by the Provincial Treasury. To reach a financial management capability rating of level 4, which measures how resources are used, the Department should also move beyond compliance to focus on costing outputs and instituting practices that would identify those critical outputs that would have a knock-on effect to achieving departmental outcomes.

On the management of the budget, the Department operates close to a level 3 financial management capability rating. As indicated by the Auditor-General the Department needs to improve on reporting information and internal control systems.

On the accounting of REAL (revenue, expenditure, assets, liabilities) transactions the Department needs to improve controls over the accounting of assets, expenditure – payments and journals to move from its current financial management capability rating of level 2+ to a level 3.

In terms of ERM (enterprise risk management), the Department has achieved a rating of level 1, as the Department has not met all the set criteria for level 2 which includes addressing the strategic and operational risk.

Generally the Department is operating at a level 2.8 financial management capability level in terms of Corporate Governance.

On the management of cash (liability management), the Department achieved an overall rating of 3 (nominal compliance).

The assessment of the Department on the efficient use of financial systems (BAS, PERSAL and LOGIS) revealed an overall financial management capability rating of level 3. On the capacity and skills of users of all three these systems, the Department achieved a financial management capability rating of level 2 due to the inadequate levels of training of system users.

In terms of the SCM assessment model, the Department achieved a rating of level 2+ for the period under review and has shown good progress since the previous review. In order to achieve a level 3 rating, the Department needs to address the adherence to the AO System, timeous reporting of procurement information, address the SCM structure and the monitoring of the utilisation of the EPSi.

In view of the Moveable Asset Management verification assessment findings, the reporting on the National Treasury Broad Implementation Plan, the Auditor-General report for 2009/10 and historical data, the Department is rated at a level 3 in terms of the Financial Management Capability Model for Moveable Asset Management.

Department of Local Government and Housing

The Department of Local Government and Housing has been restructured into two new departments, namely the Department of Human Settlements and the Department of Local Government. The assessment of the APPs and QPRs, which are to a great extent forward looking, deals with the two new departments, whilst the remaining assessments cover the former Department. An analysis of guidelines and legislative requirements of the 2009/10 APP and

QPR, the 2009/10 AR and the 2010/11 APP reveal that the Department is, according to the performance management framework, almost operating at a level 3 auditable organisation. The area of focus going forward is the development of an appropriate system to manage performance information to validate reported information on the predetermined objectives. To reach a financial management capability rating of level 4, which measures how resources are used, the Department should also move beyond compliance to focus on costing outputs and instituting practices that would identify those critical outputs that would have a knock-on effect to achieving departmental outcomes.

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

On the accounting of REAL (revenue, expenditure, assets, liabilities) transactions the Department is currently performing at a level 3 financial management capability rating.

It should, however, be borne in mind that the Department has subsequently been split into the Departments of Human Settlements and Local Government. The assets and liabilities of the Western Cape Housing Development Fund has to be wound up and transferred to the Department of Human Settlements. This process should be properly administered and monitored.

In terms of ERM (enterprise risk management), the Department has achieved a rating of level 2.5 as the Department has not met all the set criteria for level 3 which includes addressing strategic and operational risk.

Generally the Department is operating at a level 2.8 maturity level in terms of Corporate Governance. In order to achieve a level 3, the Department needs to address internal control weaknesses.

On the management of cash (liabilities management), the Department achieved an overall rating of 3 (nominal compliance), which is in line with the 2009/10 financial year.

The assessment of the Department on the efficient use of financial system (BAS, PERSAL and LOGIS) revealed an overall financial management capability rating of level 3. On the capacity and skills of users of all three these systems, the Department achieved a financial management capability rating of level 2 due to the inadequate levels of training of system users.

In terms of the SCM assessment the Department is rated at a financial management capability of level 2. Whilst some progress is noted from the last financial year's assessment, there has been no substantial movement in

respect of compliance and implementation of internal controls, an essential element of the level 3 capability.

In terms of the Moveable Asset Management assessment, the Department is rated at a level 2 financial management capability. Whilst some progress is noted, no substantial progress has been made in terms of internal control issues, data integrity as well as compliance with the National Treasury's Broad Implementation Plan.

Western Cape Housing Development Fund-

The Fund is currently dormant and is due to be disestablished subject to the amendment of the National Housing Act.

The Housing Development Fund was exempted from complying with the GRAP reporting framework for the 2009/10 financial year. However, for 2010/11 the entity must comply with GRAP in terms of a framework issued by the National Treasury.

The disestablishment of the Fund must be managed in close cooperation of the parent department and Provincial Treasury in terms of sanitising, transferring of assets and liabilities to the Department of Human Settlements and the winding up of the books of account of the Fund.

Department of Environmental Affairs and Development Planning

The Department (according to the performance management framework) is operating close to a level 3 auditable organisation. In order to achieve a financial management capability rating of level 3, which measures compliance and control, the Department needs to implement a process flow for quarterly performance reporting, which needs to address accountability and credibility of data. In order to reach a financial management capability rating of level 4, which measures how resources are used, the Department should also move beyond compliance to focus on costing outputs and instituting practices that would identify those critical outputs that would have a knock-on effect to achieving departmental outcomes.

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

On the accounting of REAL (revenue, expenditure, assets, liabilities) transactions the department needs to improve controls over the verification of assets against the asset register in order to prevent deteriorating from the current level 3 financial management capability rating.

In terms of ERM (enterprise risk management), the Department has achieved a rating of level 2.8, as the Department has not met all the set criteria for level 3.

Generally the Department is operating at a level 3 maturity level in terms of Corporate Governance.

On the management of cash (liabilities management) the Department achieved an overall financial management capability rating of level 3 (nominal compliance), which is in line with the 2009/10 financial year.

The assessment of the Department on the efficient use of financial system (BAS, PERSAL and LOGIS) revealed an overall financial management capability rating of level 3. On the capacity and skills of users of all three these systems, the Department achieved a financial management capability rating of level 2 due to the inadequate levels of training of system users.

In terms of the Supply Chain Management assessment, the Department achieved a level 2 financial management capability rating and to progress to level 3 will be required to address demand, performance and contract management.

In terms of the Moveable Asset Management assessment, the Department received a level 1+ financial management capability rating. In order to progress to the next level the Department needs to address the implementation of a asset management strategy, monitor the life cycle of assets and ensure that the asset register meets the minimum requirements.

Western Cape Nature Conservation Board

In terms of assessments of the entity's management of outcomes and goals in terms of the SP and APP, it is noted that CapeNature is operating at a financial management capability rating of a level 3.

The entity needs to improve controls over the verification of assets against the asset register and ensure that all movements in assets are recorded promptly and updated in the fixed asset register.

Department of Transport and Public Works

The evaluation in terms of guidelines and legislative requirements of the 2009/10 APP and QPR, the 2009/10 AR and the 2010/11 APP revealed that the Department is, according to the performance management framework, almost operating at a level 3 auditable organisation. In order to reach a level 3, the Department should follow the Annual Reporting Guideline on General and Performance information issued by Provincial Treasury. To reach a financial management capability rating of level 4, which measures how resources are used, the Department should move beyond compliance to focus on costing outputs and instituting practices that would identify those critical outputs that would have a knock-on effect to achieving departmental goals and outcomes.

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

On the accounting of REAL (revenue, expenditure, assets, liabilities) transactions the Department needs to address the accounting of assets in order to move from its current level of 2+ to a level 3 financial management capability rating.

In terms of ERM (enterprise risk management), the Department has achieved a rating of level 1, as the Department has not met all the set criteria for level 2 which includes addressing strategic and operational risk, risk management philosophy, risk appetite and internal controls.

Generally the Department is operating at a level 2.5 maturity level in terms of Corporate Governance. In order to achieve a level 3, the Department needs to fill all key vacant posts and address skills development in the CFO's Office.

On the management of cash (liabilities management), the Department achieved an overall rating of 3 (nominal compliance), which is in line with the 2009/10 financial year.

The assessment of the Department on the efficient use of financial system (BAS, PERSAL and LOGIS) revealed an overall financial management capability rating of level 3. On the capacity and skills of users of all three these systems, the Department achieved a financial management capability rating of level 2 due to the inadequate levels of training of system users.

In terms of the Supply Chain Management assessment processes performed, the Department achieved a financial management capability rating of level 2+. In order to progress to level 3, the Department needs to address demand management and the management of consultants.

In terms of the Moveable Asset Management assessment of the Department, a financial management capability rating of level 2 was achieved. In order to move to the next level, the Department needs to address compliance with National Treasury's Broad Implementation Plan, standardise asset management procedures and establish an asset management framework.

Government Motor Transport (GMT)

On the accounting of REAL (revenue, expenditure, assets, and liabilities) transactions the GMT is currently performing at a level 2+ financial management capability rating. In order to achieve a level 3 rating, GMT should ensure enhanced management controls over the accounting of assets, the monitoring of debtors and settle all invoices within 30 days.

Department of Agriculture

Overall, the Department complied with the legislative and technical requirements of the QPR, APP and the AR. According to the performance management framework, the Department operates close to the Financial Management Capability Model level 3 and already shows some aspects of level 4 capability. The area of focus going forward is the development of an appropriate system to manage performance information in order to validate reported information on the predetermined objectives.

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

On the accounting of REAL (revenue, expenditure, assets, liabilities) transactions the Department needs to address the accounting of assets and supporting documentation in order to move from its current level of 2+ to a level 3 financial management capability rating.

In terms of ERM (enterprise risk management), the Department has achieved a rating of level 2+ as the Department has not met all the set criteria for level 3 which includes addressing the event identification and risk assessment.

Generally the Department is operating at a level 3 maturity level in terms of Corporate Governance. The Department needs focus on the filling of all key vacant post and all staff should be subjected to structured training.

On the management of cash (liabilities management), the Department achieved an overall rating of 3 (nominal compliance), which is in line with the 2009/10 financial year.

The assessment of the Department on the efficient use of financial system (BAS, PERSAL and LOGIS) revealed an overall financial management capability rating of level 3. On the capacity and skills of users of all three these systems, the Department achieved a financial management capability rating of level 2 due to the inadequate levels of training of system users

In terms of the Supply Chain Management assessment, the Department is rated at level 3 financial management capability.

In terms of the Moveable Asset Management assessment the Department is rated at level 2+ financial management capability. The Department needs to address the development and implementation of an asset management strategy, develop a basic asset management control framework and a uniform life cycle must be implemented.

CASIDRA

On the accounting of REAL (revenue, expenditure, assets, liabilities) transactions the Entity's management controls are generally effective and efficient, which has lead to an unqualified audit report for 2009/10. No significant shortcomings were identified in the IYM reporting submitted for the period. The entity's financial management capability is rated at level 3.

Department of Economic Development and Tourism

An evaluation in terms of guidelines and legislative requirements of the 2009/10 APP and QPR, draft 2009/10 AR and the 2010/11 APP revealed that, according to the performance management framework, the Department is operating at a capability level 3 moving towards the region of a capability level 4. The area of focus going forward is the development of an appropriate system to manage performance information in order to validate reported information on the predetermined objectives.

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

On the accounting of REAL (revenue, expenditure, assets, and liabilities) transactions the Department needs to address the proper disclosure of finance leases in order to move from its current level of 2+ to a level 3 financial management capability rating.

In terms of ERM (enterprise risk management), the Department has achieved a rating of level 3, as the Department has not met all the set criteria for level 4.

Generally the Department is operating at a level 3 maturity level in terms of Corporate Governance. In order to maintain the level 3 rating, the Department needs to develop and formalise a staff retention policy.

On the management of cash (liabilities management), the Department achieved an overall rating of 3 (nominal compliance), which is in line with the 2009/10 financial year.

The assessment of the Department on the efficient use of financial system (BAS, PERSAL and LOGIS) revealed an overall financial management capability rating of level 3. On the capacity and skills of users of all three these systems, the Department achieved a financial management capability rating of level 2 due to the inadequate levels of training of system users

In terms of the Supply Chain Management assessment, the Department has made progress from a level 2 to a level 2+ financial management capability rating. The Department has charted a clear path to achieve a level 3 rating which includes implementing the Treasury's endorsed Accounting Officer's framework, implementing contract management principles to ensure succession planning and implementing standard operating procedures.

In terms of the Moveable Asset Management assessment the Department is rated at level 3 financial management capability. In order to move to the next level, the Department needs to implement effective and efficient asset management practices.

Western Cape Investment and Trade Promotion Agency

Wesgro should ensure that there are improved control mechanisms in place to guarantee compliance with the applicable reporting and regulatory frameworks. Wesgro should effectively utilise the IYM process to proactively monitor and address concerns and problems experienced by the entity in order to improve its financial management capacity rating from a level 2 to a level 3.

Destination Marketing Organisation

The entity is performing all its basic accounting functions according to prescripts and in general is performing at level 3 financial management capability rating.

Western Cape Liquor Board

On the accounting of REAL (revenue, expenditure, assets, and liabilities) transactions the entity is confident that the financial management capability will improve once the Western Cape Liquor Bill is promulgated, enabling it to report accurately on its own revenue, thereby achieving a financial management capability rating of level 3.

Department of Cultural Affairs and Sport

The evaluation of performance information of the Department in terms of guidelines and legislative requirements of the 2009/10 APP and QPR, the 2009/10 AR and the 2010/11 APP revealed that the Department is, according to the performance management framework, almost operating at a level 3 auditable organisation. In order to reach a financial management capability rating of level 3, the Department needs to implement a process flow for quarterly performance reporting which will address accountability and credibility of data. To reach a financial management capability rating of level 4, the Department should move beyond compliance to focus on costing outputs and instituting practices that would identify those critical outputs that would have a knock-on effect to achieving departmental outcomes.

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

On the accounting of REAL (revenue, expenditure, assets, and liabilities) transactions the Department needs to address controls over payments in order to be fully effective at a level 3 financial management capability rating.

In terms of ERM (enterprise risk management), the Department has achieved a rating of level 2.5, as the Department has not met all the set criteria for level 3 which includes addressing the internal environment and operational risk assessments.

Generally the Department is operating at a level 3 maturity level in terms of Corporate Governance. However, the Department should seriously review its skills development in order to ensure that all staff in the CFO structure is subjected to structured training.

On the management of cash (liabilities management), the Department achieved an overall rating of 3 (nominal compliance), which is in line with the 2009/10 financial year.

The assessment of the Department on the efficient use of financial system (BAS, PERSAL and LOGIS) revealed an overall financial management capability rating of level 3. On the capacity and skills of users of all three these systems, the Department achieved a financial management capability rating of level 2 due to the inadequate levels of training of system users.

In terms of the Supply Chain Management assessment, the Department has made tremendous progress to achieve a level 2 financial management capability rating. The Department needs to address the implementation of procurement plans, training of SCM officials, standard operating procedures and implement recommendations of the AGSA.

In terms of the Moveable Asset Management assessment the Department is rated at level 1 financial management capability. In order to move to the next level, it should implement an assessment management strategy, capacitate the asset management unit, implement uniform asset life cycle and the development of acquisition, replacement and disposal plans.

Western Cape Cultural Commission

The Entity is performing its basic accounting functions according to prescripts and in general performs at a level 3 financial management capability rating.

Western Cape Language Commission

The Entity is performing its basic accounting functions according to prescripts and is performing close to a level 3 financial management capability rating. Management should improve management controls to identify misstatements in the financials.

Heritage Western Cape

The Entity is performing its basic accounting functions according to prescripts and in general performs at a level 3 financial management capability rating.

Overview of assessments

The table below provides an overview of the financial management capability ratings per department based on the assessments carried out in Chapter 3 of the FGRO 2010. It summarises the assessment ratings of departments on average and per discipline and provides a snapshot of areas that are lacking and where improvements are required to move to level 3+.

Table 1: Overview of financial management capability ratings

Department	Performance Management Non financial information	Performance Management financial information	Compliance with accounting frameworks	ERM	Corp Gov	Liabilities Management	SCM	MAM	System usage	Systems training	Average
Premier	3.00	3.00	2.80	1.00	2.50	3.00	1.50	2.00	3.00	2.00	2.38
Treasury	2.50	3.00	2.50	2.00	2.80	3.00	2.00	2.00	3.00	2.00	2.48
Community Safety	3.00	3.00	2.80	2.80	3.00	3.00	2.00	1.50	3.00	2.00	2.61
Education	3.00	3.00	2.50	1.00	2.80	2.80	2.50	3.00	3.00	2.00	2.56
Health	3.00	3.00	2.50	2.50	2.80	2.50	2.00	2.50	3.00	2.00	2.58
Social Development	2.50	3.00	2.50	1.00	2.80	3.00	2.50	3.00	3.00	2.00	2.53
Local Government & Housing	2.80	3.00	3.00	2.50	2.80	3.00	2.00	2.00	3.00	2.00	2.61
Environmental Affairs & Development Planning	2.80	3.00	3.00	2.80	3.00	3.00	2.00	1.50	3.00	2.00	2.61
Transport & Public Works	3.00	3.00	2.50	1.00	2.50	3.00	2.50	2.00	3.00	2.00	2.45
Agriculture	3.00	3.00	2.50	2.80	3.00	3.00	3.00	2.50	3.00	2.00	2.78
Economic Development & Tourism	3.00	3.00	2.50	3.00	3.00	3.00	2.50	3.00	3.00	2.00	2.80
Cultural Affairs & Sport	3.00	3.00	2.50	2.80	3.00	3.00	2.00	1.00	3.00	2.00	2.53
Average	2.88	3.00	2.63	2.10	2.83	2.94	2.21	2.17	3.00	2.00	2.58

On average, departments have made marked progress when compared to the previous assessments, mostly moving from a level 2 to a level 2+, while in certain assessment areas namely budget management, cash management and financial systems management a level 3 rating was achieved. Departments generally achieved a level 2+ on performance management, financial accounting, and corporate governance. In the areas of risk management, supply chain management and moveable asset management, departments generally performed at level 2 or marginally above.

The Modernisation process of the Province, driven by the Department of the Premier, resulted in a moratorium being placed on the filling of vacant posts in the CFO's Office impacting on the effective functioning of the Office, mainly on the Enterprise Risk Management function, hence the poor outcome.

Conclusion

It is clear from the above that a level 3+ financial management capability can only be achieved through strategic partnerships between Provincial Treasury, departments and their entities by taking cognisance of the areas for improvement highlighted in the Review as well as the challenges of financial management reforms that is happening in the fields of performance management, budgeting, accounting and asset management.

The Provincial Treasury will continuously endeavour to improve the financial management capability of departments and their entities to achieve a level 3+ by 2015. Progress will be monitored and evaluated very closely by the Provincial Treasury through the FMIP action plans and interventions stemming from the virtuous cycle. Provincial Treasury will provide the necessary strategic support to departments and their entities to improve their financial management capability.

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 – Start-up level	No proper control framework.	<ul style="list-style-type: none">• Mandate and functions of entity not clearly understood.• Roles and functions not clearly separated from other entities.	Start-up issues.
Level 2 – Development level	A proper internal control framework and financial accounting processes have been developed.	All elements of an internal control framework required by management are developed and documented. This includes the following: <ul style="list-style-type: none">• The adequate communication of management framework.• Systems to integrate the management framework.• Provision for maintenance and updating.	Lack of implemented controls are looked at in terms of the following categories: <ul style="list-style-type: none">• Authorisations (for example no proper delegations of responsibilities).• Policy framework (for example not documented or approved).• Independent management reconciliations (for example a lack of proper framework for performing independent reconciliations and checks).• Monitoring (for example the lack of framework for monitoring).• Physical security of assets or resources (for example no framework for the physical security of assets or resources).

Capability level	Definition	Detailed characteristics	Criteria
			<ul style="list-style-type: none"> Control environment issues (for example a lack of capacity). Internal audit (no internal audit and no reliance on the work of internal audit). The Audit Committee (AC) (no properly functioning AC).
Level 3 – Control level	Focus is on compliance and control.	<p>The internal control framework designed by management is “adequately” implemented. This includes the following:</p> <ul style="list-style-type: none"> Officials with appropriate training and capacity can carry out their functions effectively. Information reported can be relied upon. 	<p>Implemented controls that are not functioning appropriately can be broken down into the following categories:</p> <ul style="list-style-type: none"> Authorisations, (delegations of authority not followed by the employees). Segregation of duties, (Segregation of duties is not followed during the everyday operations). Reconciliations, (reconciliation is not performed as required by the policy document). Monitoring (monitoring has not taken place as required by the management framework). Physical security of assets.
Level 4 – Information level	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 Es.</p> <p>Cost management systems must be aligned with financial, operational and reporting systems.</p>
Level 5 – Managed level	Focus on balancing efficient and economical use of resources with quality/ effectiveness of results achieved.	<ul style="list-style-type: none"> Risk management: cost-effective utilisation of resources. Risk management: project costing and financing. Continual updating of strategic plans. 	
Level 6 – Optimising level	Focus on continuous improvement and learning.	<ul style="list-style-type: none"> Strategic financial training for non-financial employees. Continuous internal assessment of financial management processes, improvements and measurements. 	

2.2 Assessment of Performance Management

2.2.1 Non-financial information

Assessment methodology for non-financial performance information

Capability level	Definition	Detailed characteristics	Criteria
Level 1 – <i>Start-up level</i>	No proper control framework.	<ul style="list-style-type: none"> Mandate and functions of entity not clearly understood. Roles and functions not clearly separated from other entities. 	<ul style="list-style-type: none"> Start-up issues.
Level 2 – <i>Development level</i>	A proper internal control framework and performance management 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"> The adequate communication of management framework. Systems to integrate the management framework. Provision for maintenance and updating. 	<p>Lack of implemented controls are looked at in terms of the following categories:</p> <ul style="list-style-type: none"> Planning process: <ul style="list-style-type: none"> Predetermined objectives Predetermined performance indicators with targets. Submission of Strategic/ Annual Performance Plan Monitoring and evaluation process (for example the lack of framework for monitoring). Submission of Quarterly Performance Reports Submission of Annual Report.

Capability level	Definition	Detailed characteristics	Criteria
Level 3 – <i>Control level</i>	Focus is on compliance and control.	<p>The internal control framework designed by management is adequately implemented. This includes the following:</p> <ul style="list-style-type: none"> • Officials with appropriate training and capacity can carry out their functions effectively. • Information reported can be relied upon. Systems must be in place to collect data and provide evidence of the service delivered. 	<p>Meet statutory and regulatory requirements – Strategic Plan, Annual Performance Plan, Annual Report and Quarterly Performance Report.</p> <ul style="list-style-type: none"> • All performance indicators defined in the 2009/10 APP must be reported on in the 2009/10 Annual Report. • The units of performance measurement (targets and actual) in the APP and annual report must be the same. • All deviations from annual targets must be adequately identified and quantified in the annual report. • Format of the SP/APP must comply with all the aspects of the National Treasury Guideline on Strategic/Annual Performance Plans. • The APP must comply with the uniform programme structure as defined nationally. • All sector-specific performance measures defined at national level must be included in the APP. • The performance indicators must be defined logically consistent with the defined strategic objectives. • Performance indicators must be measurable i.e. units must readily be measured on a quarterly or annual basis and defined for each strategic objectives. • All targets must be measurable or defined as numbers and if defined as percentages it should include baselines.

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Capability level	Definition	Detailed characteristics	Criteria
Level 4 – <i>Information level</i>	Focus on measuring how resources are used.	The economic, efficient and effective utilisation of resources is managed, measured and reflected in reliable non-financial information. Promote consistent and comparable non-financial information reports.	<ul style="list-style-type: none"> • Where applicable all targets must be set per quarter in the APP. • The Department must report quarterly on all quarterly set targets on performance measures/indicators in the APP. • Actual outputs must be validated with evidence on a quarterly basis. <p>Integration between financial and non-financial systems, practices and procedures to provide information to meet the 3X Es. Cost management systems must be aligned with financial, operational and reporting systems.</p> <ul style="list-style-type: none"> • The annual report must adequately explain all main deviations from targets and mention remedies for deviations on target performance that the Department will take forward. • The Annual Report must serve as the base document for future planning. • The number of measurable objectives defined in the SP/APP must be kept to a level which the Department can manage. • Challenges and responses on actual outputs per quarter must be relevant/consistent with performance and realistic and reflected upon in the reports for future quarters. Outputs of the Department must contribute to the ultimate outcomes in the Country/Province.
Level 5 – <i>Managed level</i>	Focus on balancing efficient and economical use of resources with quality/effectiveness of results achieved.	Risk management: <ul style="list-style-type: none"> • Cost-effective utilisation of resources. • Project costing and financing. • Continual updating of strategic plans. 	<ul style="list-style-type: none"> • The Department must prove the costing of the outputs/activities that determine the budget allocations.

Capability level	Definition	Detailed characteristics	Criteria
Level 6 – <i>Optimising level</i>	Focus on continuous improvement and learning.	<ul style="list-style-type: none"> • Strategic financial and performance training for non-financial employees. • Continuous internal assessment of financial and performance management processes, improvements and measurements. 	

2.2.2 Financial Information

Assessment methodology for financial performance information

Level 3 – Compliance level

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

- 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 15th day after the end of a reporting month as per PFMA requirements.
- It ensures that reported actuals on expenditure and revenue reconciles to BAS/VULINDLELA and that forecasts are realistic and based on sound planning.
- It corrects all incorrect classifications in terms of the Standard Chart of Accounts on a regular basis.
- 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 Adjustments Budget is submitted timeously and that it is comprehensive in terms of Section 31 of the PFMA.
- Its spending outcome for the financial year is within the 2 per cent underspending norm, and roll-overs are limited or non-existent. There is no overspending within the vote, no fiscal dumping, and no unauthorised or irregular expenditure.
- All revenue due to the Department is collected and there are limited over-collections. Tariffs are approved by the relevant authorities and recorded in a tariff register.

Level 4 – Information level

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

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

2.3 Accounting 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 1 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.
3. Financial reconciliations.	The necessary guidelines and processes are in place aligned to prescribed methodologies in order to perform daily as well as monthly reconciliations timeously (within the relevant reporting month).	Continuous development of staff on current practices and legislative requirements of monthly reconciliations iro compilation, verification, approval and submission timeously as prescribed. Exceptions are corrected and reconciled/accounted within the following month.	Timeous clearance of all exceptions and reconciling on daily/monthly basis to ensure the integrity of REAL financial data.
4. Supporting documentation.	Relevant guidelines and/or policies issued and implemented and reviewed regularly to ensure management control and safekeeping of all processed supporting documentation.	All staff fully capacitated to ensure that supporting documentation complies with prescribed requirements.	Information on supporting documentation supports management planning and decision-making – been backed by high quality audit trail (manual and online).
5. Expenditure – Payments and journals.	Guidelines, circulars and/or policies issued to manage expenditure i.e. current, transfers and capital.	Capacity of staff to effectively implement guidelines, circulars, and related legislation to ensure compliance.	Accurate and timeous reporting (i.e. IYM) on expenditure transactions.
5.1 Allocations iro Standard Chart of Accounts (SCoA).	Necessary guidelines, procedures and training in place in order to address accounting requirements.	Staff capacitated to correctly allocate transactions iro SCoA.	Optimal understanding and application of SCoA resulting in REAL time processing of transactions based on integrated activities of the Department holistically.

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Requirements	Level 2	Level 3	Level 4
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 in delegations.	Authorisations are executed by duly assigned officials in line with frameworks and processes.	Authorisations executed only after the three'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 in TRs and additional best practices issued.	AFS – integrity of data reliable and readily available.
6. Procedures for the identification and reporting of: <ul style="list-style-type: none"> o unauthorised expenditure. o fruitless and wasteful expenditure. o irregular expenditure. 	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.

Requirements	Level 2	Level 3	Level 4
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 Corporate Governance

2.4.1 Enterprise Risk Management and Governance Systems

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

Table 2 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>ENTERPRISE RISK MANAGEMENT SYSTEMS</p> <p>Strategic Risk Assessment:</p> <ul style="list-style-type: none"> • Strategic risks identified. • Risk response strategies developed and relevant processes developed. • Organisational structure supports developed processes. <p>Internal Environment:</p> <ul style="list-style-type: none"> • 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. <p>Operational Risk Assessment:</p> <ul style="list-style-type: none"> • 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.
Level 3: <i>Control level</i>	Focus is on compliance and control.	<p>ENTERPRISE RISK MANAGEMENT SYSTEMS</p> <p>Internal Environment:</p> <ul style="list-style-type: none"> • Compliance to Commitment to competence displayed in appointment and development practices. • Compliance to the Assignment of authority and responsibility. • Compliance to the Risk Management Philosophy articulated in writing and communicated to staff. • Compliance to Management's philosophy and operating style that reflects acceptance of risk management principles. • Compliance to Risk appetite defined.

Capability level	Outline	Governance Criteria & Norms and Standards
		<p>Event Identification:</p> <ul style="list-style-type: none"> • Risk events are identified at least annually and are incorporated into daily activities. • Risk events are grouped in terms of event categories. <p>Risk Assessment:</p> <ul style="list-style-type: none"> • Risks are assessed on a residual risk basis. <p>Control Activities:</p> <ul style="list-style-type: none"> • Control activities are designed to address risk events. • Control activities are designed using a recognised control framework. <p>Information and Communication:</p> <ul style="list-style-type: none"> • 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. <p>Monitoring:</p> <ul style="list-style-type: none"> • The risk management process is subject to ongoing internal evaluation. • The risk management process is subject to regular internal audit evaluation.
Level 4: <i>Information level</i>	Focus on measuring how resources are used.	<p>ENTERPRISE RISK MANAGEMENT SYSTEMS</p> <p>Risk Response:</p> <ul style="list-style-type: none"> • Risk responses strategies take into account the cost of risk vs cost of control. <p>Information and Communication:</p> <ul style="list-style-type: none"> • Communication of risk to external stakeholders. • Attain explicit information required for evaluating accountability.
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.	

2.4.2 Normative Financial Management: Framework for Compliance with PFMA

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

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

Capability level	Outline	Criteria
Level 2 <i>Development Level</i>	A proper internal control framework and financial accounting processes have been developed.	<ul style="list-style-type: none"> • CFO tables 12 management reports on financial issues. • 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? • Are regular information sessions held with the rest of the management team to explain the principles of financial management and to emphasise their responsibility for financial management? [sec 44 & 45 of PFMA] • Is there an approved policy on subsistence and travel? • Complete set of delegations compiled and approved in terms of current NTRs. • Has the AO established procedures to facilitate effective performance measurement? [TR 5.3.1] • Is the SP consistent with the medium term expenditure estimates? [TR5.2.2 (a)] • Is there a formal documented procedure providing for management to monitor stock losses? • 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] • Is there an effective Recruitment and Selection Plan in place?
Level 3 <i>Control Level</i>	Focus is on compliance and control.	<p>Debt Management</p> <ul style="list-style-type: none"> • Does the Department comply with the policy and procedures to ensure effective collection of outstanding debt? [TR.11.2.1] • Does the Department produce a debtor's age analysis on a regular basis? • The number of days before payment is received not exceeding 30 days. • % of debt in terms of own revenue. • Amount in arrears exceeding 6 months. [R 0] • Does the Department comply with the policy and procedures on debt write-off? • % of bad debt not exceeding 0.5 per cent. <p>Asset Management</p> <ul style="list-style-type: none"> • Does the Department comply with the policy and procedure manual to ensure effective management of assets? [sec 38(1)(d) of the PFMA & TR10.1.2] <p>Credit Management</p> <ul style="list-style-type: none"> • Are all payments due to creditors settled within the prescribed period? [TR8.2.3] • Effective utilisation of the creditors' age analysis? • Are interest free facilities and possible discount utilised to the fullest extent? [TR.15.10.1.2]

Capability level	Outline	Criteria
		<p>Cash Management</p> <ul style="list-style-type: none"> • Is the collection of revenue monitored on a regular basis and reported to the executive authority? [sec 39 (2)(b) of the PFMA] • Is cash received deposited on a regular basis, where possible? [TR 15.10] • Are bank reconciliation's done on a daily basis by the Department? [TR15.10.1.2(j)] <p>Travel and Subsistence Policy</p> <ul style="list-style-type: none"> • Is S&T payments done in terms of the policy? • Authorisations (delegations of authority followed by the employees) • Segregation of duties followed during everyday operations • Is the AO monitoring and evaluating performance and ensuring that corrective actions are taken? [TR 5.3.1] • Are all transactions supported by authentic and verifiable source documents which clearly indicate the approved accounting allocation? • Signed agreement within 3 months from date of appointment on or before 30 April and aligned with objectives in the strategic plan • The vacancy rate does not exceed 5 per cent. [PSR, Chapter 1, Part III] • The average period of vacancy not exceeding 3 months. • 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] • Strategic plans approved and tabled in legislator in the Legislature? [TR 5.2.1] • Is the strategic plan performance based? [TR 5.2.2 (d)] • Is reporting on performance against the strategic plan done on a regular basis? [TR.5.3.1] • 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] • Are the certified payroll reports returned to the CFO as required? [TR 8.3.5] • Do Schedule 3A & 3C Public entities under the control of the Department report on a regular basis regarding actual revenue and expenditure? [TR.26.1.1] • Do Schedule 3A & 3C Public entities report on a regular basis on the extent of compliance with the PFMA and Treasury Regulations? [TR26.1.2] • Has the Department submitted the annual report, including, the audited financial statements and the audit report, timeously to the executive authority? • 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] • Has the executive authority tabled the annual reports of public entities under his/her control in the legislature? [sec 65(1) of PFMA] • Is a schedule regarding disciplinary procedures and criminal charges submitted to the relevant treasury and the Auditor-General? [TR 4.3.3]

2.5 Cash Management

This section deals with the implementation and management of sound cash flow practices as well as the provision of assistance and training in respect of the 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 practise of sound cash flow 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 of effectiveness the department is operating in respect of cash management. The following areas and standards of performance and under-performance were identified.

Table 4 Cash Management: Levels 3 and 4 assessment tool

Requirements	Weight	Standard Level 3	Standard Level 3+
Submission of Annual Provincial Cash flow Projections (section 40(4)(a)).	10%	By 28 February	By 15 February
Monthly alignment of actual expenditure with available cash.	20%	11 months compliance	12 months compliance
Available Budget equal to available cash (annual).	20%	Not equal	Equal
Surrender of voted Surplus Funds.	10%	31 May	15 May
Submission of monthly Bank Reconciliation.	10%	Within 30 days after month end	Within 15 days after month end
User account management (Dormant users, etc).	20%	User accounts reconciled on a quarterly basis	User accounts reconciled on a monthly basis
Confirm reconciliation of monthly bank transfers.	10%	Within 7 working days after calendar month end	Within 5 working days after calendar month end
	100%		

2.6 Supply Chain Management

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

Table 5 Supply Chain Management: Levels 3 and 4 assessment tool

Capability level	Definition	Detailed characteristics	Criteria	SCM Criteria
Level 1 – <i>Start-up level</i>	No proper control framework.	<ul style="list-style-type: none"> • Mandate and functions of entity not clearly understood. • Roles and functions not clearly separated from other entities. 	Start-up issues.	<ul style="list-style-type: none"> • Isolated attempts and accomplishments in place at developing business practices. • Process of implementing new programme or policy for e.g. draft policies in place (PFMA; NTRs etc). • Data or records kept may not be accurate (quotations and bid information). • Environment is not stable (no mitigation of risk or identifiable control measures).
Level 2 – <i>Development level</i>	A proper internal control framework and financial accounting processes have been developed	<ul style="list-style-type: none"> • All elements of an internal control framework required by management are developed and documented. This includes the following: <ul style="list-style-type: none"> - The adequate communication of management framework. - Systems to integrate the management framework. - Provision for maintenance and updating. 	<ul style="list-style-type: none"> • Lack of implemented controls are looked at in terms of the following categories: <ul style="list-style-type: none"> - Authorisations (for example no proper delegations of responsibilities). - Policy framework (for example not documented or approved). - Independent management reconciliations (for example a lack of proper framework for performing independent reconciliations and checks). - Monitoring (for example the lack of framework for monitoring). - Physical security of assets or resources (for example no framework for the physical security of assets or resources). 	<ul style="list-style-type: none"> • SCM Unit in Place. • Ensuring that structures like bid committees are in place. • Policy implementation and development (AO system; Delegations. • Attempts at Standardisation of procedures. • Establishment of a basic SCM control framework. • Attempts at basic SCM training for SCM officials (some officials have received training).

Capability level	Definition	Detailed characteristics	Criteria	SCM Criteria
			<ul style="list-style-type: none"> - Control environment issues (for example a lack of capacity). - Internal audit (no internal audit and no reliance on the work of internal audit). - The AC (no properly functioning AC). 	
Level 3 – Control level	Focus is on compliance and control	<ul style="list-style-type: none"> • The internal control framework designed by management is “adequately” implemented. This includes the following: <ul style="list-style-type: none"> - Officials with appropriate training and capacity can carry out their functions effectively. - Information reported can be relied upon. 	<ul style="list-style-type: none"> • Implemented controls that are not functioning appropriately can be broken down into the following categories: <ul style="list-style-type: none"> - Authorisations, (delegations of authority not followed by the employees). - Segregation of duties, (Segregation of duties is not followed during the everyday operations). - Reconciliations, (reconciliation is not performed as required by the policy document). - Monitoring (monitoring has not taken place as required by the management framework). - Physical security of assets. 	<ul style="list-style-type: none"> • Adequate resources available. • Delegations in place. • AO System in terms of section 38(1)(iii)(a) of the PFMA. • Transactions processed and controlled in accordance with applicable legislative and regulatory framework. • SCM operations are monitored and controlled. • Satisfactory SCM reporting requirements. • Reliable data (Integrity of SCM data supports SCM operational planning decisions and monitoring activities). • Organisation meets statutory and regulatory obligations. • Move towards developing Standard Operating Procedural Manuals. • All officials dealing with SCM have received training and meet the competency requirements.

Capability level	Definition	Detailed characteristics	Criteria	SCM Criteria
Level 4 – <i>Information level</i>	Focus on measuring how resources are used	<ul style="list-style-type: none"> The economic, efficient and effective utilisation of resources is managed, measured and reflected in reliable financial information. 		<ul style="list-style-type: none"> Integration of financial and non-financial systems. Continuous SCM capacitation and training programme in place. Cost effective management of risk. Effective usage of resources. SCM practice and procedure managed with prudence in an efficient and effective manner. Achievement of operational functionality in SCM. Formalised and implemented SCM practices and policies in place (standard operating procedural manuals in place). Consistent and comparable SCM reporting. 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.
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"> Risk management: cost-effective utilisation of resources. Risk management: project costing and financing. Continual updating of strategic plans. 		<ul style="list-style-type: none"> The procurement of goods and services at an acceptable quality. Cost versus quality versus opportunity Procurement of goods and services at the right price, at the right place and at the right time. The utilisation of simulation, historical trends and manipulating variables to see how they affect the outcome.

Capability level	Definition	Detailed characteristics	Criteria	SCM Criteria
				<ul style="list-style-type: none"> • Defining the relationship among variables that effect cost, quality and level of service and understanding and how they impact on the department's results. • Utilisation of information to make informed decisions among competing objectives like cost, quality and schedule. • Monitoring of SCM and its outcomes. • Using quantitative information to balance among competing business line objectives (e.g. to reduce cost, improve productivity, improve quality, reduce risk and increase opportunities).
Level 6 – <i>Optimising level</i>	Focus on continuous improvement and learning	<ul style="list-style-type: none"> • Strategic financial training for non-financial employees. • Continuous internal assessment of financial management processes, improvements and measurements. • 		<ul style="list-style-type: none"> • Strategic SCM objectives in place. • Service delivery improvements in place. • Future improvement areas concentrated on: <ul style="list-style-type: none"> - Developing prospective information to anticipate both internal and external changes that may affect the department's performance. - Measuring a comparative study of provincial departmental performance against each other and setting strategic targets for improvement. - Benchmarking and utilising best practice. - Finding ways to minimise costs and maximise revenue, and to improve quantity and quality of outputs, by introducing new technology or improving existing processes.

2.7 Moveable Asset Management

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

Table 6 Moveable Asset Management: Levels 3 and 4 assessment tool

Capability level	Definition	Detailed characteristics	Criteria	Moveable Asset Management Criteria
Level 1 – <i>Start-up level</i>	No proper control framework.	<ul style="list-style-type: none"> • Mandate and functions of entity not clearly understood. • Roles and functions not clearly separated from other entities. 	Start-up issues.	<ul style="list-style-type: none"> • Isolated attempts and accomplishments in place at developing business practices. • Process of implementing new programme or policy for e.g. draft policies in place (PFMA; NTRs etc). • Data or records kept may not be accurate (asset registers, invoices, etc). • Environment is not stable (no mitigation of risk or identifiable control measures).
Level 2 – <i>Development level</i>	A proper internal control framework and financial accounting processes have been developed.	<ul style="list-style-type: none"> • All elements of an internal control framework required by management are developed and documented. This includes the following: <ul style="list-style-type: none"> - The adequate communication of management framework. - Systems to integrate the management framework. - Provision for maintenance and updating. 	<ul style="list-style-type: none"> • Lack of implemented controls are looked at in terms of the following categories: <ul style="list-style-type: none"> - Authorisations (for example no proper delegations of responsibilities) - Policy framework (for example not documented or approved). - Independent management reconciliations (for example a lack of proper framework for performing independent reconciliations and checks). - Monitoring (for example the lack of framework for monitoring). 	<ul style="list-style-type: none"> • AM Unit in Place. • Attempts at Standardisation of procedures. • Asset and resource policy development. • Development of a realistic business plan/ Asset Management Policy. • Establishment of a basic AM control framework to safeguard and protect assets. • Attempts at basic Moveable asset Management training for SCM officials (some officials have received training).

Capability level	Definition	Detailed characteristics	Criteria	Moveable Asset Management Criteria
			<ul style="list-style-type: none"> - Physical security of assets or resources (for example no framework for the physical security of assets or resources). - Control environment issues (for example a lack of capacity). - Internal audit (no internal audit and no reliance on the work of internal audit). - The AC (no properly functioning AC). 	
Level 3 – <i>Control level</i>	Focus is on compliance and control.	<ul style="list-style-type: none"> • The internal control framework designed by management is “adequately” implemented. This includes the following: <ul style="list-style-type: none"> - Officials with appropriate training and capacity can carry out their functions effectively. - Information reported can be relied upon. 	<ul style="list-style-type: none"> • Implemented controls that are not functioning appropriately can be broken down into the following categories: <ul style="list-style-type: none"> - Authorisations, (delegations of authority not followed by the employees). - Segregation of duties, (Segregation of duties is not followed during the everyday operations). 	<ul style="list-style-type: none"> • Adequate resources available. • Delegations in place. • AO System in terms of section 38 (1) (d) of the PFMA. • Asset Register in place. • Assets are safeguarded. • Transactions processed and controlled in accordance with applicable legislative and regulatory framework. • AM operations are monitored and controlled. • Satisfactory AM reporting requirements. • Reliable data (Integrity of Asset register, Valuations etc.).

Capability level	Definition	Detailed characteristics	Criteria	Moveable Asset Management Criteria
			<ul style="list-style-type: none"> - Reconciliations, (reconciliation is not performed as required by the policy document). - Monitoring (monitoring has not taken place as required by the management framework). - Physical security of assets. 	<ul style="list-style-type: none"> • Organisation meets statutory and regulatory obligations. • Move towards developing Standard operating Procedural Manuals. • All officials dealing with Moveable Asset Management have received training and meet the competency requirements.
Level 4 – Information level	Focus on measuring how resources are used.	<ul style="list-style-type: none"> • The economic, efficient and effective utilisation of resources is managed, measured and reflected in reliable financial information. 		<ul style="list-style-type: none"> • Integration of financial and non-financial systems. • Continuous Moveable Asset Management capacitation and training programme in place. • Cost effective management of risk. • Effective usage of resources. • AM practice and procedure managed with prudence in an efficient and effective manner. • Achievement of operational functionality in AM. • Formalised and implemented AM practices and policies in place (standard operating procedural manuals in place). • Consistent and comparable AM reporting. • 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.

Capability level	Definition	Detailed characteristics	Criteria	Moveable Asset Management Criteria
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"> • Risk management: cost-effective utilisation of resources. • Risk management: project costing and financing. • Continual updating of strategic plans. 		<ul style="list-style-type: none"> • Defining the relationship among variables that effect cost, quality and level of service and understanding and how they impact on the department's results. • Utilisation of information to make informed decisions among competing objectives like cost, quality and schedule. • Monitoring of AM and its outcomes. • Using quantitative information to balance among competing business line objectives (e.g. to reduce cost, improve productivity, improve quality, reduce risk and increase opportunities).
Level 6 – <i>Optimising level</i>	Focus on continuous improvement and learning.	<ul style="list-style-type: none"> • Strategic financial training for non-financial employees. • Continuous internal assessment of financial management processes, improvements and measurements. 		<ul style="list-style-type: none"> • Strategic AM objectives in place. • Service delivery improvements in place. • Future improvement areas concentrated on: <ul style="list-style-type: none"> - Developing prospective information to anticipate both internal and external changes that may affect the department's performance. - Measuring a comparative study of provincial departmental performance against each other and setting strategic targets for improvement. - Benchmarking and utilising best practice. - Finding ways to minimise costs and maximise revenue, and to improve quantity and quality of outputs, by introducing new technology or improving existing processes.

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 3+ of the AG's model, where at level 3 there is full compliance with the minimum prescribed requirements and at level 3+, performance exceeds the prescribed minimum requirements.

Table 7 Management of Supporting and Interlinked Financial Systems: Levels 3 and 3+ assessment tool

	Requirements	Weight	Standard Level 3	Standard Level 3+
BAS				
1	Skilled and capacitated users	30%	In accordance with	Various Modules
2	Optimal utilisation of system	20%	80 - 90%	91 - 100%
3	Month- and year-end closures	5%	Own accord - due date	Own accord - prior
4	System Controller Functions	30%	80 - 90%	91 - 100%
5	Monitor Applicable Interfaces	15%	Intermittantly	Daily
PERSAL				
1	Skilled and capacitated users	30%	In accordance with	Various Modules
2	Optimal utilisation of system	20%	80 - 90%	91 - 100%
3	System Controller Functions	20%	80 - 90%	91 - 100%
4	Establishment Management	10%	Quarterly	Monthly
5	Minimum Information Requirements	5%	Annually	Continuous process
6	Leave Audit	15%	Annually	Continuous process
LOGIS				
1	Skilled and capacitated users	30%	In accordance with	All Modules
2	Optimal utilisation of system	20%	80 - 90%	91 - 100%
3	Days per issues	10%	5 Days	3 Days
4	Financial Controls	20%	Monthly	Continuous process
5	System Control Functions	20%	80 - 90%	91 - 100%

3

Financial Management Capability Assessments of departments and entities

3.1 Department of the Premier

Overview

Financial management capability assessments of the main attributes were conducted and rated in terms of the assessment tools as contained in Chapter 2 of the FGR&O 2010. The goal of these assessments is to collectively provide an overview of how the department (and its entities) is/are managed as well as recommendations to assist progress to a level 3+ financial management rating.

The following ratings were assigned per assessment area:

Performance Management

- Non financial information - level 3
- Financial information – level 3

Compliance with accounting policies and standards – level 2.8

Enterprise Risk Management – level 1

Corporate Governance - level 2.5

Liabilities Management – level 3

Supply Chain Management – level 1.5

Movable Asset Management – level 2

Financial Systems

- Systems usage – level 3
- Training - level 2

In view of the ratings above, an average rating of level 2.38 is achieved.

The Department has provided a comprehensive financial management improvement plan that inter alia covers the issues raised to move towards a level 3+ rating.

3.1.1 Performance Management

3.1.1.1 Non-financial information

The analysis of departmental performance information management uses the financial management capability model as a point of departure to provide an insight to the information presented in the departmental budget documentation including the Department's Strategic Plan (SP), Annual Performance Plan (APP), Annual Report (AR) and Quarterly Performance Reports (QPRs). The assessment gauges key aspects of the Department's performance information in order to determine the Department's capability level.

The assessment 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 level 4 financial management capabilities. The 2009/10 AR, the 2009/10 and 2010/11 APPs as well as the final 2009/10 QPR have been used in the assessment. The assessment also includes information based on the 2009/10 Auditor-General of South Africa (AGSA) audit report.

Organisational arrangements for managing Performance Information

The Department of the Premier's internal performance environment and priority service-delivery focus areas are largely redefined and influenced by the Modernisation Process and drafting of the 'blueprints' which commenced during the 2009/10 financial year. A particularly important Blueprint which was finalised in December 2009, is the Departmentalisation of the Department of the Premier which deals with modernising the Department.

Quarterly Performance Reporting on 2009/10 Predetermined Objectives

From a technical perspective, the Department of the Premier has submitted QPRs timeously on a quarterly basis which show consistency in respect of the targets as set out in the Annual Performance Plan. Any deviations from set targets were adequately explained and plausible reasons were provided. The Department also considered the required corrective action or remedial steps as a significant success factor for improving performance within its executive management structure.

With regard to performance management, the Department of the Premier's refinement of its roles and functions in 2009/10 facilitated reporting on key targets set in the 2009/10 Annual Performance Plan.

Annual Report 2009/10

The 2009/10 AR clearly articulates the departmental mandate in terms of the responsibility to provide strategic leadership and guidance as well as its provincial coordinating role. By implication, previous priority and focus areas as reflected in the 2009/10 APP, required amendment and redefining.

When comparing the performance information in the AR with the APP, all the performance measures defined in the 2009/10 APP are reported on in the 2009/10 AR per sub-programme. The strategic goals and related strategic objectives of the Department of the Premier are clearly articulated within the AR. There is also consistency between the unit of measurement used for the targets and the actual outputs in the AR. The Department has also adhered to the AR Guideline on General and Performance Information as stipulated by National Treasury. The AR may thus be used in conjunction with the APP to assess the Department's performance over the indicated financial year 2009/10.

Strategic Plan 2010/11 - 2014/15

The Department of the Premier tabled a revised SP for the period 2010/11 - 2014/15 before the start of the 2010/11 financial year. The format of the Strategic Plan is in line with the generic guide for Strategic Plans issued by the National Treasury. The Strategic Plan for the Department contains the strategic goals and objectives to be attained by the Department over the 2010/11 - 2014/15 period.

Annual Performance Plan 2010/11

A significant feature within the 2010/11 financial year, is that the Department's budget/programme structure is completely aligned to its organisational structure. The APP highlights that the budget programme structure was aligned in order to ensure good governance within the Department.

In lieu of the revised departmental structure, the APP (2010/11) reflects clear departmental strategic objectives, programme performance indicators/annual targets as well as specific performance indicators per quarter. Strategic objectives and performance indicators for Programme 1: Administration have been included in the 2010/11 APP, which is an improvement on the 2009/10 APP. Most of the strategic objectives and performance indicators identified by the Department comply with the SMART principle, in that they are specific, measurable, achievable/attainable, realistic and time bound. The APP context has been guided by the Departmental Strategic Plan for the period 2010/11 to 2014/15.

It is also evident that the Department has meticulously crafted its targets so to ensure that the sub-programme indicators over the MTEF reflect accurately the targets as reflected under the strategic objective. This approach enhances the aspects of transparency as well as accountability.

Even though the Department intends to amend certain performance indicators in respect of the 2010/11 APP – as opposed to a challenge from a planning perspective, it further demonstrates the Department's commitment to performance management as well as performance reporting excellence.

Conclusion/recommendation

The performance-related documents generally reflect consistency in terms of units of performance measurement as well as with regard to format compliance. As mentioned above, the APP reflects both annual and quarterly targets which are in most cases SMART. Engagements with the Department, has reflected a departmental commitment to improved systematic costing/quantitative analysis. The Department is further committed to align the programme/budget structure as well as the organisational structure.

In general, the format of the APP and AR comply with the National Treasury guidelines and deviations from annual targets are generally satisfactorily identified and quantified in the Annual Report. It is noted that the Department's Annual Report has an additional column, namely "*comment*" – which allows the Department to provide additional performance information and in particular clarify any target deviations.

Furthermore, the targets in the APP, AR and QPR are consistent and the 'units of measurement' of the performance measure targets, are consistent. Analysis of guidelines and legislative requirements of the 2009/10 APP and QPR, the 2009/10 AR and the 2010/11 APP reveal that the Department is, according to the performance management framework operating at a level 3 auditable organisation. The Report as provided by the Auditor General concurs with the aforementioned departmental rating, emphasising that the "reported information as set out in pages 5 to 48 of the annual report is fairly stated in all material respects as well as in accordance with the predetermined criteria" (Management Report on the Regularity Audit of the Western Cape Department of the Premier for the year ended 31 March 2010).

The Department is urged to further refine the performance information management process in order to provide provincial leadership and guidance in pursuit of the goal towards achieving a level 4 auditable organisation. As reflected for the Province more generally within the AGs Report (March 2010), besides a performance report that is accurate, complete and valid, the significance of the appropriate standard operating practices (SOP) in respect of information management control processes and procedures are basic building blocks in order to achieve a level 4 auditable organisation.

The Department's commitment to appropriately 'cost' the departmental outputs as well as the potential piloting of a best-practice in this regard, demonstrates the departmental commitment to expand the focus (beyond merely a compliance approach to performance management and reporting) towards exploring the relationship between inputs and outputs as well as a qualification of 'impact' over the short and long-term.

General recommendations to improve the overall reliability and usefulness of performance information include Accounting Officers ensuring that an overall performance management system should be in place and documented, sufficient appropriate audit evidence and source documentation exist, there are appropriate information systems to facilitate the preparation of a performance report that is accurate, complete and valid and adequate control processes and procedures should be designed and implemented to ensure the accuracy, completeness and validity of reported predetermined objectives/performance information.

3.1.1.2 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 the Premier:

- The Department submits its IYM report on revenue and expenditure 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 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 2009/10.

Table 1 Quarterly Analysis on projections: 2009/10

R'000	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
First Quarter	36 481	42 387	35 291	44 794	39 267	42 784	40 564	45 310	38 735	57 829	37 744	30 734	491 920
%	7.42%	8.62%	7.17%	9.11%	7.98%	8.70%	8.25%	9.21%	7.87%	11.76%	7.67%	6.25%	100.00%
Second Quarter	36 481	42 387	35 291	36 490	27 353	41 870	41 089	49 212	43 587	60 797	40 591	36 772	491 920
%	7.42%	8.62%	7.17%	7.42%	5.56%	8.51%	8.35%	10.00%	8.86%	12.36%	8.25%	7.48%	100.00%
Third Quarter	36 481	42 387	35 291	36 490	27 353	41 870	33 191	38 707	33 191	67 680	47 412	43 692	483 745
%	7.54%	8.76%	7.30%	7.54%	5.65%	8.66%	6.86%	8.00%	6.86%	13.99%	9.80%	9.03%	100.00%
Fourth Quarter	36 481	42 387	35 291	36 490	27 353	41 870	33 191	38 707	33 191	46 515	36 943	69 670	478 089
%	7.63%	8.87%	7.38%	7.63%	5.72%	8.76%	6.94%	8.10%	6.94%	9.73%	7.73%	14.57%	100.00%

Shaded: Actuals

Unshaded: Projections

As depicted in the table above, it appears that there remains room for improvement with regard to expenditure forecasting, as forecasts in prior quarters differ from the actual expenditure throughout the year. This is evident if actuals and projections are compared on a monthly basis. Actual expenditure (shaded) tends to be consistently lower when compared to the projected expenditure (unshaded) on a monthly basis. The change in the political leadership and administration of the Department impacted on the way the funds were originally projected to be spent.

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

The Department's original budget allocation for 2009/10 was R491.920 million. However, in the Adjustment Estimate it was decreased by R7.675 million to R484.245 million.

The Department shifted an amount of R25.380 million to other votes in the 2009 Adjustment Budget, i.e. R25 million to Vote: 6 Health for the Emergency Medical Services (EMS) functions for the 2010 FIFA World Cup, R0.080 million to Vote: 5 Education for bursaries for children (girls) from previously disadvantaged backgrounds and R0.300 million to Vote: 9 Environmental Affairs and Development Planning for the baboon management while R0.610 million was shifted from Vote 8: Local Government and Housing for litigation costs for the Erasmus Commission.

There were virements that were made for the 2009/10 financial year.

The Department ensured that transfer payments were backed by section 38(1)(j) PFMA agreements, and instituted the necessary monitoring mechanisms.

In terms of Standard Chart of Accounts (SCOA) classification, the Department of the Premier experienced relatively few erroneously classified transactions. In total, 95 transactions with a total value of R774 909.22 were reported as erroneous for 2009/10 as a result of the practice note for finance leases. Monitoring of these errors will continue during the next financial year.

As at 31 March 2010, the Department incurred total expenditure of R478.089 million or 98.7 per cent of its R484.245 million adjusted budget. With an under spending of R6.156 million or 1.3 per cent of the adjusted budget, the Department's spending outcome for the financial year is below the 2 per cent under spending norm.

The Department of the Premier collected R1.593 million in provincial own receipts compared to the adjusted budget of R0.866 million for 2009/10. This over recovery was R0.727 million or 83.6 per cent more than the adjusted budget, which is mainly due to *Sale of goods and services other than capital assets* as a result of more sales and subscription to the government gazette than was expected.

The Department of the Premier revised tariffs in 2009/10 for the Subscription and advertisement cost: Provincial Gazette.

The Department had a 'March spike' in 2009/10 where the expenditure for the month is 14.6 per cent of the total expenditure of R478.089 million in 2009/10. This is due to the delay in the purchasing of Information Communication Technology (ICT) equipment that came mainly from overseas suppliers. The Department initially projected to procure the goods in the month of December 2009.

Conclusion

The Department of the Premier generally operates at a financial management capability of level 3.

3.1.2 Compliance with accounting policies and standards

PT (Accounting) identified a number of key accounting policies and standards against which departments are rated in terms of compliance and its financial management capability. The purpose of the exercise is inter alia to monitor progress towards an improved financial management capability rating. Various tools are available to departments to ensure improved ratings, improved integrity of data and also that the financial reporting is understandable, relevant, reliable and comparable. PT (Accounting) introduced various initiatives to address accounting matters in collaboration with the relevant departments. The department made full use of all these opportunities and actively contributed with regards to the following:

- Workshops on reporting requirements
- Two-monthly CFO's forums
- Monthly FA's forums
- Bi-lateral discussions
- IYM reporting
- Submission of AFS for preview prior to 31 May
- Compilation of a prescribed audit file with supporting documentation
- Interim financial statements as at 30 September 2009

The Interim financial statements as at 30 September 2009 was a new initiative by PT. Accounting assessments were conducted on the interim financial statements by Accounting Services in terms of a pre-determined assessment framework. Internal Audit also conducted a review of the processes and the controls implemented by departments on the implementation of the interim financial statements and issued a report on its findings per department. The Accounting assessment findings were issued to departments and corrective measures followed up in terms of action plans to ensure that these issues did not re-appear at the year-end.

An assessment of the financial management capability of the Department was undertaken based on 2009/10 AFS, Auditor-General of South Africa (AGSA) audit findings and monthly IYM reporting, that revealed the following:

Management of and reporting on suspense accounts

The Department reported on its disallowance, control and suspense accounts to PT (Accounting) on a monthly basis, together with action plans and time frames to address issues of concern. Such issues were also discussed during

bilateral and informal engagements that took place during the year between the Department and Provincial Treasury: Accounting to address problems identified. The Department could therefore report that suspense, control and disallowance accounts were regularly followed up and cleared within a reasonable period of time and that a monthly reconciliation of control and suspense accounts was performed, which made it possible for the Department to close their books successfully on a monthly basis. The Department also confirmed that the Basic Accounting System reports on suspense accounts are reviewed on a monthly basis in order to monitor the progress of clearing these accounts.

The Department maintains its performance at a level 3 financial management capability rating when compared to the previous Review's assessment.

Accounting of assets

Computer equipment of the province has been centralised with the department which is now faced with the rather challenging task of verifying the existence and serviceability thereof. Although progress has been made with the verification process, it has not been finalised.

The Department is on the modified cash basis of accounting, and as such assets are not recognised in the Statement of Financial Position. The department did however compile a disclosure note in which the values of the moveable tangible capital assets are disclosed. Control activities have been developed by the department to facilitate such disclosure and improved reporting that aims to advance accountability and transparency.

The Department reported Movable Tangible Capital Assets of R136.391 million as at 31 March 2010 and also noted that 138 assets valued at R2.206 million included in the above amount could not be located during the annual stock take. Furthermore 215 potentially redundant assets valued at R5 140 854 in the asset register were identified during the audit process and these were also reported in the disclosure note of the department. During bi-lateral discussion the department indicated that they are investigating these assets in terms of a financial management improvement plan to determine whether it can be written off in accordance with the prescribed thefts and losses process.

Although the above does not necessarily point to poor management or a lack of controls, the verification process has not been finalised in terms of the improvement plan of the department. As a result the Department is not yet accredited with a full level 3 financial management capability rating but rather moving towards a level 3 financial management capability.

Financial reconciliations

The BAS/PERSAL, BAS/LOGIS and BAS/PMG financial reconciliations are performed as prescribed and submitted with the monthly IYM report.

The Department maintains its financial management capability rating of level 3.

Expenditure – Payments and journals

On the modified cash basis of accounting accruals are not recognised as expenditure in the Statement of Financial Performance, but are included in the disclosure notes.

The Department disclosed that payments for Goods and Services to the value of R1.308 million were made after 30 days of receiving invoices, i.e. after 30 April 2010 as part of its Accruals disclosure note. The total expenditure on Goods and Services for 2009/10 amounted to R203.115 million, or an average of R16.926 million per month and the accruals of over 30 days as reported was 0.77 per cent of the monthly average.

Although the above percentage seems insignificant, the Department must comply with Treasury Regulation 8.2.3 which states that invoices should be settled within 30 days of receiving invoices, in order to attain a level 3 financial management capability rating.

Importantly, the department managed to reduce the accruals during the financial year. During a turn-around strategy meeting held between the Department and the Provincial Treasury on 23 November 2009 the accruals over 30 days was inter alia discussed, which at that stage stood at R11.255 million.

The Provincial Treasury (Accounting) monitors incorrect expenditure classification in terms of the SCOA inconsistency report. The Department managed to clear all payment classifications which were deemed to be inconsistent in terms of the SCoA classifications applied by the province, by implementing proper internal controls. Pre and post audit checking was implemented and incorrect allocations are timeously corrected via journal entries. The Department therefore performed at a level 3 financial management capability rating in this regard.

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

The Department properly disclosed information relating to its Irregular Expenditure and Fruitless and Wasteful expenditure in detail, and in compliance with the prescribed specimen and guidelines for the annual

financial statements and is performing at a level 3 financial management capability rating.

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

The Department submitted its prescribed monthly compliance reporting to Provincial Treasury timeously in order to comply with legislative requirements.

A level 3 financial management capability rating is thus maintained when compared to the previous year's assessment.

Conclusion/recommendation

In conclusion, the Department of the Premier has improved its financial management capability ratings in most of the areas assessed for compliance with accounting policies and standards and is in general operating close to a level 3 financial management capability. The most significant area to be addressed in terms of the above assessment would be the accounting of assets, but going forward the modernization process could also introduce some challenges in terms of financial reporting.

3.1.3 Corporate Governance

3.1.3.1 Enterprise Risk Management

This section provides guidance, criteria and norms and standards for 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.

Strategic risk assessment

A strategic risk assessment was conducted for the Department less than two year ago. Risk response strategies were not developed.

Internal environment

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

Operational Risk Assessment

The risk event has been identified and assessed on an inherent level.

Overall assessment

Based on the above information, the Department has achieved a rating of level 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 achieve all of the following set criteria and norms and standards:

Strategic Risk Assessment

Risk response strategies develop and relevant processes developed.

Internal Environment

Risk Management Philosophy is articulated in writing and communicated to all staff.

Management philosophy and operating style does fully reflect acceptance of risk management principles.

Risk appetite is defined and communicated to all staff.

Operational Risk Assessment

Existing controls identified and documented.

Control gaps identified and action plans developed.

2008/09 and 2009/10 Comparison

It is evident that the Department stagnated when comparing to the 2008/09.

The Department must take cognisance of the possible negative impact the lack of progression in respect of risk management might have on future audit results.

3.1.3.2 Normative Financial Management

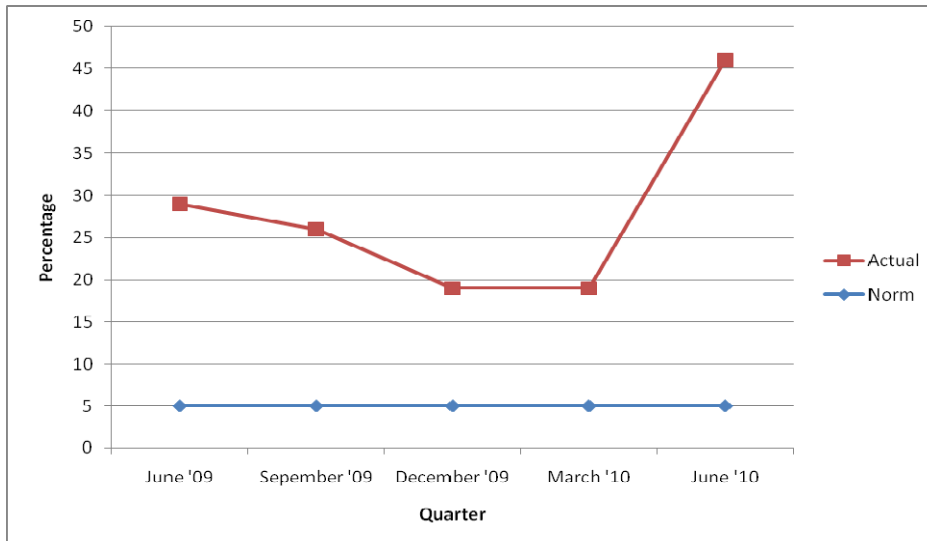
The findings discussed in this section provide a review of the PFMA implementation and financial management improvement of the Department in line with the provincial strategy of attaining a level 4 financial management capability rating.

The source documents used were the Financial Management Capability Maturity Model Survey Questionnaire, Normative Measures Quarterly Report for departments and the PFMA Compliance Checklist for public entities for the quarter ending June 2010, and the 2009/10 Auditor-General's report for the Department and the Public Entity.

Analysis of Normative Measures Quarterly Report

The CFO structure: Human Resource Capacity

Figure 1 Department of the Premier Vacancy Rate



As depicted in the above figure, the Department has made some strides during the 2009/10 financial year ending March 2010 in reducing the vacancy rate of the finance component from 29 per cent to 19 per cent. However, during the quarter ending June 2010, it is evident that the Department's vacancy rate escalated to 46 per cent due to a new establishment being implemented as a result of the modernization process and since then the new posts have been vacant. These vacancies have since been advertised.

Procurement and Contract Management, Financial Accounting and Asset Management are the components most affected by the high vacancy within the finance component (referring to the table depicted below).

Table 2 Extraction vacant posts in Finance Component

Component/Unit	Post Description	Post level	Number of vacant posts
Management Accounting	Deputy Director	11	1
	Operational Budget Manager	9	2 (1 filled on contract)
CFO Office	CFO Support Officer	9	1
	Personal Assistant	7	1
Financial Accounting	Senior State Accountants	8	4
	Accounting Clerks	5	2
	Cashier	4	1
Provisioning	Assistant Director	9	1
	Prov Admin Officer	8	2
	Prov Admin Clerk	5	1
Procurement & Contract Management	Senior Admin Officer	8	3
Asset Management	Chief Administration Clerk	7	3
	Asset Management Officer	8	1
	Chief Clerk	7	1
Internal Control	Clerk	5	5
	Assistant Director	9	1
	Senior State Accountant	8	1
Office Administration	Administrative Officer	7	1
	Administration Clerk	5	2
	Messenger	2	2
Transport	Chief Administration Clerk	7	1

Furthermore, on average it took the Department 12 months to fill a vacant post whereas the national norm is 3 months. The Department indicated that procurement processes have been addressed. The number of staff involved in structured training programmes in the finance component is reported to be at 90 per cent, which is at an acceptable level.

The Department must make a concerted effort to reduce this high vacancy rate, especially filling the key posts on a supervisory level and simultaneously reducing the average length of time it takes to fill a vacant post. Failing this, will result in the Department not achieving its objectives and the deterioration of financial management. The impact of the moratorium on filling of vacancies in the CFO office is noted.

Policies and procedures

The Department complies in the main with all policies and procedures prescribed by the PFMA and Treasury Regulations pertaining to financial management except for an approved staff retention policy and a policy for conducting Transfer Payments that's not implemented. The Department has an Asset Strategy that links to the Departments' strategic plan, service delivery objectives and programmes. However is not clear whether all processes for

this function and related policies documented, is approved and communicated. This could be the reason why assets which are acquired without verification against an approved asset plan before the order is placed and the procurement of this asset, is not authorised by a delegated asset practitioner prior to acquisition.

Tabling of Annual Report

The Department and Public Entities must annually table their Annual Reports, as prescribed, in the Legislature. Compliance with these requirements is reflected in table below:

Table 3 Compliance with annual reporting requirement

Institution	Date annual report received by Provincial Treasury	Annual report tabled at the Provincial Legislature
Departments:		
Premier	31/08/10	30/09/10
Public Entity:		
WC Provincial Development Council	31/08/10	30/09/10

Analysis

The Department has successfully tabled their 2009/10 Annual Report as well as that of its Public Entity, within the prescribed timeframes.

Auditor-General's report on the 2009/10 financial year

The Department received an unqualified audit opinion, with other matters in the 2009/10 as well as for the 2008/09 financial year. As depicted below, the Department has significantly reduced the number of findings in the audit report. However, the four areas that remained unchanged remain a concern and actions must be taken by the Department to resolve these prior year's audit findings.

Table 4 Summary of Comparison between the 2008/09 and 2009/10 Audit Reports

Key finding	2008/09	2009/10	Status
Irregular Expenditure	X	X	Unchanged
Material under spending on the budget	X		Improved
Non-compliance with applicable legislation -Payments exceeding the 30 days period as per Treasury Regulation 8.2.3	X	X	Unchanged
Non-compliance with applicable legislation -Transfer funds to Western Cape Youth Commission	X		Improved
Significant difficulties were experienced during audit concerning delays or the availability of requested information	X		Improved
Financial statements were subject to material amendments resulting from the audit	X		Improved
The annual report was not submitted for consideration prior to the tabling of the auditor's report	X		Improved
Significant deficiencies in the design and implementation of internal control in respect of Financial and risk management	X		Improved
Prior years audit findings have not been substantially addressed.	X	X	Unchanged
Lack of control processes and procedures designed and implemented to ensure the accuracy and completeness of reported performance information	X		Improved
Lack of effective, efficient and transparent system and internal controls regarding performance management	X		Improved
Material losses or impairments (assets)	X	X	Unchanged
Significant uncertainties		X	Deteriorated
Fruitless and wasteful expenditure		X	Deteriorated

Overall assessment

Based on the above information, the Department has achieved a rating of 2.5, as the Department has not met all the set criteria and norms and standards for level 3.

3.1.4 Liabilities Management

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

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

To determine and further improve departments and to enable them to reach a standard level of 3+, new assessment tools were created to assist CFOs to have more control and insight over the functions relating to their banking sections.

The evaluation was based on the activities of the 2009/10 financial year and the findings were as follows:

Table 5 Assessment of Liabilities Management

Requirements	Weight	Standard Level 3 (< 90%)	Standard Level 3+ (> 90%)	Rating
Submission of Annual Provincial Cash flow Projections (Section 40(4)(a))	10%	By 28 February	By 15 February	7.50%
Monthly alignment of actual expenditure with available cash	20%	11 months compliance	12 months compliance	20.00%
Available Budget equal to available cash (annual)	20%	Not equal	Equal	15.00%
Surrender of voted Surplus Funds	10%	31 May	15 May	10.00%
Submission of monthly Bank Reconciliation	10%	Within 30 days after month end	Within 15 days after month end	7.92%
User account management (Dormant users, etc)	20%	User accounts reconciled on a quarterly basis	User accounts reconciled on a monthly basis	15.00%
Confirm reconciliation of monthly bank transfers	10%	Within 7 working days after calendar month end	Within 5 working days after calendar month end	7.50%
	100%			82.92%

The Department achieved an overall rating of level 3. (nominal compliance), which is in line with the 2009/2010 financial year.

Submission of Annual Provincial Cashflow Projections

The Department obtained a rating of 7.5 per cent (nominal compliance). The Annual projections in respect of income and expenditure were received on 26 February 2010.

Monthly alignment of actual expenditure with available cash

The Department obtained a rating of 20 per cent (full compliance). The Department complied with 12 months.

Available Budget equal to available cash (annual)

The Department obtained a rating of 15 per cent (nominal compliance). The Department overspent on their cash by R4.535 million.

Surrender of voted Surplus funds

The Department obtained a rating of 10 per cent (full compliance). Surplus funds were paid to the PRF on 14 May 2010.

Submission of monthly Bank Reconciliations

The Department was rated 7.92 per cent (nominal compliance). The monthly bank reconciliations were submitted within 30 days after month end.

User account management (Dormant users, etc)

The Department was rated 15 per cent (nominal compliance). It is preconceived that the Department complied with the relevant requirements.

Confirm reconciliation of monthly bank transfers

The Department was rated 7.5 per cent (nominal compliance). The Department should confirm and reconcile the monthly transfer schedule with Cash Management.

3.1.5 Supply Chain Management

Background

During the 2009/10 financial year, a Supply Chain Management status verification assessment was performed at the Department of the Premier. The objective of this assessment was to gage the progress made by the Department since the 2008/09 SCM compliance assessment, in terms of the proposed action plan recommended by the Provincial Treasury. The aforementioned action plan proposed steps to be taken by the Department to attain the next level of financial capability in terms of the Province's financial capability model for SCM.

Institutionalisation

The Department's AOS and delegations are outdated as the AOS was issued in 2003 and the delegations were issued in 2007. During the status verification assessment, the Department indicated that it had reviewed its AOS and delegations in the 2009/10 financial year; however these policies were not approved by the Accounting Officer pending the issuing of the generic Provincial AOs and delegations in response to the Premier's Modernisation Programme.

The Department's SCM structure is vested in the Office of the Chief Financial Officer but is deficient as it does not cater for all areas of SCM. The sourcing of quotations within the Department has been decentralised to the chief user clerks.

The Department has indicated that the deficiencies that exist within the current structure will be addressed in the 2010/11 financial year as a proposed structure has been submitted to management for review and approval. The proposed establishment is geared towards creating capacity for the current Departmental initiatives excluding the added requirements that may come about as a result of the Modernisation process.

The Department has an operating bid committee system in place. The SCM unit has a "reminder system" in place whereby it notifies the relevant committee members of impending committee meetings, however it has been noted that the fact that "high ranking officials form part of the evaluation committee" and owing to the non-availability of the members for "sitting of the evaluation committee, forwarding their recommendation to the bid adjudication committee for recommendation and to the Accounting Officer for approval," the lead times on tender processes are compromised.

The Bid committee members have attended the SAMDI course on Bid Committees. The Department had indicated that officials in the SCM unit have attended contract administration, contract management and SLA courses. Furthermore, where officials are performing SCM functions such as sourcing quotations, these officials have been trained by the departmental SCM unit on operational SCM requirements and have been nominated for the Quadrem Sourcelink training on an ad hoc basis.

Internal Control and Compliance to SCM Policy and Prescripts

SCM has developed a monitoring mechanism to monitor compliance and SCM performance across the Department by performing a process of verification and certification prior to the ordering of goods and services. It is however not clear whether the Department performs a retrospective analysis of SCM performance to gage the overall performance over the financial year.

During the 2009/10 financial year it was established that risk management was only following up on the Auditor-General and Internal Audit findings. It is not clear to what extent the Department makes provision for the mitigation of internal control weakness and risk mitigation procedures within SCM to ensure that SCM risks are correctly identified, classified and mitigated by the Department's risk management unit.

The Department has standardised procurement activities for certain commodities and documented the specific processes to be followed when engaging in procurement activities e.g. ICT. These processes have been issued via an internal instruction to all departmental officials.

A performance audit was performed focusing on consultants utilised during the period 1 April 2007 to 31 March 2009. Some of the findings that emanated from this report were that the Department:

- The Department does not have a strategy governing the use of consultants within the Department;
- A formal needs assessment was not conducted by the Department prior to the appointment of a consultant;
- A contract amount was not specified in the tender agreement;
- The Department did not sign a Service Level Agreement (SLA) although it was a requirement in terms of the special bid condition that a SLA be signed with the contractor within one month of awarding the contract;
- The Department accepted quotations and paid invoices where the consultant/service provider claimed for management fees, cash handling fees, contingency fees and VAT on items that already included VAT whereas the contract with the consultant/service provider did not provide for the payment of these fees;
- The ToR did not make provision for a detailed project plan;
- The contract extension and expansion exceed the original approved contract amount by more than 197 per cent;
- A formal contract was not signed with consultants where the contract was extended;
- Non-compliance to the National Treasury practice note 6 of 2007/08 dated 18 April 2007, all cases above R1 million (VAT included) procured in terms of Treasury Regulation 16A6.4 should be reported to the relevant treasury and the Auditor-General within 10 working days, with effect from 1 April 2007; and
- Replacement contracts were not arranged and concluded in a timely manner to ensure that the replacement contract is in place when the original contract expires.

Furthermore, the following issues were highlighted in the AGSA's management report for the 2009/10 financial year:

- Employees with a business interest in suppliers did not have approval to perform or engage in remunerative work outside their employment;

- Contract performance measures and/or the methods whereby they were monitored did not ensure effective contract management;
- Bids were awarded to and or quotations were accepted from suppliers who failed to provide written proof from SARS that the supplier either has no outstanding tax obligations or has made arrangements to meet outstanding tax obligations;
- Management do not regularly determine whether there are not related parties involved in supply chain management transactions; and
- Three quotes not obtained. Management is not aware of the regulations.

Reliability and Integrity of Data

In the 2009/10 financial year, the Department advertised or sourced 662 quotations. For 75 of the advertised enquiries no responses were received. The Department adjudicated only 1 enquiry to the value of R4 826.66, leaving 524 enquiries unaccounted for i.e. not adjudicated.

The Department had in the past indicated that it did not solely utilise the EPSi system although PTI 16A2.1.3 (November 2009) explicitly indicates that the EPSi must be utilised. The Department's delegations have not been aligned to the current PTI's due to the fact that the Department is awaiting the issue of the generic delegations via the Modernisation Work Stream responsible for this. It is also clear that the Department is not always following the correct procedures as set out in the EPSi (Sourcelink) manual.

The Department reported 3 limited bids for the 2009/10 financial year and all these bids have also been reported on the National Treasury's PCI system.

In the 2008/09 compliance assessment it was noted that the Department motivated the need for quotations as a procurement option due to contracts expiring alluding to the lack of adequate demand management planning in place.

Although the Department has made attempts to address the concerns, gaps and non-compliant areas as identified in the 2008/09, the areas to be addressed by the Department during the 2010/11 financial year are:

- (a) SCM Structure;
- (b) Demand Management;
- (c) Acquisition Management;
- (d) Contract Management;
- (e) Monitoring of SCM performance; and
- (f) Management of Risk and Risk Mitigation.

Comparison to the 2008/09 Review and Rating

When comparing the current review to the 2008/09 review the following positive findings must be noted:

- There is greater control in terms of users who are gaining access to Sourcelink and the SCM unit is providing training to these individuals;
- The SCM unit is engaging Provincial Treasury frequently for assistance and guidance;
- The SCM unit complies with both Provincial and National Treasury reporting requirements;
- The SCM unit has proposed a new staff establishment to address the deficiencies that exist within the unit; and
- SCM has developed a monitoring mechanism to monitor compliance and SCM performance across the Department.

It must be noted that holistically, the Department has not reflected improvement but has nevertheless made attempts at correcting some of the deficient areas within the SCM unit and SCM processes within the Department. There seems to be no real internal control measures in place in respect of procurement processes.

The Department has also shown signs of stagnation as issues emanating from the 2008/09 SCM compliance assessment have still not been rectified. Furthermore, it is showing some signs of level one when measured against the Financial Capability Model for SCM. The overall rating of the Department is therefore a level 1.5.

Steps to take the Department to the next level of financial capability

In order for the Department to reach the next level of capability, the following are the steps that were identified:

- Review the Delegations and AOS to align it with the current legislation;
- Ensure compliance and control in respect of SCM and limit deviations. In events where deviations become necessary then ensure compliance to legislative, regulatory and policy frameworks;
- Evaluate the current SCM structure to cater for at least Demand, Acquisition, Logistics and Disposal Management;
- Capacitate the SCM unit and centralise the SCM functions to SCM;

- Ensure that SCM operations are monitored and controlled to ensure that there are no deviations from normal procurement procedures;
- Prioritise and adopt a new methodology when appointing committee members and ensure that committee members understand their roles and responsibilities;
- Ensure proper report keeping and reporting;
- Proper utilisation of the EPSi to ensure credibility of procurement data;
- Monitoring of SCM performance; and
- Management of Risk and Risk Mitigation.

3.1.6 Moveable Asset Management

Background

The Department was assessed and rated during 2009/10 financial year in terms of the financial capability model for Moveable Asset Management.

The rating was however, not only based on the compliance/verification assessment report but also on other Asset Management (AM) reporting and findings, the AGSA's audit reports and AM performance throughout the financial year.

Institutionalisation

The Department has developed and implemented the Asset Management Strategy/policy which meets some of the requirements of the National Treasury's Broad Implementation Plan. The Department's acquisition plan, operation and maintenance plan, disposal plan, replacement plan, funding and risk management plans are still in draft format and they are not consolidated into a final policy although the Asset Management Policy has been signed off. The Asset Management Guidelines which were issued in February 2008 by Provincial Treasury to assist the Department in developing their Asset Management Strategy have also not been utilised by the Department of the Premier.

The Moveable Asset Management unit of the Department consists of four permanent officials of which three posts are filled and one still vacant. However, the Department indicated that their current structure is inadequate in order to perform the Asset Management functions effectively and efficiently.

All Asset Management permanent staff of the Department has received Asset Management training provided by National Treasury as well as BAS/LOGIS training provided by Provincial Treasury.

The Department has trained all Asset Management Officials on how to use the BAUD system which the Department is currently using.

The Department does not have a Skills Development Policy in place for Asset Management; however, the AM unit conducts their training using a procedural manual for the BAUD system.

Internal Control and Compliance to AM Policy and Prescripts

The Department has job descriptions which clearly identifies the roles and responsibilities of each official in the Asset Management Unit but the Department still needs to fill the vacant posts in order to encourage and promote segregation of duties and to avoid overlapping of functions.

BAS and BAUD reconciliations are performed by the Asset Management Unit on a monthly basis as required by section 40(4)(c) of the Public Finance Management Act (PFMA 1 of 1999) and as reiterated in PT Circulars 39/2007 and 36/2008 respectively.

Asset Management procedures and processes are standardised and incorporated in the Accounting Officer's System which adheres to section 38(1)(d) of the Public Finance Management Act, 1999 (PFMA) which places the responsibility for financial and risk management, as well as the effective and efficient use of assets, on the Accounting Officer.

The Department still needs to develop a safeguarding policy as required by the National Treasury's Broad Implementation Plan.

The Department Asset Register meets all the minimum requirements as stated in the Dashboard template and it is also complete. The Asset Register is updated on a regular basis.

There appears to be a lack of an adequate disposal management system in place to adequately deal with written off, redundant or obsolete assets.

At the time of the assessment it was noted that a stock take was not conducted at the Department, however, the Department has since submitted a stock take certificate to the provincial Treasury as prescribed.

Reliability and Integrity of Data

From the AM assessment/verification conducted during 2009/10 financial year, the selected sample of minor and major assets from the Asset Register were verified successfully and it was ascertained that these assets were situated at their correct locations as indicated on the Asset Register.

The Chief Financial Officer/delegate has submitted the stock take certificate as required by the Provincial Treasury.

The reporting on the National Treasury's Broad Implementation plan for Asset Management during the financial year 2009/10 revealed 97 per cent compliancy to Asset Management Plans, 87 per cent compliancy to the Accounting requirements and 85 per cent compliancy to the Asset Register requirements.

The Department indicated that there is a function in the BAUD system that deals specifically with disposal of assets and that the disposals are updated on the BAUD system immediately, however, the Department has no Disposal Committee or Board of Survey to evaluate all discrepancies found. It was also found that computer equipment was housed in the IT storeroom awaiting disposal. The asset management verification assessment indicated that the Department did not have an adequate system of disposal in place.

Whilst it was found that the Department's asset register meets the minimum requirements for an asset register it was found that the markings of assets were not always clearly marked and its physical whereabouts were not always aligned to the asset register. Furthermore, all assets were not marked with serial numbers.

The following critical issues were raised by AGSA during the period under review:

- Disposals: Stolen item not investigated and supporting documentation not obtained;
- Assets found to be redundant;
- Non-compliance with Section 38(1)(d) of the Public Finance Management Act (PFMA);
- No barcodes on assets and incorrect descriptions;
- Assets with incorrect locations on the asset register;
- Assets transferred from the Youth Commission and disclosure of non cash items;
- Assets not found;

- Unexplained difference between AFS and Asset Register;
- Assets with duplicate serial numbers;
- Disposals not removed from Asset Register;
- Disposal of assets not performed;
- Assets journals: incorrectly recorded;
- Incorrect Classification of Heritage Assets; and
- Assets: Reconciliation of BAUD/BAS not compiled.

Comparison to the 2008/09 Review and Rating in terms of the financial capability model for Moveable Asset Management

In 2008/09 financial year the Department was monitored through the Project Dashboard and the Risk Log report and it has been noted that the Department has not made progress with regards to meeting the requirements of the Broad Implementation Plan from National Treasury. The Departmental statistics in respect of dashboard report during the 2008/09 financial year was as follows: compliancy to Asset Management Plans 96 per cent; compliance to Asset Register 85 per cent; and compliance to accounting requirements 87 per cent. Therefore the status of the dashboard and risk log remained unchanged in 2009/10 financial year.

During the period under review a full asset management assessment was performed and the Department was rated accordingly.

Rating

The Department has been rated at a level 2 against the financial capability model for asset management based on the asset management assessment which was conducted in the 2009/10 financial year.

Steps to take the Department to the next level of capability

In order for the Department of Premier to proceed to the next level of financial capability, it should implement the following:

- (a) Fully develop and implement the Asset Management Strategy and Policies.
- (b) Enhance the monitoring of assets within the entire Department of the Premier to ensure sustainable service delivery.
- (c) Capacitate the Asset Management Unit.

- (d) Skills Development Plan for Asset Management to be in place.
- (e) Develop a basic AM control framework to safeguard and protect assets.
- (f) A uniform asset life cycle must be implemented.
- (g) Development of a maintenance schedule for all assets.
- (h) Monitor and implement a disposal management system.
- (i) Ensure credibility of data on its asset register that speaks to the actual physical assets that are verifiable and clearly marked.
- (j) Correct and full disclosure of the asset disclosure requirements on its annual financial statements.

3.1.7 Supporting and Interlinked Financial Systems

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

Basic Accounting System (BAS)

The evaluation was based on the activities of the 2009/2010 financial year and the findings were as follows:

Table 6 Management of activities on BAS

Requirements	Weight	Standard Level 3	Standard Level 3+	Rating
Skilled and capacitated system users	30%	In accordance with profile	Various Modules	2
Optimal utilisation of system	20%	80% - 90%	91% - 100%	3
Month- and Year-end closure	5%	Own accord – due date	Own accord – prior date	3
System Controller Functions	30%	80 – 90%	91 – 100%	3+
Monitor Applicable Interfaces	15%	Intermittently	Daily	3
Average Rating				3

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

Table 7 Skilled and capacitated system users

Number of officials confirmed	Number of officials attended	Number of officials did not attend	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
19	8	11	5	3

The Department maintained a financial management capability rating of level 2 (partial compliance) mainly due to the high percentage of officials who is confirmed but did not attend courses, as well as all officials not 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 more users trained.

Optimal utilisation of system

The Department achieved a financial management capability rating of level 3 (nominal compliance) for the optimal utilisation of the system.

Month- and Year-end closure

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

System Controller Functions

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

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

Monitoring of Applicable Interfaces

The Department achieved a financial management capability rating of level 3 (nominal compliance) as their interfaces were monitored and reported intermittently.

Personnel and Salary Administration System (PERSAL)

Table 8 Management of activities on PERSAL

Requirements	Weight	Standard Level 3	Standard Level 3+	Rating
Skilled and capacitated system users	30%	In accordance with profile	Various Modules	2
Optimal utilisation of system	20%	80% - 90%	91% - 100%	3
System Controller Functions	20%	80 – 90%	91 – 100%	3
Establishment Management	10%	Quarterly	Monthly	3
Adhere to Minimum Information Requirements	5%	Annually	Continuous process	2
Leave Audit	15%	Annually	Continuous process	3
Average Rating				3

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

Table 9 Skilled and capacitated system users

Number of officials confirmed	Number of officials attended	Number of officials did not attend	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
2	1	1	1	0

The Department maintained a financial management capability rating of level 2 (partial compliance) mainly due to the high percentage of officials who is confirmed but did not attend courses, as well as all officials not 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 more users trained.

Optimal Utilisation of system

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

System Controller Functions

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

Establishment Management

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

Adherence to Minimum Information Requirements

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

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

Leave Audit

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

Logistical Information System (LOGIS)

Table 10 Management of activities on LOGIS

Requirements	Weight	Standard Level 3	Standard Level 3+	Rating
Skilled and capacitated system users	30%	In accordance with profile	All Modules	3
Optimal utilisation of system	20%	80% - 90%	91% - 100%	3
Days per issue	10%	5 days	3 days	2
Financial Controls	20%	Monthly	Continuous process	3
System Control Functions	20%	80 – 90%	91 – 100%	3
Average Rating				3

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

Table 11 Skilled and capacitated system users

Number of officials confirmed	Number of officials attended	Number of officials did not attend	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
17	14	3	13	1

The Department obtained a rating of level 3. Although there is an improvement in attendance, all officials are still not trained in accordance with their profile.

Optimal utilisation of the System

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

Departmental assets are maintained per LOGIS Selection WMMT - Maintain Serial Detail Information. The Department makes use of the BAUD System and should verify the assets against LOGIS as well.

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 2009/2010 financial year was 6.4 days, the performance of the Department is therefore below standard.

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

Financial Controls

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

The BAS/LOGIS Reconciliations are conducted regularly and the resubmission queue per LOGIS Procurement Integration is constantly checked for errors and submissions.

System Control functions

The Department achieved a financial management capability rating of level 3 (nominal compliance). Users are trained per their system profiles and general password security is maintained.

Conclusion/recommendation

Many meetings, interactions and reports are currently taking place to assist the Department's.

3.1.8 Public Entity: Western Cape Provincial Development Council (PDC)

3.1.8.1 Accounting policies and standards

The PDC is a public entity that resorts under the control of the Office of the Premier. The Entity has received unqualified audit reports since the 2006/07 financial year.

Table 12 Summary of Comparison between the 2008/09 and 2009/10 Audit Reports

Key finding	2008/09	2009/10	Status
Irregular Expenditure	X		Improved
Restatement of corresponding figures	X	X	Unchanged
Non-compliance to applicable legislation: Public Finance Management Act and Treasury Regulations	X		Improved
Financial statements were subject to material amendments resulting from the audit	X		Improved
The annual report was not submitted for consideration prior to the tabling of the auditor's report	X		Improved
Audit committee was not in operation throughout the financial year	X		Improved
Audit committee was not operating in accordance with an approved, written terms of reference	X		Improved
Audit committee did not substantially fulfilled its responsibilities for the year, as set out in section 77 in the PFMA and Treasury Regulation 27.1.8	X		Improved
Internal audit was not in operation throughout the financial year	X		Improved
Internal audit was not operating in accordance with an approved terms of reference	X		Improved
Internal audit did not substantially fulfilled its responsibilities for the year, as set out in Treasury Regulation 27.2	X		Improved
Significant deficiencies in the design and implementation of internal control in respect of Financial and risk management	X		Improved
Significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations	X		Improved
Power and duties have not been assigned as set out in section 56 of the PFMA	X		Improved
Prior years audit findings have not been substantially addressed	X		Improved
Information systems were not appropriate to facilitate the preparation of a performance report that is accurate and complete	X		Improved

Key finding	2008/09	2009/10	Status
Lack of control processes and procedures designed and implemented to ensure the accuracy and completeness of reported performance information	X		Improved
There is a functioning performance management system and performance bonuses are only paid out after proper assessment and approval by those charged with governance	X		Improved
Going concern		X	Deteriorated

Going concern

Once the Bill has been approved by the Premier and the cabinet of the Western Cape Provincial Parliament for the repealing of the PDC Act the PDC will be liquidated. The envisaged date for liquidation is at the end of the financial year, 31 March 2011.

3.1.8.2 Normative Financial Management

Western Cape Provincial Development Council received an unqualified audit opinion, with other matters in the 2009/10 as well as for the 2008/09 financial year. This public entity has significantly reduced the number of audit findings in the audit report, however, attention is drawn to the fact that the public entity will dissolve on 31 March 2011.

3.2 Provincial Treasury

Overview

Financial management capability assessments of the main attributes were conducted and rated in terms of the assessment tools as contained in Chapter 2 of the FGR&O 2010. The goal of these assessments is to collectively provide an overview of how the department (and its entities) is/are managed as well as recommendations to assist progress to a level 3+ financial management rating.

The following ratings were assigned per assessment area:

Performance Management

- Non financial information - level 2.5
- Financial information – level 3

Compliance with accounting policies and standards – level 2.5

Enterprise Risk Management – level 2

Corporate Governance - level 2.8

Liabilities management – level 3

Supply Chain Management – level 2

Movable Asset Management – level 2

Financial Systems

- Systems usage – level 3
- Training - level 2

In view of the ratings above, an average rating of level 2.48 is achieved.

The Department has provided a comprehensive financial management improvement plan that inter alia covers the issues raised to move towards a level 3+ rating.

3.2.1 Performance Management

The analysis of departmental performance information management uses the financial management capability model as a point of departure to provide an insight to the information presented in the departmental budget documentation including the Department's Strategic Plan (SP), Annual Performance Plan (APP), Annual Report (AR) and Quarterly Performance

Reports (QPRs). The assessment gauges key aspects of the Department's performance information in order to determine the Department's financial management capability level.

The assessment 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 level 4 financial management capabilities. The 2009/10 AR, the 2009/10 and 2010/11 APPs as well as the final 2009/10 QPR have been used in the assessment. The assessment also includes information based on the 2009/10 Auditor-General of South Africa (AGSA) audit report.

Organisational arrangements for managing Performance Information

The strategic planning and performance reporting responsibility is located within the Financial Management Sub-programme. The Chief Financial Officer is the responsible manager with direct reporting to the Accounting Officer and has been designated for strategic planning and performance management services although certain responsibilities are delegated to programme and sub-programme managers.

Quarterly Performance Reporting on 2009/10 Predetermined Objectives

The Provincial Treasury has submitted QPRs in the correct format on a quarterly basis. As a non-sector Department, the Provincial Treasury has made use of a customised excel template. These reports reflected the annual as well as quarterly targets as contained in the Annual Performance Plan as well as progress on the targets. The Treasury has also supplemented the excel template with a narrative report outlining the key achievements, challenges and responses for each quarter. The narrative report, in most cases, provided reasons for over and under performance and also indicated remedial steps for improved performance in some instances. A challenge for the quarterly reporting related to the nature of the performance indicators in the 2009/10 APP of which most are qualitative. Therefore reporting against these was in some cases not directly specific to targets set but rather reflected progress towards achievement of the annual targets.

Annual Report 2009/10

The Provincial Treasury has defined specific strategic objectives for each of its four programmes. Likewise, the key areas of achievements (deliverables) with reference to the programmes, are highlighted. The performance-related documents generally reflect consistency in terms of units of performance measurement as well as with regard to format compliance. As mentioned

above, the APP reflects both annual and quarterly targets which are in most cases SMART.

When comparing the performance information in the AR with the APP, all the performance measures defined in the 2009/10 APP are reported on in the 2009/10 AR per sub-programme. The AR may thus be used in conjunction with the APP to assess the Department's performance over the indicated financial year.

Strategic Plan 2010/11 – 2014/15

Provincial Treasury tabled a revised Strategic Plan (SP) for 2010/11 – 2014/15 before the start of the 2010/11 financial year. The format of the Strategic Plan is in line with the generic guide for Strategic Plans issued by the National Treasury. The Strategic Plan for the Department contains the Strategic goals and objectives to be attained by the Department over the 2010/11 – 2014/15 period.

Annual Performance Plan 2010/11

The APP demonstrates general compliance with regard to format/programme structure and reflects departmental strategic objectives, programme performance indicators/annual targets as well as specific performance indicators per quarter. Overall the APP (in relation to related documents such as Annual Report, Strategic Plan, Quarterly Performance Report) maintains consistency/logic and the targets generally adhere to the SMART principle.

Conclusion/recommendation

The performance-related documents generally reflect consistency in terms of units of performance measurement as well as with regard to format compliance. As mentioned above, the APP reflects both annual and quarterly targets which are in most cases SMART. The Annual Report indicates clearly the "reasons for achieving targets, the reasons for not achieving targets (deviations) as well the significance of achieving targets".

The sentiment of the Auditor-General South Africa (management report) for the year ending 31 March 2010, concurs in essence with the rating as expressed within this non-financial performance management assessment, from the perspective that the AGSA indicates that the Department's performance information is fairly stated in all material respects, in accordance with the predetermined criteria.

General recommendations to improve the overall reliability and usefulness of performance information include Accounting Officers ensuring that an overall performance management system should be in place and documented,

sufficient appropriate audit evidence and source documentation exist, there are appropriate information systems to facilitate the preparation of a performance report that is accurate, complete and valid and adequate control processes and procedures should be designed and implemented to ensure the accuracy, completeness and validity of reported predetermined objectives/performance information.

Analysis of guidelines and legislative requirements of the 2009/10 APP and QPR, the 2009/10 AR and the 2010/11 APP reveal that the Department is, according to the performance management framework, almost operating at a level 3 auditable organisation.

3.2.1.2 Performance management assessed based on financial information

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

- Provincial Treasury has an approved expenditure and revenue budget for the 2009/10 financial year;
- The Department submits its 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 Department ensured that the reported actuals on expenditure and revenue reconciled to the BAS/Vulindlela financial system consistently on a monthly basis; and
- According to the SCOA inconsistency tool, no transactions were classified as incorrect at the end of 2009/10.

Table 13 Quarterly Analysis on projections: 2009/10

R'000	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
First Quarter	8 943	9 402	10 325	12 168	11 051	10 747	10 501	11 804	11 145	11 966	11 461	15 169	134 682
%	6.64%	6.98%	7.67%	9.03%	8.21%	7.98%	7.80%	8.76%	8.28%	8.88%	8.51%	11.26%	100.00%
Second Quarter	8 943	9 402	10 325	11 541	10 274	9 677	13 580	11 836	11 442	12 501	12 233	14 580	136 334
%	6.56%	6.90%	7.57%	8.47%	7.54%	7.10%	9.96%	8.68%	8.39%	9.17%	8.97%	10.69%	100.00%
Third Quarter	8 943	9 402	10 325	11 541	10 274	9 677	10 559	12 293	10 187	12 989	16 292	17 275	139 757
%	6.40%	6.73%	7.39%	8.26%	7.35%	6.92%	7.56%	8.80%	7.29%	9.29%	11.66%	12.36%	100.00%
Fourth Quarter	8 943	9 402	10 325	11 542	10 275	9 678	10 559	12 293	10 188	9 762	14 019	21 385	138 371
%	6.46%	6.79%	7.46%	8.34%	7.43%	6.99%	7.63%	8.88%	7.36%	7.05%	10.13%	15.45%	100.00%

Shaded: Actuals

Unshaded: Projections

The table above depicts that the Department can improve on making its forecasts. Actual expenditure (shaded) tends to be slightly lower than the projected expenditure (unshaded) within a margin of 10 per cent as seen in the first and second quarter however, in the third quarter projections are over by a 10 per cent margin. Projected expenditure is less than the actual expenditure within the fourth quarter.

The Provincial Treasury's expenditure trends show a March spike. The spending during March amounts to R21.385 million or 15.5 per cent of the R138.371 million 2009/10 total expenditure. This is mostly reflected within the Goods and Services as well as the Capital Payments. In terms of the table above, expenditure for the month of March was projected at R15 million.

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

The original budget allocated for the Department in 2009/10 was R134.682 million, however in the Adjustments Budget; the budget was increased by 3.77 per cent or R5.075 million to R139.757 million. The increase in budget was for the transversal performance audits being conducted by the AGSA across the Provincial Government in liaison with the Provincial Treasury and the investigation costs associated with the revision of the casino exclusivity fees to be undertaken by the Bureau of Economic Research (BER).

The shifts in the Adjustments Budget between the programmes was R1.345 million or 0.96 per cent as indicated in table below. The shifts made between the programmes are below 2 per cent of the main budget and therefore it is clear that the original budget of the Department is realistic.

Table 14 Shifts 2009/10

From Programme	To Programme	Amount R'000
Administration: Payments for capital assets	Administration: Current payments	142
Sustainable Resource Management: Transfers and subsidies	Sustainable Resource Management: Current payment	100
Asset and Liabilities Management: Current payments	Asset and Liabilities Management: Payment for capital assets	150
Financial Governance: Payment of capital assets	Financial Governance: Current payment	953
TOTAL		1 345

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 2009/10 as well as the programmes affected by these virements, which were minimal. These virements were used to defray over expenditure by utilising savings in Programme 2 for Programme 1 and Programme 4 amounting to 1.3 per cent and 0.2 per cent of the adjusted budget of Programme 2, respectively and savings from Programme 3 for Programme 4 amounting to 1 per cent of the adjusted budget of Programme 3.

Table 15 Virements 2009/10

From Programme	To Programme	Amount R'000
Sustainable Resource Management	Administration	472
Sustainable Resource Management	Financial Governance	82
Assets and Liabilities	Financial Governance	270
TOTAL		824

The aggregate expenditure incurred in 2009/10 for the Department amounted to R138.371 million or 99 per cent of the Adjusted Budget. This indicates that the underspending amounts to 1 per cent, which is within the 2 per cent underspending norm. There were no rollover requests.

There was no fiscal dumping and reported irregular or unauthorised expenditure in 2009/10.

No tariffs were revised in 2009/10.

The Department collected R366.991 million in provincial own receipts in the 2009/10 financial year compared to the R348.868 million adjusted budget. The over collection was R18.123 million or 5.2 per cent more than the adjusted budget, which was mainly attributed to the increase collection on casino and horseracing taxes due to higher than estimated gambling activities in the Western Cape over the festive season.

The main appropriation for Provincial own receipts for 2009/10 is R388.868 million and the amount is R21.877 million or 5.96 per cent less than the actual collection of R366.991 million.

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.

3.2.2 Compliance with accounting policies and standards

PT (Accounting) identified a number of key accounting policies and standards against which departments are rated in terms of compliance and its financial management capability.

The purpose of the exercise is inter alia to monitor progress towards an improved financial management capability rating. Various tools are available to departments to ensure improved ratings, improved integrity of data and also that the financial reporting that is understandable, relevant, reliable and comparable.

PT (Accounting) introduced various initiatives to address accounting matters in collaboration with the relevant department. The department fully utilised the opportunities and actively contributed with regards to the following:

- Workshops on reporting requirements
- Two-monthly CFO forums
- Monthly FA forums
- Bi-lateral discussions
- IYM reporting
- Submission of AFS for preview prior to 31 May
- Compilation of prescribed audit files with supporting documentation
- Interim financial statements as at 30 September 2009

The interim financial statements as at 30 September 2009 was a new initiative by PT. Accounting assessments were conducted on the interim financial statements by Accounting Services in terms of a pre-determined assessment framework. Internal Audit also conducted a review of the processes and the controls implemented by departments on the implementation of the interim financial statements and issued a report on its findings per department. The Accounting assessment findings were issued to departments and corrective measures followed up in terms of action plans to ensure that these issues did not re-appear at the year-end.

The Department diligently attends and participate in the PT driven Financial Accountants and Chief Financial Officers Forums and attend workshop offered by the Treasury where transversal financial management issues are discussed amongst provincial departments.

In its endeavours to enhance financial management the Department has instituted various control measures and processes. This has surely enhanced the financial management of the department and the Department must be

congratulated on receiving an unqualified audit report with no other matters for the 2009/10 financial year.

An assessment of the financial management capability of Provincial Treasury was based on the 2009/10 AFS audit findings and IYM reporting revealed the following.

Management of and reporting on suspense accounts

The Department reported in the monthly IYM report that the suspense accounts has consistently been followed-up and cleared within a reasonable period. Old balances from previous dispensations have been cleared in terms of the Inherited Debt Relief Act.

The Department continues to perform at a level 3 financial management capability rating when compared to the previous assessment and to progress to a level 3+ all suspense accounts should be cleared on a monthly basis before book-closure takes place.

Accounting of assets

The Department reported in the monthly IYM reports that the asset register is updated in compliance with prescripts. However, the AGSA highlighted in its management report that various material misstatements occurred on the asset disclosure note, which was identified and corrected during the audit. The Department needs to enhance management controls to ensure that assets in the financial statements are reconciled with the asset register.

The Department continues to operate close to a level 3 financial management capability rating when compared to the previous financial year, which was rated at level 2.

Financial reconciliations

The Department reported in the monthly IYM reports that reconciliations of BAS/LOGIS (minor, major and additions assets), BAS/PMG and BAS/PERSAL are compiled, reconciled, signed off by the Chief Financial Officer with explanations of how reconciling items are being addressed.

The Department improved from a level 2 to a level 3 financial management capability rating for the year under review when compared to the previous assessment.

Expenditure – Payments and journals

The Provincial Treasury (Accounting) monitors incorrect expenditure classifications in terms of SCoA inconsistent allocation reports. The Department managed to clear all payment classifications which were deemed to be inconsistent in terms of the SCoA classifications applied by the province, by implementing proper internal controls.

The Department reported in the monthly IYM reports that all inter-department claims receive have been acknowledged within 15 working days after receipt of claim and were settled within 30 days.

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 compiled and submitted monthly IYM report in accordance to prescripts on or before the 15th of each month and signed off by the CFO.

The Department continues to perform at a level 3 financial management capability rating when compared to the previous assessment.

Conclusion/recommendation

The Department has made progress during the year under review and could improve its overall performance and the financial management capability rating to a full level 3 by addressing the accuracy of asset, information provided in the AFS and management controls. Currently the Department is bordering just below a level 3 financial management capability rating.

3.2.3 Corporate Governance

3.2.3.1 Enterprise Risk Management and Governance Systems

This section provides guidance, criteria and norms and standards for 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.

Strategic Risk Assessment

A strategic risk assessment was conducted for the Department less than a year ago. Risk response strategies were not 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 for the Department has also not been defined.

Operational Risk Assessment

The risk events have been identified and 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. It was indicated that an operational risk assessment took place less than a year ago.

Overall assessment

Based on the above information, the Department has achieved a rating of 2, as the Department has not met all the set criteria, norms and standards for level 3. In order to achieve a level 3 rating the Department needs to achieve all of the following set criteria, norms and standards:

Internal Environment

Risk Management Philosophy must be articulated in writing, but it has not been developed yet.

Management philosophy and operating style does not fully reflect acceptance of risk management principles.

Risk appetite must be defined, but it has not been developed yet.

Operational Risk Assessment

Action plans have not been developed.

2008/09 and 2009/10 Comparison

For the 2009/2010 review, it is evident that the Department has made some improvement as compared to the 2008/09.

3.2.3.2 Normative Financial Management

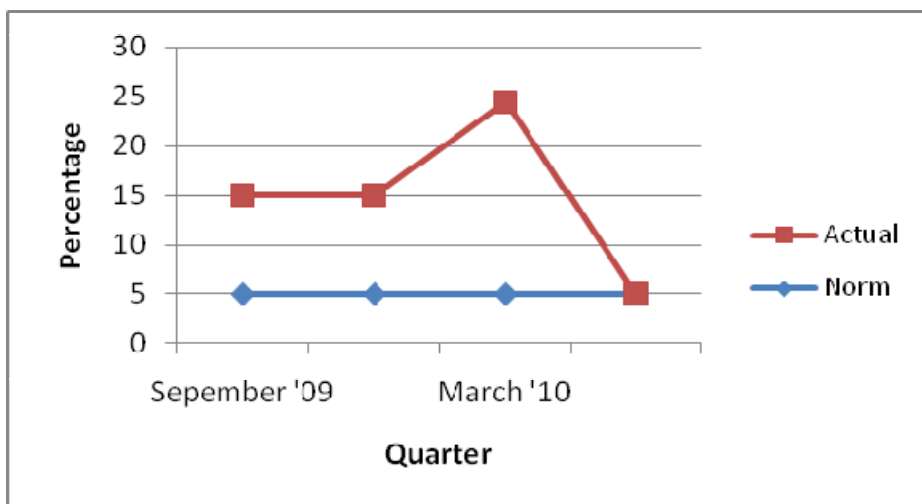
The findings discussed in this section provide a review of the PFMA implementation and financial management improvement of the Department in line with the provincial strategy of attaining a level 4 financial management capability rating.

The source documents used were the Normative Measures Quarterly Report for the departments, the Financial Management Capability Maturity survey conducted in June 2010 and the 2009/10 AGSA report for the Department.

Analysis of Normative Measures Quarterly Report

The CFO structure: Human Resource Capacity

Figure 2: Provincial Treasury Vacancy Rate



The vacancy rate for the CFO structure in Provincial Treasury stood at 7 per cent as at 30 June 2010 and the average length of a vacancy within the CFO structure is averaging on three months. There are three vacant posts that exist within the CFO structure, namely the Asset Manager in the SCM unit, the Assistant Director in the Management Accounting unit and the State Accountant in the Internal Control unit. As at 30 June 2010, the number of staff involved in a structured training programme was reported to be at 80 per cent.

Policies and procedures

The Department complies in the main with all policies and procedures prescribed by the PFMA and Treasury Regulations pertaining to financial management accept for the Asset Strategy which is partially linked to the

Departments' strategic plan, service delivery objectives and programmes. This raises the question as to whether the Department will be able to maintain its asset planning and budgeting adequately. The Department has indicated that it is in the process of finalising an Asset Management Plan.

Tabling of Annual Report

The Department and Public Entity must annually table their Annual Reports, as prescribed, in the Legislature. Compliance with these requirements is reflected in table below:

Table 16 Compliance with annual reporting requirement

Institution	Date annual report received by Provincial Treasury	Annual report tabled at the Provincial Legislature
Department:		
Provincial Treasury	31/08/10	30/09/10
Public Entity:		
WC Gambling Board	31/08/10	30/09/10

Analysis

The Department has successfully tabled the 2009/10 AR as well as that of its Public Entity within the prescribed timeframes.

Auditor-General's report on the 2009/10 financial year

Provincial Treasury received an unqualified audit opinion, with no other matters for the 2009/10 financial year compared to an unqualified audit opinion, with other matters in the 2008/09.

Overall assessment

Based on the above, the Provincial Treasury receives a level 3 overall maturity level.

3.2.4 Liabilities Management

This section deals with the implementation and management of sound cash flow practices as well as the provision of assistance and training in respect of the 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 cash flow 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 and further improve departments and to enable them to reach a standard level of 3+, new assessment tools were created to assist CFOs to have more control and insight over the functions relating to their banking sections.

This evaluation was based on the activities of the 2009/10 financial year and the findings were as follows.

Table 17 Assessment of Liabilities Management

Requirements	Weight	Standard Level 3	Standard Level 3+	Rating
Submission of Annual Provincial Cash flow Projections (Section 40(4)(a))	10%	By 28 February	By 15 February	7.50%
Monthly alignment of actual expenditure with available cash	20%	11 months compliance	12 months compliance	20.00%
Available Budget equal to available cash (annual)	20%	Not equal	Equal	17.50%
Surrender of voted Surplus Funds	10%	31 May	15 May	10.00%
Submission of monthly Bank Reconciliation	10%	Within 30 days after month end	Within 15 days after month end	9.17%
User account management (Dormant users, etc)	20%	User accounts reconciled on a quarterly basis	User accounts reconciled on a monthly basis	15.00%
Confirm reconciliation of monthly bank transfers	10%	Within 7 working days after calendar month end	Within 5 working days after calendar month end	7.50%
	100%			86.67%

The Department achieved an overall rating of level 3 (nominal compliance), which is in line with the 2009/2010 financial year.

Submission of Annual Provincial Cashflow Projections

The Department obtained a rating of 7.50 per cent (nominal compliance). The Annual projections in respect of income and expenditure were received on 25 February 2010.

Monthly alignment of actual expenditure with available cash

The Department obtained a rating of 20 per cent (full compliance). The Department complied with 12 months.

Available Budget equal to available cash (annual)

The Department obtained a rating of 17 per cent (nominal compliance). The Department overspent on their cash by R141 000.

Surrender of voted Surplus funds

The Department obtained a rating of 10 per cent (full compliance). Surplus funds were paid to the PRF on 6 May 2010.

Submission of monthly Bank Reconciliations

The Department was rated 9.17 per cent (nominal compliance). The monthly bank reconciliations were submitted within 30 days after month end.

User account management (Dormant users, etc)

The Department was rated 15 per cent (nominal compliance). It is preconceived that the Department complied with the relevant requirements.

Confirm reconciliation of monthly bank transfers

The Department was rated 7.50 per cent (nominal compliance). The Department should confirm and reconcile the monthly transfer schedule with Cash Management.

3.2.5 Supply Chain Management

Background

For the 2009/10 financial year, a Supply Chain Management status verification assessment was performed by the Provincial Treasury. The objective of this assessment was to gauge the progress made by the Department since the 2008/09 SCM compliance assessment, in terms of the proposed action plan recommended by the Provincial Treasury. The aforementioned action plan proposed steps to be taken by the Department to attain the next level of financial capability in terms of the Province's financial capability model for SCM.

Institutionalisation

In terms of sections 38(1)(a)(iii) and 44 of the PFMA, Accounting Officers must establish an AOS and accompanying delegations to regulate day-to-day SCM activities and ensure the effective and efficient management of SCM processes and procedures. Furthermore, the AOS must be maintained and updated regularly to ensure that:

- (a) Gaps/deficiencies are addressed; and
- (b) New requirements, policies, best practices and developments are incorporated.

The Department updated its delegations in 2008 and revised its AOS in November 2009. The revised AOS is held in abeyance and cannot be implemented as the Provincial Treasury is in the process of updating provincial requirements and drafting a Provincial AO Policy in Terms of the Provincial Treasury Red Flag Programme.

The SCM structure is vested within the structure of the CFO as required by section 16A4 of the National Treasury Regulations (NTRs). The aforementioned structure is deemed inadequate and does not seem to address all the disciplines of SCM. It does not cater for all the SCM aspects as required by National Treasury: Normative Measures for Financial Management and National Treasury Regulations 16A3.2.

A high vacancy rate also affects the Department's capacity to deliver on its service delivery obligations. Although the attrition rate of staff is not always within the control of a department, department's must endeavour to manage the recruitment and retention of staff effectively and efficiently in terms of the generally accepted national norm of 5 per cent. At the time of the assessment there were two vacant posts. PT indicated that the vacant posts would be filled by the end of April 2010.

The Department has given effect to the required committee system by establishing a standing adjudication committee and specifications and evaluation committees are constituted when the Department wishes to go out to tender. These committees perform their duties according to the legislative framework. The committees are constituted of departmental officials who are appointed in writing.

The above-mentioned committee members have not received training with the exception of one member. However, a request for bid committee members to be trained has been put through to the Moveable Asset Management Unit, by the Accounting Officer. Two officials performing the procurement function have received academic training in Supply Chain Management at UNISA and also received contract management training in 2007 offered by SAMDI. The Provincial Treasury indicated that they are

considering the integrated training courses offered by the Directorate Supporting and Interlinked Financial Systems. A pro-forma needs analysis has been compiled. PT also intends looking at courses offered by PALAMA but only once the integrated training is completed.

Internal Control and Compliance to SCM Policy and Prescripts

As indicated in paragraph 2.4 above, the current SCM structure does not address the legislative requirements of SCM. Demand management, contract management as well as the regular assessment of the supply chain management performance is not catered for within the SCM structure. Only two officials are responsible for the procurement function for the Department.

The Department does not take into consideration the principles of Demand Management when procuring their goods and services. This is evident from the number of limited bids, extensions and quotations advertised via the closed system on the EPSi. There were no competitive bids advertised in the period under review, the two bids awarded were in terms of limited bidding and contract extension. The advertised quotations in the open system were 31 while 38 were advertised via the closed system. The Department indicated that the deviations were due to capacity constraints and that they are in a process of issuing a Demand Management Policy in July 2010.

In terms of contract management, the Department does monitor their contracts in an effective and efficient manner. Line functionaries are responsible for the monitoring and managing of contracts while SCM performs contract administration.

The Department does not make provision for the mitigation of internal control weakness and risk mitigation procedures within the SCM unit; however, they have identified it as a priority which will be addressed in the Annual Performance Plan for the forthcoming financial years.

No monitoring mechanism has been developed to monitor compliance on SCM and performance across the Department.

No issues were raised by the AGSA for the 2009/10 financial year.

Reliability and Integrity of Data

The Department utilises the Electronic Purchasing System (EPSi) to obtain quotations for the procurement goods and service in accordance with the designated thresholds. The Department has indicated that there are two designated officials authorised to use the EPSi and have received the appropriate training.

The EPSi statistics for the period under review would be as follows:

Number of quotation awards captured	:	39
Awards with HDI participation	:	37
Value of awards captured	:	R691 959.01
Value awarded to HDIs	:	R168 933.84

In terms of paragraph 16A7 of the 2008 and 2009 Provincial Treasury Instructions (PTI's) departments are required to capture the detail of quotations invited via the EPSi on the system to ensure credibility of the data. The Department's capturing rate was 97 per cent as at March 2010 which indicated a vast improvement from the previous financial year. The Department has made steady progress with regards to the utilisation of the EPSi.

The Department's reporting on awarded bids (statistical information) was in the correct formats within the set timeframes. The general bid/contract statistics for the period under review were as follows:

Bids Awarded	:	6
No. of limited bids	:	2
No. of contract extensions	:	4
Value of bids awards	:	R4 689 397.05
Value of limited bids	:	R749 751.00
Value of the contract extensions	:	R3 940 006.05

The Department has a proper record keeping and management of information system.

Comparison to the 2008/09 Review

The Department's Accounting Officer's System (AOS) has been reviewed in November 2009 since being issued in 2004 and delegations were last reviewed in 2008.

The SCM structure has, within the last two financial years, been deemed inadequate in addressing the legislative requirements of SCM as it does not cater for all the SCM aspects as required by National Treasury: Normative Measures for Financial Management and National Treasury Regulations 16A3.2.

The Department does not maintain a risk plan for SCM that forms part of the overall risk plan of the PT.

The Department does not perform regular assessments of SCM performance.

The Department utilises the EPSi to obtain quotations for procurement below the regulated threshold and has indicated 97 per cent capturing rate as at March 2010 which is a significant improvement when compared to the previous year (30 per cent). The Department's reporting on bids and the adherence to due dates has improved when compared to the previous year.

Deficiencies in terms complying with certain legislation and prescripts have been addressed, ie:

- Reporting requirements to AGSA and SARS;
- Consulting the National Treasury's list of restricted suppliers prior to the award of a bid;
- Reporting of contracts above R100 000 to National Treasury; and
- Contract management has mostly been decentralised to the responsible line functions whereas SCM is responsible for contract administration.

Rating in terms of the Financial Capability Model for SCM

It terms of this assessment, it has been noted that the Department has addressed some of the issues highlighted during last financial year's assessments and audits. These issues are being addressed in various phases/processes such as:

- In development,
- Implementation; or
- Assessment and refinement.

In terms of the assessment processes performed, the Department is rated at a financial management capability rating of level 2. Although certain level three criteria may have been met, the Department has not met all the requirements of level three as yet.

Steps to take the Department to the next level of financial capability

In terms of the 2009/10 and verification assessment process conducted at the Department, the following require attention:

- Demand Management: develop and refine demand management requirements as well as investigate training options. Training should become compulsory for all SCM officials and line mangers;

- Acquisition Management: develop and refine current policies and procedures. Training and staff development should remain a high priority. Standardise and streamline policy and procedures throughout the Department. Proper and effective recordkeeping should be maintained. Maintain compliance to the EPSi system requirements and policy. Maintain and improve on adherence to reporting requirements;
- Contract Management: Maintain and improve on current control mechanisms. Ensure that contracts are managed and administered efficiently and effectively. Proactive management of service level agreements and thus a high level of vendor performance must be ensured. Have oversight on contract administered outside the SCM directorate;
- Monitoring of SCM Performance: Develop the assessment framework and methodology; and
- Management of Risk and Risk Mitigation: Give effect to risk and action plans.

During the 2010/11 financial year the Provincial Treasury will focus on the development and implantation of the requirements of the SM Blueprint developed in terms of the Premier's Modernisation Programme, which will inter alia include aspects such as integrated training and the refinement of SCM policy and procedures.

3.2.6 Moveable Asset Management

Background

The Department was assessed and rated during 2009/10 financial year in terms of the financial capability model for Moveable Asset Management.

However the rating was not only based on the compliance/verification assessment report but also on other Asset Management reporting and findings, the AGSA report and AM performance throughout the financial year.

Institutionalisation

The Department has drafted an Asset Management (AM) policy to give effect to the requirements of the National Treasury's Broad Implementation plan, however, this document does not give clear guidance or prescriptive direction in terms of all the asset management disciplines.

The Department's structure further does not provide for asset management independently and has its functions integrated with SCM.

Although the Department has given effect to training on Asset Management systems, its representation at the workshops presented by National Treasury was minimal.

Internal Control and Compliance to SCM Policy and Prescripts

Separation of duties cannot be determined from the structure as Asset Management is integrated into Supply Chain Management roles and responsibilities. This allows for the cross functioning of AM and SCM.

Although the draft policy has not been approved the Department appears to be functioning effectively and efficiently in terms of AM, however, succession planning of the functions may be hindered.

The job descriptions of the AM and SCM officials are descriptive in terms of their functions and accompanying processes, however, the Department has indicated that when the AM policy is approved it will promote standardisation within AM.

The Department has indicated that it has a Risk Management Policy approved by the Accounting Officer. In addition, it has also developed and approved a Fraud Prevention policy.

The Department has an Asset Register that meets the minimum requirements for Asset Registers in terms of National Treasury's Broad Implementation Plan and the AM guidelines.

The Departments AOS makes no provision for the operation and maintenance of its assets, however capital assets in terms of furniture, computer and office equipment is maintained by corrective maintenance.

The Department has incorporated its disposal policy into the AOS and draft policy under the heading of Disposal Management. This section provides clear guidance in terms of methods of disposal, the determining criteria and the processes to be followed. The Department also instituted a disposal board which meets on a determined date.

Reliability and Integrity of Data

The Department utilises the National Treasury approved systems, LOGIS and BAS for the provisioning of its assets. Although the assets are updated according to its current status, in certain instances assets are classified incorrectly in terms of their reporting levels and asset categories.

It must be noted that in conjunction with the prescribed annual stock-take, the Department also undertakes mid-term stock takes. However, the stock take certificates are not forwarded to Moveable Asset Management as required by circular 36 of 2007.

In the first quarter of the year under review the Department has failed to report in terms of Dashboard and Risk log, however, in the subsequent quarters the Department has diligently reported.

Comparison to the 2008/09 Review and Rating

In terms of the progress reporting on National Treasury Broad Implementation plan for 2008/09, the Department has indicated an 83 per cent compliancy to Planning, Acquisition, Operation and Maintenance and Disposal however for the period under review the Department has regressed to 71 per cent.

The Accounting requirements have significantly improved from being 63 per cent compliant in 2008/09 to 82 per cent compliant in the year under review. The Asset Register remains at 92 per cent compliant and the overall compliance remains at 80 per cent. It must be noted that the expiry date for full compliance to National Treasury's' Broad Implementation plan was 31 March 2008.

The physical verification assessment reiterated the progress and the non-compliant reported requirements namely:

- Planning- Non- Asset Solutions, Elements of the Best asset Strategy;
- Acquisition- Development of an Acquisition Plan;
- Operation and Maintenance- development of Operation and Maintenance Plan, Monitoring condition and Use, Maintenance Scheduling;
- Disposal- Development of Disposal Plan;
- Accounting- Valuation of Assets; and
- Asset Register- Condition performance.

The Department should take cognisance of the shortcomings highlighted in terms of assets in the AGSA report and ratings by the Accounting Directorate of PT under the "Compliance with accounting policies and standards" section of the Financial Governance Review & Outlook 2010. These shortcomings, the instituted corrective measures and the implemented control measures will be closely monitored and assessed by the Provincial Treasury: Moveable Asset Management (MAM) unit to encourage and promote efficiency, effectiveness and to contribute to the planning and preparation for the asset verification assessment envisaged for the 2010/11 financial year.

In view of the AM verification assessment findings, the reporting on the Broad Implementation Plan, the responses to the Financial Management Capability Maturity Model (FMCMM) survey and historical data, the Department may be

rated at a level 2 in terms of the Financial Management Capability Model for Asset Management. The rating is determined as the implemented controls within the Department are not functioning appropriately and the AM policies and plans are still outstanding.

Steps to take the Department to the next level of financial capability

- Approve and implement AM draft policy;
- Ensure and monitor compliance to the relevant policies and procedures;
- Standardise AM procedures;
- Enhance the monitoring of assets to ensure sustainable service delivery;
- Capacitate the AM unit;
- Skills development plan for AM to be in place;
- Establish a basic AM control framework to safeguard and protect assets;
and
- The development and implementation of relevant asset plans.

3.2.7 Supporting and Interlinked Financial Systems

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

Review

The evaluation was based on the activities of the 2009/10 financial year and the findings were as follows:

Basic Accounting System (BAS)

Table 18 Management of activities on BAS

Requirements	Weight	Standard Level 3	Standard Level 3+	Rating
Skilled and capacitated system users	30%	In accordance with profile	Various Modules	2
Optimal utilisation of system	20%	80% - 90%	91% - 100%	3
Month- and Year-end closure	5%	Own accord – due date	Own accord – prior date	3+
System Controller Functions	30%	80 – 90%	91 – 100%	3+
Monitor Applicable Interfaces	15%	Intermittently	Daily	3+
Average Rating				3

The Department obtained an overall rating of level 3.

Table 19 Skilled and capacitated system users

Number of officials confirmed	Number of officials attended	Number of officials did not attend	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
36	19	17	16	3

The Department maintained a financial management capability rating of level 2 (partial compliance) mainly due to the high percentage of officials who confirmed but did not attend courses, as well as all officials not 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 more users trained.

Optimal utilisation of system

The Department achieved a financial management capability rating of level 3 (nominal compliance) for the optimal utilisation of the system.

Month- and Year-end closure

The Department achieved a financial management capability rating of level 3+ (nominal compliance) as their month- and year-end closure was done prior to the predetermined dates of National Treasury.

System Controller Functions

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

- Logging of calls to the Provincial Helpdesk;
- Maintenance of Security Profiles;
- The reinstate of Transaction Processing Rules;
- Requesting/monitoring and distributing of automated Basic Accounting System reports;
- Maintenance of segment details;
- Maintenance/update of departmental parameters;
- Provide practical individual training to users;

- Monitor Technical stability of work station including Local area network; and
- Assisting non-financial users of Basic Accounting System.

Monitor Applicable Interfaces

The Department achieved a financial management capability rating of level 3+ (full compliance) as their interfaces were monitored and reported on a daily basis.

Personnel and Salary Administration System (PERSAL)

Table 20 Management of activities on PERSAL

Requirements	Weight	Standard Level 3	Standard Level 4	Rating
Skilled and capacitated system users	30%	In accordance with profile	Various Modules	2
Optimal utilisation of system	20%	80% - 90%	91% - 100%	2
System Controller Functions	20%	80 – 90%	91 – 100%	3
Establishment Management	10%	Quarterly	Monthly	3
Adhere to Minimum Information Requirements	5%	Annually	Continuous process	3
Leave Audit	15%	Annually	Continuous process	3
Average Rating				3

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

Table 21 Skilled and capacitated system users

Number of officials confirmed	Number of officials attended	Number of officials did not attend	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
25	17	8	15	2

The Department maintained a financial management capability rating of level 2 (partial compliance) mainly due to the high percentage of officials who is confirmed but did not attend courses, as well as all officials not 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.

Optimal Utilisation of system

The Department maintained a financial management capability rating of level 2 (partial compliance), system manuals are available to guide officials in utilising the system.

System Controller Functions

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

Establishment Management

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

Adhere to Minimum Information Requirements

The Department achieved a financial management capability rating of level 3 (nominal compliance), questionnaires was send out by the Department and most information was captured

Leave Audit

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

Logistical Information System (LOGIS)

Table 22 Management of activities on LOGIS

Requirements	Weight	Standard Level 3	Standard Level 4	Rating
Skilled and capacitated system users	30%	In accordance with profile	All Modules	2
Optimal utilisation of system	20%	80% - 90%	91% - 100%	3
Days per issue	10%	5 days	3 days	2
Financial Controls	20%	Monthly	Continuous process	4
System Control Functions	20%	80 – 90%	91 – 100%	2
Average Rating				2

The Department achieved an overall rating of level 2 (partial compliance), much interaction has been taken place between the Department and Support and Interlinked Financial Systems to address the problem issues.

Table 23 Skilled and capacitated system users

Number of officials confirmed	Number of officials attended	Number of officials did not attend	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
21	10	11	8	2

The Department maintained a financial management capability rating of level 2 (partial compliance) mainly due to the high percentage of officials who is confirmed but did not attend courses, as well as all officials not 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 more users trained.

Optimal utilisation of the System

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

Not all payments for goods and services are processed through LOGIS - Departmental assets are maintained per LOGIS Selection WMMT - Maintain Serial Detail Information.

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 2009/10 financial year was 10.3 days, the performance of the Department is therefore below standard.

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

Financial Controls

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

The BAS/LOGIS Reconciliations were performed on a monthly basis, timeous payments within 30 days were kept and the Resubmission Queue per LOGIS Procurement Integration was cleared as needed.

System Control functions

The Department achieved a financial management capability rating of level 2 (partial compliance). The main reason being that user profiles and password confidentiality is not maintained. The System Controller functions needs to be reviewed within the Department.

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

Conclusion/recommendation

Many meetings and interactions will be conducted and reports are currently been developed in order to assist the Department.

3.2.8 Public Entity: Western Cape Gambling and Racing Board (WCGRB)

The following ratings were assigned per assessment area:

Performance Management

- Non financial information - level 2.5
- Financial information – level 3

Compliance with accounting policies and standards – level 3

In view of the ratings above, an average rating of level 3 is achieved.

The Western Cape Gambling and Racing Board is a public entity that resorts under the control of the Provincial Treasury.

3.2.8.1 Non-financial information

The WCGRB reported on most of its non-financial performance measures in accordance with the performance measures and targets specified in the WCGRB's 2009/10 Annual Performance Plan. The strategic goals and key performance areas reported on in the draft 2009/10 Annual Report are generally aligned and consistent with the 2009/10 APP. There is however a few instances where key performance measures listed in the 2009/10 APP are left out of the annual report. (i.e. Conduct of research on p13 of the APP).

Due to a difference in structure, the achievements listed in the annual report cannot be easily compared with the performance indicators of the 2009/10 APP. Subsequently, instances where targets have not been met are obscured and difficult to identify and explanations for variances between actual and planned performances were not provided.

The format of the 2009/10 APP does not comply with the framework requirements of the National Treasury Guideline on Strategic and Annual Performance Plans. However, the discrepancies were corrected in the 2010/11 financial year. Subsequently, the National Treasury Guideline on Strategic and Annual Performance Plans has been implemented for the 2010/11 APP.

During the 2009/10 financial year period, the WCGRB's internal audit function was outsourced. Two internal audits were conducted during the period under review and its findings expressed to both the Audit Committee and the Board itself.

According to the Final Management Report on the Regulatory Audit of the WCGRB for the year ended 31 March 2010, issued by the Auditor-General of South Africa ("AG"), various internal control deficiencies have been identified. The WCGRB did not have documented and approved internal policies and procedures in place in order to collect, record, process, monitor and report on performance information.. The AG indicated that there was a lack of consistency in reporting against performance. (i.e. there is no policy or document procedure directing the collection and reporting of in-year financial reporting as well as annual reporting.) Other findings were that key performance indicators in the annual report have been duplicated and that information stated in the quarterly reports for the WCGRB's compliance Department (e.g. licensing, legal, admin, etc.) do not correlate with the annual report and in year modeling.

The AGSA also found that for the Licensing Department, the sum total of information submitted on the quarterly reports does not concur with the annual report. In addition, the AGSA stated that some performance areas for the licensing department in the annual report do not agree with the findings in the Gaming Administration Management System (GAMS). Furthermore, there were key performance indicators in the annual report which were not supported by relevant documentation or have been replicated.

Discrepancies were also identified for the performance information of the Racing and Betting Department by the AG. The quarterly performance reports did not correlate with the annual report and certain achievement were omitted from the annual report. Some performance areas in the annual report did not concur with the GAMS system or other supporting evidence. The AG also found there were key performance indicators in the annual report which were not supported by any supportive documents or have been duplicated.

Given the abovementioned discrepancies, the WCGRB do not have a sufficient and appropriate internal control framework and reporting process in place.

APP 2010/11

The format of the WCGRB APP for 2010/11 complies with all requirements of the National Treasury Guideline on Strategic/Annual Performance Plans. The mandate and functions of the entity is clearly understood and the roles and functions of the WCGRB are unique from other entities. Furthermore, the revised structure of the APP 2010/11 will improve the monitoring of the correlations between performance indicators in the APP and actual achievements listed in the AR.

The targets for the WCGRB APP for 2010/11 were set for each quarter and all performance indicators were reported according to the prescribed sub-programme level. The strategic objectives, measurable objectives and performance indicator are interlinked and correlated. The measurable objectives/performance indicators are logically defined and consistent with the defined strategic objectives. The APP reflects annual targets, which are further divided into quarterly targets. However, certain performance measure indicators are not clearly defined and/or measurable, for example "the degree of public trust" as a performance measure indicator could not be measured easily.

Performance management assessed based on financial information

Budget estimates of provincial expenditure indicates that for the financial year 2009/10, the WCGRB has an approved tax receipt budget of R333.81 million (main budget) and R293.81 million (adjusted budget). According to the IYM unaudited database, R308.37 million actual tax revenue and fees was collected and distributed to the Western Cape Provincial Government for the financial year ending on 31 March 2010. The actual tax receipts were 4.9 per cent higher than the adjusted appropriation and 7.6 per cent lower than the main budget appropriation.

The tariffs of the WCGRB have been amended by the Western Cape Sixteenth Gambling and Racing Amendment Act 7 of 2009. The current fee structure of the WCGRB is not reviewed each year, but is fixed by legislation. However, the legal department of the WCGRB is currently investigating a structure whereby the fees will be amended each year according to inflation rates. In order to do so the Western Cape Gambling and Racing Act, 1996 (Act 4 of 1996) would have to be amended. The fees payable to the WCGRB are set out in Schedule II of the Western Cape Gambling and Racing Act, 1996 (Act 4 of 1996). The tax rates payable to the WCGRB are provided for in Schedule III

Part B of the Western Cape Gambling and Racing Act, 1996 (Act 4 of 1996). The Board's policy regarding the calculation of other tariffs charged by it in respect of investigative and related activities and services is determined by a formula which is based on the total cost of employment of the functionary performing the activity or service, in concurrence with the overhead costs linked with the activity or service, proportionally calculated and reduced to an hourly rate.

The WCGRB annual report of the financial year 2009/10 has no revenue enhancement strategies in place. Also no explanation for the deviation of revenue was provided in the annual report 2009/10.

The monthly average tax receipts have decreased from R26.97 million in 2008/09 to R25.6 million for the 2009/10 financial year. The monthly average deviation as a percentage of the monthly average was 7.33 per cent. This is lower than the 2008/09 financial year which stood at 7.75 per cent.

Conclusion

As shown above a number of internal control deficiencies have been identified in particular related to documented internal policies and procedures regarding the collection, recording, processing, monitoring and reporting on performance information. The lack of documented internal policies and procedures has resulted in inconsistency in reporting against performance. The WCGRB has however revised the structure of its 2010/11 APP thereby allowing for potential improvement in the monitoring of performance indicators in the APP and ultimately actual achievements listed in the AR. This should assist the WCGRB in moving towards achieving a level 3 financial maturity capability rating in respect of performance management.

3.2.8.2 Accounting policies and standards

The entity had an unqualified audit report in 2007/08 and 2008/09, and a clean audit report for the 2009/10 financial year. The entity is performing its basic accounting functions according to prescripts and in general is maintaining a level 3 financial management capability rating.

PT (Accounting) identified a number of key accounting policies and standards against which entities are rated in terms of compliance and its financial management capability.

The purpose of the exercise is inter alia to monitor progress towards an improved financial management capability rating. Various tools are available to the entity to ensure improved ratings, improved integrity of data and also that the financial reporting is understandable, relevant, reliable and comparable.

PT (Accounting) introduced various initiatives to address accounting matters in collaboration with the relevant entity. The entity fully utilised these opportunities and actively contributed with regards to the following:

- Quarterly CFO forum;
- Bi-lateral engagements;
- Quarterly IYM reporting;
- Submission of AFS for preview prior to 31 May;
- Compilation of a prescribed audit files with supporting documentation; and
- Interim financial statements as at 30 September 2009.

Although the entity received a clean audit report for the 2009/10 with no other matters, the following issue was raised by AGSA.

Management controls

In the management reports of the AGSA it was reported that the entity misstated surplus funds and the capital grants received in the AFS submitted for audit. These errors were not prevented or detected by the entity's systems of internal controls before it were identified by the auditors.

It is recommended that management address the processes and controls to prevent misstatements in the AFS to enable the entity to perform at a level 3 plus financial management capability rating.

To circumvent misstatements of this nature, the entity needs to apply GAAP accounting frameworks accurately and if assistance is required PT can be consulted. PT (Accounting) is in the process of obtaining further clarity from NT on the calculation of surplus funds.

Conclusion/recommendation

WCGRB is averaging at a level 3 financial management capability rating, similar to the previous year and has minor issues to address in order to move beyond that level.

3.2.8.3 Normative Financial Management

Western Cape Gambling and Racing Board received an unqualified audit opinion with other matters for the 2009/10 financial year as well as the 2008/09 financial year.

There was an amount of R1 247 342, which was deemed to be irregular expenditure as the board's supply chain management processes was not being followed.

3.3 Department of Community Safety

Overview

Financial management capability assessments of the main attributes were conducted and rated in terms of the assessment tools as contained in Chapter 2 of the FGR&O 2010. The goal of these assessments is to collectively provide an overview of how the department (and its entities) is/are managed as well as recommendations to assist progress to a level 3+ financial management rating.

The following ratings were assigned per assessment area:

- Performance management - level 3
- Budget management – level 3
- Compliance with accounting policies and standards – level 2.8
- Enterprise Risk Management – level 2.8
- Corporate Governance - level 3
- Liabilities management – level 3
- Supply Chain Management – level 2
- Movable Asset Management – level 1.5
- Financial Systems
 - Systems usage – level 3
 - Training - level 2

In view of the ratings above, an average rating of level 2.61 is achieved.

The Department has provided a comprehensive financial management improvement plan that inter alia covers the issues raised to move towards a level 3+ rating.

3.3.1 Performance Management

3.3.1.1 Non-financial information

The analysis of departmental performance information management uses the financial management capability model as a point of departure to provide an insight to the information presented in the departmental budget documentation including the Department's Strategic Plan (SP), Annual Performance Plan (APP), Annual Report (AR) and Quarterly Performance Reports (QPRs). The assessment gauges key aspects of the Department's

performance information in order to determine the Department's capability level.

The assessment 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 level 4 financial management capabilities. The 2009/10 AR, the 2009/10 and 2010/11 APPs as well as the final 2009/10 QPR have been used in the assessment. The assessment also includes information based on the 2009/10 Auditor-General of South Africa (AGSA) audit report.

Organisational arrangements for managing Performance Information

The Department has dedicated persons that are responsible for planning, reporting and monitoring and evaluation of non-financial information. These persons liaise with the programme managers, located in the Sub-directorate Strategic Planning and Reporting under the Directorate Strategic Services and Communication.

Quarterly Performance Report on 2009/10 Predetermined Objectives

In the previous financial years, the Department only submitted an Excel model that highlighted the progress made in achieving the performance targets set and the brief reasons for deviations from the target (where applicable). Without a narrative report indicating the achievements, challenges, risks and proposed solutions, it was challenging to assess whether the Department is on track in achieving the strategic objectives set in the APP.

However, since the beginning of the financial year 2010/11, the Department submits both the narrative report and the Excel spreadsheet.

Draft Annual Report 2009/10

The assessment broadly confirmed consistency between the AR, the APP and the QPR of the Department for the financial years 2009/10. The consistency is in respect of the strategic objectives, the performance measure indicators and the actual targets that the Department has set to achieve at the beginning of the financial year. The Department also generally complied with the uniform programme structure and the content recommended in the National Treasury guidelines for assessing performance in Departments.

The Department has developed the strategic objectives per programme and sub-programme and substantiated the major deviations from the initial targets set per performance indicator. A distinction has been made between the annual and quarterly performance targets on all targets set in the APP. The

performance targets set in the APP were achieved and these are accurately reflected in the AR.

Strategic Plan 2010/11 – 2014/15

The Department has submitted a revised Strategic Plan (SP) for 2010/11 – 2014/15 as required. The format, structure and content of the SP is in line with the generic guide for Strategic Plans issued by the National Treasury.

Annual Performance Plan 2010/11

The APP complies with the uniform programme structure defined by the national government. The performance indicators are linked to the strategic objectives in each programme and sub-programme. However, performance indicators do not always clearly explain what the actual outputs are that the Department aims to produce in order to achieve the intended outcomes. The corresponding targets are set for the year and for each quarter, where applicable. Most of the targets are measurable in terms of numbers.

Conclusions and recommendations

Overall, the Department complied with the requirements of the QPR, APP and the AR. According to the performance management framework, the Department has complied with some of the aspects of financial management capability model level 3. The Department should explain all main deviations from targets and provide resolutions thereof, quarterly identify the challenges faced and responses on actual outputs, validate actual outputs with evidence on a quarterly basis, measurable objectives must be defined logically consistent with the defined strategic objectives.

In order to reach a financial management capability level 4, which measures how the resources are used, the Department should move beyond compliance to focus on costing outputs and instituting practices that would identify critical outputs that would have a knock-on effect on achieving departmental outcomes. The move beyond compliance involves expanding the focus to include the relationship between inputs and outputs.

General recommendations to improve the overall reliability and usefulness of performance information include Accounting Officers ensuring that an overall performance management system should be in place and documented, sufficient appropriate audit evidence and source documentation exist, there are appropriate information systems to facilitate the preparation of a performance report that is accurate, complete and valid and adequate control processes and procedures should be designed and implemented to

ensure the accuracy, completeness and validity of reported predetermined objectives/performance information.

Going forward the Department should ensure strong linkages between the Strategic Plan, Annual Performance Plans and Budget.

Specific focus areas for improving the management of performance information relate to ensuring policies and procedures for reporting against predetermined objectives are in place including clearly identified roles and responsibilities regarding non-financial performance information and providing source documentation to improve the reliability of reported information.

3.3.1.2 Performance management assessed based on financial information

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

- The Department has an approved expenditure and revenue budget for 2009/10 financial year;
- 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; and
- The Department ensured that the IYM reports reflected the actual expenditure and revenue, reconciled with the BAS/VULINDLELA reports.

However, there remains room for improvement in expenditure forecasting, 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) appear to be inconsistent when measured against the quarterly actual expenditure (shaded). To a large degree the inconsistent projections displayed can be attributed to the unforeseen and delayed disbursement of the higher than anticipated increase relating to the Improvement of Conditions of Services as well as the R6.563 million shifted from Vote 10: Transport and Public Works in respect of the deployment agreement of providing 38 traffic officials for public transport law enforcement.

Table 24 Quarterly Analysis on projections: 2009/10

R'000	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
First Quarter	19 871	19 254	18 750	23 191	21 660	22 238	24 600	21 973	21 759	24 918	21 407	20 638	260 259
%	7.64%	7.40%	7.20%	8.91%	8.32%	8.54%	9.45%	8.44%	8.36%	9.57%	8.23%	7.93%	100.00%
Second Quarter	19 871	19 254	18 759	19 053	17 423	18 270	30 650	30 890	24 730	27 325	24 198	21 921	272 344
%	7.30%	7.07%	6.89%	7.00%	6.40%	6.71%	11.25%	11.34%	9.08%	10.03%	8.89%	8.05%	100.00%
Third Quarter	19 871	19 254	18 759	19 053	17 423	18 265	29 906	25 645	18 938	30 444	28 990	28 041	274 589
%	7.24%	7.01%	6.83%	6.94%	6.35%	6.65%	10.89%	9.34%	6.90%	11.09%	10.56%	10.21%	100.00%
Fourth Quarter	19 871	19 254	18 759	19 053	17 423	18 265	29 906	25 645	18 938	24 012	26 326	35 171	272 623
%	7.29%	7.06%	6.88%	6.99%	6.39%	6.70%	10.97%	9.41%	6.95%	8.81%	9.66%	12.90%	100.00%

Shaded: Actuals

Unshaded: Projections

There were shifts in the Adjustments Budget, both within a programme as well as between programmes. These shifts were mainly to accommodate the higher than expected salary and related increases for the Improvement of Conditions of Service.

The Department's original budget allocation for 2009/10 was R260.259 million. In the Adjustments Estimate it was increased with R14.330 million or 5.5 per cent to R274.589 million. Included in the total additional appropriation is the R6.563 million shift from Vote 10: Transport and Public Works in respect of the deployment agreement as mentioned above. Followed by Other Adjustments comprising the R6.524 million received from National (R4.838 million) in respect of the higher than anticipated salary and related increases for the Improvement of Conditions of Service (ICS) and R1.686 million earmarked provincially for the safety of traffic police. Finally, there was R1.243 million self-financing expenditure, of which, R993 000 was in respect of the 2008/09 revenue retention and R250 000 for increased own revenue in 2009/10.

Since, the introduction of the revised Standard Chart of Accounts by the National Treasury on 1 April 2008, the development of an inconsistent classification combinations model and expanded Vulindlela responsibility download reports, assisted departments by identifying high-level inconsistent classification combinations during 2009.

Departments were, therefore, regularly requested to interrogate their financial data and to correct inconsistencies in the financial system before the monthly BAS forced closure dates.

In terms of the possible inconsistent SCOA classification outcome for the financial year end of 2009/10, the Department of Community Safety experienced an inconsistent classified transaction count of 58 amounting to R110 547. This was marginally more than the 9 transaction count amounting to R42 332 reported as erroneous for the period of 2008/09. Monitoring of these errors will continue during the new financial year.

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.

Total virements in the 2009/10 financial year amounted to R1.661 million or 0.6 per cent of the adjusted budget. This was mainly shifted from Programme 1: Administration (R399 000) and Programme 2: Secretariat for Safety and Security (R1.262 million) to Programme 3: Security Risk Management (R697 000) and Programme 4: Traffic Safety Promotion (R964 000) respectively.

The Department ensured the timeous submission of the Adjustments Budget and it was found to be comprehensive in terms of section 31 of the PFMA.

The total expenditure, as per the audited March 2010 IYM, incurred in 2009/10 for the Department amounted to R272.623 million constituting 99.3 per cent of the Adjusted Budget. This effectively indicates that the Department under spent by R1.966 million or 0.7 per cent, which is within the 2 per cent under spending norm.

According to the audited March 2010 IYM, the Department over collected on its revenue by R1.176 million or 52.7 per cent of the R2.230 million adjusted budget. This outcome is even greater than that of the previous financial year for the same period, whereby, the Department over collected on its revenue by R993 000 or 47 per cent.

The over collection in 2009/10 came as a result of conservative budgeting and can mainly be attributed to these items Sale of goods and services other than capital assets (course fees and escort fees) as well as Financial transactions in assets and liabilities (contract debt and accrued revenue from the previous financial years).

The Department requested the revenue retention for utilisation in 2010/11 in order to cover the costs related to the purchase of operational equipment for various traffic centres.

The following tariff approvals were done in 2009/10 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 (TR) 7.3.1 to:

- Amended Course Fees at the Gene Louw Traffic College;
- Amended Impoundment Fees;
- Amended the price of Lost Admission Cards in the 2009/10 financial year; and

- Revision of the Utilisation of Transport by Employees between Residence and Work.

There were no fiscal dumping, irregular expenditure and unauthorised expenditure declared in respect of the 2009/10 financial year.

The Department experienced a March spike during the 2009/10 financial year. This is evident from the fact that expenditure for the month of March 2010 amounted to R35.171 million or 12.9 per cent of the total expenditure, which surpassed the 10 per cent norm. Sub-programme 4.2: Traffic Law Enforcement accounted for the bulk of this expenditure with R17.600 million in March 2010.

Conclusion

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

3.3.2 Compliance with accounting policies and standards

PT (Accounting) identified a number of key accounting policies and standards against which departments are rated in terms of compliance and its financial management capability. The purpose of the exercise is inter alia to monitor progress towards an improved financial management capability rating. Various tools are available to departments to ensure improved ratings, improved integrity of data and also that the financial reporting is understandable, relevant, reliable and comparable.

PT (Accounting) introduced various initiatives to address accounting matters in collaboration with the relevant departments. The Department made full use of all these opportunities and actively contributed with regards to the following:

- Workshops on reporting requirements
- Two-monthly CFO's forums
- Monthly FA's forums
- Bi-lateral discussions
- IYM reporting
- Submission of AFS for preview prior to 31 May
- Compilation of a prescribed audit file with supporting documentation
- Interim financial statements as at 30 September 2009

The Interim financial statements as at 30 September 2009 was a new initiative by PT. Accounting assessments were conducted on the interim financial statements by Accounting Services in terms of a pre-determined assessment framework. Internal Audit also conducted a review of the processes and the controls implemented by departments on the implementation of the interim financial statements and issued a report on its findings per department. The Accounting assessment findings were issued to departments and corrective measures followed up in terms of action plans to ensure that these issues did not re-appear at the year-end.

The Department attends and participates in the PT driven Financial Accountants and Chief Financial Officers Forums, and attends workshops offered by the Treasury where financial management issues are discussed amongst all the provincial departments.

In its endeavours to enhance financial management across all Departments, PT has instituted various control measures and processes, notwithstanding that full implementation and monitoring remains a challenge.

An assessment of the financial management capability of the Department was undertaken based on the monthly IYM reporting, 2009/10 AFS, and the Auditor-General of South Africa (AGSA) audit findings, that revealed the following:

Management of and reporting on suspense accounts

The Department administered their control and suspense accounts effectively over the reporting period. The monthly IYM reporting of the Department reflected that monthly reconciliations of control and suspense accounts were performed and monitored. Suspense accounts were consistently cleared and balances in the clearing accounts were addressed which allowed the Department to successfully close their books on a monthly basis.

The Department continues to perform at a level 3 financial management capability rating when compared to the previous assessment.

Accounting of assets

In the management report the AGSA reported that the asset register was not updated with the additions procured and did not reconcile with the general ledger for both major and minor assets.

It was further reported by the AGSA that the Department's asset register contained items that were identified as lost, stolen, broken or obsolete during the prior and current years. This consisted of major assets amounting to R4,063 million and minor assets of R2,049 million on which explanatory notes were included in the relevant asset disclosure notes in the AFS for 2009/10.

In terms of the management of assets and the accuracy of information contained in the asset register, management processes needs to be enhanced and controls implemented to ensure that the asset registers are monitored to provide accurate information for financial reporting purposes. Specific attention must be given to the clearing of losses and shortages emanating from prior financial years.

The Department has improved and performs at a level 2+ financial management capability rating compared to the previous assessment and should improve management controls over assets and the asset register.

Financial reconciliations

The Department reported in the monthly IYM that financial reconciliations were compiled, reconciled and signed off by the CFO. The Department submitted reconciliations as part of the IYM of BAS and PMG, BAS and LOGIS, as well as PERSAL and BAS that was signed off by the CFO.

The Department performs at a level 3 financial management capability rating.

Supporting Documentation

The Department reported in the monthly IYM that all transactions are supported by authentic and verifiable source documents and no issues were raised by the AGSA.

The Department is performing at a level 3 financial management capability rating.

Expenditure - Payments and journals

The Provincial Treasury (Accounting) monitors incorrect expenditure classification in terms of SCoA inconsistent allocation reports. The Department managed to clear all payment classifications which were deemed to be inconsistent in terms of the SCoA classifications applied by the province, by implementing proper internal controls.

The Department disclosed accruals exceeding 30+ days amounting to R178 000 in the 2009/10 AFS representing payments that were not paid within 30 days of receiving the invoice. AGSA also reported that invoices for goods and services, and capital assets are not paid within 30 days as required in terms of Treasury Regulation 8.2.3. Management controls over invoices received and paid should be improved.

The AGSA reported that goods and services expenditure did not have the authorisation letter or similar motivation for approval of payments attached to

the payment vouchers. Expenditure transactions had also been reported to be incorrectly classified. In this regard management needs to revise and enhance the processes and controls involved. Strict monitoring by management is imperative to ensure that such cases of non-compliance are identified to avoid any associated risks.

In this regard, the Department has improved to a level 2+ financial management capability rating when compared to previous assessments and should improve processes and management controls to move to level 3.

Recording and maintenance of State Guarantees

The Department reported in the monthly IYM that information relating to state guarantees have been updated monthly.

The disclosure of departmental State Guarantees included two guarantees that had been released by their respective banks. The AGSA reported that regular follow up on the guarantees was not done to confirm the value of the guarantees and whether a guarantee is still in place.

The Department has regressed from a level 3 to level 2+ financial management capability rating when compared to the previous assessment and should improve processes and management controls to ensure that records are updated to provide accurate information for financial reporting purposes.

Management of lease liabilities

The Department reported in the monthly IYM that lease registers are maintained and updated monthly. However, in the management report of the AGSA various cases where operating and finance lease contracts were incorrectly disclosed in terms of reporting periods. On finance and operating leases the disclosed values were not calculated correctly in terms of the Departmental Financial Reporting Framework Guide.

The Department experienced challenges in this regard as noted from the various findings as raised by the AGSA and performs at a level 2+ financial management capability rating. Improved processes and management controls need to be instituted to address the calculation issues as raised by the AGSA.

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

The Department submitted monthly compliance reports to Provincial Treasury in accordance with legislative requirements that were signed off by the CFO and Accounting Officer. Financial reports, as part of the IYM report, were

provided to the Accounting Officer on unresolved items and the Chief Financial Officer continues to follow up these transactions on a monthly basis.

The Department has improved from level 2 to level 3 financial management capability rating when compared to the previous assessment.

Conclusion/recommendation

The Department is making progress in moving from level 2 and to fully comply with a level 3 financial management capability rating, needs to revise processes and improve management controls over the accounting of issues raised above where level 3 is not achieved.

3.3.3 Corporate Governance

3.3.3.1 Enterprise Risk Management

This section provides guidance, criteria and norms and standards for 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.

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 between one and two years ago which could result in not all emerging strategic risks being identified and appropriate measures being taken to mitigate the risks. Risks have been allocated to senior officials who are responsible for managing them however the risks have not been incorporated into the performance agreements or job descriptions, which affects accountability.

Internal environment

There has been improvement in this area since a risk management philosophy has been developed for the Department and the risk appetite for the Department has been defined since the last assessment.

Operational Risk Assessment

The risk events have been identified and assessed on an inherent level. It appears as if existing controls have been identified and documented by means of process and control mapping initiatives.

Overall assessment

Based on the above information, the Department has achieved a rating of level 2.8, as they met all the set criteria and norms and standards for level 3. The Department has partially met the requirements of the next level, level 3, and in order for them to be rated as such, they need to fully adhere to the following set criteria and norms and standards:

Strategic risk assessment

Strategic risk assessment should be conducted regularly to ensure that high level risks are identified and mitigated.

2008/09 and 2009/10 Comparison

For the 2009/10 review, it is evident that the Department has made some improvement as compared to the 2008/09.

3.3.3.2 Normative Financial Management

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

The source documents used were the Normative Measures Quarterly Report for departments, the Financial Management Capability Maturity survey conducted in June 2010 and the 2009/10 Auditor-General's report for the Department.

Analysis of Normative Measures Quarterly Report

The CFO structure: Human Resource Capacity

The Department's vacancy rate for the 2009/10 financial year has remained constant at 8 per cent. Although this is close to the National norm of 5 per cent, what is of concern is that the three vacant posts as depicted below have been vacant for the past 17 months. It is also noted that two of the posts impact on Supply Chain management (SCM) which could lead to Department not giving adequate effect to its SCM requirements.

Table 25 Extraction of filled and vacant posts in Finance Component

Component/Unit	Post Description	Post level	Status
Accounts Management	Accounting Clerk	5	Vacant
Supply Chain Management	Provisioning Clerk	5	Vacant
	Assistant Director: Asset management	9	Vacant
Management and support	Senior Provisioning/Accounting Clerk	5	Filled
	Personal Assistant	7	Filled
	Senior State Accountant	8	Filled
	Assistant Director	9	Filled
	Deputy Director	11	Filled
Line function and support	Assistant Director	9	Filled
Econ Adv and Support	Deputy Director	11	Filled
	Deputy Director	11	Filled

Policies and procedures

The Department complies in the main with all policies and procedures prescribed by the PFMA and Treasury Regulations pertaining to financial management, however the Strategic Asset Management plan, the Staff Retention policy and Inventory Management policy has not yet been finalised and implemented.

Tabling of Annual Report

The Department must annually table their Annual Report, as prescribed, in the Legislature. Compliance with this requirement is reflected in table below:

Table 26 Compliance with annual reporting requirement

Institution	Date annual report received by Provincial Treasury	Annual report tabled at the Provincial Legislature
Department:		
Community Safety	31/08/10	30/09/10

Analysis

The Department has successfully tabled their 2009/10 AR within the prescribed timeframe.

Auditor-General's report on the 2009/10 financial year

The Department improved their audit outcome from a unqualified audit opinion with other matters in the 2008/09 financial year to a unqualified audit opinion with no other matters (Clean report) for the year 2009/10. There were no unresolved issues from the previous audit and no new issues were raised which led to an improvement in the audit findings. This is clearly depicted in the table below:

Table 27 Summary of Comparison between the 2008/09 and 2009/10 Audit Reports

Key finding	2008/09	2009/10	Status
Exceeding 30 day payment	X	-	Improved
Information systems were not appropriate to facilitate the preparation of a performance report that is accurate and complete/Lack of sufficient audit evidence	X	-	Improved
Lack of control processes and procedures designed and implemented to ensure the accuracy and completeness of reported performance information	X	-	Improved
Inadequate management process	X	-	Improved
Content of strategic plan	X	-	Improved
Source information not accurate and complete	X	-	Improved
Reported performance information not relevant	X	-	Improved
Inconsistently reported performance information	X	-	Unchanged
Lack of source documentation	X	-	Improved

Overall Assessment and Recommendation

Based on the above information, the Department has achieved a financial management capability rating of level 3. The Department must review the possibility of filling key posts in the Supply chain management unit (Provisioning Clerk and Assistant Director Asset Management) even by means of short term contracts as these posts are critical to improving financial management and service delivery in the Department.

3.3.4 Liabilities Management

This section deals with the implementation and management of sound cash flow practices as well as the provision of assistance and training in respect of the 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 cash flow 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 and further improve departments and to enable them to reach a standard level of 3+, new assessment tools were created to assist CFO's to have more control and insight over the functions relating to their banking sections.

The evaluation was based on the activities of the 2009/10 financial year and the findings were as follows:

Table 28 Assessment of Liabilities Management

Requirements	Weight	Standard Level 3 (< 90%)	Standard Level 3+ (> 90%)	Rating
Submission of Annual Provincial Cash flow Projections (Section 40(4)(a))	10%	By 28 February	By 15 February	7.50%
Monthly alignment of actual expenditure with available cash	20%	11 months compliance	12 months compliance	20.00%
Available Budget equal to available cash (annual)	20%	Not equal	Equal	15.00%
Surrender of voted Surplus Funds	10%	31 May	15 May	10.00%
Submission of monthly Bank Reconciliation	10%	Within 30 days after month end	Within 15 days after month end	9.79%
User account management (Dormant users, etc)	20%	User accounts reconciled on a quarterly basis	User accounts reconciled on a monthly basis	15.00%
Confirm reconciliation of monthly bank transfers	10%	Within 7 working days after calendar month end	Within 5 working days after calendar month end	10.00%
	100%			87.00%

The Department achieved an overall rating of level 3 (nominal compliance), which is in line with the 2009/10 financial year.

Submission of Annual Provincial Cashflow Projections

The Department obtained a rating of 7.5 per cent (nominal compliance). The Annual projections in respect of income and expenditure were received on 26 February 2010.

Monthly alignment of actual expenditure with available cash

The Department obtained a rating of 20 per cent (full compliance). The Department complied with 12 months.

Available Budget equal to available cash (annual)

The Department obtained a rating of 15 per cent (nominal compliance). The Department overspent on their cash by R2.014 million.

Surrender of voted Surplus funds

The Department obtained a rating of 10 per cent (full compliance). Surplus funds were paid to the PRF on 30 April 2010.

Submission of monthly Bank Reconciliations

The Department was rated 9.79 per cent (nominal compliance). The monthly bank reconciliations were submitted within 30 days after month end.

User account management (Dormant users, etc.)

The Department was rated 15 per cent (nominal compliance). It is preconceived that the Department complied with the relevant requirements.

Confirm reconciliation of monthly bank transfers

The Department was rated 10 per cent (full compliance). The Department confirmed and reconciled the monthly transfer schedule with Cash Management.

3.3.5 Supply Chain Management

Scope of Review

The review is based on information contained in the SCM status verification report (2009/10), Procurement Statistics report (2009/10) and material findings contained in the AGSAs report (2009/10).

Institutionalisation

The Department has reviewed their delegations in 2009 and it has been aligned to their AOS, which has been a work in progress since 2008.

The current SCM Structure does not cater for all the mandatory functions of SCM as required by National Treasury: Normative Measures for Financial Management and National Treasury Regulations 16A3.2, which requires for the provision of Demand, Acquisition, Logistic, Disposal, Risk Management and SCM Performance.

The 3 Bid Committees have been established in terms of the relevant statutory requirements. PT concluded a SCM training intervention with the members of the Bid Adjudication Committee on 30 April 2010.

The Department has implemented a SCM training and development plan.

Internal Control and Compliance to SCM Policy and Prescripts

The various functions in SCM appear to be sufficiently separated but SCM processes may be compromised by the lack of implementation of the OD established level of capacitation that is clearly warranted for the growing needs of this Department.

The Department has indicated that service level agreements (SLA) are compiled with the assistance of Legal Services.

Services requested on the EPSi system are monitored for date of request, budget approval, order nr, payments made and outstanding commitments.

Deviations in procurement from the open process have been kept to a minimum and were sufficiently motivated for through provisions in the Department's Accounting Officer's System.

Reliability and Integrity of Data

For the 2009/10 financial year the Department issued 303 Requests for quotations via the Open System of the Electronic Purchasing System (EPSi). This translated to a spend of R6.9 million of which R4.3 million was on vendors that are classified as HDI. The Department does not utilise the closed option of the EPSi.

Formal bidding for the period under review was reported as follows:

Bids Awarded	:	8
No. of limited bids	:	3
No. of contract extensions	:	2
Value of bids awards	:	R23.825 million
Value of limited bids	:	R1.224 million

The Department has made a considerable effort to retrospectively adjudicate the outstanding quotations as instructed through PT Circular 10/2010. The adjudication rate on the Open System as at 31 March 2010 was 100 per cent.

The Department complies with the monthly reporting of procurement information to the Provincial Treasury.

AGSA Findings on the audit of procurement and contract management:

- Non-adherence to the prescribed procurement thresholds and the Department's AOS and the accompanying delegation;
- A lack of Performance Management and monitoring;
- Insufficient documentation on file to support quotations obtained;
- Invoices not settled within 30 days of receipt thereof; and
- Orders generated after invoice date as a result of poor planning around the procurement of goods and services.

Comparison to the 2008/9 Review and Rating

- The Department has shown progress in that it has;
- Engaged PT in the review of its Accounting Officer's System and updated their delegations in 2009;
- Concluded Demand Management training that was facilitated by PT with SCM officials, CFO and line function managers to improve on procurement planning and budgetary processes;
- Provided the Bid Committee members with the requisite training and appointment in terms of the regulatory framework;
- Maintains a Service Level Agreement database for Contract Management purposes;
- Duly reports on procurement information to Provincial and National Treasury; and
- Improved its adjudication rate on the Electronic Purchasing System to 100 per cent.

The Department was rated at a level 2, SCM Financial Capability for the 2008/09 financial year. The Department is commended for the manner in which they have embraced much of the recommendations that have emanated from the last SCM Compliance assessment and dialogue with PT. However, the implementation of the remedial steps remains to be tested for consistency and sustainability, monitoring of SCM processes have to clearly translate to improvements in the internal control environment and ongoing areas of non-compliance like the adherence to the 30 day payment policy have to be abolished before the Department can progress to a level 3 financial capability for SCM. The 2009/10 financial capability for SCM remains at a level 2 rating.

Steps to take the Department to the next level:

- Implementation of the SCM Structure that was concluded as per the Organisational Development review in 2008;
- The introduction of a Demand Management section to positively impact on procurement planning;
- Development of a monitoring mechanism to monitor compliance and SCM performance across the Department;
- Establishment of internal control framework and monitoring of SCM processes;
- Implementation of a Treasury endorsed Accounting Officer's Framework and ongoing review of accompanying delegations; and
- Build on institutional memory through the drafting of standard operating procedural manuals for SCM processes.

3.3.6 Moveable Asset Management

Background

The Department was assessed and rated during 2009/10 financial year in terms of the financial capability model for Moveable Asset Management.

The rating was, however, not only based on the compliance/verification assessment report but also on other Asset Management reporting and findings, the AGSA's report and AM performance throughout the financial year.

Institutionalisation

In terms of sections 38(1)(d) and 44 of the PFMA, the Department must have an Accounting Officer System (AOS) and accompanying delegations to regulate day-to-day Asset Management activities. The Department does comply with the requirements above by implementing and maintaining their Accounting Officer's System and Delegations, however, the requirements of Asset Management have not been included in its AOS. The last updated AOS was issued in November 2008. Current updates (2009/10) have been held in abeyance as the Provincial Treasury is in the process of updating Provincial requirements and drafting a Provincial AO Policy in terms of the Provincial Treasury Red Flag Programme. The update of SCM delegations have been held in abeyance as the generic provincial delegations to be issued in terms of the Premier's Modernisation Programme has not been finalised and issued.

It is evident that the shortage of staff is hindering the progress of completing and implementing an Asset Management Strategy. Staff attrition also plays a factor in fully capacitating the unit. The structure for the Department consisted of 3 posts, only 2 have been filled.

There is also no skills development plan in place to equip/capacitate Asset Management officials.

The Department has not developed a procedural manual to create institutional memory and to enable new employees to become acquainted with Asset Management policy and procedures.

Internal Control and Compliance to SCM Policy and Prescripts

Section 38(1)(d) of the PFMA states that the Accounting Officer is responsible for the management, including safeguarding and the maintenance of the assets. In order to give effect to this requirement, the Department must have an Asset Management strategy as per the National Treasury's Broad Implementation Plan.

The Department has also not utilised the Asset Management Guidelines issued by the Provincial Treasury in February 2008 to assist the Department to fast track the completion of the Asset Management Strategy.

It should also be noted that the Department is making a concerted effort to put internal control measures in place by means of e.g. marking its assets and conducting stocktaking annually.

Notwithstanding the above internal controls, some assets did not have markings and as a result could not be verified during the physical verification process. Other assets could not be traced/physically verified as recorded on the Asset Register and some laptops did not have combination cable locks. The adequacy of the system of internal control to safeguard and monitor the movement of its assets is questionable.

The Department did not dispose any assets and assessment were done to establish whether assets needed to be disposed for the financial year under review with this still being processed.

Reliability and Integrity of Data

The physical verification assessment gave PT an opportunity to reconcile what was reported in terms of the progress made on the Project Dashboard and Risk Log by the Department against what was actually in place.

The Department indicated it was reconciling BAS and LOGIS journals. Despite this, it was found that there were discrepancies on these reconciliations.

The Department regularly submits the Dashboard and Risk Log reports. At the end of the financial year it was:

- 97 per cent complete in terms of Asset Management Plans;
- 97 per cent complete in terms of Asset Register; and
- 100 per cent complete in terms of Accounting.

During the assessment process it was found that the Department's Asset Register was incomplete and as a result, PT: Directorate Supporting and Interlinked Financial Systems had to verify the Department's assets for the purposes of this assessment.

Comparison to the 2008/09 Review

It should be noted that the physical verification of assets was performed for the first time in the Department towards the end of the 2008/09 financial year. The 2009 FGRO did not contain the findings of the MAM physical verification assessment. The information pertaining to the 2009 FGR&O is based on what was submitted by the Department in terms of its progress as per the Project Dashboard and Risk Log.

It must be noted that the Asset Management Strategy is still in draft format.

The Department completed 65 per cent of its Asset Management Plans in 2009 FGR&O. It is currently 97 per cent completed.

The Department indicated it was 100 per cent compliant to the requirements of a proper Asset Register for the 2009 FGRO. The physical verification proved otherwise as it highlighted shortcomings on its Asset Register. This then explains the regression in percentage as the Department is now 97 per cent complete.

The Department is complying 100 per cent to the requirements of Accounting and it has maintained this.

Capacity and lack of skilled officials continues to be a hindering challenge at the Department.

The Department should take cognisance with regards to the shortcoming highlighted in terms of assets as noted by the Auditor-General and rated under the "Compliance with accounting policies and standards" section of the Financial Governance Review & Outlook 2010. These shortcomings, the instituted corrective measures and the implemented control measures will be closely monitored and assessed by the Provincial Treasury: Moveable Asset Management (MAM) unit to encourage and promote efficiency, effectiveness and to contribute to the planning and preparation for the asset verification assessment envisaged for the 2010/11 financial year.

Rating in terms of the Financial Capability Model for Moveable Asset Management

In terms of the assessment processes performed, the Department is rated at a level 1+, for the period under review. The "one plus" rating infers that the Department has made some progress from level one and although certain level two criteria may have been met, the Department has not met all the requirements of level two as yet.

Steps to take the Department to the next level of financial capability

- Develop and implement Asset Management Strategy;
- Enhance the monitoring of assets within the entire Department to ensure sustainable service delivery by means of developing an AM control framework;
- Continuously capacitate the asset management unit and develop a skills development plan;
- Ensure correct SCOA allocations;
- A uniform life cycle must be implemented;
- Ensure the Asset Register meets the minimum requirements for Asset Register as per the Asset Management Learner Guide;
- Ensure accurate reconciliation of BAS and LOGIS journals;
- Develop a maintenance schedule for all assets categories;
- Development of a procedural manual;
- Mark all assets and ensure they are easily identifiable; and
- Compile an acquisition; replacement and disposal plan and incorporate them to the strategy.

3.3.7 Supporting and Interlinked Financial Systems

Basic Accounting System (BAS)

The evaluation was based on the activities of the 2009/2010 financial year and the findings were as follows:

Table 29 Management of activities on BAS

Requirements	Weight	Standard Level 3	Standard Level 3+	Rating
Skilled and capacitated system users	30%	In accordance with profile	Various Modules	2
Optimal utilisation of system	20%	80% - 90%	91% - 100%	3
Month- and Year-end closure	5%	Own accord – due date	Own accord – prior date	3+
System Controller Functions	30%	80 – 90%	91 – 100%	3+
Monitor Applicable Interfaces	15%	Intermittently	Daily	3+
Average Rating				3

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

Table 30 Skilled and capacitated system users

Number of officials confirmed	Number of officials attended	Number of officials did not attend	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
19	9	10	9	0

The Department maintained a financial management capability rating of level 2 (partial compliance) mainly due to the high percentage of officials who is confirmed but did not attend courses, as well as all officials not 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 more users trained.

Optimal utilisation of system

The Department achieved a financial management capability rating of level 3 (nominal compliance) for the optimal utilisation of the system.

Month- and Year-end closure

The Department achieved a financial management capability rating of level 3+ (full compliance) as their month- and year-end closure was done prior to the predetermined dates of National Treasury.

System Controller Functions

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

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

Monitor Applicable Interfaces

The Department achieved a financial management capability rating of level 3+ (full compliance) as their interfaces were monitored and reported on a daily basis.

Personnel and Salary Administration System (PERSAL)

Table 31 Management of activities on PERSAL

Requirements	Weight	Standard Level 3	Standard Level 3+	Rating
Skilled and capacitated system users	30%	In accordance with profile	Various Modules	2
Optimal utilisation of system	20%	80% - 90%	91% - 100%	3
System Controller Functions	20%	80 – 90%	91 – 100%	3
Establishment Management	10%	Quarterly	Monthly	3
Adhere to Minimum Information Requirements	5%	Annually	Continuous process	2
Leave Audit	15%	Annually	Continuous process	3
Average Rating				3

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

Table 32 Skilled and capacitated system users

Number of officials confirmed	Number of officials attended	Number of officials did not attend	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
51	30	21	23	7

Although there was an improvement in nominations, the Department maintained a financial management capability rating of level 2 (partial compliance) due to the officials who confirmed but did not attend courses, as well as all officials not 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 need to commit themselves in getting users trained.

Optimal Utilisation of system

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

System Controller Functions

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

Establishment Management

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

Adhere to Minimum Information Requirements

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

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

Leave Audit

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

Logistical Information System (LOGIS)

Table 33 Management activities LOGIS

Requirements	Weight	Standard Level 3	Standard Level 3+	Rating
Skilled and capacitated system users	30%	In accordance with profile	All Modules	2
Optimal utilisation of system	20%	80% - 90%	91% - 100%	3+
Days per issue	10%	5 days	3 days	2
Financial Controls	20%	Monthly	Continuous process	3+
System Control Functions	20%	80 – 90%	91 – 100%	3
Average Rating				3

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

Table 34 Skilled and capacitated system users

Number of officials confirmed	Number of officials attended	Number of officials did not attend	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
98	40	58	29	11

Although there was an improvement in nominations, the Department maintained a financial management capability rating of level 2 (partial compliance) due to the officials who confirmed but did not attend courses, as well as all officials not 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.

Optimal utilisation of the System

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

Most payments for goods and services are processed through LOGIS - Departmental assets are maintained per LOGIS Selection WMMT - Maintain Serial Detail Information.

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 2009/10 financial year was 11.7 days, the performance of the Department is therefore below the standard.

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

Financial Controls

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

The BAS/LOGIS Reconciliation were performed on a monthly basis, timeous payments within 30 days were kept and the Resubmission Queue per LOGIS Procurement Integration was cleared as needed.

System Control functions

The Department achieved a financial management capability rating of level 3 (nominal compliance). User profiles and password security is maintained, however the System Controller function was transferred to a new Official.

3.4 Department of Education

Overview

Financial management capability assessments of the main attributes were conducted and rated in terms of the assessment tools as contained in Chapter 2 of the FGR&O 2010. The goal of these assessments is to collectively provide an overview of how the department (and its entities) is/are managed as well as recommendations to assist progress to a level 3+ financial management rating.

The following ratings were assigned per assessment area:

Performance Management

- Non financial information - level 3
- Financial information – level 3

Compliance with accounting policies and standards – level 2.5

Enterprise Risk Management – level 1

Corporate Governance - level 2.8

Liabilities management – level 2.8

Supply Chain Management – level 2.5

Movable Asset Management – level 3

Financial Systems

- Systems usage – level 3
- Training - level 2

In view of the ratings above, an average rating of level 2.56 is achieved.

The Department has provided a comprehensive financial management improvement plan that inter alia covers the issues raised to move towards a level 3+ rating.

3.4.1 Performance Management

3.4.1.1 Non-financial information

The analysis of departmental performance information management uses the financial management capability model as a point of departure to provide an insight to the information presented in the departmental budget documentation including the Department's Strategic Plan (SP), Annual Performance Plan (APP), Annual Report (AR) and Quarterly Performance Reports (QPRs). The assessment gauges key aspects of the Department's performance information in order to determine the Department's capability level.

The assessment 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 level 4 financial management capabilities. The 2009/10 AR, the 2009/10 and 2010/11 APPs as well as the final 2009/10 QPR have been used in the assessment. The assessment also includes information based on the 2009/10 Auditor General of South Africa (AGSA) audit report.

Organisational arrangements for managing performance information

With regard to reporting in the Department of Education, the Directorate Business Planning and Strategy facilitates the departmental strategic and operation planning and review processes and ensures that departmental policy, planning and budget are aligned. The Annual Performance Plan and other documents fall under its management as does the coordination of special projects.

Performance information is recorded on a quarterly basis and submitted to Provincial Treasury. The Quality Assurance directorate is responsible for some verification of the data submitted for performance information and the Directorate Branch Planning and Strategy is managing data warehousing for the Programme Performance Measures (PPMs). The systems in place are mainly the Central Education Management Information System (CEMIS) to provide learner data, PERSAL to provide personnel numbers and expenditure and the Basic Accounting System (BAS) is used to provide expenditure data. These systems contribute to performance information that is accurately and completely reflected.

Quarterly Performance Reporting on 2009/10 Predetermined Objectives

The Department of Education has submitted QPRs in the correct format on a quarterly basis for the financial year under review. These reports reflected the annual as well as quarterly targets as contained in the Annual Performance Plan 2009/10.

In the 2010/11 financial year, the Department complied with a narrative section in the quarterly performance report that explained all deviations on quarterly targets. For the 2010/11 financial year the Department now has nine quarterly performance indicators of which six are reported on a quarterly basis due to the fact that three of the indicators have no set targets for the 2010/11 financial year due to not being applicable to the Western Cape.

Strategic Plan 2010/11 – 2014/15

The Department of Education tabled a revised SP for 2010/11 – 2014/15 before the start of the 2010/11 financial year. The Departmental SP is in line with and generally complies with the generic guide for SPs issued by National Treasury. The focus of the SP is strategically important, linked to and flowing from various plans developed within the Provincial Government of the Western Cape and to fulfill its legislative mandate.

The SP for the Department of Education contains the strategic goals and objectives to be attained by the Department over the 2010/11 – 2014/15 period. The Strategic Goals (Goal Statement) provides evidence that the SMART principles were borne in mind when formulating the goals. The Department has provided all the necessary details regarding the goal statement, justification and links. The Strategic Goals and Strategic Objectives are aligned to the Province's Strategy and the 10 point plan. The Department has created an additional layer between its Strategic Goals and Strategic Objectives referred interchangeably as Strategic Statements or Strategic Intent. This Strategic Statements/Intent is linked to the different Strategic Objectives.

Annual Report 2009/10

The AR Guideline for General and Performance Information for the year ended 31 March 2010 requires that the programme performance of provincial departments must be in accordance with their Annual Performance Plans as tabled in the legislature. All performance information included in the 2009/10 APP is included in the 2009/10 AR and is in line with the AR guideline for General and Performance Information. A technical assessment generally confirmed consistency between the AR, the APP, and the QPR of the Department for the 2009/10 financial year. The consistency referred to is in

respect of the strategic objectives, the performance indicators and the actual targets that the Department set to achieve at the beginning of the financial year 2009/10.

The Department provides a narrative section for each of the performance measures. In this section the Department clearly indicates whether a target has been achieved or not. Where there are significant deviations from the target the Department has provided a detailed narrative explaining the reasons for the deviation. The AR also includes a section on "specific challenges and responses" per programme. The Department has also indicated interventions and progress made in the section that speaks to priorities from the APP. This provides useful information regarding approaches taken by the Department in addressing specific challenges.

Annual Performance Plan 2010/11

The Departmental APP for 2010/11 complies with the uniform sector specific programme structure prescribed by National Treasury. The Department has included all Basic Education sector prescribed performance indicators. The majority of the targets set for the 2010 MTEF appears to be set at the appropriate level, are in line with past achievements and show moderate rates of improvement over time. Most of the performance indicators identified by the Department comply with the SMART principle, in that they are specific, measurable, achievable/attainable, and realistic and time bound.

Recommendations/Conclusion

An evaluation in terms of guidelines and legislative requirements of the 2009/10 APP and QPR, 2009/10 AR and the 2010/11 APP revealed that, according to the performance management framework, the Department is almost operating fully at a capability level 3 moving towards the region of a capability level 4. The Department has provided comprehensive explanations for deviations from targets. The Department is encouraged to increase the number of quarterly targets linked to either sector-defined performance measures or provincially identified performance indicators. This will greatly facilitate the ability to monitor non-financial performance information on a quarterly basis.

General recommendations to improve the overall reliability and usefulness of performance information include Accounting Officers ensuring that an overall performance management system should be in place and documented, sufficient appropriate audit evidence and source documentation exist, there are appropriate information systems to facilitate the preparation of a performance report that is accurate, complete and valid and adequate control processes and procedures should be designed and implemented to

ensure the accuracy, completeness and validity of reported predetermined objectives/performance information.

To reach a financial management capability rating of level 4, which measures how resources are used, the Department should also move beyond compliance to focus on costing outputs and instituting practices that would identify those critical outputs that would have a knock-on effect to achieving departmental outcomes. The move beyond compliance involves expanding the focus to include the relationship between inputs and outputs and directing inputs and outputs closer toward the achievement of the desired outcomes and impact. Going forward the Department, should ensure a stronger linkage between the Provincial Strategic Objectives, SP, APP and Budget.

3.4.1.2 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 has an approved expenditure and revenue budget for 2009/10 financial year;
- 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; and
- The Department ensured that the IYM reports reflected the actual expenditure and revenue, reconciled with the BAS/VULINDLELA reports.

However, there remains room for improvement in expenditure forecasting, 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) appear to be inconsistent when measured against the quarterly actual expenditure (shaded). To a large degree the inconsistent projections displayed can be attributed to the unforeseen and delayed disbursements of the higher than anticipated increase relating to the Improvement of Conditions of Services. Exacerbating matters was the implementation of the Occupation Specific Dispensation (OSD) for educators in terms of the Education Labour Relations Council (ELRC) agreement No.4 of 2009.

Table 35 Quarterly Analysis on projections: 2009/10

R'000	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
First Quarter	917 640	811 512	788 726	867 008	810 039	854 476	928 106	911 060	886 364	872 910	872 459	825 739	10 346 039
%	8.87%	7.84%	7.62%	8.38%	7.83%	8.26%	8.97%	8.81%	8.57%	8.44%	8.43%	7.98%	100.00%
Second Quarter	917 640	811 512	788 726	742 741	840 317	754 762	1 220 859	985 760	967 783	971 671	939 066	925 002	10 865 839
%	8.45%	7.47%	7.26%	6.84%	7.73%	6.95%	11.24%	9.07%	8.91%	8.94%	8.64%	8.51%	100.00%
Third Quarter	917 640	811 512	788 726	742 741	840 317	754 762	999 701	1 025 026	1 073 136	905 955	925 496	878 800	10 663 812
%	8.61%	7.61%	7.40%	6.97%	7.88%	7.08%	9.37%	9.61%	10.06%	8.50%	8.68%	8.24%	100.00%
Fourth Quarter	917 640	811 512	788 726	742 741	840 317	754 762	999 701	1 025 026	1 073 136	834 562	892 415	932 775	10 613 313
%	8.65%	7.65%	7.43%	7.00%	7.92%	7.11%	9.42%	9.66%	10.11%	7.86%	8.41%	8.79%	100.00%

Shaded: Actuals

Unshaded: Projections

There were many shifts in the Adjustments Budget, both within a programme as well as between programmes. These shifts were mainly as a result to internally effect the Standard Chart of Accounts (SCOA) reclassifications and functional shifts within the Department.

The Department's original budget allocation for 2009/10 was R10.346 billion.

In the Adjustments Estimate it was increased by R317.773 million or 3.1 per cent to R10.663 billion. Included in the total additional appropriation is the R5.195 million rollover from 2008/09 in respect of the National School Nutrition Programme Conditional Grant for the purposes of procuring mobile kitchens as a result of payments not being processed in time before the closure of the financial year. This is followed by other adjustments comprising the R233.088 million received from National and R79.490 million shifted from other votes to largely accommodate the higher than expected salary and related increases for the Improvement of Conditions of Service (ICS) as well as the implementation of OSD for Educators referred to above.

Since, the introduction of the revised Standard Chart of Accounts by the National Treasury on 1 April 2008, the development of an inconsistent classification combinations model and expanded Vulindlela responsibility download reports, assisted departments by identifying high-level inconsistent classification combinations during 2009.

Departments were, therefore, regularly requested to interrogate their financial data and to correct inconsistencies in the financial system before the monthly BAS forced closure dates. Misclassified expenditures undermined actual reporting on the economic classification in the in-year monitoring and the infrastructure-reporting model.

Through dedicated efforts over several months the Department managed to bring down their count of possible inconsistent payment transactions from an initial exorbitant level of 1 449 transactions to the value of R15.318 million in 2008/09 to an improved outcome of 377 transactions valued at R1.890 million

in 2009/10. Although the Department has not rid itself entirely from possible misclassified expenditures, the situation is improving month after month.

The Department also effected virements in the 2009/10 financial year amounting to R165.571 million or 1.55 per cent of the R10.664 billion adjusted budget, of which, R56.729 million was shifted between programmes within the vote.

The remaining R108.842 million was for shifts within the programmes. The bulk of shifts across programmes were largely to defray over expenditure caused by the effects of the Improvement of Conditions of Services as well as the implementation of the OSD for Educators in terms of the Education Labour Relations Council (ELRC) agreement no 4 of 2009. The 2009/10 virements were within 8 per cent as prescribed in section 43(2) of the Public Finance Management Act, 1999 (Act 1 of 1999). The Department also obtained the necessary virement approval.

The transferring of funds from the Department is limited to schools and not public entities, and complies with the requirements stipulated in terms of section 38 of the Public Finance Management Act, 1999 (Act 1 of 1999).

For the 2009/10 financial year the Department managed two conditional grants namely the National School Nutrition Programme grant and HIV/AIDS (Life Skills Education) grant, after the discontinuation of the Further Education and Training (FET) Recapitalisation grant in 2009/10.

The National School Nutrition Programme grant received an adjusted budget of R117.743 million of which preliminary spending outcome amounted to R117.751 million, translating to an over spending of R8 000. This, however, as communicated by the Department includes an erroneous transaction to be journalised resulting in a break even scenario. For the same period in the previous financial year, the NSNP grant under spent its R81.561 million adjusted budget by R5.260 or 6.1 per cent, however, R5.195 million was committed and approved for roll over in 2009/10. The balance of R65 000 was subsequently surrendered to the National Revenue Fund in 2009/10.

The HIV/AIDS (Life Skills Education) grant received a budget of R14.626 million and spent all of it accordingly.

In light of the above, it appears the financial management of the conditional grants complied with the Division of Revenue Act (DoRA) 2009 in terms of spending and adherence to payment schedules as per the approved business plans.

The Department ensured the timeous submission of the Adjustments Budget and it was found to be comprehensive in terms of section 31 of the PFMA.

The total expenditure, as per the pre-audited March 2010 IYM, incurred in 2009/10 for the Department amounted to R10.613 billion constituting 99.52 per cent of the Adjusted Budget.

This effectively indicates that the Department under spent by R50.499 million or 0.5 per cent, which is within the 2 per cent under spending norm.

According to the pre-audited March 2010 IYM, the Department over collected on its revenue by R3.056 million or 12.9 per cent of the R23.691 million adjusted budget. In the previous financial year for the same period, however, the Department under collected on its revenue by R1.938 million or 7.9 per cent.

The current over collection in 2009/10 can mainly be attributed to the item Financial transactions in assets and liabilities as a result of the unforeseen clearing of the mopping account in respect of balances inherited from the ex Education.

There was no application for approval from the Department for the revision on tariffs for reprographical services in the 2009/10 financial year. It does, however, have a tariff register.

There was no fiscal dumping and no unauthorised expenditure declared in respect of the 2009/10 financial year.

There was no incidence of a 'March spike' since March expenditure constituted only 8.79 per cent of total expenditure recorded for the 2009/10 financial year and is within the 10 per cent norm acceptable for March expenditure.

Conclusion

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

3.4.2 Compliance with accounting policies and standards

Introduction/PT interactions with Department

PT (Accounting) identified a number of key accounting policies and standards against which departments are rated in terms of compliance and its financial management capability. The purpose of the exercise is inter alia to monitor progress towards an improved financial management capability rating. Various tools are available to departments to ensure improved ratings, improved integrity of data and also that the financial reporting is understandable, relevant, reliable and comparable. PT (Accounting) introduced various initiatives to address accounting matters in collaboration

with the relevant departments. The department made full use of all these opportunities and actively contributed with regards to the following:

- Workshops on reporting requirements
- Two-monthly CFO's forums
- Monthly FA's forums
- Bi-lateral discussions
- IYM reporting
- Submission of AFS for preview prior to 31 May
- Compilation of a prescribed audit file with supporting documentation
- Interim financial statements as at 30 September 2009

The Interim financial statements as at 30 September 2009 was a new initiative by PT. Accounting assessments were conducted on the interim financial statements by Accounting Services in terms of a pre-determined assessment framework. Internal Audit also conducted a review of the processes and the controls implemented by departments on the implementation of the interim financial statements and issued a report on its findings per department. The Accounting assessment findings were issued to departments and corrective measures followed up in terms of action plans to ensure that these issues did not re-appear at the year-end.

The Department diligently attends and participates in the PT driven Financial Accountants and Chief Financial Officers Forums and attend workshops offered by the Treasury where financial management issues are discussed amongst all the provincial departments.

An assessment of the financial management capability of the department was undertaken based on the findings of the Interim Financial Statements, pre-audit AFS assessment, Annual Financial Statements, monthly IYM reporting and 2009/10 audit reports that revealed the following:

Management of and reporting on suspense accounts

The Department reported on its disallowance, control and suspense accounts to PT (Accounting) on a monthly basis, together with action plans and time frames to address issues of concern. Such issues were also discussed during bilateral and informal engagements that took place during the year between the Department and Provincial Treasury: Accounting to address problems identified. The Department could therefore report that suspense, control and disallowance accounts were regularly followed up and cleared within a reasonable period of time and that a monthly reconciliation of control and

suspense accounts was performed, which made it possible for the Department to close their books successfully on a monthly basis. The Department also confirmed that the Basic Accounting System reports on suspense accounts are reviewed on a monthly basis in order to monitor the progress of clearing these accounts.

The monthly IYM reporting indicated that ageing of suspense accounts relating to salary and staff debts remain a challenge in the Department. As a result the Department continues to operate at a level 2+ financial management capability rating when compared to the previous assessment.

Financial reconciliations

The Department reported that reconciliations of BAS/PMG, PERSAL/BAS and BAS/LOGIS are performed on a monthly basis.

The Department is therefore maintaining a level 3 financial management capability rating since its last assessment.

Expenditure – Payments and journals

The Provincial Treasury (Accounting) monitors incorrect expenditure classifications in consultation with departments. The Department managed to clear all payment classifications which were deemed to be inconsistent in terms of the SCoA classifications applied by the province, by implementing proper internal controls.

On the modified cash basis of accounting accruals are not recognised as expenditure in the Statement of Financial Performance, but are included in the disclosure notes. The department disclosed that payments for Goods and Services to the value of R4.343 million were made after 30 days of receiving invoices, i.e. after 30 April 2010 as part of its Accruals disclosure note. The total expenditure on Goods and Services for 2009/10 amounted to R993.624 million, or an average of R82.802 million per month and the accruals of over 30 days as reported was 0.5 per cent of the monthly average. On a monthly basis RR069 reports relating to accruals are requested on a monthly basis by Provincial Treasury and were taken up with the department. Provincial Treasury (Systems and Accounting) assisted in clearing the outstanding balances. Bi-lateral engagements with the Department have resulted in a decrease of accruals during the financial year.

The AGSA also reported that not all payments were settled within the prescribed period of 30 days after receipt of invoice and also reported that a small number of processed journals were not stamped "PROCESSED", which points to poor internal controls.

In view of the steps taken to address the above issues the department is performing close to a level 3 financial management capability rating.

Management of Debtors

The AGSA reported that the correct protocols have not been following when debts were written off. The AGSA also identified a lack of supporting documentation on certain debtor files.

The Department is therefore still bordering on a level 3 financial management capability rating since its last assessment.

Recording and maintenance of State Guarantees

The disclosure of Departmental State Guarantees reflects effective control and reporting in this regard as there were no matters raised by the AGSA, resulting in level 3 financial management capability rating.

Management of lease liabilities

PT Accounting identified and reported during pre-audit checking that finance lease expenditures and commitments were not properly classified and disclosed for the period under review. PT Accounting agreed to conduct a separate training session with the Department in order to ensure that the Department in future complies with the prescribed reporting requirements.

The Department is slipping to a level 2 financial management capability rating when compared to the previous assessment which was at level 3.

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

It was noted that monthly compliance reporting to Provincial Treasury took place according prescribed reporting 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 management of suspense accounts and debtors, the settlement of payments within the prescribed period and to ensure that sufficient supporting documentation is on debtor files. The Department must ensure that all authorised journals are stamped

“PROCESSED”. Finance leases should be properly classified as payments for capital expenditure.

3.4.3 Corporate Governance

3.4.3.1 Enterprise Risk Management Systems

This section provides guidance, criteria and norms and standards for 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.

Strategic risk assessment

The Department conducted a strategic risk assessment within the last year, however, risk response strategies were not recorded due to capacity constraints experienced by the Department. It was also not possible to determine whether the organisational structure supports the processes developed.

Internal environment

A risk management philosophy has not been articulated in writing and effectively communicated to all staff, nor has the Departmental risk appetite been defined.

Operational Risk Assessment

The Department has not completed the inherent risk assessments. Existing controls were partially identified and not documented.

Overall assessment

Based on the above information, the Department achieved a financial management capability rating of level 1, as the Department did not meet all the set Governance 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 Governance Criteria and Norms and Standards for level 2:

Strategic Risk Assessment

Risk response strategies developed and relevant processes developed.

Organisational structure supports developed processes.

Internal Environment

Risk Management philosophy is articulated in writing and communicated to staff.

Management philosophy and operating style reflects acceptance of risk management principles.

Risk appetite defined.

Operational Risk Assessment

All identified risk events assessed on inherent level.

Existing controls identified and documented (process and control maps).

Control gaps identified and action plans developed.

The Department must take cognisance of the possible negative impact the lack of progression in respect of risk management might have on future audit results.

3.4.3.2 Normative Financial Management

The findings discussed in this section provide a review of the PFMA implementation and financial management improvement of the Department in line with the provincial strategy of attaining a level 3+ financial management capability rating.

The source documents used were the Normative Measures Quarterly Report for departments for the quarter ending June 2010, the 2009/10 Auditor-General's report and the Financial Management Capability Maturity Model (FMCMM) for the Department.

The CFO structure: Human Resource Capacity

The Department's finance component vacancy rate is at 19.8 per cent in June 2010 and has been constant since June 2009. The average length of vacancy is 24 months which is way above the national norm of 3 months and this could impact negatively on the Department's ability to achieve their objectives. Financial Accounting is the unit most affected by the high vacancy rate and all critical posts.

Table 36 Extraction of vacant posts in Finance Components

Component/Unit	Post Description	Post level	No of vacant post
Financial Accounting	Director: Financial Accounting	13	1
	Deputy Director: Accounting	11	1
	Deputy Director: Salary Administration	11	1
	Assistant Director: Salaries	9	1
	Senior State Accountant	7	4
	Chief Accounting Clerk	7	2
	Salary Controller	7	1
	Accounting Clerk	5	6
	Administration Clerk	5	1
Management Accounting	Assistant Director	9	1
	Senior State Accountant	7	4
	Administration Clerk	5	1
Office of the CFO	Assistant Director	9	1
	Senior State Accountant	7	4
Procurement Management	Deputy Director	11	1
	Assistant Director	9	2
	Senior Administration Officers	8	7
	Senior Administration Clerk	6	1

All staff has career development plans and attending structured training programmes offered within the province.

It is recommended that the Department make a concerted effort to fill the posts of key personal, particularly, the Director and Deputy Directors Financial Accounting as well as the Deputy Director Procurement Management, which will ensure support to the Chief Financial Officer. The impact of the moratorium on filling of vacancies in the CFO office is noted.

Policies and procedures

The Department complies with all policies and procedures prescribed by the PFMA and Treasury Regulations pertaining to financial management.

Tabling of Annual Report

The Department must annually table their Annual Report, as prescribed, in the Legislature.

Compliance with this requirement is reflected in table below.

Table 37 Compliance with annual reporting requirement

Institution	Date annual report received by Provincial Treasury	Annual report tabled at the Provincial Legislature
Departments:		
Education	31/08/10	30/09/10

Auditor-General's report on the 2009/10 financial year

The Department received an unqualified audit opinion with no other matters for the 2009/10 financial year compared to an unqualified audit opinion with other matters in the 2008/09 financial year. It is clear that the Department has taken significant strides to improve on its financial management as none of the previous year's audit findings re-occurred in the current financial year's audit report, as is evident from the comparison below.

Table 38 Summary of Comparison between the 2008/09 and 2009/10 Audit Reports

Key finding	2008/09	2009/10	Status
Material corrections made to the financial statements submitted for audit	X		improved
Significant difficulties were experienced during the audit concerning delays or the availability of requested information	X		improved
The annual report was not submitted for consideration prior to the tabling of the auditor's report	X		improved
Scopa resolutions have not been substantially implemented.	X		improved
Non-adherence to Legislation; Framework for HIV/AIDS (Life-skills education) Grants		X	deteriorated

Overall assessment

The fact that the Department has received a unqualified audit report with other matters for the 2009/10 financial year, as well as improving their overall maturity level to 3 is evident that the Department has made some strides towards level 3.

3.4.4 Liabilities Management

This section deals with the implementation and management of sound cash flow practices as well as the provision of assistance and training in respect of the 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 cash flow 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 and further improve departments and to enable them to reach a standard level of 3+, new assessment tools were created to assist CFO's to have more control and insight over the functions relating to their banking sections.

The evaluation was based on the activities of the 2009/2010 financial year and the findings were as follows:

Table 39 Assessment of Liabilities Management

Requirements	Weight	Standard Level 3 (< 90%)	Standard Level 3+ (> 90%)	Rating
Submission of Annual Provincial Cash flow Projections (Section 40(4)(a))	10%	By 28 February	By 15 February	7.50%
Monthly alignment of actual expenditure with available cash	20%	11 months compliance	12 months compliance	20.00%
Available Budget equal to available cash (annual)	20%	Not equal	Equal	15.00%
Surrender of voted Surplus Funds	10%	31 May	15 May	10.00%
Submission of monthly Bank Reconciliation	10%	Within 30 days after month end	Within 15 days after month end	1.67%
User account management (Dormant users, etc)	20%	User accounts reconciled on a quarterly basis	User accounts reconciled on a monthly basis	15.00%
Confirm reconciliation of monthly bank transfers	10%	Within 7 working days after calendar month end	Within 5 working days after calendar month end	7.50%
	100%			76.67%

The Department achieved an overall rating of level 2.8 (partial compliance), which is in line with the 2009/2010 financial year.

Submission of Annual Provincial Cashflow Projections

The Department obtained a rating of 7.5 per cent (nominal compliance). The Annual projections in respect of income and expenditure were received on 26 February 2010.

Monthly alignment of actual expenditure with available cash

The Department obtained a rating of 20 per cent (full compliance). The Department complied with 12 months.

Available Budget equal to available cash (annual)

The Department obtained a rating of 15 per cent (nominal compliance). The Department overspent on their cash by R49.846 million.

Surrender of voted Surplus funds

The Department obtained a rating of 10 per cent (full compliance). Surplus funds were paid to the PRF on 14 May 2010.

Submission of monthly Bank Reconciliations

The Department was rated 1.67 per cent (partial compliance). The Department must please note that the bank reconciliations must be submitted to Liabilities Management.

User account management (Dormant users, etc)

The Department was rated 15 per cent (nominal compliance). It is preconceived that the Department complied with the relevant requirements.

Confirm reconciliation of monthly bank transfers

The Department was rated 7.50 per cent (nominal compliance). The Department should confirm and reconcile the monthly transfer schedule with Cash Management.

3.4.5 Supply Chain Management

Background

The review is based on information contained in the SCM status verification report (2009/10), Procurement Statistics report (2009/10) and material findings contained in the AG's report (2009/10).

Institutionalisation

The Department has complied with the statutory requirements regarding the implementation and ongoing review of the Accounting Officer's System and accompanying delegations.

The head office SCM structure is vested within the structure of the CFO as required by section 16A4 of the National Treasury Regulations (NTR's). The aforementioned structure is deemed appropriate and would seem to address all the disciplines of SCM.

A high vacancy rate affects a department's capacity to deliver on its service delivery obligations. Although the attrition rate of staff is not always within the control of a Department, departments must endeavour to manage the recruitment and retention of staff effectively and efficiently in terms of the generally accepted national norm of 5 per cent. Although vacancy rates fluctuate, the vacancy rate at the time of the verification assessment was 17 per cent. Despite the fact that the Department had attempted to address the filling of vacant posts, it was indicated that they were hampered by the then moratorium on the filling of posts as imposed by the Premier's Modernisation Programme. The Department has since addressed this matter by appointing 19 people on contract basis to perform various duties within the SCM unit until authority has been obtained to fill the vacant posts. It should be noted that the moratorium on the filling of vacant posts has subsequently been lifted.

The Department has given effect to the required committee system by establishing specification, evaluation and adjudication committees which perform their duties according to the legislative framework. Additionally, the Department has also established a quotation committee (quotations obtained via the EPSi) which is responsible for the adjudication (recommendation) of quotations. The committees are constituted of departmental officials who are appointed in writing. All committees only have recommendatory powers and recommendations are submitted to a delegated official for approval/award.

The above-mentioned committee members receive training when possible and or when deemed necessary. The Department has established a training programme for SCM officials. Both the Department and Provincial Treasury have identified various areas that would require additional training and the area of demand management which could not be accommodated in the previous financial year, has been prioritised for the 2010/11 financial year.

The Department has developed procedural manuals for contract management that together with detailed job descriptions ensure that contract management requirements are met. The Department has also implemented a reporting mechanism whereby the relevant SCM manager(s) must report, on a weekly basis, to the relevant head office senior manager on contract management issues. There are certain management and administrative functions that are centralised within SCM while some are decentralised to the chief users (line functions) utilising said contracts. The SCM directorate is however responsible for the advertisement, evaluation,

award and cancellation of contracts. The identification, planning (demand management requirements) and administrative requirements are the responsibility of the designated/accountable line function directorate.

Internal Control and Compliance to SCM Policy and Prescripts

There is sufficient separation of duties within the SCM unit.

The Department is in the process of standardising SCM requirements by developing internal policies, practice notes and procedural notes. SCM functions are mainly performed at the head office with district offices having only limited delegated powers with regards to certain activities. District offices are required to report regularly on their activities to the head office management. The committee system implemented at the head office has been duplicated at the district offices, the only difference being the delegated values at which may be procured.

The Department has a risk plan for SCM that forms part of the overall risk plan of the WCED. The issues highlighted by the AG have been incorporated in the risk plan. The plan is regularly assessed and updated when deemed appropriate, the last update occurred in 2008. The Department has also developed an action plan which is linked to the risk plan. The risk plan is currently under review and the latest findings of the AG will be taken into consideration when updating the document as well as the action plan.

It was indicated that SCM performance assessments are performed. The SCM directorate has also implemented a monitoring mechanism which tracks day-to-day operations and administrative activities. Lessons learnt and further recommendations to enhance the process have been brought to the attention of the CFO with the recommendation that an external component be assigned to perform such assessments allowing the unit to continue with its core function.

In terms of vendor performance it was found that the Department has established a poor-performance register as well as a register of all SCM complaints which is monitored and assessed on a monthly basis. The report inter alia highlights the nature of complaints, the frequency of complaints, corrective measures taken as well as corrective measures (policy and procedural changes) that can be taken as a result of findings.

The Auditor-General's report for the 2009/10 financial year indicated no serious matters and the Department received a clean audit report in terms of Supply Chain Management. However certain SCM issues were highlighted in the management letters as important. These issues are summarised as follows:

- The awarding of contracts to the highest scoring bidder in terms of the Preferential Framework Act 5 of 2000 and its Regulations;

- The verification of claimed preference points;
- The declaration of interest of suppliers and departmental officials;
- Training of officials and management of training records;
- Refinement of the fraud prevention plan/policy to address issues surrounding fraud detection and prevention;
- Risk identification and establishment of adequate controls to address risks;
- Checking potential suppliers against the National Treasury's database of restricted suppliers; and
- Meeting minimum legislative requirements when obtaining quotations for procurement of goods or services (minimum 3 quotes).

Reliability and Integrity of Data

Users of the Electronic Purchasing System (EPSi) have been sufficiently trained with new users being training as and when required. Currently EPSi utilisation is only at the Head Office but roll-out to regional offices is envisaged in the future.

The EPSi statistics for the period under review would be as follows:

Number of quotation awards captured	:	1 187
Awards with HDI participation	:	911
Value of awards captured	:	R28 547 246.06
Value awarded to HDIs	:	R19 906 067.52

In terms of section 16A7 of the 2008 and 2009 Provincial Treasury Instructions (PTI) departments are required to capture the detail of quotations invited via the EPSi on the system to ensure credibility of the data. The Department's capturing rate was 97.28 per cent as at 24 July 2010 which is considered excellent.

To enforce adherence to reporting requirements (also called adjudication), of the EPSi, the Department has indicated that they have implemented an internal policy which requires quotation awards to be captured on the system within 24 hours after the order has been placed.

The Department's reporting on awarded bids (statistical information) was in the correct formats within the set timeframes. The general bid/contract statistics for the period under review were as follows:

Bids Awarded	:	304
No. of limited bids	:	31
No. of contract extensions	:	242
Value of bids awards	:	R306 178 103.85
Value of limited bids	:	R7 483 815.37
Value of the contract extensions	:	R80 860 465.69

It should be noted that the number of contract extensions was due to a court order brought against the Department by the Western Cape Bus Association, prohibiting the invitation of new learner transport contracts until their concerns regarding new bid documents and conditions of contract have been resolved.

The Department maintains a database of awarded contracts.

The Department has a proper record keeping and management of information system and has furthermore indicated that their files can be audited/assessed if deemed necessary for verification purposes.

In terms of access to information, the Department has a directorate (under the control of a director) which is responsible for issues relating to access to information. The SCM unit works closely with said aforementioned directorate to ensure that all requests for information is addressed in accordance with the set legislation, policy and procedure. The Department has indicated that SCM officials have been provided sufficient training in terms of the requirements surrounding the access to information.

Comparison to the 2008/09 Review

The Department regularly (annually) reviews their Accounting Officer's System (AOS) and delegations and address additional requirements and identified gaps via internal policies; practice notes and procedural manuals.

Although the SCM directorate's vacancy rate (± 17 per cent) was above the National norm of 5 per cent the Department is making a concerted effort to address it by inter alia appointing temporary staff on contact basis. The Department has decreased the vacancy rate in the SCM Unit by ± 10 per cent since the 2008/09 assessment.

The bid committee system is operational, functional and meets the regulatory and policy requirements. In addition, the Department has also established specification committees for the purpose of adjudicating quotations invited by way the Electronic Purchasing System (EPSi). Although the quotation committee is not a requirement it does provide level of control in the award and management of quotations.

The Department maintains a risk plan for SCM that forms part of the overall risk plan of the WCED. The AG's issue has been incorporated into the risk plan. The SCM risk plan is scrutinised/updated annually. An action plan linked to the risk plan has also been developed.

The Department continues to perform regular assessments of SCM performance and to refine its methodology.

The Department utilises the EPSi to obtain quotations for procurement below the regulated threshold and has indicated 97.28 per cent capturing rate as at 24 July 2010 which is a significant improvement when compared to the previous year (70 per cent). The Department's reporting on bids and the adherence to due dates is maintained to be at a highly responsive level.

The Department indicated that previously identified petty cash deficiencies have been addressed, through the implementation of a petty cash policy which vests in the finance and SCM directorates.

Deficiencies in terms of the gift register and the declaration of gifts have been addressed.

Although the Department was not in total agreement with all findings and statements, they did resolve to address the matters of concern. The following issues have been addressed, are being developed, or are being refined:

- Specific criteria set for demand process;
- The finalisation of a 3 year procurement plan;
- Evaluation of bids strictly according to the advertised specification and criteria;
- Ensure consultation with outside departments/stakeholders;
- Specifications developed in consultation with relevant roll-players;
- Information sessions (clarification) held where possible and practical;
- Implementation of measures to ensure that requests for limited bidding are sufficiently addressed;
- Addressing of Petty cash deficiencies; Addressing of concerns regarding the advertising of bids and implementing a reporting mechanism to the

director of procurement management and the CFO on the advertising of bid results and other information; and

- Implementing a mechanism/processes to manage the potential abuse of the SCM system/AOS; and the standardisation of SCM processes wherever possible.

Contract administration has mostly been decentralised to the responsible line functions whereas SCM is responsible for contract management and the acquisition processes. It was also indicated that a contract/bid tracking system is being developed which will indicate the progress/or lack thereof on all requisitions.

Rating in terms of the Financial Capability Model for SCM

In terms of the assessment processes performed, the Department is rated at a level 2+ (2.5), for the period under review. The “two plus” rating infers that the Department has made some progress from level two and although certain level three criteria may have been met, has not met all the requirements of level three as yet.

Steps to take the Department to the next level of financial capability

In terms of the 2009/10 and verification assessment process conducted at the Department, the following require attention by the Department:

- Demand Management;
- Acquisition Management;
- Contract Management;
- Monitoring of SCM Performance; and
- Management of Risk and Risk Mitigation

3.4.6 Moveable Asset Management

Background

The Departmental Head Office was assessed and rated during 2009/10 financial year in terms of the financial capability model for Moveable Asset Management.

The rating was, however, not only based on the compliance/verification assessment conducted in 2009/10 financial year but also on other Asset Management (AM) reporting and findings, the AG's report and AM performance throughout the financial year.

Institutionalisation

The Department has an Asset Management Strategy/Policy in place which includes the following: Acquisitions, Operations, Safeguarding, Maintenance, Disposal, Replacement Plan, Funding and Risk Management Plans as required by National Treasury's Broad Implementation Plan.

The Asset Management Unit is vested under the structure of the Chief Financial Officer and the structure is deemed complete and adequate as there are no vacancies in the Asset Management Unit (AMU). The structure also allows adequate separation of roles and responsibilities to ensure that the necessary control mechanisms are met and maintained in the AM environment.

All officials in the AM environment have received Asset Management Learner Guide training from National Treasury as well as BAS and LOGIS training from Provincial Treasury. The Department has other internal Systems like HARD CAT for Asset Management A HARD CAT manual has been made available for all officials in the AM unit. A Skills Development Plan is in place for Asset Management and the Department attends training sessions and SCM/AM Forum meetings facilitated by the Provincial Treasury.

The National Treasury's Broad Implementation Plan which was rolled out in the 2005/06 financial year which mandated the Departments to be fully compliant by 2008 with all the asset management requirements. The Department has complied with the requirement and has all its AM policies in place which are incorporated into its Accounting Officer's System under the section for Asset Management. The latest review of the Accounting Officer's System and Delegations was approved/signed by the Accounting Officer on 9 September 2009.

Internal Control and Compliance to AM Policy and Prescripts

The Department's BAS and LOGIS reconciliation is performed by the Asset Management Unit on a monthly basis as required. Monthly Asset Register and BAS reconciliations are performed as well as annual Asset Register reconciliation with additions, disposals, and transfers.

Asset Management procedures and processes are standardised and incorporated in the Accounting Officer's System which adheres to section 38(1)(a) of the Public Finance Management Act, 1999 (PFMA).

The Department has made provisions for the mitigation of internal control weaknesses and risk mitigation procedures within the Asset Management environment by installing cameras on the passages to monitor departmental assets. The Department has drafted a Safeguarding of Assets Policy and has incorporated it into the Asset Management Strategy/Policy and into the AOS.

The Departmental Asset Register (AR) meets all the minimum requirements of an Asset Register as stated in the Asset Management Learner's Guide and as reiterated in the Provincial Treasury Circular No. 47 of 2007. The departmental Asset Register is updated on it was noted during the assessment that the Operation and Maintenance Plan schedule is not attached to the policy as required by National Treasury.

The Department has drafted the Disposal plans and procedures required in terms of section 38(1) (d) of the Public Finance Management Act and Treasury Regulation 16A for the disposal of movable assets and incorporated them in revised Departmental Accounting Officer's System.

Reliability and Integrity of Data

The procedure manual for HARD CAT system is available to all officials in the AM unit and the Department has received training on BAS/LOGIS from Provincial Treasury (Financial and Interlinked Systems). The Department monitors the loading of assets on these systems and performs monthly reconciliations etc.

The Department has conducted and completed its annual stock-take for the 2009/10 financial year. The procedures to monitor the performance of assets, is incorporated in the revised AOS under Annexure G in paragraph 12. All assets are subject to bi-annually asset count verifications or spot checks and an annual verification before financial year-end. The stock-take certificate has been submitted to the Provincial Treasury (MAM).

Reporting on the Project Dashboard and Risk Log in respect of the National Treasury's Broad Implementation plan for assets in the fourth quarter of the 2009/10 financial year revealed 100 per cent (100 per cent) compliancy to Planning of assets, 100 per cent (100 per cent) compliancy to Acquisition, 100 per cent (100 per cent) compliancy to Operation and maintenance, 100 per cent (100 per cent) compliancy to Disposal, 100 per cent (100 per cent) compliancy to the Accounting requirements and 100 per cent (100 per cent) compliancy to the Asset Register requirements.

The Department should take cognisance of the shortcomings highlighted by the Auditor-General in terms of assets which are rated by the Accounting Directorate under the section "Compliance with accounting policies and standards" of the Financial Governance Review & Outlook 2010. These shortcomings, the instituted corrective measures and the implemented control measures will be closely monitored and assessed by the Provincial Treasury: Moveable Asset Management (MAM) unit to encourage and promote efficiency, effectiveness and to contribute to the planning and preparation for the asset verification assessment envisaged for the 2010/11 financial year.

Comparison to the 2008/09 Review and Rating in terms of the financial capability model for Moveable Asset Management

In 2008/09 financial year the Department was monitored through the project Dashboard and the Risk Log report.

The Departmental statistics in respect of dashboard report during the 2008/09 financial year was as follows: compliancy to Asset Planning 100 per cent, compliancy to Acquisition Plan 88 per cent, compliancy to Operation and Maintenance Plan 60 per cent, compliancy to Disposal Plan 60 per cent, compliance on Asset Register and 85 per cent compliance on accounting requirements 100 per cent.

In 2009/10 the Department has made a huge effort to meet all the requirements of the National Treasury's Broad Implementation Plan, all AM plans are 100 per cent compliant, AR 100 per cent compliant and Accounting requirements are at 100 per cent compliancy.

It should be noted that there was no physical verification assessment of assets performed by the Provincial Treasury in the 2008/09 financial year. The information pertaining to this year is based on what was submitted by the Department in terms of its progress as per the Project Dashboard and Risk Log. A physical verification of assets was performed for the 2009/2010 financial year. Therefore for all intents and purposes, the findings of the 2009/10 financial year cannot really be compared to in the findings of the 2008/2009 financial year.

Rating

The Department has been rated at a level 3 against the financial capability model for Asset Management. Full compliance on the Asset Register and incorporating Operation and Maintenance schedule to the policy for Operation and Maintenance Plans will ensure that the Department proceeds to the next level of capability.

Steps to take the Department to the next level of financial capability

- Enhance the monitoring of assets within the entire Department of Education (including institutions), to ensure sustainable service delivery;
- Ensure that the Asset Register is regularly updated;
- Ensure AM operations are monitored and controlled;
- Move towards developing Standard Operating Procedural Manuals;
- Develop a basic AM control framework to safeguard and protect assets;

- Asset locations must be easily identifiable;
- Development of a maintenance schedule for all assets;
- The Department should ensure that adequate policies and procedures are implemented to address the reporting of predetermined objectives and inventory management as AGSA will be expressing an opinion on the reporting of predetermined objectives in the next audit; and
- Ensure that the requirements achieved that placed the Department at the level 3 financial capability are maintained.

3.4.7 Supporting and Interlinked Financial Systems

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

Review

The evaluation was based on the activities of the 2009/2010 financial year and the findings were as follows.

Basic Accounting System (BAS)

The evaluation was based on the activities of the 2009/2010 financial year and the findings were as follows:

Table 40 Management of activities on BAS

Requirements	Weight	Standard Level 3	Standard Level 3+	Rating
Skilled and capacitated system users	30%	In accordance with profile	Various Modules	2
Optimal utilisation of system	20%	80% - 90%	91% - 100%	3
Month- and Year-end closure	5%	Own accord – due date	Own accord – prior date	3+
System Controller Functions	30%	80 – 90%	91 – 100%	3+
Monitor Applicable Interfaces	15%	Intermittently	Daily	3+
Average Rating				3

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

Table 41 Skilled and capacitated system users

Number of officials confirmed	Number of officials attended	Number of officials did not attend	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
125	80	44	58	22

The Department maintained a financial management capability rating of level 2 (partial compliance) mainly due to the high percentage of officials who is confirmed but did not attend courses, as well as all officials not 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 more users trained.

Optimal utilisation of system

The Department achieved a financial management capability rating of level 3 (nominal compliance) for the optimal utilisation of the system.

Month- and Year-end closure

The Department achieved a financial management capability rating of level 3+ (full compliance) as their month- and year-end closure was done prior to the predetermined dates of National Treasury.

System Controller Functions

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

- Logging of calls to the Provincial Helpdesk;
- Maintenance of Security Profiles;
- The reinstate of Transaction Processing Rules;
- Requesting/monitoring and distributing of automated Basic Accounting System reports;
- Maintenance of segment details;
- Maintenance/update of departmental parameters;
- Provide practical individual training to users;

- Monitor Technical stability of work station including Local area network; and
- Assisting non-financial users of Basic Accounting System.

Monitor Applicable Interfaces

The Department achieved a financial management capability rating of level 3+ (full compliance) as their interfaces were monitored and reported on a daily basis.

Personnel and Salary Administration System (PERSAL)

Table 42 Management of activities on PERSAL

Requirements	Weight	Standard Level 3	Standard Level 3+	Rating
Skilled and capacitated system users	30%	In accordance with profile	Various Modules	2
Optimal utilisation of system	20%	80% - 90%	91% - 100%	3
System Controller Functions	20%	80 – 90%	91 – 100%	3
Establishment Management	10%	Quarterly	Monthly	3
Adhere to Minimum Information Requirements	5%	Annually	Continuous process	2
Leave Audit	15%	Annually	Continuous process	3
Average Rating				3

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

Table 43 Skilled and capacitated system users

Number of officials confirmed	Number of officials attended	Number of officials did not attend	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
112	86	26	65	21

The Department maintained a financial management capability rating of level 2 (partial compliance) mainly due to the high percentage of officials who is confirmed but did not attend courses, as well as all officials not 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 more users trained.

Optimal Utilisation of system

The Department achieved a financial management capability rating of level 3 (nominal compliance) for the optimal utilisation of the system.

System Controller Functions

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

Establishment Management

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

Adhere to Minimum Information Requirements

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

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

Leave Audit

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

Logistical Information System (LOGIS)

Table 44 Management of activities on LOGIS

Requirements	Weight	Standard Level 3	Standard Level 3+	Rating
Skilled and capacitated system users	30%	In accordance with profile	All Modules	2
Optimal utilisation of system	20%	80% - 90%	91% - 100%	3
Days per issue	10%	5 days	3 days	2
Financial Controls	20%	Monthly	Continuous process	3
System Control Functions	20%	80 – 90%	91 – 100%	3
Average Rating				3

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

Table 45 Skilled and capacitated system users

Number of officials confirmed	Number of officials attended	Number of officials did not attend	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
67	30	37	25	5

The Department maintained a financial management capability rating of level 2 (partial compliance) mainly due to the high percentage of officials who is confirmed but did not attend courses, as well as all officials not 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 more users trained.

Optimal utilisation of the System

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

Most payments for goods and services are processed through LOGIS and the Departmental assets are maintained per LOGIS Selection WMMT - Maintain Serial Detail Information.

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 2009/10 financial year was 8.2 days, the performance of the Department is therefore below the standard. However, the Department does not typically keep store items and should constantly check for errors/omissions that could result in items classified as Store Items.

Financial Controls

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

The BAS/LOGIS Reconciliation were performed on a monthly basis and the Resubmission Queue per LOGIS Procurement Integration is cleared for errors and submissions, as required.

System Control functions

The Department achieved a financial management capability rating of level 3 (nominal compliance). User profiles and password confidentiality is maintained.

3.5 Department of Health

Overview

Financial management capability assessments of the main attributes were conducted and rated in terms of the assessment tools as contained in Chapter 2 of the FGR&O 2010. The goal of these assessments is to collectively provide an overview of how the department (and its entities) is/are managed as well as recommendations to assist progress to a level 3+ financial management rating.

The following ratings were assigned per assessment area:

Performance management

- Non financial information - level 2.5
- Financial information – level 3

Compliance with accounting policies and standards – level 2.8

Enterprise Risk Management – level 2.5

Corporate Governance - level 2.6

Liabilities management – level 2.8

Supply Chain Management – level 2

Movable Asset Management – level 2.5

Financial Systems

- Systems usage – level 3
- Training - level 2

In view of the ratings above, an average rating of level 2.5 is achieved.

The Department has provided a comprehensive financial management improvement plan that inter alia covers the issues raised to move towards a level 3+ rating.

3.5.1 Performance Management

3.5.1.1 Non-financial information

The analysis of departmental performance information management uses the financial management capability model as a point of departure to provide an insight to the information presented in the departmental budget documentation including the Department's Strategic Plan (SP), Annual Performance Plan (APP), Annual Report (AR) and Quarterly Performance Reports (QPRs). The assessment gauges key aspects of the Department's performance information in order to determine the Department's capability level.

The assessment 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 level 4 financial management capabilities. The 2009/10 AR, the 2009/10 and 2010/11 APPs as well as the final 2009/10 QPR have been used in the assessment. The assessment also includes information based on the 2009/10 Auditor-General of South Africa (AGSA) audit report.

Organisational arrangements for managing performance information

The Chief Directorate Strategy and Health Support consists of four directorates, namely Strategic Planning and Co-ordination, Information Management, Health Impact Assessment and Professional Support Services. The key focus of the Directorate Strategic Planning and Co-ordination is to assist the Head of Department with the prescribed strategic planning framework to ensure alignment with planning and reporting cycles and procedures and to ensure that policy and planning inform the budgetary processes. The Directorate Information Management is responsible for the collection, collation and evaluation of health performance data and the provision of information to support service delivery by the Department. This includes statutory reporting requirements for performance information such as the Annual Report and Quarterly Performance Reports.

Quarterly Performance Reporting on 2009/10 Predetermined Objectives

The Department complies with the sector-specific customised format for non-financial quarterly performance reporting. The 2009/10 Excel template allows for reporting against sector specific performance measures and non-standardised items which the Department has utilised.

All relevant performance measures contained in the 2009/10 APP are reported on in the QPR. The targets in the APP and QPR are consistent. Where deviations exist the Department has provided a full explanation in the narrative report submitted with the QPR.

The National Department's data flow policy allows for electronic data from the provinces regarding primary health care and hospital indicator sets to reach the National Department of Health 60 days after the end of the reporting period. The deadline for submitting quarterly performance reports is approximately 14 days after the end of the reporting period. Therefore, the Western Cape Department of Health uses projections to complete the "preliminary output" for each quarter. The preliminary outputs in each quarter are projections based on the actual data for the first two months of relevant quarter and an average of the first two months' data is used to project the third month in that quarter. The previous quarter's outputs are validated in subsequent quarterly reports and reported as actual outputs.

Strategic Plan 2010/11 – 2014/15

The Department of Health tabled a revised Strategic Plan (SP) for 2010/11 – 2014/15 before the start of the 2010/11 financial year. The Departmental Strategic Plan is in line with the generic guide for Strategic Plans issued by the National Treasury and the guidelines issued by the National Department of Health. The focus of the Strategic Plan is linking to and flowing from various goals and outcomes of the national health sector and the Provincial Government of the Western Cape in fulfilling Health's legislative mandate. The Strategic Plan for Health contains the strategic goals and objectives to be attained by the Department over the 2010/11 – 2014/15 period.

Annual Report 2009/10

The AR Guideline for General and Performance information for the year ended 31 March 2010 required that the programme performance of provincial departments must be in accordance with their strategic and performance plans as tabled in the legislature. The Department of Health reported on performance against both the national and provincial programme performance measures in the 2009/10 AR in accordance with the 2009/10 APP. The targets in both the AR and APP are consistent. The units of measurement of the performance measure targets were consistent with the actual performance reported in the AR.

In a few instances where the Department was unable to report on performance measures due to a lack of data, this has been stated explicitly in both the AR and APP. The Department has reported on performance measures and targets in the same order as presented in the APP to facilitate comparison.

The Department has adhered to the national guidelines and all key elements are present in the Department's report. The Department has customised the format to facilitate detailed reporting and therefore in some cases uses slightly different wording from the format proposed in the guideline for the report on programme performance

The Department has reported on performance measures and targets in the same order as presented in the APP to facilitate comparison. Baselines were indicated per programme and sub-programme as per AR guidelines. In future, the Department should report baseline figures (numerators and denominators) for all relevant performance indicators.

Departments are to state the reasons for major variances. This is an area where the Department could provide more detail. In the event of targets not achieved the Department has explained via footnotes and notes below the programme performance tables.

Annual Performance Plan 2010/11

The APP format complies with the generic format prescribed by the national government for provincial health departments as well as the uniform programme and budget structure. The APP includes strategic objectives and performance indicators.

The Departmental APP includes all sector specific as well as the provincial specific performance measures for the 2010/11 financial year. Although most of the strategic objectives and performance indicators identified by the Department comply with the SMART principle, in that they are specific, measurable, achievable/attainable, realistic and time bound the Department could revisit performance information to ensure the relevance of indicators and targets in future APPs. Although not a fixed rule, the ideal is to have one strategic objective per programme and if the business varies considerably then one strategic objective per sub-programme. This might not be realistic for Health, as some objectives are applicable across programmes, however, there is scope to streamline the number of strategic objectives in the APP to reflect the core set of objectives. For the 6 strategic goals of the Department, there are approximately 100 strategic objective statements.

Recommendations/Conclusion

This high level of consistency between the AR 2009/10 and the 2009/10 APP in terms of performance indicators and targets enables an assessment of the actual performance of the Department against the targets set in the APP. However, The Department should ensure that the information reported on can be relied upon, improve the systems to collect data and provide evidence of information reported.

Specific areas that the Department needs to focus on to improve management of performance information relate to providing adequate explanations for major variances between planned and actual reported targets, providing baseline numbers (numerators and denominators) for targets expressed as percentages, providing source information and source documentation for reported indicators.

General recommendations to improve the overall reliability and usefulness of performance information include Accounting Officers ensuring that an overall performance management system should be in place and documented, sufficient appropriate audit evidence and source documentation exist, there are appropriate information systems to facilitate the preparation of a performance report that is accurate, complete and valid and adequate control processes and procedures should be designed and implemented to ensure the accuracy, completeness and validity of reported predetermined objectives/performance information.

To reach a financial management capability rating of level 4, which measures how resources are used, the Department should also move beyond compliance to focus on costing outputs and instituting practices that would identify those critical outputs that would have a knock-on effect to achieving departmental goals and outcomes. The move beyond compliance involves expanding the focus to include the relationship between inputs and outputs and directing inputs and outputs closer toward the achievement of the desired outcomes and impact. Going forward the Department should ensure a stronger linkage between the Provincial Strategic Objectives, SP, APP and Budget.

3.5.1.2 Performance management assessed based on financial information

From a public finance perspective, the following has been noted regarding the financial performance of the Health Department for the 2009/10 financial year:

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

The table below compares the projected expenditure to the actual expenditure on a quarterly basis for 2009/10. The percentage indicated in the table represents an actual amount spent per month of the total actual expenditure.

Table 46 Quarterly Analysis on projections: 2009/10

R'000	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
First Quarter	741 335	805 278	803 071	913 048	840 517	836 693	841 824	835 545	821 715	807 494	836 920	844 933	9 928 373
%	7.47%	8.11%	8.09%	9.20%	8.47%	8.43%	8.48%	8.42%	8.28%	8.13%	8.43%	8.51%	100.00%
Second Quarter	741 335	805 278	803 071	875 556	816 848	770 065	891 505	870 554	855 580	878 375	892 055	862 753	10 062 975
%	7.37%	8.00%	7.98%	8.70%	8.12%	7.65%	8.86%	8.65%	8.50%	8.73%	8.86%	8.57%	100.00%
Third Quarter	741 335	805 278	803 071	875 556	816 848	770 065	977 158	890 799	893 568	991 259	998 988	992 177	10 556 102
%	7.02%	7.63%	7.61%	8.29%	7.74%	7.29%	9.26%	8.44%	8.46%	9.39%	9.46%	9.40%	100.00%
Fourth Quarter	741 335	805 278	803 071	875 556	816 848	770 065	977 158	890 799	893 568	867 309	949 562	980 485	10 371 034
%	7.15%	7.76%	7.74%	8.44%	7.88%	7.43%	9.42%	8.59%	8.62%	8.36%	9.16%	9.45%	100.00%

Shaded: Actuals

Unshaded: Projections

As illustrated in the table above, it is evident that there exists room for improvement with regard to expenditure forecasting, as forecasts in prior quarters differ notably from the actual expenditure throughout the year. This can be viewed in the table where actuals and projections are compared on a monthly basis. E.g. In July 2009, the Department indicated that they would spend 9.2 per cent of the total projected expenditure at that stage, while 8.7 per cent was actually spent in July 2009. Thus, R37.492 million less than projected. Actual expenditure (shaded) tends to fluctuate consistently against the projected expenditure (unshaded) on a monthly basis. However, it remains challenging for the Department to project accurately on a monthly basis as a range of issues impacted on the projections, for example; the 1.5 per cent notch increments for staff members was only paid out in the month of September 2009 (backdated to July); a 5 per cent once-off payment was paid to affected staff in the month of October 2009 as Occupational Specific Dispensation (OSD) was not implemented as planned in the 2008/09 financial year; and the implementation of the OSD for medical doctors, dentists, medical and dental specialists etc. resulted in payouts in the months of December 2009, January 2010, February 2010 (also backdated).

In terms of SCOA inconsistent classification combinations model and the responsibility download through Vulindlela system, it reveals that Health experienced relatively few erroneously classified transactions. In total, 209 transactions with a total value of R2.682 million were reported as erroneous for the period ending 31 March 2009/10. These errors included all misclassifications related to Health specific project codes that are being followed up with National Treasury. Monitoring of these errors will continue during the new financial year.

Numerous shifts were made in the Adjustments Budget, both within a vote and within programmes. These shifts were mainly for accommodating budget pressures and to cater for the overspending by shifting savings to items where funding is required. 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 5: Central Hospital Services and Programme 6: Health Science and Training. The Department obtained the necessary virement approvals for it to be effected.

The Department ensured that transfer payments are backed by Section 38 agreement, and instituted the necessary monitoring mechanisms.

Health complied with Division of Revenue Act (DoRA) and spending on earmarked and conditional grant funds were as per approved business plans and payment schedules. However, the department reported under expenditure on conditional grants. This under expenditure is predominantly attributed to unspent funds on Forensic Pathology Service (R7.402 million), Hospital Revitalisation (R42.774 million) and Infrastructure grant to Provinces (R42.506 million).

The Department submitted the Adjustments Budget timeously and was comprehensive in terms of Section 31 of the PFMA. The Department received R570.918 million in 2009 adjustment estimate, which increased the original 2009/10 budget allocation of R9.892.798 billion to R10.463.716 billion. The bulk of this additional allocation in 2009 was from National government and mainly went towards Occupational Specific Dispensation (OSD) and Improvement of Conditions of Service (ICS).

In terms of spending outcomes, Health has under spent its adjusted budget at the end of the 2009/10 financial year by 0.9 per cent or R92.682 million. This is within the 2 per cent under spending norm. The bulk of underspending relates to Conditional Grants and the Department has subsequently requested funds to be rolled over to 2010/11. The under spending comprises of the following unspent conditional grants:

- Forensic Pathology Services (R7.402 million) due to insolvency of contractors, however, new contractors were appointed to complete the projects. National Treasury has approved the Department's request for rollover of unspent Conditional Grant for Forensic Pathology Services of R7.402 million.
- Hospital Revitalisation Project (HRP) under spent by R42.774 million; the unspent funds relates to the amount received in the 2009/10 adjustment estimate of R30.400 million which forms part of an amount of R170.381 million in respect of HRP, that was not transferred in 2008/09. The R30.400 million was allocated to the Province in the 2009/10 Adjusted

Budget, even though the Province declared its preference to rather receive the funds in the 2010/11 Main Budget. Technically the under spending on the grant can be seen as R12.374 million if the R30.400 million is excluded.

- Infrastructure grant to Provinces for Health (R42.506 million) mainly as a result of a number of projects that did not commence construction on the published start date due to delays in the planning process.

As disclosed in note 26 of the Annual Financial Statements irregular expenditure amounting to R33.2 million was incurred in the financial year under review as a result of non-compliance with the financial delegations issued by the accounting officer in terms of section 44 of the PFMA, as well as non-compliance with procurement and contract management regulations. Included in this amount is irregular expenditure of R5.6 million which was detected during the audit of procurement and contract management and which was not prevented or detected by the department's internal control activities.

The fact that the amount of expenditure reported as irregular has increased is not necessary an indication that there was an increase in the number of transactions where there was non-compliance with a specific prescript. The department rather believes that the increased amount that was reported as irregular can be attributed to the fact that officials at the various Institutions have become more aware of the implications of irregular expenditure, and was therefore in a position to report more correctly on transactions which lead to irregular expenditure. This can be contributed to the steps that the department followed at year end where officials from the Chief Directorate: Financial management performed inspections at all institutions to ensure that data which will be submitted for inclusion into disclosure notes such as accruals and commitments is more credible. During this process these officials also did batch inspections to determine regularity. This leads to improved awareness.

The Department is also in the process to increase the internal control capacity at all levels to in future detect non compliance much earlier and report such to the Accounting Officer for condonement. It is also the intention to through this process improve the credibility of data on the computerised systems.

Furthermore, the Audit report reveals that unauthorised expenditure totaling R70.5 million was incurred by the department in programme 5, after applying virements, This over expenditure occurred as a result of increased patient activity, a higher than anticipated inflation rate on medical and surgical sundries, especially medicines, an unexpected outbreak of diseases such as H1N1 and measles, the impact of HIV/Aids and tuberculosis on laboratory costs, the inadequacy of the National Tertiary Services grant (NTSG) and the

Health Professions Training and Development grant (HPTDG), as well as the higher than funded levels of occupational specific dispensations and improvements of conditions of service.

The Department of Health collected R413.810 million in provincial own receipts compared to the adjusted budget of R390.840 million for the 2009/10 financial year resulting in a surplus of R22.970 million or 5.9 per cent more than the adjusted budget. The surplus was mainly driven by *Transfer Received item* for interest received from Global Fund as well as *Financial Transactions in assets and Liabilities* for credit balance in Asset and Liabilities Account for advances paid into the Provincial Revenue Fund.

The main appropriation for provincial own receipts for the 2009/10 financial year was R390.160 million, which was subsequently increased by R680 000 to R390.840 million in the 2009 adjustment estimate. The increase in revenue was in respect of Global Fund surplus due to Rand/Dollar exchange rate (R104 000) and late interest earned (R77 000) as well as a reimbursement by Aspen Pharmacy (R499 000) for overpayment made for the period under discussion.

Various tariffs were revised and recorded in the tariff register for the Department. The following tariff approvals were done in 2009/10 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 (TR) 7.3.1 to:

- Hospital Fees: Amendment of Uniform Patient Fee Schedule in respect of full paying patients;
- Supply of Lecture notes to Nursing Staff and Staff studying with Bursaries;
- Crèche Services, Meals Coupons, Incineration of Waste and Laundry Services;
- Accommodation in Nurses Residences and Doctors Quarters by private individuals;
- Laundry Services: Various Hospitals for Health Service rendered; and
- Adjustment of Meal Coupon Tariffs – Item: Sales Meals and Refreshments.

The Department did not experience a March spike in 2009/10. Spending as at March 2010 totaled R980.485 million and accounts for 9.5 per cent of the total expenditure of R10.371.034 billion in 2009/10.

Conclusion

The Department of Health generally operates on level 3 financial management capability rating.

3.5.2 Accounting policies and standards

PT (Accounting) identified a number of key accounting policies and standards against which departments are rated in terms of compliance and its financial management capability. The purpose of the exercise is inter alia to monitor progress towards an improved financial management capability rating. Various tools are available to departments to ensure improved ratings, improved integrity of data and also that the financial reporting that is understandable, relevant, reliable and comparable. PT (Accounting) introduced various initiatives to address accounting matters in collaboration with the relevant departments. The department made full use of all these opportunities and actively contributed with regards to the following:

- Workshops on reporting requirements
- Two-monthly CFO forum meetings
- Monthly FA forum meetings
- Bi-lateral discussions
- IYM reporting
- Submission of AFS for preview prior to 31 May
- Compilation of a prescribed audit file with supporting documentation
- Interim financial statements as at 30 September 2009

The Interim financial statements as at 30 September 2009 was a new initiative by PT. Accounting assessments were conducted on the interim financial statements by Accounting Services in terms of a pre-determined assessment framework. Internal Audit also conducted a review of the processes and the controls implemented by departments on the implementation of the interim financial statements and issued a report on its findings per department. The Accounting assessment findings were issued to departments and corrective measures followed up in terms of action plans to ensure that these issues did not re-appear at the year-end.

The Department diligently attends and participates in the PT driven Financial Accountants and Chief Financial Officers Forums and attend workshop offered by the Treasury where financial management issues are discussed amongst all the provincial departments.

In its endeavours to enhance financial management across all Departments, it has instituted various control measures and processes, notwithstanding that full implementation and monitoring remains a challenge. This has surely improved financial management and the Department must be congratulated on receiving an unqualified audit report with emphasis of

matters for the 2009/10 financial year, especially considering that the Department operates on a decentralised basis.

The Department requested to be exempted from compiling interim financial statements as at 30 September 2009 and compiled an action plan in order to prepare for the compilation of interim financial statements as at 30 September 2010.

An assessment of the financial management capability of the Department of Health based on the 2009/10 audit findings and IYM reporting revealed the following.

Management of and reporting on suspense accounts

In terms of the IYM Reports, the Department follows up and clears suspense account balances within a reasonable period of time and the AGSA also reported that clearance accounts were cleared by the Department at year-end.

Monthly reconciliations of all control and suspense accounts are performed by the Department to confirm the balance of each account. The Department maintained a financial management capability level 3.

Accounting of assets

The AGSA reported that a sample of assets which were selected from the asset register could not be physically verified during the audit process since items were not bar-coded.

Although departmental processes and controls are in place at institutions to monitor the movement of assets and to record such movement, it is recommended that the Department enhance controls over these processes in order to move towards a level 3 financial management capability rating.

Accounting of Inventory

In the 2009/10 annual financial statements, reporting on inventory was required in terms of the National Accounting framework Guide. Although, Health consists of a head office and various decentralised institutions, it was able to present information on inventory. This reporting requirement was not by the AGSA due to it being a new reporting requirement by the National Treasury. The Department needs to implement processes and controls to move from a level 2 to a level 3 financial management capability.

Financial Reconciliations

The BAS/PERSAL, BAS/LOGIS and BAS/PMG financial reconciliations are performed on a monthly basis and all differences addressed. The Department maintains its financial management capability level of 3 and to move the next level should clear all differences before monthly book closure instead of reporting differences as reconciliation items.

Supporting Documentation

For the period under review the Department has maintained controls over supporting documentation as indicated in the monthly IYM reports and confirmed in the monthly meeting between the Provincial Treasury and the Department. This is further supported by the audit outcomes of the AGSA. It can thus be construed that the Department is managing this process well and a financial management capability 3 rating is supported.

Expenditure – Payments made after 30 days

The AGSA highlighted various cases of non-compliance to Treasury Regulation 8.2.3 relating to invoices not paid within 30 days after receiving the invoice despite reports being distributed to the Department by the Provincial Treasury on a quarterly basis to address payments exceeding 30 days.

It is recommended that the current management controls be monitored more closely to ensure that all payments are paid in accordance with TR 8.2.3. In extraordinary cases, where payment cannot be processed within the 30 day limit, supporting documentation should be attached to the payment advice to substantiate the delay. In view of the immaterial nature of the finding the department is performing close to a level 3.

Accruals

On a monthly basis RR069 reports relating to accruals are requested on a monthly basis by Provincial Treasury and were taken up with the department. Provincial Treasury (Systems and Accounting) assisted in clearing the outstanding balances. Bi-lateral engagements with the Department have resulted in a decrease of accruals during the financial year. Although the AGSA reported on the misstatement relating to accruals it is insignificant to warrant any further major interventions other than tightening of existing controls.

As the Department operates on a decentralised basis, information for the compilation of the disclosure note on accruals is received from institutions and collated by Head Office. The existing processes and controls should be evaluated and, if required adjusted, to ensure that information submitted by

institutions for the inclusion in the annual financial statements is complete and accurate.

The Department should also ensure that all accruals are identified at year end and disclosed accordingly in the annual financial statements to move towards a financial management capability level 3.

Commitments

It is the department's internal policy to load the full value of every contract on the system involved. Commitments are mostly in respect of goods and services, office equipment, computer equipment, furniture and works infrastructure. The total commitments as at the 31 March 2010 amounted to R812 million that was obtained from various sources such as Logis, SYSPRO, RPM etc. Commitments not being standardised on a single system makes it difficult to monitor on a monthly basis and to report on in financial statements, as well as providing accurate projections for budget purposes.

Three institutions, namely Tygerberg Hospital, Groote Schuur Hospital and Red Cross manage commitments on SYSPRO. With SYSPRO not interfacing to Logis or BAS, information on commitments cannot be extracted as and when required. Similarly, infrastructure contracts maintained by TPW on the RPM system do not interface to Logis.

The AGSA reported that differences were found between the commitment schedule and the sub-schedules of some institutions which could result in misstatements. It is recommended that the amount according to the sub schedules (for the various institutions) be reconciled to the various system reports.

The Department must institute process and control measures to ensure that the correct value of commitments is disclosed in the annual financial statements. Currently the Department is performing at a financial management capability of level 2.

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

In terms of section 40(4)(c) of the PFMA, IYM reports are required to be submitted to Provincial Treasury by the 15th of each month, however signed reports are not submitted on time. As per arrangement the monthly unsigned reports is submitted to Provincial Treasury on time.

The Department maintains a financial management capability of level 3.

Conclusion

In conclusion, the Department of Health is in general operating close to a financial management capability of level 3, which should be viewed positively, considering the size and complexity of the Department.. In order to move to a level 3 financial management capability level, the Department must reinforce the internal controls and *inter alia* ensure that financial instructions are rolled out and implemented.

3.5.3 Corporate Governance

3.5.3.1 Enterprise Risk Management and Governance Systems

This section provides guidance, criteria and norms and standards for 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.

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 for the Department has been defined.

Operational Risk Assessment

Only critical risk events have been identified and assessed on an inherent level and existing controls have been partially identified.

Overall assessment

Based on the above information, the Department achieved a rating of 2.5, as the Department has 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 achieve all of the following set criteria and norms and standards:

Event Identification:

- Risk events are grouped in terms of event categories (Risk Universe).

Risk Assessments:

- All risks are assessed on a residual risk basis.

Control activities:

- Control activities are designed using a recognised control framework.

Monitoring:

- The risk management process is subject to regular internal audit evaluation.

2008/09 and 2009/10 Comparison

For the 2009/10 review, it is evident that the department has made some improvement as compared to the 2008/09.

3.5.3.2 Normative Financial Management

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

The source documents used were the Normative Measures Quarterly Report for departments, a financial management capability maturity survey conducted in June 2010 and the 2009/10 Auditor-General's report for the Department.

Analysis of Normative Measures Quarterly Report

The CFO structure: Human Resource Capacity

The table below depicts the number of vacant posts in the finance component:

Table 47 Number of vacant posts in Finance Component

Component/Unit	Post Description	Post level	Status
Business Development	Admin	1-5	2
Business Development	Admin	7-8	17
Business Development	Admin	9	1
Finance	Admin	1-5	3
Finance	Admin	7-8	5
Finance	Admin	9	7
Finance	Management	11-12	1
Supply Chain	Admin	1-5	4
Supply Chain	Admin	7-8	4
Supply Chain	Admin	9	6
Supply Chain	Management	11-12	1
CFO office	Admin	9	1

The Department's vacancy rate has increased since June 2009 from 15 per cent to 38 per cent as at 30 June 2010. The Department has indicated that the increase in the vacancy rate was primarily as a result of a number of vacant posts being created during June 2010, which have yet been filled. Business Development, Supply Chain Management and Finance are the components most affected by the high vacancy rate within the finance component.

The Department also indicated that the all CFO staff is involved in structured training.

Policies and procedures

The Department complies in the main with all policies and procedures prescribed by the PFMA and Treasury Regulations pertaining to financial management except for the Asset Strategy which is partially linked to the Department's strategic plan, service delivery objectives and programmes. This raises the question as to whether the Department will be able to maintain adequate asset planning and budgeting.

Tabling of Annual Report

The Department must annually table their Annual Report, as prescribed, in the Legislature. Compliance with this requirement is reflected in table below:

Table 48 Compliance with annual reporting requirement

Institution	Date annual report received by Provincial Treasury	Annual report tabled at the Provincial Legislature
Departments:		
Health	31/08/10	30/09/10

Auditor-General's report on the 2009/10 financial year

The Department received an unqualified audit opinion, with other matters in the 2009/10 as well as the 2008/09 financial year. As depicted below, the Department has reduced the number of findings in their audit report.

Table 49 Summary of Comparison between the 2008/09 and 2009/10 Audit Reports

Key finding	2008/09	2009/10	Status
Material corrections made to the financial statements submitted for audit	X		Improved
The department may have to account for. Write-offs in respect of Infrastructure projects and in terms of alleged fruitless and wasteful expenditure relating to infrastructure projects. The ultimate outcome of the matter cannot be determined at present, and no provision for any fruitless and wasteful expenditure that may result has been made in the financial	X		Improved
Significant deficiencies in the design and implementation of internal control in respect of Financial and risk management	X	X	Unchanged
Prior years Audit findings have not been substantially addressed.	X		Improved
Information systems were not appropriate to facilitate the preparation of a performance report that is accurate and complete/Lack of sufficient audit evidence.	X		Improved
Lack of control processes and procedures designed and implemented to ensure the accuracy and completeness of reported performance information	X	X	Unchanged
The Department did not have/implement an approved fraud prevention plan as required by Treasury Regulation 3.2.1	X		Improved
Irregular Expenditure	X	X	Unchanged
Unauthorised Expenditure	X	X	Unchanged
Material under spending on the budget	X	X	Unchanged

Overall assessment and recommendation

Based on the information contained in this assessment, the Department has made some strides in improving Financial Management and achieved a rating of 2.6.

In order for the department to achieve a level 3 auditable rating, the Department must make a concerted effort to reduce this high vacancy rate, especially filling the key posts on a supervisory level and simultaneously reduce the average length of time it takes to fill a vacant post. Furthermore the Department also has to address unchanged issues raised in the audit report as depicted in table 49.

3.5.4 Liabilities Management

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

The evaluation was based on the activities of the 2009/10 financial year and the findings were as follows:

Table 50 Assessment Liabilities Management

Requirements	Weight	Standard Level 3 (<90%)	Standard Level 3+ (>90%)	Rating
Submission of Annual Provincial Cash flow Projections (Section 40(4)(a))	10%	By 28 February	By 15 February	7.50%
Monthly alignment of actual expenditure with available cash	20%	11 months compliance	12 months compliance	11.25%
Available Budget equal to available cash (annual)	20%	Not equal	Equal	15.00%
Surrender of voted Surplus Funds	10%	31 May	15 May	7.50%
Submission of monthly Bank Reconciliation	10%	Within 30 days after month end	Within 15 days after month end	8.54%
User account management (Dormant users, etc)	20%	User accounts reconciled on a quarterly basis	User accounts reconciled on a monthly basis	15.00%
Confirm reconciliation of monthly bank transfers	10%	Within 7 working days after calendar month end	Within 5 working days after calendar month end	7.50%
	100%			72.00%

The Department achieved an overall rating of 2.8 (partial compliance), which is in line with the 2009/2010 assessment.

Submission of Annual Provincial Cashflow Projections

The Department obtained a rating of 7.50 per cent (nominal compliance). The Annual projections in respect of income and expenditure were received on 26 February 2010.

Monthly alignment of actual expenditure with available cash

The Department obtained a rating of 11.25 per cent (partial compliance). The Department complied with 9 months.

Available Budget equal to available cash (annual)

The Department obtained a rating of 15 per cent (nominal compliance). The department overspent on their cash by R175.238 million.

Surrender of voted surplus funds

The department obtained a rating of 7.50 per cent (nominal compliance). Surplus funds were paid to the PRF on 24 May 2010.

Submission of monthly Bank Reconciliations

The Department was rated 8.54 per cent (nominal compliance). The monthly bank reconciliations were submitted within 30 days after month end.

User account management (Dormant users, etc)

The Department was rated 15 per cent (nominal compliance). It is preconceived that the Department complied with the relevant requirements.

Confirm reconciliation of monthly bank transfers

The Department was rated 7.5 per cent (nominal compliance). The Department should confirm and reconcile the monthly transfer schedule with Cash Management.

3.5.5 Supply Chain Management

Background

For the 2009/10 financial year, a Supply Chain Management status verification assessment was performed at the Department's head office. The objective of this assessment was to determine the progress made by the Department since the 2008/09 SCM compliance assessment.

The rating was, however, not only based on the status verification assessment conducted but also on other SCM reporting and findings as well as the AG's report.

Institutionalisation

At Head Office (HO) level, the SCM post establishment adequately addresses SCM functionality. The SCM Unit currently has a structure of 42 posts of which 37 posts have been filled by end July 2010 and interviews have been conducted for 3 posts. The Department was in the process of filling one level 11 post and 3 more vacant posts, however, the remainder of the posts will not be filled at this stage as the Department is busy restructuring at Head Office. It must be noted however that the 23.8 per cent vacancy rate is well over the national norm of 5 per cent.

The current structure is however, in line with the National Treasury: Normative Measures for Financial Management (Phase 1: Perfecting the Basics) policy document and is adequate to give effect to the efficient and effective management of SCM.

The Department's AO system and SCM delegations have been operational for almost two years. However, the Department has reviewed the AOS but its roll out has been held in abeyance due to Provincial Treasury implementation of mandatory SCM requirements.

Constituted Bid Adjudication and Evaluation Committees are in place; however, the Department does not have Specification Committees as they use commodity groups to fulfill this function.

The Department has effected consistent training and skills development initiatives and ensures training of SCM officials, either by attending SCM related courses as well as in house training.

Internal Control and Compliance to SCM Policy and Prescripts

There appears to be adequate segregation of duties within the SCM function at the Head Office level.

The SCM processes have been standardised and is incorporated in the AOS which give guide the Department's procurement processes.

The Department has monthly SCM/Finance meetings to monitor SCM performance and adherence to compliance. Regular roadshows are conducted at institutions and finance instructions are issued to create awareness on SCM. Standardise SCM templates are issued across the Department.

The Department has implemented a compliance checklist as a monitoring mechanism to monitor SCM compliance and performance across the Department. The checklist is also used by the internal Control Unit to assess the status of adherence to the guiding legislation and policies at the institutions.

Cost effective management of risk is being addressed by the Department.

The AG's report revealed that the Department does not comply with certain policy and prescripts with regards to the following:

- Non utilisation of EPSi at some institutions.
- Lack of utilisation of competitive bidding at institutional level.
- The Department is prone to extend contracts rather than follow a competitive bidding process.
- Non-compliance to NT Practice Note 4 of 2006 with regard to the compulsory utilisation of Standard Bidding Document (SBD 8).
- Non-compliance to NT Practice Note 6 of 2007/08 with regard to reporting of bids exceeding R1 million.
- Non-compliance to NT Regulations 16A9.1(c) which states that the NT database pertaining to list of restricted suppliers must be consulted prior to awarding a contract.
- Non-compliance to NT Regulations 16A6.3d which states that awards of bids must be published in the Government Tender Bulletin and media.
- Contract registers at institutional level are not properly maintained.
- Contract performance of suppliers is not performed at some of the institutions, no Service Level Agreements (SLA's) are in place.
- Gift registers are not maintained at institutions.
- Non-compliance to NT Practice Note 8 of 2007/08, the Department is deliberately splitting the procurement of goods and services in order to circumvent the prescribed procurement process.

Reliability and Integrity of Data

The Department utilises the Electronic Purchasing System-Integrated (EPSi) to obtain quotations for the procurement goods and service between the designated thresholds. The Department has indicated that users of the system have been sufficiently trained with new users being training as and when required. Currently EPSi utilisation is at the Head Office and at institutions.

The EPSi statistics for the period under review would be as follows:

Number of quotation awards captured	:	10 496
Awards with HDI participation	:	268
Value of awards captured	:	R5 880 657.96
Value awarded to HDI's	:	R4 463 082.26

The Department had an 18 per cent adjudication rate for the financial year under review. The adjudication of quotations is marginally performed at the Head Office but is lacking at institutions despite the fact that a circular was issued requesting the institutions to fully adjudicate.

The Department's reporting on awarded bids (statistical information) was in the correct formats and submitted within the set timeframes. The general bid/contract statistics for the period under review were as follows:

Bids Awarded	:	114
No. of limited bids	:	34
No. of contract extensions	:	9
Value of bids awards	:	R192 105 651.63
Value of limited bids	:	R35 912 630.50
Value of the contract extensions	:	R47 007 567.52

The Department conducted road shows at Districts and provided contract management training. The Department intends to introduce templates in the 2010/11 financial year for standardisation purposes and they are in the process of drafting a Standard Operating Procedural manual on contract management which will also be issued during the course of the 2010/11 financial year in order to capacitate officials within the SCM unit to give effect to this requirement especially at institutional level.

Comparison to the 2008/9 Review and Rating

The following positive findings at Head Office level are worth highlighting:

- Delegations are in place.
- The filing system for data and records is satisfactory, the SCM environment is considered stable due to the SCM unit being in place and addresses all aspects for the continuous functioning of supply chain management
- The management of SCM practice and procedures are considered effective and efficient however, maintenance will always be a challenge due to staff turnover.
- In most instances the Department solicits the advice and guidance of experts in the acquired commodity thereby ensuring the best value for money.

Whilst the Department maintains a SCM Financial Management Capability rating of Level 2+ to a level 3 for the 2009/10 financial year at the Head office level at the institutional level the Department has not moved from the

previous level 2 rating for SCM. It must be noted that for the purpose of previous reviews the rating was kept separate, however it must be noted that given that the Department's bulk of its budget for goods and services is spent at the institutional level it would be prudent that better control measures and a monitoring and evaluation environment is in place for the Department as a whole. Hence for the purpose of this assessment the overall rating for SCM for the Department is a level 2.

- Proper utilisation of the EPSi at the Head Office and institutional level to ensure credibility of the procurement data;
- Enhance the monitoring and evaluation of SCM within the entire Department of Health;
- Implement controls to manage the monitoring of the bid process especially at institutional level;
- The development of Standard Operating Manuals;
- Contract Management being effected, especially the monitoring of limited bidding at District level;
- Compliance to SCM policy and prescripts, especially at institutional level; and
- Assist in elevating the institutions to higher levels of SCM Financial Capability.

During the 2010/11 financial year the Provincial Treasury will focus on the development and implementation of the requirements of the SCM Blueprint that was developed in terms of the Premier's Modernisation Programme, which will inter alia include aspects such as integrated training and the refinement of SCM policy and procedures. The Provincial Treasury will also monitor the implementation of the recommendations made by the AGSA.

3.5.6 Moveable Asset Management

Background

During the 2009/10 financial year, an Asset Management (AM) verification assessment was performed at the head office of the Department of Health. The objective of this assessment was to physically verify the Department's compliance and progress in terms of National Treasury's Broad Implementation Plan.

The rating was, however, not only based on the compliance/verification assessment conducted in 2009/10 financial year but also on other Asset Management (AM) reporting and findings, the AGSA's report and AM performance throughout the financial year.

Institutionalisation

The Department incorporates its AM policies and strategies into its Accounting Officer's system (AOS). At the end of the 2009/10 fourth quarter the Department was 90 per cent compliant with the overall requirements of National Treasury's Broad implementation Plan. The Department has implemented the Acquisition and Disposal Plans but is challenged with the Operational and Maintenance plans.

AM has no direct reporting line to the CFO and resides under SCM. Its Departments' AM structure, which guides and directs its institutions in terms of AM, appears to be adequate, however, the individual institutions structures are lacking in terms of capacity, skill and experience.

Internal Control and Compliance to SCM Policy and Prescripts

The operational AM structure appears to adequately address the separation of duties and gives effect to the functions and scope of the AM requirements. In addition, the AM oversight and control structure also appears to be functioning efficiently and effectively in terms of guiding and directing AM within the Department.

Although the asset controller functions are depicted in the Job descriptions of the various officials, the LOGIS requirement in terms of formalising the appointments in writing and filing the letters with Supply Chain Management is not undertaken.

The Department has indicated that it has developed and implemented a Risk Management Policy which is reviewed annually and approved by the Accounting Officer. In addition, it has also developed and approved a Fraud Prevention Policy.

To ensure that all assets are marked and identified, the Department has implemented a bar-coding system. Its Asset Register also meets the minimum requirements as set out in National Treasury's Broad Implementation Plan.

Assets are maintained on an as- and- when required basis and therefore no formal planning exists. This translates into corrective maintenance of which departmental equipment is maintained by the three engineering workshops belonging to the Department. The equipment is either forwarded to one of these workshops or by technicians who are deployed to attend to it.

The Department has incorporated their Disposal Policy into the AOS under the heading of Disposal Management. This section provides clear guidance in terms of the methods of disposal, the determining criteria and the processes to be followed.

Reliability and Integrity of Data

Most institutions within the Department of Health utilises the National Treasury approved systems, LOGIS and BAS for the provisioning of its assets. The other institutions utilises the SYSPRO) which is then reconciled with BAS to ensure the correctness of the accounting of assets. Lack of control over the movement of assets coupled with human error is the biggest contributor to an incorrect Asset Register, under/overstated assets and unidentifiable assets within the Department.

In compliance to its AM policy the Department conducts as a minimum, an annual stock (stock or assets) take. However, the certified stock take certificates are not forwarded to the Provincial Treasury as required by Treasury Circular 36/2007.

The Department regularly reports to Provincial Treasury in respect of the Dashboard and Risk Log.

Comparison to the 2008/09 Review and Rating

In terms of the progress reporting on National Treasury Broad Implementation Plan for 08/09 the Department has indicated a 75 per cent compliancy to Planning, Acquisition, Disposal, Operation and Maintenance, however, for the period under review the Department has improved to only 79.2 per cent. This does not represent a significant improvement considering that expiry date for full compliance was 31 March 2008. The Asset Register and accounting requirements remains at 100 per cent compliant and as indicated previously overall compliance remains at 90 per cent. The physical verification assessment reiterated the improvement of the development of acquisition plans and confirmed the non-compliant requirements namely:

- Operation and Maintenance Plans;
- The asset life –cycle criteria;
- Life-cycle costing criteria; and
- Use and maintenance scheduling criteria in terms of operation and maintenance requirements.

The Department has an operational AM unit instituted and the AM policy facilitates the standardisation of AM procedures. However, AM plans are still work in progress. The Department further also has a Disposal Committee in place.

Reconciliations between BAS and LOGIS are performed monthly to encourage correctness of the asset information. Each location within the Department has asset lists although they are not always visible. The safeguarding procedures relating to assets are incorporated into the AO system.

The Department should take cognisance of the shortcomings highlighted by the Auditor-General in terms of assets which are rated under the section "Compliance with accounting policies and standards" of the Financial Governance Review & Outlook 2010. These shortcomings, the instituted corrective measures and the implemented control measures will be closely monitored and assessed by the Provincial Treasury: Moveable Asset Management (MAM) unit to encourage and promote efficiency, effectiveness and to contribute to the planning and preparation for the asset verification assessment envisaged for the 2010/11 financial year.

In view of the AM assessment findings, the reporting on the National Treasury Broad Implementation Plan, the responses to the Financial Management Capability Maturity Model (FMCMM) survey, the Auditor-General Report and historical data, the Department may be rated at a **level 2+** in terms of the Financial Management Capability Model for Asset Management. Although the AM physical verification assessment was only conducted at Head Office the compliance/non-compliance to all the other sources utilised is a reflection on the entire Department.

Steps to take the Department to the next level of financial capability

- Ensure and monitor compliance to the relevant policies and procedures;
- Enhance the monitoring of assets at Head office to ensure sustainable service delivery;
- Capacitate the AM unit;
- Skills development plan for AM to be in place;
- Asset locations must be easily identifiable;
- Effect adequate controls over items identified for disposal;
- Address issues hindering the reliance placed on asset information;
- The development and implementation of acquisition, operation and maintenance disposal plans;

- Fast track the postponed/outstanding requirements to the National Treasury's Broad Implementation Plan for AM; and
- Address the AG Findings.

3.5.7 Supporting and Interlinked Financial Systems

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

Review

The evaluation was based on the activities of the 2009/2010 financial year and the findings were as follows:

Basic Accounting System (BAS)

Table 51 Management activities on BAS

Requirements	Weight	Standard Level 3	Standard Level 3+	Rating
Skilled and capacitated system users	30%	In accordance with profile	Various Modules	2
Optimal utilisation of system	20%	80% - 90%	91% - 100%	3
Month end and Year-end closure	5%	Own accord – due date	Own accord – prior date	3+
System Controller Functions	30%	80 – 90%	91 – 100%	3+
Monitor Applicable Interfaces	15%	Intermittently	Daily	3+
Average Rating				3

The Department obtained an overall rating of 3.

Table 52 Skilled and capacitated system users

Number of officials confirmed	Number of officials attended	Number of officials did not attend	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
269	166	103	122	44

The Department maintained a financial management capability rating of level 2 (partial compliance), mainly due to the high percentage of officials who confirmed but did not attend courses, as well as all officials not being 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.

Optimal utilisation of system

The department achieved a rating of 3 (nominal compliance) for the optimal utilisation of the system.

Month end and Year-end closure

The department achieved a rating of 3+ (nominal compliance) as their month and year-end closure was done prior to the predetermined dates of National Treasury.

System Controller Functions

The department achieved a rating of 3+ (full compliance), based on the following criteria:

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

Monitor Applicable Interfaces

The Department achieved a rating of 3+ (full compliance) as their interfaces were monitored and reported on a daily basis.

Personnel and Salary Administration System (PERSAL)

Table 53 Management activities on PERSAL

Requirements	Weight	Standard Level 3	Standard Level 4	Rating
Skilled and capacitated system users	30%	In accordance with profile	Various Modules	2
Optimal utilisation of system	20%	80% - 90%	91% - 100%	3
System Controller Functions	20%	80 – 90%	91 – 100%	3
Establishment Management	10%	Quarterly	Monthly	3
Adhere to Minimum Information Requirements	5%	Annually	Continuous process	2
Leave Audit	15%	Annually	Continuous process	3
Average Rating				3

The Department achieved an overall rating of 3 (nominal compliance)

Table 54 Skilled and capacitated system users

Number of officials confirmed	Number of officials attended	Number of officials did not attend	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
199	132	67	107	25

The Department maintained a financial management capability rating of level 2 (partial compliance), mainly due to the high percentage of officials who confirmed but did not attend courses, as well as all officials not being 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

Optimal Utilisation of system

The department achieved a rating of 3 (nominal compliance)

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 rating of 3 (nominal compliance) as the establishment is maintained on at least a quarterly basis.

Adhere to Minimum Information Requirements

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

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

Leave Audit

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

Logistical Information System (LOGIS)

Table 55 Management activities on LOGIS

Requirements	Weight	Standard Level 3	Standard Level 4	Rating
Skilled and capacitated system users	30%	In accordance with profile	All Modules	2
Optimal utilisation of system	20%	80% - 90%	91% - 100%	3
Days per issue	10%	5 days	3 days	2
Financial Controls	20%	Monthly	Continuous process	3
System Control Functions	20%	80 – 90%	91 – 100%	3
Average Rating				3

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

Table 56 Skilled and capacitated system users

Number of officials confirmed	Number of officials attended	Number of officials did not attend	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
531	346	185	303	43

The Department maintained a financial management capability rating of level 2 (partial compliance), mainly due to the high percentage of officials who confirmed but did not attend courses, as well as all officials not being 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.

Optimal utilisation of the System

The Department achieved a rating of 3 (2 = partial/3 = nominal/4 = full compliance) for its control over inventories and assets.

Not all payments for goods and services are processed through LOGIS. Departmental assets are maintained per LOGIS Selection WMMT - Maintain Serial Detail Information.

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 2009/2010 financial year was 6.6 days, the performance of the department is therefore below the standard.

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

Financial Controls

The department achieved a rating of 3 (nominal compliance).

The BAS/LOGIS Reconciliation was done on a monthly basis, however the accumulative differences between the two systems should be addressed – even if on a quarterly or half-yearly basis. Timeous payments and the clearing of the Resubmission Queue per LOGIS Procurement Integration can be enhanced.

System Control functions

The Department achieved a rating of 3 (nominal compliance). User profiles and password confidentiality is maintained.

Conclusion/recommendation

Many meetings, interactions and reports are currently been develop to assist with the departments capabilities.

3.5.8 Public Trading Entity: Western Cape Medical Supplies Centre

3.5.8.1 Compliance with accounting policies and standards

The Western Cape Medical Supplies Centre (WCMSC) caters for the provisioning of Pharmaceutical and Non-pharmaceutical supplies in bulk from suppliers, thereby enabling users to keep lower inventory levels and rely on shorter delivery lead-times. The Depot is responsible for the storage and management of inventory and to supply Provincial Hospitals, Provincial-aided Hospitals, Old Age Homes, Day Hospitals, Local Authorities and Clinics with medical supplies.

The WCMSC received an unqualified audit report with an emphasis of matter for the 2009/10 financial year.

Revenue

The AGSA reported in the management report that during the audit of inventory sales at year end, it was noted that a total of 5 046 issue vouchers with a sales value of R5 762 414.68 (COS value of R5 389 911.57) was outstanding at year-end. This resulted in revenue being overstated by R5 762 414.68 and inventory understated by an amount of R5 389 911.57 at year end, which was subsequently corrected.

This is indicative of a level 2 financial management capability rating. It is recommended that information used to compile the financial statements be adequately reviewed by management.

Accounting of Inventory

During the physical verification of the stock count by the AGSA several differences were identified between counted and recorded stock levels as performed by the WCMSC. This is indicative of a level 2 financial management capability rating. It is recommended that the staff performing the counts be adequately trained and monitored.

Accounting treatment of transactions

The AGSA reported in the audit report that during the audit erroneous journals created in the previous year several material errors were discovered resulting in the corresponding figures for 31 March 2009 being restated in the 2009/10 annual financial statements. These journals were created to take into account the cumulative effect of accrual accounting. It is recommended that the WCMSC implement procedures and controls to ensure that the

financial statements are properly reviewed and checked with regards the accuracy thereof and any corrections made accordingly.

The WCMSC 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. It is recommended that WCMSC monitors the treatment of transactions and ensure compliance with the accrual basis of accounting. Furthermore, a proper accrual system should be implemented to deal with this.

This is indicative of a financial management capability rating of level 2.

Expenditure – Payments and Journals

The AGSA reported that upon reviewing several journals, certain entries were duplicated leading to inventory being overstated in the AFS. In order to move to a financial management capability level 3, it is recommended that the WCMSC institute measures to ensure that information utilised to compile the financial statements is correctly journalised and reviewed by management. This process is complicated by the annual conversion from cash to accrual accounting.

Non-compliance with legislation

In terms of section 40(4)(c) of the PFMA, IYM reports are required to be submitted to Provincial Treasury by the 15th of each month, however the AGSA reported that several reports were not submitted on time. This issue was also reported on in the 2008/09 financial year. In order to achieve a financial management capability level 3, it is recommended that the WCMSC institute controls to ensure that reports as required by the PFMA and Treasury Regulations are submitted within the required timelines.

Conclusion

The WCMSC has made further progress in terms of moving from a level 2 to 3 financial management capability rating when compared to the 2009 Review. The implementation of an accrual accounting system will improve financial management of the institution and should receive high level management attention. The oversight role players, namely the parent department and Provincial Treasury, should be more actively engaged in order to improve the financial management rating of the WCMSC.

3.6 Department of Social Development

Overview

Financial management capability assessments of the main attributes were conducted and rated in terms of the assessment tools as contained in Chapter 2 of the FGRO 2010. The goal of these assessments is to collectively provide an overview of how the department (and its entities) is/are managed as well as recommendations to assist progress to a level 3+ financial management rating.

The following ratings were assigned per assessment area:

Performance management

- Non financial information - level 2.5
- Financial information – level 3

Compliance with accounting policies and standards – level 2.5

Enterprise Risk Management – level 1

Corporate Governance - level 2.8

Liabilities management – level 3

Supply Chain Management – level 2.5

Movable Asset Management – level 3

Financial Systems

- Systems usage – level 3
- Training - level 2

In view of the ratings above, an average rating of level 2.38 is achieved.

The Department has provided a comprehensive financial management improvement plan that inter alia covers the issues raised to move towards a level 3+ rating.

3.6.1 Performance Management

3.6.1.1 Non-financial information

The analysis of departmental performance information management uses the financial management capability model as a point of departure to provide an insight to the information presented in the departmental budget documentation including the Department's Strategic Plan (SP), Annual Performance Plan (APP), Annual Report (AR) and Quarterly Performance Reports (QPRs). The assessment gauges key aspects of the Department's performance information in order to determine the Department's capability level.

The assessment 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 level 4 financial management capabilities. The 2009/10 AR, the 2009/10 and 2010/11 APPs as well as the final 2009/10 QPR have been used in the assessment. The assessment also includes information based on the 2009/10 Auditor-General of South Africa (AGSA) audit report.

Organisational arrangements for managing Performance Information

The Strategic Planning and Monitoring and Evaluation (M&E) capacity is located in two separate directorates within the Administration Programme. Responsible managers with direct access to the Accounting Officer/Executive Officer have been designated for planning and M&E. The Department has a monitoring component located in the administration programme to ensure proper internal control.

Quarterly Performance Reporting on 2009/10 Predetermined Objectives

The Department of Social Development has submitted QPRs in the correct format on a quarterly basis. These reports reflected the annual as well as quarterly targets as contained in the Annual Performance Plan. However, a challenge for the Department is the establishment of procedures to facilitate effective performance monitoring, evaluation and corrective action throughout the financial year as stipulated by the PFMA.

Annual Report 2009/10

The Department of Social Development presented all the programme performance information with the Annual Financial Statements as required by the Framework for Performance Information by the National Treasury.

The Department presented a comprehensive overview of the 2009/10 service delivery environment, inclusive of the key outputs, challenges as well as a description of future developments. An overview of the organisational environment provides an understanding of the modernisation of the services inclusive of the redesign of the organisational structure.

A summary of the significant achievements per sub-programme inclusive of a synopsis on how the achievement of the targets has contributed towards achieving the Department's outcome, which will impact on the strategic priorities of government, should ideally be included within the service delivery objective and indicator narrative as required by the Framework for Performance Information.

All the performance measures per sub-programme as reflected in the 2009/10 APP are reported in the 2009/10 Annual Report. The Department also provided reasons for the under or over performance on most of the targets per performance measure. The reporting on actual outputs, for specific services delivered by non-governmental organisations is a challenge, which will need to be addressed to ensure credible reporting on performance measures. The implementation of frameworks relevant to each sector of services provided is recommended.

The Department has been able to achieve most of its planned targets or has partially met the targets set for the 2009/10 financial year.

Strategic Plan 2010/11 – 2014/15

The Department of Social Development tabled a revised Strategic Plan (SP) for 2010/11 – 2014/15 before the start of the 2010/11 financial year. The Departmental Strategic Plan is in line with the generic guide for Strategic Plans issued by the National Treasury. The Strategic Plan is linked to and flows from various plans developed within the Provincial Government of the Western Cape fulfilling its legislative mandate. The Strategic Plan for the Department of Social Development contains the Strategic goals and objectives to be attained by the Department over the 2010/11 – 2014/15 period.

The redesign of the Department of Social Development, which includes developing a macro and micro structure fit to deliver on its legislative and strategic mandate was not approved by Cabinet by the time of the tabling of the Strategic Plan. It is therefore recommended that the Department includes the new organisational structure in the 2011/12 Annual Performance Plan (APP).

Annual Performance Plan 2010/11

The Departmental APP is in line with the generic guide for Annual Performance Plans issued by the National Treasury.

The 2010/11 APP for the Department of Social Development details the specific performance targets that the Department aims to achieve over the 2010 MTEF in pursuit of the strategic goals and objectives set out in the SP. It also presents the programme/sub-programme performance indicators and targets prescribed for the Social Development sector as well as provincial specific performance indicators and targets.

Most of the performance indicators 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 2010/11 financial year on the sector specific as well as the provincial specific performance measures.

Appendix 1 to the APP provides technical indicator descriptions, which presents amongst others a definition, the purpose and source of the indicator.

Recommendations/Conclusion

The evaluation in terms of guidelines and legislative requirements of the 2009/10 APP and QPR, the 2009/10 AR and the 2010/11 APP revealed that the Department is, according to the performance management framework, almost operating at a level 3 auditable organisation. The Department also already operates according to some of the criteria set to operate at the control level.

The 2009/10 AR included the entire spectrum of sector specific as well as the provincial specific performance indicators as per the 2009/10 APP. Although the Department reported on all the performance indicators in the AR, not all deviations from the targets were clearly explained.

Sector specific as well as provincial specific performance measures are reflected in the 2010/11 APP and targets were set for the 2010 MTEF. Current year targets were also estimated per quarter in the 2010/11 APP.

To reach a financial management capability rating of level 3, which measures compliance and control, the Department should follow the AR Guideline on General and Performance Information supplied by the Provincial Treasury. This guideline requires from departments to state the reasons, detailing the factors that contributed to the over or under performance, for major variances between targets and actual performance. The Department needs to implement a credible reporting system for NGOs to ensure clarity on outputs and value for money. The Department also needs to implement a process

flow for quarterly performance reporting, which needs to address accountability and credibility of data. The Guide for the Implementation of Provincial Quarterly Performance reports provides guidance on the production of quality performance information.

General recommendations to improve the overall reliability and usefulness of performance information include Accounting Officers ensuring that an overall performance management system should be in place and documented, sufficient appropriate audit evidence and source documentation exist, there are appropriate information systems to facilitate the preparation of a performance report that is accurate, complete and valid and adequate control processes and procedures should be designed and implemented to ensure the accuracy, completeness and validity of reported predetermined objectives/performance information.

To reach a financial management capability rating of level 4, which measures how resources are used, the Department should also move beyond compliance to focus on costing outputs and instituting practices that would identify those critical outputs that would have a knock-on effect to achieving departmental outcomes. The move beyond compliance involves expanding the focus to include the relationship between inputs and outputs and directing inputs and outputs closer toward the achievement of the desired outcomes and impact. Going forward the Department, having entered into a new electoral cycle, should ensure a stronger linkage between the Provincial Strategic Objectives, SP, APP and Budget.

3.6.1.2 Performance management assessed based on financial information

From the Public Finance perspective, the following has been noted regarding the performance of the Department of Social Development:

- The Department's budget for the 2009/10 financial year of R1.219 billion was tabled in the Provincial Parliament;
- The Department has been submitting 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); and
- It is deemed necessary that the Department improves on expenditure forecasting to make projected expenditure more accurate and realistic. Currently, forecasts in a prior quarter differ significantly from actual expenditure. The table below details spending information for 2009/10 that further alludes to the above. The table contains actual expenditure

(shaded) and projected expenditure (unshaded) per month as well as percentage monthly expenditure of total expenditure.

Table 57 Quarterly Analysis on projections: 2009/10

R'000	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
First Quarter	73 347	84 045	89 102	113 451	110 940	107 574	102 784	100 201	98 805	96 459	92 942	92 852	1 162 502
%	6.31%	7.23%	7.66%	9.76%	9.54%	9.25%	8.84%	8.62%	8.50%	8.30%	7.99%	7.99%	100.00%
Second Quarter	73 347	84 045	89 102	82 116	97 047	97 291	139 431	110 469	112 820	108 514	103 674	104 216	1 202 072
%	6.10%	6.99%	7.41%	6.83%	8.07%	8.09%	11.60%	9.19%	9.39%	9.03%	8.62%	8.67%	100.00%
Third Quarter	73 347	84 045	89 102	82 116	97 047	97 291	102 889	121 661	91 200	119 516	121 186	110 465	1 189 865
%	6.16%	7.06%	7.49%	6.90%	8.16%	8.18%	8.65%	10.22%	7.66%	10.04%	10.18%	9.28%	100.00%
Fourth Quarter	73 347	84 045	89 102	82 116	97 047	97 291	102 889	121 661	90 600	94 106	102 037	131 150	1 165 391
%	6.29%	7.21%	7.65%	7.05%	8.33%	8.35%	8.83%	10.44%	7.77%	8.08%	8.76%	11.25%	100.00%

Shaded: Actuals

Unshaded: Projections

The Department affected shifts within programmes amounting to R9.982 million or 0.85 per cent of the adjusted budget of R1.181 billion. The shifts made are thus below 2 per cent of the adjusted budget. The table below indicates the amount of shifts at the end of the financial year.

Table 58 Shifts 2009/10

From Programme: Economic Classification	To Programme: Economic Classification	Amount R'000
Administration: Transfers and subsidies	Administration: Current payments	4
Social Welfare Services: Current payments	Social Welfare Services: Transfers and subsidies	8 808
Social Welfare Services: Current payments	Social Welfare Services: Payment for capital assets	441
Development and Research: Payments for capital assets	Development and Research: Current payments	718
Development and Research: Payments for capital assets	Development and Research: Transfers and subsidies	11
TOTAL		9 982

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 Act. Virements were applied to fund the write off of debts, related mainly to grant debts that originated prior to 1 April 2006, when Social Security still formed part of the Provincial Government. In total, R5 million was shifted from Goods and Services from Programme 1 (R2.500 million) and Programme 3 (R2.500 million) to the main category Theft and Losses.

The Auditor-General's Report to management indicates that no irregular and unauthorised expenditure occurred in 2009/10.

The original budget allocation for the 2009/10 financial year was R1.163 billion. During the 2009/10 adjustment estimate, the Department's budget was augmented by R18.316 million or 1.58 per cent to R1.181 billion for the implementation of Occupation Specific Dispensation (OSD) in respect of Social Work and associated posts.

The Department's budget is deemed to be credible, as its actual expenditure was R1.165 billion or 98.6 per cent of the adjusted appropriation of R1.181 billion, compared to 98.5 per cent of the adjusted appropriation spent in the previous financial year. The unspent funds in 2009/10 relates to suspending of funds to some Non Profit Organisations (NPOs) due to non compliance with the conditions of transfers. The Department has requested the rollover of funds amounting to R15.425 million which they intend to redirect to various projects.

The Department submitted its Adjustment Budget on time and it was comprehensive as outlined in terms of Section 31 of the PFMA.

Table 59 2009/10 Quarterly actual expenditure

Programme	Q1	Q2	Q3	Q4	Audit Outcome 2009/10	Main Appropriation	Adjusted Budget	Total (over)/ under Main Budget	Total (over)/ under Adjusted Budget
Administration	36 305	39 683	46 350	57 486	179 824	180 271	180 040	447	2 716
Social welfare services	193 090	218 881	250 240	248 183	910 394	903 033	920 980	-7 361	10 586
Development and research	17 099	17 890	18 560	21 624	75 173	79 198	79 798	4 025	2 125
Total	246 494	276 454	315 150	327 293	1165 391	1162 502	1180 818	-2 889	15 427
% spent of adjusted budget	20.87%	23.41%	26.69%	27.72%	98.69%	100.25%	98.69%	-0.25%	1.31%

The majority of unspent funds are within Programme 2: Social Welfare Services, constituting 68.6 per cent of the total under spending (see table above). The under spending is due to the suspension of funding to Non Profit Institutions that have not complied with the conditions of transfer.

Department's expenditure trend shows a spike in March 2010. The spending during March amounts to R131.150 million or 11.3 per cent of the R1.165 billion 2009/10 total expenditure. This is mostly reflected in Programme 2: Social Relief Services due to the implementation of Occupation Specific Dispensation (OSD) for social workers.

The Department collected R7.981 million against the R360 000 provincial own receipt adjusted budget for 2009/10. This over collection of R7.621 million is mainly due to financial transactions in assets and liabilities of R7.506 million pertaining to the recovery of the previous years' debt written off. The Department over collected on its 2008/09 provincial own receipt adjusted budget of R280 000 by R2.236 million. This over collection was also primarily due to Financial transactions in assets and liabilities amounting to

R2.018 million due to the recovery of previous years' expenditure and bad debt written off. Revenue estimates does not appear to be credible given the Department's excessive over collection on its forecasts. The Department must attempt to set a more credible revenue budget.

During 2008/09 National Treasury introduced an inconsistent classification combinations tool to assist departments to identify and correct possible inconsistent payment combinations. At the end of 2009/10 the Department reflected 236 possible misclassifications as per the Standard Classification of Accounts (SCOA) amounting to R3.404 million. The Department corrected most of the incorrect classifications in terms of SCOA. The Audit General highlighted this concern which could result in errors and irregularities that will not be prevented or detected by the internal controls in good time.

Conclusion

The Department of Social Development generally operates close to a level 3 financial management capability rating. As indicated by the Auditor-General the Department needs to improve on reporting information and internal control systems.

3.6.2 Compliance with accounting policies and standards

PT (Accounting) identified a number of key accounting policies and standards against which departments are rated in terms of compliance and its financial management capability. The purpose of the exercise is inter alia to monitor progress towards an improved financial management capability rating. Various tools are available to departments to ensure improved ratings, improved integrity of data and also that the financial reporting is understandable, relevant, reliable and comparable.

PT (Accounting) introduced various initiatives to address accounting matters in collaboration with the relevant departments. The Department made full use of all these opportunities and actively contributed with regards to the following:

- Workshops on reporting requirements
- Two-monthly CFO's forums
- Monthly FA's forums
- Bi-lateral discussions
- IYM reporting
- Submission of AFS for preview prior to 31 May

- Compilation of a prescribed audit file with supporting documentation
- Interim financial statements as at 30 September 2009

The Interim financial statements as at 30 September 2009 was a new initiative by PT. Accounting assessments were conducted on the interim financial statements by Accounting Services in terms of a pre-determined assessment framework. Internal Audit also conducted a review of the processes and the controls implemented by departments on the implementation of the interim financial statements and issued a report on its findings per department. The Accounting assessment findings were issued to departments and corrective measures followed up in terms of action plans to ensure that these issues did not re-appear at the year-end.

The Department attends and participates in the PT driven Financial Accountants and Chief Financial Officers Forums, and attends workshops offered by the Treasury where financial management issues are discussed amongst all the provincial departments.

An assessment of the financial management capability of the Department was undertaken based on the monthly IYM reporting, 2009/10 AFS, and the AGSA audit findings, that revealed the following:

Management of and reporting on suspense accounts

The Department has implemented effective management processes and controls over suspense accounts and reported in the monthly IYM on the state of balances and remedial steps taken where required.

The Department continues to perform at a level 3 financial management capability rating when compared to the previous assessment.

Accounting of assets

The Department submitted monthly IYM reports indicating that the asset register for movable assets was updated and monitored and also included monthly BAS/LOGIS reconciliations of major and minor asset additions and the revenue received from the sale of major assets.

Management controls over the accuracy of asset registers, however, appears to be lacking since the AGSA reported in the management report that the closing balance of tangible capital assets as disclosed in the 2009/10 AFS submitted for auditing did not correspond to the asset register due to duplicated assets that was subsequently corrected.

The Department has improved from level 2 and performs at a level 2+ financial management capability rating when compared to the previous assessment and should implement management controls to attest the validity of assets recorded in the asset register.

Financial reconciliations

The Department reported in the monthly IYM that financial reconciliations were compiled, reconciled and signed off by the CFO. The Department submitted reconciliations as part of the IYM of BAS and PMG, BAS and LOGIS, as well as PERSAL and BAS that was signed off by the CFO.

The Department continues to perform at a level 3 financial management capability rating when compared to the previous assessment.

Supporting Documentation

The Department reported in the monthly IYM and interim financial statements that all transactions are supported by authentic and verifiable source documents. No audit findings were reported by the AGSA in this regard.

The Department continues to perform at a level 3 financial management capability rating.

Expenditure - Payments and journals

The Provincial Treasury (Accounting) monitors incorrect expenditure classification in terms of SCoA inconsistent allocation reports. The Department managed to clear all payment classifications which were deemed to be inconsistent in terms of the SCoA classifications applied by the province, by implementing proper internal controls.

The AGSA highlighted various cases of non-compliance to Treasury Regulation 8.2.3 relating to invoices not paid within 30 days after receiving the invoice despite reports being distributed to the Department by the Provincial Treasury on a quarterly basis to address payments exceeding 30 days.

It is recommended that the current management controls and monitoring should be enhanced to ensure that all invoices are settled in accordance with TR 8.2.3. In extraordinary cases, where payment cannot be processed within the 30 day limit, supporting documentation should be attached to the payment advice to substantiate the delay.

The Department has improved from a level 2 and performs at a level 2+ financial management capability rating when compared to the previous assessment and should improve management controls over payments.

Recording and maintenance of State Guarantees

The Department reported in the monthly IYM that information relating to state guarantees have been updated on a monthly basis. The disclosure of departmental State Guarantees reflects effective management processes and controls being in place, 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 confirmed in the IYM report that a lease register is maintained and updated monthly. No audit findings were raised by the AGSA in this regard.

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 submitted monthly compliance reports to Provincial Treasury in accordance with legislative requirements that were signed off by the CFO and Accounting Officer. Financial reports, as part of the IYM report, were provided to the Accounting Officer on unresolved items and the Chief Financial Officer continues to follow up these transactions on a monthly basis.

The Department continues to perform at a level 3 financial management capability rating.

Conclusion/recommendation

The Departments performs at a level 2+ rating and to fully comply with a level 3 financial management capability rating, the Department needs to revise processes and improve management controls over the accounting of issues raised where level 3 were not achieved.

3.6.3 Corporate Governance

3.6.3.1 Enterprise Risk Management

This section provides guidance, criteria and norms and standards for 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.

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 not developed and it was found that the organisation structure supports the processes developed.

Internal environment

The risk management philosophy has been developed and articulated to all staff and the risk appetite for the department has not been defined.

Operational Risk Assessment

The risk event has not been identified and assessed on an inherent level and existing controls have been partially 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 of level 1. In order to move to the next level, level 2 or higher, the Department needs to achieve all of the following set criteria and norms and standards:

Strategic Risk Assessments

Risk response strategies developed and relevant processes developed.

Internal Environment

- Management philosophy and operating style reflects acceptance of risk management principles.
- Risk appetite defined.

Operational Risk Assessment

- Existing controls identified and documented.
- Control gaps identified and action plans developed.

Comparing 2008/09 to 2009/10 review

Upon comparing the 2008/09 review to the 2009/10 review, it is evident that the department has not made much improvement.

The department must take cognisance of the possible negative impact the lack of progression in respect of risk management might have on future audit results.

3.6.3.2 Normative Financial Management

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

The source documents used were the Normative Measures Quarterly Report for departments, the Financial Management Capability Maturity survey conducted in June 2010 and the 2009/10 Auditor-General's report for the Department.

Analysis of Normative Measures Quarterly Report

The CFO structure: Human Resource Capacity

Table 60 Summary of vacant posts in Finance Component

Component/Unit	Post Description	Post Level	No. of Vacant Post
Sub Dir: Enterprise Risk Management	Assistant Manager	9	2
Sub Dir: Enterprise Risk Management	Risk Analyst	8	1
Sub Dir: Enterprise Risk Management	Accounts Clerk	5	1
Sub Dir: Enterprise Risk Management	Admin Clerk	5	1
Directorate: Departmental Accounting Services	Manager: Senior	13	1
Directorate: Departmental Accounting Services	Secretary	5	1
Sub Dir: Management Accounting	State Accountant	8	1
Sub Dir: Financial Accounting	Assistant Manager	9	1
Sub Dir: Financial Accounting	Accounts Clerk	5	2
Sub Dir: Auxiliary Support	Assistant Manager	9	1
Sub Dir: SCM Planning & Policy	Assistant Manager	9	2
Sub Dir: SCM Planning & Policy	SCM Officer	8	1
Sub Dir: Supply Chain Operations	SCM Officer	8	2
Sub Dir: Supply Chain Operations	SCM Clerk	5	1

In the Finance component of the Department the vacancy rate is currently at 14 per cent. Risk Management and Supply Chain Management are the components most affected by the high vacancy within the finance component. However the vacancies within Risk Management addressed through modernisation. Furthermore the average length to fill a vacant post is 12 months and the number of staff involved in structured training programmes in the finance component is reported to be at 6 per cent.

The Department must make a concerted effort to reduce their vacancy rate, especially filling the Senior Manager: Accounting Services post and key posts on a supervisory level and simultaneously reducing the average length of time it takes to fill a vacant post. Failing this, will result in the deterioration of financial management. The impact of the moratorium on filling of vacancies in the CFO office is noted as a contributing factor of the vacancy rate.

Policies and procedures

Overall the Department has complied with all policies and procedures prescribed by the PFMA and Treasury Regulations pertaining to Financial Management, however the Department does not have a policy and procedure manual for the effective management of goods and services.

Tabling of Annual Report

The Department must annually table their Annual Report, as prescribed, in the Legislature. Compliance with this requirement is reflected in table below:

Table 61 Compliance with annual reporting requirement

Institution	Date annual report received by Provincial Treasury	Annual report tabled at the Provincial Legislature
Departments:		
Social Development	31/08/10	30/09/10

Analysis

The Department has successfully tabled their 2009/10 Annual Report within the prescribed timeframe.

Auditor-General report 2009/10

The AGSA expressed an unqualified opinion, with other matters for the 2009/10 financial year. The Department received the same audit opinion for the 2008/09 financial year. If we compare the two financial years, it is evident that the Department has made some progress on issues that was raised in the previous audit report.

Table 62 Summary of Comparison between the 2008/09 and 2009/10 Audit Reports

Key finding	2008/09	2009/10	Status
Material under spending of the budget.	X		Improved
The financial statements were subject to material amendments resulting from the audit.	X	X	Unchanged
Annual report was submitted for consideration prior to the tabling of the Auditors Report.	X		Improved
Non-compliance with regulatory and reporting requirements:		X	Deteriorated
<ul style="list-style-type: none"> • Quarterly reports did not facilitate effective performance monitoring and evaluation. • Reported indicators were not accurate or complete. 			

Overall Assessment

The Department's overall maturity level improved from 2.78 to 2.9.

3.6.4 Liabilities Management

This section deals with the implementation and management of sound cash flow practices as well as the provision of assistance and training in respect of the 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 cash flow 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 and further improve departments and to enable them to reach a standard level of 3+, new assessment tools were created to assist CFO's to have more control and insight over the functions relating to their banking sections.

The evaluation was based on the activities of the 2009/10 financial year and the findings were as follows:

Table 63 Assessment of Liabilities Management

Requirements	Weight	Standard Level 3 (< 90%)	Standard Level 3+ (> 90%)	Rating
Submission of Annual Provincial Cash flow Projections (Section 40(4)(a))	10%	By 28 February	By 15 February	7.50%
Monthly alignment of actual expenditure with available cash	20%	11 months compliance	12 months compliance	2.00%
Available Budget equal to available cash (annual)	20%	Not equal	Equal	15.00%
Surrender of voted Surplus Funds	10%	31 May	15 May	10.00%
Submission of monthly Bank Reconciliation	10%	Within 30 days after month end	Within 15 days after month end	7.29%
User account management (Dormant users, etc)	20%	User accounts reconciled on a quarterly basis	User accounts reconciled on a monthly basis	15.00%
Confirm reconciliation of monthly bank transfers	10%	Within 7 working days after calendar month end	Within 5 working days after calendar month end	7.50%
	100%			82.29%

The Department achieved an overall rating of level 3 (nominal compliance), which is in line with the 2009/10 financial year.

Submission of Annual Provincial Cash flow Projections

The Department obtained a rating of 7.5 per cent (nominal compliance). The Annual projections in respect of income and expenditure were received on 26 February 2010.

Monthly alignment of actual expenditure with available cash

The Department obtained a rating of 20 per cent (full compliance). The Department complied with 12 months.

Available Budget equal to available cash (annual)

The Department obtained a rating of 15 per cent (nominal compliance). The Department overspent on their cash by R8.767 million.

Surrender of voted Surplus funds

The Department obtained a rating of 10 per cent (full compliance). Surplus funds were paid to the PRF on 12 May 2010.

Submission of monthly Bank Reconciliations

The Department was rated 7.29 per cent (nominal compliance). The monthly bank reconciliations were submitted within 30 days after month end.

User account management (Dormant users, etc)

The Department was rated 15 per cent (nominal compliance). It is preconceived that the Department complied with the relevant requirements.

Confirm reconciliation of monthly bank transfers

The Department was rated 7.50 per cent (nominal compliance). The Department should confirm and reconcile the monthly transfer schedule with Cash Management.

3.6.5 Supply Chain Management

Background

For the 2009/10 financial year, a Supply Chain Management status verification assessment was performed at the Department of Social Development. The objective of this assessment was to gauge the progress made by the department since the 2008/09 SCM compliance assessment, in terms of the proposed action plan recommended by the Provincial Treasury. The aforementioned action plan proposed steps to be taken by the department to attain the next level of financial capability in terms of the province's financial capability model for SCM.

Institutionalisation

The Provincial Treasury has held in abeyance the requirement that the department requires to review its AOS as the Provincial Treasury is in the process of updating Provincial requirements and drafting a Provincial AO Policy in terms of the Provincial Treasury Red Flag Programme. However the Accounting Officers System was reviewed and refined and became effective from 1 April 2009, while the SCM Delegations have been reviewed and implemented with effect from 1 January 2010.

The Head Office SCM structure is vested within the office of the CFO as prescribed by section 16A4 of the National Treasury Regulations (NTR's). The department has indicated that this structure is not adequate to meet the demands of the department.

During the verification assessment, the Director: SCM indicated that a request was forwarded to OD to review the current post establishment but nothing had transpired as yet. As a result the SCM Manager reviewed the two Deputy Director posts, namely the Deputy Director: Acquisition and Contract Management and the Deputy Director: Planning and Policy; in order to give better effect to the SCM management disciplines, create transparency within the directorate and allow for the efficient and effective service delivery. The SCM manager maintains that the SCM structure needs to be evaluated by OD in order to meet the service delivery needs of the department.

The Department has filled the vacant posts however, staff turnover remains a challenge.

The Department has instituted the three bid committees and has at the time of the verification assessment additionally appointed Departmental Specification/Cross Functional Committee members which was an adverse finding in the previous financial year's assessment. Appointment letters are issued to committee members with an annexure depicting the roles and responsibilities as illustrated in the management comments. The department has additionally given effect to a grievance review committee.

Approval was obtained from the Chief financial Officer for nine (9) SCM officials to attend the Supply Chain Management Programme offered by the University of South Africa. The Department indicated that re-skilling of staff is an on-going process to keep them abreast of new developments. Furthermore, the department has attended Demand Management conducted by the Provincial Treasury, attended EPSi training and given effect to bid committee training for its members. The Department indicated that it will continue to address the skill and capacity shortage within the SCM environment and solicit the expertise of accredited service providers to facilitate the process.

Internal Control and Compliance to SCM Policy and Prescripts

The Department requested assistance from the Provincial Treasury in respect of Policy Development and Management, Re-engineering of SCM (including Asset Management) policies, processes, analysis and interpretation. As indicated above, the department has reviewed its AOS and delegations to improve internal control and compliance.

Although a SCM structure is in place, due to a high staff turnover in the SCM environment and the impact of the moratorium on filling of vacancies in Supply Chain Management resulting from the Premier's Modernization Programme efficient financial management is undermined.

Reliability and Integrity of Data

The Department utilises the Electronic Purchasing System-Integrated (EPSi) to obtain quotations for the procurement goods and service between the designated thresholds.

Statistics revealed that 86 officials were trained in September and November 2009. Officials were also retrained on the process i.e. from the capturing of enquiries to the adjudication stage.

The EPSi has been rolled out to the various district offices within the department. However, the Department has indicated it experienced challenges and that it has been consulting with the service provider to address the challenges with the EPSi. This has had an impact on the effective and efficient utilization of the EPSi.

EPSi statistics for the period under review is as follows:

Number of requests for quotations	:	95
Number of cancelled	:	28
Enquiries without quotes	:	15
Adjudicated enquiries	:	17
Enquiries unaccounted enquiries	:	35
Value of adjudicated enquiries	:	R246 867.50
Adjudication percentage	:	32.69 per cent

Statistic revealed that the Department has consistently been reporting on the award on bids, however, not always within the required time. The general bid/contract statistics for the period under review were as follows:

Bids Awarded	:	18
No. of limited bids	:	0
No. of contract extensions	:	6
Value of bids awards	:	R144 292 198.05
Value of limited bids	:	R0.00
Value of the contract extensions	:	R7 585 671.90

Comparison to the 2008/09 Review

The Accounting Officers System was reviewed and refined and became effective from 1 April 2009, while the SCM Delegations have been reviewed and amended and became effective from 1 January 2010.

A request was forwarded to OD to review the post establishment but nothing has transpired as yet. In the interim the SCM Manager has reviewed the two Deputy Director posts to ensure that the unit meets departmental needs.

The Department has instituted the three bid committees and has at the time of the verification assessment additionally appointed Departmental Specification/Cross Functional Committee members which was an adverse finding in the previous financial year's assessment

The Department has made it a requirement that business units/district offices and institutions submit to SCM, via the sub-directorate: Management Accounting, their procurement plans, from which SCM will compile a consolidated Procurement Plan for the Department. The first consolidated procurement plan will be rolled out in 2010/11 financial year.

Rating in terms of the Financial Capability Model for SCM

In terms of this assessment, it has been noted that the department has addressed most issues highlighted during the last financial year's assessment. These issues are being addressed in various phases/processes such as:

- a) In development,
- b) Implementation or
- c) Assessment and refinement.

The Department is thus rated at **TWO PLUS (2+)** in terms of the Financial Capability Model for SCM as although there are challenges around the structure, and ensuring that district offices are brought to a level that is on par with the Head Office, the department has made a concerted effort to address these by implementing controls to counter the inadequacies brought on by the deficient structure.

Furthermore the department has taken the initiative in identifying means of addressing skills gaps in the unit by nominating the officials for training courses that would benefit both the department and the officials so that the officials would be better equipped to assist the department in meeting its service delivery requirements.

It must be noted that a full SCM Virtuous Cycle Assessment (encompassing Asset Management) will be conducted in the 2010/11 financial year to ascertain whether the department has made any improvements or progress in terms of SCM. Upon completion of this assessment; the department will be rated in terms of the financial capability model for SCM.

Steps to take the Department to the next level of financial capability

In terms of the 2009/10 and verification assessment process conducted at the Department, the following require attention by the Department:

- Continue engagement with OD with regards to the deficient structure;
- Monitoring of adherence/compliance to the AOS and the accompanying delegations;
- Timeous reporting of procurement statistics information (bids and quotations).
- Monitoring and enforcing the utilisation of EPSi at Head and District offices;

3.6.6 Moveable Asset Management

Background

The Department was assessed and rated during 2009/10 financial year in terms of the financial capability model for Moveable Asset Management.

The rating was however, not only based on the compliance/verification assessment report but also on other Asset Management reporting and findings, the AG's report and AM performance throughout the financial year.

Institutionalisation

The Department has incorporated its asset management strategy and policy into its revised Accounting Officers System (AOS) which was implemented on the 1 April 2009.

It further has a dedicated unit for AM, however, the structure does not depict the actual AM operational and management requirements of the Department. This unit consists mainly of contract workers. O.D has received the structure and has made recommendations, however the department is unable to fully implement these recommendations due to budgetary constraints as well as the moratorium placed on the filling of posts by the Modernisation Programme.

The Department has attended the AM workshops facilitated by National Treasury, recognises and supports specialist AM training and facilitates in-house training.

Internal Control and Compliance to SCM Policy and Prescripts

The operational structure provides for the separation of duties within the AM discipline but further does not align itself with the Supply Chain Management Framework which would have an impact of the effectiveness and efficiency of AM within the Department.

The Department has rolled out and implemented the nationally approved LOGIS system, at its institutions. It has further indicated that consistent monthly reconciliations are performed between LOGIS and BAS.

In addition to incorporating AM into the AOS the Department is also planning to compile a reference manual which would incorporate standard operating procedures to successfully complete AM duties on a day-to-day basis.

The Department has indicated that it has a Risk Management Policy which has been approved by the Accounting Officer. A Fraud Prevention policy has also been developed and approved.

The bar-coding system (Qwix) is used to identify and verify assets and is managed by Head Office. Barcodes are supplied in batches to district offices in advance when items are delivered/ processed by district offices.

The Department maintains an Asset Register that meets the minimum requirements, for Asset Registers, in terms of National Treasury's Broad Implementation Plan.

The Operations and Maintenance Policy for AM is incorporated in the AOS of the Department. It provides clear guidelines in terms of an Operations and Maintenance Plan. The Department has also developed a Repair and Maintenance Procedure Guide. The Department has incorporated their disposal policy into the AOS under the heading of Disposal Management.

Reliability and Integrity of Data

The Department utilises LOGIS and BAS for the provisioning of assets and uses Qwix, which is a bar-coding tracking system, to verify assets. It has not decentralised procurement processes relating to AM yet, due to the operating legacy systems not fully effective at the districts and institutions, certain functions are centralised.

Monthly reconciliations between LOGIS and BAS allows for variances to be identified and accounted for.

The Department's MAM policy requires quarterly stock takes but due to capacity constraints and identification problems experienced during the year under review, it was unable to comply with this requirement. Nevertheless, the Department successfully completed an annual stock take, which meets the requirements of Provincial Treasury Instructions.

Certification of its stock take certificates is diligently undertaken and the Department has forwarded it to Moveable Asset Management as required by Circular 36 of 2007 for the first time in 2009/10.

It has made a concerted effort to implement the requirements of the National Treasury's Broad Implementation Plan for AM, despite the fact that it has consistently but not fully reported to the Provincial Treasury in terms of the Project Dashboard and Risk Log reporting.

The Operations and Maintenance Policy for AM is incorporated in the AOS of the Department. It further contains clear guidelines in terms of the requirements of an Operations and Maintenance Plan. In addition, the Department has also developed a Repair and Maintenance Procedure Guide.

The disposal policy is incorporated into the AOS under the Heading of Disposal Management.

Comparison to the 2008/09 Review and Rating

In terms of the progress reporting on National Treasury Broad Implementation plan for 2008/09 the Department has indicated a 63 per cent compliancy to Planning, Acquisition, Operation and Maintenance and Disposal, however, for the period under review the Department has progressed to 75 per cent. It must be noted that this progression occurred in the first quarter of the period under review.

The Accounting and Asset Register requirements maintain its 100 per cent compliancy and the overall compliance progressed to 88 per cent. However, it must be noted that the expiry date for full compliance to National Treasury's' Broad Implementation plan was 31 March 2008.

The Department is making a concerted effort in addressing the deficiencies within the AM disciplines, this entails encouraging and enhancing the necessary skills pool, standardizing procedures, applying the legislation, policies and prescripts and implementing and upgrading system requirements.

In view of the AM verification assessment findings, the reporting on the National Treasury Broad Implementation Plan, the responses to the Financial Management Capability Maturity Model (FMCMM) survey, the Auditor-

General report for 2009/2010 and historical data, the Department may be rated at a level 3 in terms of the Financial Management Capability Model for Asset Management.

Steps to take the Department to the next level of financial capability

- Address OD recommendation in terms of its structure to ensure adequate availability of resources;
- Implementation of standard operating procedures that have been completed to ensure consistency and standardization;
- Consistent and comparable reporting;
- Implementing measures that address cost effectiveness and quality asset management; and
- Defining measures for accountability and implementing risk mitigation principles.

3.6.7 Supporting and Interlinked Financial Systems

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

Review

The evaluation was based on the activities of the 2009/2010 financial year and the findings were as follows.

Basic Accounting System (BAS)

The evaluation was based on the activities of the 2009/2010 financial year and the findings were as follows:

Table 64 Management of activities on BAS

Requirements	Weight	Standard Level 3	Standard Level 3+	Rating
Skilled and capacitated system users	30%	In accordance with profile	Various Modules	2
Optimal utilisation of system	20%	80% - 90%	91% - 100%	3
Month- and Year-end closure	5%	Own accord – due date	Own accord – prior date	3
System Controller Functions	30%	80 – 90%	91 – 100%	3+
Monitor Applicable Interfaces	15%	Intermittently	Daily	3+
Average Rating				3

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

Table 65 Skilled and capacitated system users

Number of officials confirmed	Number of officials attended	Number of officials did not attend	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
99	57	42	45	12

The Department maintained a financial management capability rating of level 2 (partial compliance) mainly due to the high percentage of officials who is confirmed but did not attend courses, as well as all officials not 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 more users trained.

Optimal utilisation of system

The Department achieved a financial management capability rating of level 3 (nominal compliance) for the optimal utilisation of the system.

Month- and Year-end closure

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

System Controller Functions

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

- Logging of calls to the Provincial Helpdesk;
- Maintenance of Security Profiles;
- The reinstate of Transaction Processing Rules;
- Requesting/monitoring and distributing of automated Basic Accounting System reports;
- Maintenance of segment details;
- Maintenance/update of departmental parameters;
- Provide practical individual training to users;

- Monitor Technical stability of work station including Local area network; and
- Assisting non-financial users of Basic Accounting System.

Monitor Applicable Interfaces

The Department achieved a financial management capability rating of level 3+ (full compliance) as their interfaces were monitored and reported on a daily basis.

Personnel and Salary Administration System (PERSAL)

Table 66 Management of activities on PERSAL

Requirements	Weight	Standard Level 3	Standard Level 3+	Rating
Skilled and capacitated system users	30	In accordance with profile	Various Modules	2
Optimal utilisation of system	20%	80% - 90%	91% - 100%	3
System Controller Functions	20%	80 – 90%	91 – 100%	3
Establishment Management	10%	Quarterly	Monthly	2
Adhere to Minimum Information Requirements	5%	Annually	Continuous process	3
Leave Audit	15%	Annually	Continuous process	3
Average Rating				3

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

Table 67 Skilled and capacitated system users

Number of officials confirmed	Number of officials attended	Number of officials did not attend	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
126	88	38	66	22

The Department maintained a financial management capability rating of level 2 (partial compliance) mainly due to the high percentage of officials who is confirmed but did not attend courses, as well as all officials not 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 more users trained.

Optimal Utilisation of system

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

System Controller Functions

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

Establishment Management

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

Adhere to Minimum Information Requirements

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

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

Leave Audit

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

Logistical Information System (LOGIS)

Table 68 Management of activities on LOGIS

Requirements	Weight	Standard Level 3	Standard Level 3+	Rating
Skilled and capacitated system users	30%	In accordance with profile	All Modules	2
Optimal utilisation of system	20%	80% - 90%	91% - 100%	3
Days per issue	10%	5 days	3 days	2
Financial Controls	20%	Monthly	Continuous process	3
System Control Functions	20%	80 – 90%	91 – 100%	3
Average Rating				3

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

Table 69 Skilled and capacitated system users

Number of officials confirmed	Number of officials attended	Number of officials did not attend	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
93	55	38	46	9

The Department maintained a financial management capability rating of level 2 (partial compliance) mainly due to the high percentage of officials who is confirmed but did not attend courses, as well as all officials not 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.

Optimal utilisation of the System

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

Most payments for goods and services are processed through LOGIS and the Departmental assets are maintained per LOGIS Selection WMMT - Maintain Serial Detail Information.

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 2009/10 financial year was 14.9 days, the performance of the Department is therefore below the standard.

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

Financial Controls

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

The BAS/LOGIS Reconciliation were performed on a monthly basis. Timeous payments and clearing of the Resubmission Queue per LOGIS Procurement Integration can be enhanced.

System Control functions

The Department achieved a financial management capability rating of level 3 (nominal compliance). User profiles and password confidentiality is maintained. The System Controller functions needs to be reviewed within the Department.

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

Conclusion/recommendation

Many meetings, interactions and reports are currently being developed to assist with the Department's capabilities.

3.7 Department of Local Government and Housing

Overview

Financial management capability assessments of the main attributes were conducted and rated in terms of the assessment tools as contained in Chapter 2 of the FGR&O 2010. The goal of these assessments is to collectively provide an overview of how the department (and its entities) is/are managed as well as recommendations to assist progress to a level 3+ financial management rating.

Department -

The following ratings were assigned per assessment area:

Performance management -

- Non financial information - level 2.8
- Financial information – level 3

Compliance with accounting policies and standards – level 3

Enterprise Risk Management – level 2.5

Corporate Governance - level 2.8

Liabilities management – level 3

Supply Chain Management – level 2

Movable Asset Management – level 2

Financial Systems

- Systems usage – level 3
- Training - level 2

In view of the ratings above, an average rating of level 2.53 is achieved.

The Department has not provided a comprehensive financial management improvement plan that inter alia covers the issues raised to move towards a level 3+ rating.

3.7.1 Performance Management

3.7.1.1 Non-financial information

The analysis of departmental performance information management uses the financial management capability model as a point of departure to provide an insight to the information presented in the departmental budget documentation including the Department's Strategic Plan (SP), Annual Performance Plan (APP), Annual Report (AR) and Quarterly Performance Reports (QPRs). The assessment gauged key aspects of the Department's performance information in order to determine the Department's capability level.

The assessment considered whether the Department reached a level 3 financial management capability, and expresses a view on the extent to which the Department was moving towards level 4 financial management capabilities. The 2009/10 AR, the 2009/10 and 2010/11 APPs as well as the final 2009/10 QPR have been used in the assessment. The assessment also includes information based on the 2009/10 Auditor-General of South Africa (AGSA) audit report.

The former Department of Local Government and Housing was split into two separate Departments, namely, the Department of Human Settlements and the Department of Local Government as of 1 April 2010.

Organisational arrangements for managing Performance Information

The Department had a separate unit for planning, reporting, monitoring and evaluation. An organisational programme performance management system was operationalised within the Department. This system built on the current legislative reporting framework i.e. quarterly performance reporting to Provincial and National Treasury and the National Department of Housing. This system included resources dedicated to assessing the performance reports verifying and auditing data there ensuring accountability for delivery on a quarterly basis. The system was aligned to the APP and ensured the monitoring and evaluation of the strategic objectives of the provincial government and the strategic plan of the Department, as well as the provincial government project management dashboard system.

Quarterly Performance Reporting on 2009/10 Predetermined Objectives

During 2009/10, the Department of Local Government and Housing submitted QPRs in the correct format and on a quarterly basis. Reports included performance indicators with annual and quarterly targets as stipulated in the

APPs. Columns in QPRs for actual performance outputs and validated information were often incomplete at the time of submission.

The main challenge the Department faced was with its internal reporting mechanism specifically a deficiency in internal reporting controls. This may have been due to teething issues resulting from organisational restructuring due to the split of the Department from the Department of Human Settlements. Although systems are in place to collect data and provide evidence of the services delivered, the main issue relates to the controls to facilitate timeous data collection in order to meet prescribed deadlines. This means that Department demonstrated a certain degree of compliance and control with respect to Quarterly Reporting. There were however frequent requests for extension of the due dates which were not possible to the publishing dates being fixed in terms of the PFMA section 32 reports, which is a legal requirement.

The two new Departments have since demonstrated an ability to learn and adapt in striving towards an efficient, effective and transparent system of internal control with respect to performance planning, monitoring, measurement, review and reporting. The internal reporting mechanisms in terms of non-financial information are currently under review and improvement in the reporting process is evident. The reporting process is being documented to ensure that performance information reported on a quarterly basis as well as in the AR is reliable and auditable. The improvement in internal reporting controls enables the Departments to set more realistic performance measures and targets which are currently being addressed.

Annual Report 2009/10

The AR Guideline for General and Performance Information for the year ending 31 March 2010 requires that the programme performance of provincial departments must be in accordance with their APPs as tabled in the legislature.

A comparison between the 2009/10 AR and the 2009/10 APP, show all national non-financial performance indicators as well as provincial specific performance indicators were consistent between the two documents. All targets were reported against per sub-programme. There is also consistency between the unit of measurement of annual and quarterly targets and outputs.

In the 2009/10 AR, deviations from the annual targets are identified and quantified. Deviations are explained in a concise narrative. In certain cases these brief explanations are not sufficient to fully understand the extent of the challenges faced or the reasons for the deviation. Remedies for deviations or responses to the challenges experienced are not clearly evident.

The Department provided a summary of significant achievements of each sub-programme in each Programme for the 2009/10 financial year, focusing on the achievement of targets. Deviations are mentioned and explained in certain instances, however explanations are not detailed enough to include remedial actions taken.

Strategic Plan 2010/11 – 2014/15

The two new Departments each submitted a Strategic Plan (SP) for 2010/11 – 2014/15 before the start of the 2010/11 financial year. The format of the Strategic Plans complies with all aspects of the National Treasury Guidelines on Strategic Plans. The Strategic Plans of the Department of Local Government and Department of Human Settlements outline the Departments' visions, missions, legislative mandates, strategic goals and strategic objectives for the next 5 years.

Annual Performance Plan 2010/11

Human Settlements

Generally, the programme structure of the 2010/11 APP conforms to the national programme structure prescribed for the departments of Human Settlements. The format of the 2010/11 APP submitted by the Department complies with the format of the National Treasury Guidelines on APPs.

All nationally defined sector-specific performance indicators are included in the APP. Provincial Specific performance indicators are also included and all indicators have annual as well as quarterly targets which are measurable and have a baseline if expressed in percentages. The Department is due to report quarterly on all targets and has done so in quarter 1 of the 2010/11 financial year. Actual outputs will be validated in the following quarter and the Department is geared toward providing performance evidence for validating quarterly performance.

The majority of performance indicators are logically defined and consistent with the strategic objectives. The Department during the first quarterly performance reporting process has identified certain duplicate indicators which are currently under review and will be excluded in future APPs. The Department has also logically identified and grouped sub-indicators which contribute to the main outputs of the major performance indicators. The Department experienced problems with the accuracy of target setting and certain indicators in the APP are currently under revision to ensure more accurate target setting going forward. Generally, performance indicators comply with the SMART principle of performance measurement in that they are specific, measurable, achievable/attainable, realistic and time-bound.

Local Government

Generally, the programme structure of the 2010/11 APP conforms to the national programme structure prescribed for the sector Department of Cooperative Governance and Traditional Affairs. Programmes 4 and 5 in the national programme structure for Traditional Institutional Management and the House for Traditional Leaders respectively is not included in the Department's Programme structure due to the non-existence of Traditional Kingdoms in the Western Cape as in other Provinces.

The format of the 2010/11 APP submitted by the Department complies with the format of the National Treasury Guidelines on Annual Performance Plans.

All nationally defined sector-specific performance indicators are included in the APP. Provincial Specific performance indicators are also included and all indicators have annual as well as quarterly targets. The Department is due to report quarterly on all targets and has done so in quarter 1 of the 2010/11 financial year. Actual outputs will be validated in subsequent quarters following the current quarter and the Department is geared toward providing performance evidence for validating quarterly performance.

The majority of performance indicators are logically defined and consistent with the strategic objectives. The Department has indicated that it intends to review certain indicators for inclusion in future APPs. Certain performance indicators comply with the SMART principle of performance measurement in that they are specific, measurable, achievable/attainable, realistic and time-bound. However, many indicators should be reviewed specifically within the SMART principle framework and should be either omitted, replaced or improved for future APPs.

Recommendations/Conclusions

Analysis of compliance with guidelines and legislative requirements of the 2009/10 APP and QPR, and the 2009/10 AR reveal that the Department was, according to the performance management framework, almost operating at a level 3 auditable organisation.

Generally, the Department satisfied compliance at the development level and the majority of control level criteria.

Despite providing comments for deviations from performance targets in the 2009/10 Annual Report, the Department lacked detail around the context for major variances between targets and actual output performance. In addition, remedies for below target performance and corrective measures should also be included.

Sector-specific and provincial specific performance indicators are reflected in the 2010/11 APP and targets were set for annual and quarterly for the 2010 MTEF. It should be noted that certain indicators are deemed to be set according to the SMART principle of performance management but indicators in general should be subject to review to assess relevance and applicability. Some of these targets are currently under review and this is testament to the Departments' commitment to setting realistic performance targets and ongoing performance evaluation. The Departments are currently institutionalising processes for dealing with non-financial/performance information, highlighting the collection methodology, systems, verification and audit processes. This is consistent with previous SCOPA recommendations that the Department put controls in place to ensure that the reported performance information meets the criteria of consistency, relevance and reliability. It is further recommended that the Departments put measures in place to ensure that appropriate supporting documentation is available on a quarterly basis which provides evidence in terms of reported performance outputs.

General recommendations to improve the overall reliability and usefulness of performance information include Accounting Officers ensuring that an overall performance management system should be in place and documented, sufficient appropriate audit evidence and source documentation exist, there are appropriate information systems to facilitate the preparation of a performance report that is accurate, complete and valid and adequate control processes and procedures should be designed and implemented to ensure the accuracy, completeness and validity of reported predetermined objectives/performance information.

To reach a financial management capability rating of level 4, which measures how resources are used, the Departments should also move beyond compliance to focus on costing outputs and instituting practices that would identify those critical outputs that would have a knock-on effect to achieving departmental outcomes. The move beyond compliance involves expanding the focus to include the relationship between inputs and outputs and directing inputs and outputs closer toward the achievement of the desired outcomes and impact. Going forward the Departments should ensure a stronger linkage between the Provincial Strategic Objectives, SP, APP and the Budget.

3.7.1.2 Performance management assessed based on financial information

The Department submits its IYM report on revenue and expenditure on a monthly basis to the Provincial Treasury on or before the 15th day after the end of a reporting month in terms of section 40(4)(c) of the PFMA.

The Department ensured that the IYM reports reflected the actual expenditure and revenue, which could be reconciled with the BAS/Vulindlela financial system consistently on a monthly basis.

The table below compares the projected expenditure to the actual expenditure on a quarterly basis for 2009/10.

Table 70 Quarterly Analysis on projections: 2009/10

R'000	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
First Quarter	151 745	138 426	123 856	161 498	164 006	175 762	175 118	187 833	223 754	143 666	185 248	60 177	1 891 089
%	8.02%	7.32%	6.55%	8.54%	8.67%	9.29%	9.26%	9.93%	11.83%	7.60%	9.80%	3.18%	100.00%
Second Quarter	151 745	138 426	123 856	149 076	129 102	100 215	176 779	195 035	222 957	149 020	189 971	164 907	1 891 089
%	8.02%	7.32%	6.55%	7.88%	6.83%	5.30%	9.35%	10.31%	11.79%	7.88%	10.05%	8.72%	100.00%
Third Quarter	151 745	138 426	123 856	149 076	129 102	100 215	114 737	163 741	209 125	145 909	197 666	243 726	1 867 324
%	8.13%	7.41%	6.63%	7.98%	6.91%	5.37%	6.14%	8.77%	11.20%	7.81%	10.59%	13.05%	100.00%
Fourth Quarter	151 745	138 426	123 856	149 076	129 102	100 215	114 737	163 741	209 125	55 386	162 098	284 947	1 782 454
%	8.51%	7.77%	6.95%	8.36%	7.24%	5.62%	6.44%	9.19%	11.73%	3.11%	9.09%	15.99%	100.00%

Shaded: Actuals

Unshaded: Projections

As depicted in the table above, it appears that there remains room for improvement with regard to expenditure forecasting, as forecasts in prior quarters differ from the actual expenditure throughout the year. This is evident if actuals and projections are compared on a monthly basis. Actual expenditure (shaded) tends to be consistently lower when compared to the projected expenditure (unshaded) on a monthly basis, except for the month of March. These projections are due to the lag time of re-allocations to municipalities from non-performing to performing municipalities in the Adjustments Budget. The legislative framework in terms of the Division of Revenue Act (DoRA) does not allow transfers to be made without gazetting and therefore proper planning is essential for housing delivery to be according to spending projections. Also the underperformance on the N2 Gateway project was due to the take-over of the housing delivery by the Housing Development Agency (HDA) from Thubelisha Homes, which impacted on the spending.

The Department was requested to correct 241 items with journals in 2009/10 amounting to R7.698 million for incorrect classifications in terms of the Standard Chart of Accounts as per the Economic Report Format (ERF) tool. Monitoring of these errors will continue during the next financial year.

The Department submitted its Adjustments Budget on time and it was comprehensive in terms of section 31 of the PFMA. The shifts in the Adjustments Budget between programmes were nil. There was, however, a substantial amount of shifts within the programmes. The majority of the shifts were in Programme 2: Housing 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 and higher than anticipated improvement of conditions of service.

The Department shifted an amount of R0.500 million internally with R0.440 million for the South African Local Government and Association (SALGA) for the executive leadership development programme for municipal councilors and R0.060 million to make provisions for interest paid on finance leases.

The Department shifted an amount of R23.765 million to other votes with R0.500 million to Vote 10: Transport and Public Works for urgent renovations and alterations to the existing accommodation at 27 Wale Street, R22.655 million to Vote 5: Education for higher than expected improvement in conditions of service. An amount of R0.610 million was transferred to Vote 1: Department of the Premier for legal fees paid by this Department in 2008/09 in respect of the Erasmus Commission. An expenditure reduction was effected in for the re-imburement to the Provincial Revenue Fund, following the non-realisation of an anticipated over-collection in 2008/09.

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 approvals for the shifts made from the Accounting Officer.

There was no specific Standing Committee on Public Accounts (SCOPA) resolutions for the Department over the past three financial years.

Transfer payments were in accordance with section 38(1)(j) of the PFMA.

The Department spent R1.497 billion of the Integrated Housing and Human Settlement Development grant with the under spending of 5.31 per cent or R83.988 million above the 2 per cent under spending norm. This is mainly due to the delays in formalising the institutional arrangements and contractual relationships with the new developers i.e. HDA after the closing down of Thubelisha Homes as well as contractual disputes between Thubelisha Homes and the developers, resulting in slow progress on the N2 Gateway project.

The Department for 2009/10 requested a rollover amounting to R83.878 million for the grant, which was approved.

The unspent uncommitted balance on the grant of R0.110 million was paid over to the national Department of Human Settlements via the Provincial Treasury on 8 July 2010.

The Department had its usual 'March Spike' due to transfers to municipalities in March 2010 for housing purposes.

The Department had 17 cases of alleged irregularities with people housing projects (PHP) investigated by the Special Investigating Unit (SIU) of which 7 cases was completed and the remaining 10 cases still in progress in 2009/10. Furthermore, the SIU is still investigating the findings of the AGSA as set out in the performance reports for 2005/06 and May 2008 relating to the approval and allocation of housing subsidies to government and municipal employees, respectively. As at 31 March 2010 admissions of debt to the value of R4.632 million were entered into with beneficiaries not entitled to subsidies. An amount of R518 136 was received by the Department during 2009/10 and the total amount outstanding, including interest of R937 512, amounts to R4.592 million.

The Department collected R97.329 million in provincial own receipts. The over recovery was R46.484 million or 91.42 per cent more than the adjusted budget of R50.845 million.

The over collection was mainly due to interest, dividends and rent on land for closing of completed projects and interest paid by the Department; Financial transactions in assets and liabilities for the aggressive implementation of the Enhanced Extended Discount Benefit Scheme (EEDBS) and the returned subsidies for the N2 Gateway Project that Thubelisha Homes did not finalise.

Conclusion

The Department of Local Government and Housing generally operates on level 3 but requires improvement in its financial management capabilities in order to achieve a higher rating.

3.7.2 Compliance with accounting policies and standards

PT (Accounting) identified a number of key accounting policies and standards against which departments are rated in terms of compliance and its financial management capability. The purpose of the exercise is inter alia to monitor progress towards an improved financial management capability rating. Various tools are available to departments to ensure improved ratings, improved integrity of data and also that the financial reporting that is understandable, relevant, reliable and comparable. PT (Accounting) introduced various initiatives to address accounting matters in collaboration with the relevant departments. The department made full use of all these opportunities and actively contributed with regards to the following:

- Workshops on reporting requirements
- Two-monthly CFOs forums
- Monthly FAs forums

- Bi-lateral discussions
- IYM reporting
- Submission of AFS for preview prior to 31 May
- Compilation of a prescribed audit file with supporting documentation
- Interim financial statements as at 30 September 2009

The Interim financial statements as at 30 September 2009 was a new initiative by PT. Accounting assessments were conducted on the interim financial statements by Accounting Services in terms of a pre-determined assessment framework. Internal Audit also conducted a review of the processes and the controls implemented by departments on the implementation of the interim financial statements and issued a report on its findings per department. The Accounting assessment findings were issued to departments and corrective measures followed up in terms of action plans to ensure that these issues did not re-appear at the year-end.

An assessment of the financial management capability of the Department was undertaken based on the 2009/10 AFS, audit findings and monthly IYM reporting, that revealed the following:

Management of and reporting on suspense accounts

The Department reported on its disallowance, control and suspense accounts to PT (Accounting) on a monthly basis, together with action plans and time frames to address issues of concern. Such issues were also discussed during bilateral and informal engagements that took place during the year between the Department and Provincial Treasury: Accounting to address problems identified. The Department could therefore report that suspense, control and disallowance accounts were regularly followed up and cleared within a reasonable period of time and that a monthly reconciliation of control and suspense accounts was performed, which made it possible for the Department to close their books successfully on a monthly basis. The Department also confirmed that the Basic Accounting System reports on suspense accounts are reviewed on a monthly basis in order to monitor the progress of clearing these accounts.

The Department maintains its performance at a level 3 financial management capability rating when compared to the previous Review's assessment.

Accounting of assets

The department is on the modified cash basis of accounting, and as such assets are not recognised in the Statement of Financial Position. The department did however compile a disclosure note in which the values of the moveable tangible capital assets are disclosed. Control activities have been developed by the department to facilitate such disclosure and improved reporting that aims to advance accountability and transparency.

During the audit process however various cases were identified where serial numbers of major assets were duplicated on the asset register. The risk exists that a duplication of these serial numbers could result in the loss of these assets not being identified during stock take. This points to insufficient internal controls pertaining to asset management, which places the Department at a level 2+ financial management capability rating.

The Department indicated that individual assets will be bar-coded and different serial numbers per item be added to the asset register to comply with the Departmental safeguarding policy on moveable assets. This should contribute towards a financial management capability rating of level 3.

The assets and liabilities of the Housing Development Fund need to be transferred to the books of the newly positioned Department of Human Settlements as soon as the business of the Fund is wrapped up, which is dependent on enabling legislation, namely the National Housing Act. This department should ensure that the asset register of the Fund is sanitised as a matter of urgency, and that asset values are correct, prior to the transfer of the assets.

Financial reconciliations

The BAS/PERSAL, BAS/LOGIS and BAS/PMG financial reconciliations are performed as prescribed and submitted with the monthly IYM report.

The Department maintains its financial management capability rating of level 3.

Expenditure - Payments and journals

On the modified cash basis of accounting accruals are not recognised as expenditure in the Statement of Financial Performance, but are included in the disclosure notes.

The AGSA reported accrual expenditure amounting to R2 853 021 with invoices dating before year-end, which were not disclosed as accruals in the financial statements in the 2009/10 annual financial statements. The

Department should implement the necessary internal controls to ensure the accurate and timeous reporting on expenditure transactions.

The department disclosed that payments for Goods and Services to the value of R2.832 million were made after 30 days of receiving invoices, i.e. after 30 April 2010 as part of its Accruals disclosure note. The total expenditure on Goods and Services for 2009/10 amounted to R95.602 million, or an average of R7.966 million per month and the accruals of over 30 days as reported was 3.55 per cent of the monthly average. Compared to figures presented for the previous year there was a deterioration, since payments for Goods and Services made after 30 day of receiving invoices, i.e. after 30 April 2009 amounted to R2.537 million, or 2.43 per cent of the monthly average of R10.423 million. Although the above percentages seem low, the department must comply with Treasury Regulation 8.2.3 which states that invoices should be settled within 30 days of receiving invoices.

The above non-disclosure and late payments (non-compliance to TR 8.2.3) prevented the department from attaining a level 3 financial management capability rating, which currently stands at just below a level 3.

The Provincial Treasury (Accounting) monitors incorrect expenditure classifications in consultation with departments. The Department managed to clear all payment classifications which were deemed to be inconsistent in terms of the SCoA classifications applied by the province, by implementing proper internal controls. Pre and post audit checking was implemented and incorrect allocations are timeously corrected via journal entries. The Department therefore performed at a level 3 financial management capability rating in this regard.

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

The Department properly disclosed information relating to its Irregular Expenditure and Fruitless and Wasteful expenditure in detail, and in compliance with the prescribed specimen and guidelines for the annual financial statements.

The Department identified irregular expenditure of R3 614 979 during the year as a result of the contravention of prescripts relating to the procurement of goods and services, of which R3 289 640 was condoned.

It is recommended that the Department implement preventive measures and controls to curtail irregular expenditure. This will assist the Department, which currently stands at just below a level 3 financial management capability rating, to attain level 3.

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

The Department submitted signed IYM reports on time. In this regard a level 3 financial management capability rating is attained.

Conclusion/recommendation

In conclusion, the Department is operating close to a financial management capability level 3 rating on average. It should, however, be noted that the Department has subsequently been split into two departments, namely the Department of Human Settlements and the Department of Local Government. Furthermore, the assets and liabilities of the Western Cape Housing Development Fund have to be transferred to the Department of Human Settlements. This process should be properly administered and monitored.

3.7.3 Corporate Governance

3.7.3.1 Enterprise Risk Management Systems

This section provides guidance, criteria and norms and standards for 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.

Control Framework (Level 1)

Includes all scenarios where the department has not implemented all the criteria required to obtain a financial management capability rating of 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 last conducted in the past 2 to 5 years. This raises a concern as the department needs to have conducted or updated its strategic risk assessment for the 2009/10 financial year in line with the new strategic agenda of the new provincial government.

Internal Environment

The Department has indicated that the risk management philosophy has been articulated and communicated to all staff in writing. 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 not been identified.

Overall Assessment

For the period under review as at 31 March 2010, based on the above information, the Department achieved a financial management capability rating of level 2.5, as the Department has not met all the set Criteria and Norms and Standards for level 3. In order to achieve a rating at the next level (level 3), the Department needs to implement the following:

Strategic Risk Assessment

- Strategic Risks identified.
- Risks response strategies developed and relevant processes developed.

Operational Risks Assessment

- Existing controls identified should be documented by means of process and control maps.
- Control gaps should be identified and action plans developed.

2008/09 and 2009/10 Comparison

For the 2009/10 review, it is evident that the status of the Department remains unchanged when compared to the 2008/09 review.

3.7.3.2 Normative Financial Management

Internal control frameworks and policies

Compliance

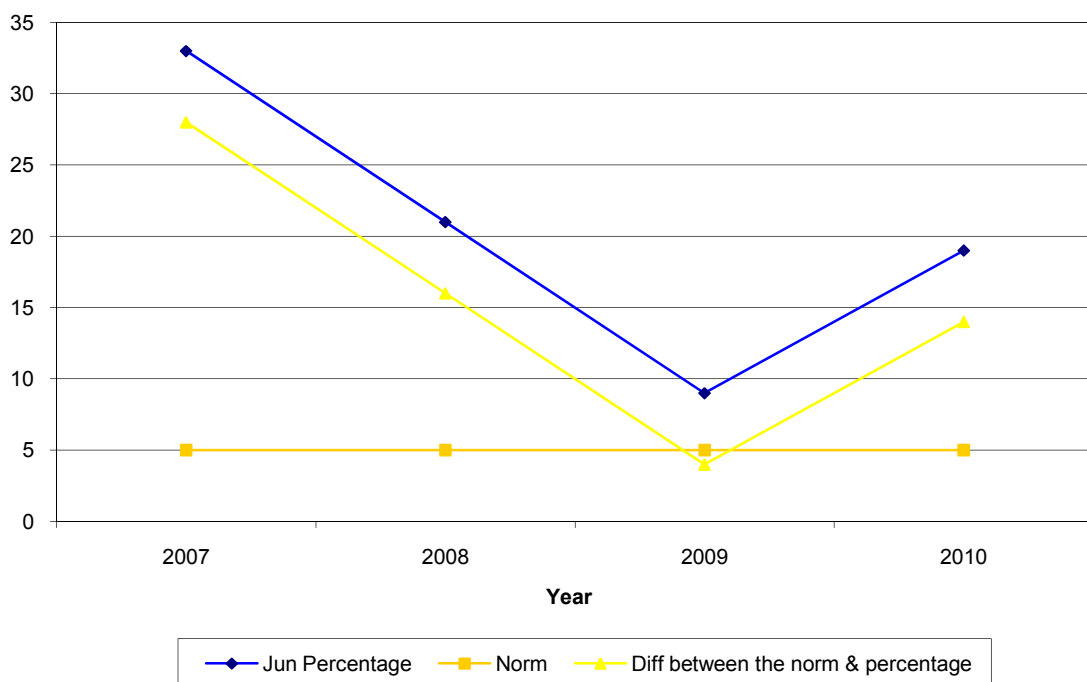
The findings discussed in this section provide a review of the PFMA implementation and financial management improvement of the department in line with the provincial strategy of attaining a level 4 financial management capability rating.

The source documents used were the Normative Measures Quarterly Report for departments, the Financial Management Capability Maturity survey conducted in June 2010 and the 2009/10 Auditor-General's report for the Department.

Analysis of the Normative Quarterly Questionnaire

The CFO structure - Human Resources Capacity

Figure 3 Vacancy Rate – 4 year Trend Line



In the Finance Component of the Department, the vacancy rate is currently at 19 per cent which is way above the national norm of 5 per cent. Although there has been a 10 per cent increase in the vacancy rate since 2009, the Department has indicated that it has intensified its drive to fill the vacant posts and is in the process of conducting interviews for seven vacant posts.

However, the Department must make a concerted effort to improve the average length it takes to fill a post, which currently stand at 4 months.

Issues of Governance

In April 2010 the Department was split into two Departments, namely, the Department of Local Government and the Department of Human Settlements. Both positions of the Head of Department have been filled effective from 5 June 2010. Currently one Chief Financial Officer is serving both the Departments of Local Government as well as Human Settlements.

Policies and procedures

The Department reported that all policies and procedures prescribed by the PFMA and Treasury Regulations pertaining to financial management are documented and approved.

Tabling of Annual reports (still outstanding)

The Department must annually table their Annual report as prescribed by the PFMA. Compliance with this requirement is reflected in table below.

Table 71 Compliance with annual reporting requirement

Institution	Date annual report received by Provincial Treasury	Annual report tabled at the Provincial Legislature
Departments:		
Local Government	31/08/10	30/09/10
Human Settlements		

Auditor-General's report of the 2009/10 financial year

Analysis of the Auditor-General's Report

The Department received an unqualified audit opinion, with other matters in the 2009/10 as well as for the 2008/09 financial year.

Below is a summary of a comparison of the 2008/09 and 2009/10 Audit Reports.

Table 72 Summary of Comparison between the 2008/09 and 2009/10 Audit Reports

Key finding	2008/09	2009/2010	Status
Material corrections made to the financial statements submitted for audit.	X		Improved
No adequate control processes and procedures designed and implemented to ensure the accuracy and completeness of reported performance information.	X	X	Unchanged
Irregular Expenditure		X	Deteriorated
Material under spending of the budget		X	Deteriorated
Non-Adherence to Housing Act of South Africa, 1997 (Act no. 107 of 1997) and Housing Code.		X	Deteriorated

New audit findings have been highlighted in respect of 2009/10 audit which was not highlighted in the previous year's audit report. Management needs to play an active role in terms of their oversight responsibility in identifying internal control weaknesses and should develop action plans to address these weaknesses. It is imperative that the Department strive to do their business within the required legal framework so that it is able to comply with the laws and regulations in particularly the Housing Act of South Africa, 1997(Act No. 107 of 1997) in-order to avoid a reoccurrence of the same shortcomings.

Overall Assessment

The Department's overall financial management maturity is rated at level 2.8.

3.7.4 Liabilities Management

This section deals with the implementation and management of sound cash flow practices as well as the provision of assistance and training in respect of the 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 practise of sound cash flow 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 and further improve departments and to enable them to reach a standard level of 3+, new assessment tools were created to assist CFOs to have more control and insight over the functions relating to their banking sections.

The evaluation was based on the activities of the 2009/10 financial year and the findings were as follows:

Table 73 Assessment of Liabilities Management

Requirements	Weight	Standard Level 3 (< 90%)	Standard Level 3+ (> 90%)	Rating
Submission of Annual Provincial Cash flow Projections (Section 40(4)(a))	10%	By 28 February	By 15 February	7.50%
Monthly alignment of actual expenditure with available cash	20%	11 months compliance	12 months compliance	20.00%
Available Budget equal to available cash (annual)	20%	Not equal	Equal	20.00%
Surrender of voted Surplus Funds	10%	31 May	15 May	10.00%
Submission of monthly Bank Reconciliation	10%	Within 30 days after month end	Within 15 days after month end	9.58%
User account management (Dormant users, etc)	20%	User accounts reconciled on a quarterly basis	User accounts reconciled on a monthly basis	15.00%
Confirm reconciliation of monthly bank transfers	10%	Within 7 working days after calendar month end	Within 5 working days after calendar month end	7.50%
	100%			89.58%

The Department achieved an overall rating of level 3 (nominal compliance), which is in line with the 2009/2010 financial year.

Submission of Annual Provincial Cashflow Projections

The Department obtained a rating of 7.5 per cent (nominal compliance). The Annual projections in respect of income and expenditure were received on 26 February 2010.

Monthly alignment of actual expenditure with available cash

The Department obtained a rating of 20 per cent (full compliance). The Department complied with 12 months.

Available Budget equal to available cash (annual)

The Department obtained a rating of 20 per cent (full compliance). The Department did not spend more cash than available budget.

Surrender of voted Surplus funds

The Department obtained a rating of 10 per cent (full compliance). Surplus funds were paid to the PRF on 14 May 2010.

Submission of monthly Bank Reconciliations

The Department was rated 9.58 per cent (nominal compliance). The monthly bank reconciliations were submitted within 30 days after month end.

User account management (Dormant users, etc)

The Department was rated 15 per cent (nominal compliance). It is preconceived that the Department complied with the relevant requirements.

Confirm reconciliation of monthly bank transfers

The Department was rated 7.5 per cent (nominal compliance). The Department should confirm and reconcile the monthly transfer schedule with Cash Management.

3.7.5 Supply Chain Management

Background

The rating is based on the SCM status verification assessment conducted in 2009/10, the Procurement Statistical report (2009/10) and findings in the AG's report (2009/10).

Institutionalisation

The AOS of the Department was reviewed in July and October 2009 respectively. The delegations have been reviewed and aligned to current regulations and approved on 1 April 2010.

The Head Office SCM structure is vested under the structure of the CFO as required by section 16A4 of the National Treasury Regulations (NTRs). The Department's current SCM structure provides for asset management, bid administration and provisioning and procurement with the least deployment in bid administration.

The Department has 3 vacancies and the posts have not yet been filled due to the moratorium placed on the filling of all posts as result of the modernisation process.

The Department has all three bid committees in place and the members have been appointed in writing.

Bid committee members received formal SCM training and also attended training provided by the PT to the SMS Members. The Department proposed compulsory training for bid committee members and line function.

SCM officials received the following training:

- Capturing procurement statistics training in February 2010 by NT;
- LOGIS training at PT; and
- Sourcelink training.

Line function managers are being equipped/trained to engage in procurement processes through:

- Circulars issued;
- In-house training;
- Induction programmes for new employees; and
- Information Sessions.

Internal Control and Compliance to SCM Policy and Prescripts

- The Department's current SCM structure provides for asset management, bid administration and provisioning and procurement with the least deployment in bid administration;
- The Department does not have a designated contract unit within SCM due to capacity constraints;
- Request for deviation from normal procurement processes goes to the Bid Adjudicating Committee for recommendation and to the AO approval. A Circular was issued in this regard to ensure that the Department is compliant with the SCM processes;
- No monitoring mechanism is in place to monitor SCM performance. The function is performed by Internal Control. The Department indicated that it is not possible to implement a monitoring mechanism in the SCM Unit, due to capacity constraints; and
- The SCM Unit performs a contract administration function, where copies of SLA's and contracts are kept on file and the line function are timeously informed of the expiry dates. The line function manages and monitors contracts.

The AGSA's report revealed that the Department did not comply with the policies and prescripts regarding following:

- Contracts were extended without approval by a delegated official;
- Contracts were extended or renewed to such an extent that competitive bidding processes were being circumvented;

- Goods and services were not provided by suppliers in accordance with the requirements of the contract or the accepted quotation and no action was taken against the suppliers;
- The contract performance measures and/or the methods whereby they were monitored did not ensure effective contract management;
- Payments were made for goods and services that were not received; and
- There are indications that payments were made to fictitious suppliers.

The AGSA's performance audit on consultants articulated the following:

- The use of consultants by the Department, for business and advisory services increased by 142 per cent from R23.237 million in the 2006/07 financial year to R56 760 million in the 2008/09 financial year;
- That given this increase in the utilisation of consultants, the Department did not have a strategy in place that responded to the demand management requirements for consultants, nor did the Department's AO system make provision for a procurement process to govern the utilisation of consultants, that is aligned to National Treasury's Practice Note 3 of 2003; and
- The Department also did not have an internal capacitation plan to reduce the utilisation of consultants.

Reliability and Integrity of Data

The Department utilises the Electronic Purchasing System-Integrated (EPSi) to obtain quotations for the procurement goods and service between the designated thresholds. The Department has indicated that all SCM officials received EPSi training.

EPSi statistics for the period under review would be as follows:

Number of quotation awards captured	:	301
Awards with HDI participation	:	268
Value of awards captured	:	R5 880 657.96
Value awarded to HDIs	:	R4 463 082.26

The adjudication average percentage is 43 per cent and certain individual monthly responses have improved to 100 per cent (June and September 2009).

The Department's reporting on awarded bids (statistical information) was in the correct formats within the set timeframes. The general bid/contract statistics for the period under review were as follows:

Bids Awarded	:	22
No. of limited bids	:	14
No. of contract extensions	:	2
Value of bids awards	:	R18 925 105.09
Value of limited bids	:	R10 941 402.90
Value of the contract extensions	:	R651 237.00

Procurement information on limited bids are reported to the PT, however, the Department does not always provide reasons for deviations.

PT requested the Department to substantiate reasons for deviations as the Minister of Finance is monitoring the statistics published on the Cape Gateway and subsequently requested reasons for deviation/limited bidding.

The Department keeps a database of awarded contracts and report to NT and PT electronically in the form of an Excel spreadsheet.

The Department maintains proper record keeping. They have a central registry system where they file the documents. The documents are sent to national archives after five years.

Comparison to the 2008/09 Review

The AOS of the Department was reviewed in July and October 2009 respectively. The delegations has been reviewed and aligned to current regulations and policy, it was approved on 1 April 2010.

The Department has an internal Gift and Donation policy in place which was implemented on 1 September 2009.

The bid committee members received formal SCM training also attended training provided by the PT to the SMS Members. The Department proposed compulsory training for bid committee members and line function.

The Department does not have a designated contract management unit within SCM due to capacity constraints.

SCM officials, Line function and SMS Member have received SCM Training, however the impact of this training is not evident as the implementation of training received is not monitored by the Department.

No monitoring mechanism is in place to monitor SCM performance. The function is performed by Internal Control. The Department indicated that it is not possible to implement a monitoring mechanism in the SCM Unit, due to capacity constraints.

The adjudication average percentage is 43 per cent and certain individual monthly responses have improved to 100 per cent (June and September 2009).

The Department has quarterly meetings with Quadrem to monitor adjudication and performance.

The SCM Unit performs a contract administration function, where copies of SLA's and contracts are kept on file and the line function are timeously informed of the expiry dates.

Rating in terms of the Financial Capability Model for SCM

In terms of this assessment, it has been noted that whilst the Department has appeared to have taken certain steps to address issues highlighted during last financial year's assessments and audits, it appears that there have been little or no movement in respect of compliance and implementation of internal control which is an essential element of the level 3 capability.

Therefore, in terms of the review performed, the Department is rated at a level 2 for the period under review.

Steps to take the Department to the next level of financial capability

In terms of the 2009/10 and verification assessment process conducted at the Department, the following require attention by the Department:

- The filling of vacant positions within the SCM Unit as the moratorium on the filling of vacancies, imposed by the Modernisation process, has been lifted;
- Improve on demand management processes in order to limit deviations in procurement;
- Address contract management deficiencies to ensure effective and efficient control as well as mitigation of potential risks;
- Whilst the Department has indicated various initiatives to address the deficiencies raised by PT in the SCM compliance assessment the impact of these initiatives is not evident to PT, e.g. reporting on bids awarded/extended has not improved, reasons for deviation not properly articulated;

- Give effect to and implement training received and ensure that value for money and efficiency gains are achieved;
- Develop and align its SCM policy to meet the requirements for consultants as articulated in Practice Note 3 Of 2003;
- Ensure adequate planning, needs assessments and motivations have been conducted to substantiate the utilisation of consultants;
- Ensure the transfer of skills and an internal capacitation programme is in place to ensure that officials are progressively being capacitated to reduce the utilisation of consultants; and
- Enforcement of adequate control measures and compliance procedures for SCM.

3.7.6 Moveable Asset Management

Background

For the 2009/10 financial year, an Asset Management verification assessment was performed at the head office of the Department of Local Government and Housing. The objective of this assessment was to physically verify the Department's progress in terms of National Treasury's Broad Implementation Plan (Risk Log and Dashboard reports submitted to the PT on a quarterly basis by the Department).

Institutionalisation

In terms of sections 38(1) (d) and 44 of the PFMA, Accounting Officer's must establish an Accounting Officer System (AOS) and accompanying delegations to regulate day-to-day Asset Management activities and ensure the effective and efficient management of asset management processes and procedures. Furthermore, the AOS must be regularly maintained and updated to ensure that:

- Gaps/deficiencies are addressed; and
- New requirements, policies, best practices and developments are incorporated.

The Department has complied with the above requirements by implementing and maintaining their Accounting Officer's System and Delegations regularly, however, not all requirements of the AM strategy have been incorporated in the revised AOS.

The last updated AOS was issued October 2009. The Department should continue to utilise its AOS. It should however note that a mandatory Blueprint AOS is in the process of being finalised by the Provincial Treasury. Once the Blueprint is issued the Department must ensure it revises its AOS to incorporate the enhancements or additions.

The Department's Asset Management Strategy is still work in progress. Capacity challenges are hindering completion of this strategy and the relevant plans accompanying it. Once the unit has sufficient staff, strategies should be completed soon and shortcomings should be minimal.

The AM structure for the Department has not been reviewed or aligned to the Department's current operational requirements due to the modernisation process. As a result, the Department was unable to adequately implement the requirements of AM. The current structure consists of four posts. Out of these four posts, three posts are occupied by permanent officials and one Assistant Director post, has been vacant since 1 November 2009.

The Department has a skills development plan to capacitate its officials in Asset Management.

It is yet to develop a procedural manual in order to create institutional memory to enable new employees to capacitate themselves. The Department is however making an effort to ensure its officials attend training which includes:

- National Treasury's Asset Management Training;
- In-house asset management training;
- LOGIS and BAS training provided by the Provincial Treasury's Directorate Supporting and Interlinked Financial Systems; and
- Training on LOGIS together with process mapping for asset management provided by Vunani.

All the officials involved in Asset Management attended a workshop on the Dashboard, Practical Guide Reform and the Risk Log documents.

Internal Control and Compliance to SCM Policy and Prescripts

Section 38(1)(d) of the PFMA states that the AO is responsible for the management, including safeguarding and the maintenance of the assets. In order to give effect to this requirement, the Department must have an AM strategy as per the National Treasury Broad Implementation Plan.

It should be noted that the Department is making an effort to put internal control measures in place by means of e.g.:

- Marking its assets;
- Conducting stocktaking annually; and
- Having security at the entrance signing in people entering its premises and checking for departmental items leaving the premises.

Notwithstanding the above internal controls, some assets did not have markings and as a result could not be verified during the physical verification process. Other assets could not be traced/physically verified as recorded on the Asset Register.

Despite attempts at internal control, the adequacy of the system of internal control to safeguard and monitor the movement of its assets is questionable. For instance, during the assessments laptops did not have combination cable locks.

Reliability and Integrity of Data

The physical verification assessment gave PT an opportunity to reconcile what was reported in terms of the progress made on the Project Dashboard and Risk Log by the Department against what was actually in place.

The Department indicated reconciliation of BAS and LOGIS is done by the Management Accounting unit on a monthly basis.

The Department regularly submits the Dashboard and Risk Log reports. At the end of the financial year it was:

- 95 per cent complete in terms of Asset Management Plans;
- 100 per cent complete in terms of Asset Register; and
- 100 per cent complete in terms of Accounting.

The Department's Asset Register meets the minimum requirements for asset registers in terms of the National Treasury's Broad Implementation Plan.

The Department is also experiencing challenges in terms of the SCOA classifications. For instance a monitor, CPU, keyboard and mouse are captured as standalone items instead of being captured as a unit. The Department captures this as single items because if captured as one unit it become part of major assets. The Reporting on these assets in the AFS is thus incorrect.

Comparison to the 2008/09 Review

It should be noted that there was no physical verification of assets performed in the 2008/09 financial year. The information pertaining to that year is based on what was submitted by the Department in terms of its progress as per the Project Dashboard and Risk Log. A physical verification of assets was performed for the first time in the 2009/10 financial year. Therefore most of the findings made in the 2009/10 financial year cannot really be compared to the findings made in 2008/09.

The Department's Asset Management Strategy is still in draft format.

Capacity and lack of skilled officials continues to be a hindering challenge at the Department.

Assets do not reflect a correct valuation in the Asset Register.

The Department should take cognisance with regards to the shortcoming highlighted in terms of assets as noted by the AGSA and rated under the "Compliance with accounting policies and standards" section of the Financial Governance Review & Outlook 2010. These shortcomings, the instituted corrective measures and the implemented control measures will be closely monitored and assessed by the Provincial Treasury: Moveable Asset Management (MAM) unit to encourage and promote efficiency, effectiveness and to contribute to the planning and preparation for the asset verification assessment envisaged for the 2010/11 financial year.

Rating in terms of the Financial Capability Model for Moveable Asset Management

In terms of the assessment processes performed, the Department is rated at a level 2, for the period under review. Whilst some progress must be noted, no substantial progress has been made in terms of internal control issues, data integrity as well as compliance with the National Treasury's Broad Implementation Plan.

Steps to take the Department to the next level of financial capability Develop and implement Asset Management Strategy:

- Enhance the monitoring of assets within the entire Department to ensure sustainable service delivery;
- Continuously capacitate the asset management unit and ensure that an effective and efficient monitoring and evaluation system is in place;
- Develop a basic Asset Management control framework to safeguard and protect assets;

- A uniform life cycle must be implemented;
- Achievement of operational functionality in AM as well as ensure from a management perspective that all training received is implemented and enforced and that officials do not continue with “old habits”;
- Effective usage of resources;
- Proper evaluation of assets; and
- Development of a procedural manual.

3.7.7 Supporting and Interlinked Financial Systems

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

Review

The evaluation was based on the activities of the 2009/2010 financial year and the findings were as follows.

Basic Accounting System (BAS)

The evaluation was based on the activities of the 2009/10 financial year and the findings were as follows:

Table 74 Management activities BAS

Requirements	Weight	Standard Level 3	Standard Level 3+	Rating
Skilled and capacitated system users	30%	In accordance with profile	Various Modules	2
Optimal utilisation of system	20%	80% - 90%	91% - 100%	3
Month- and Year-end closure	5%	Own accord – due date	Own accord – prior date	3+
System Controller Functions	30%	80 – 90%	91 – 100%	3+
Monitor Applicable Interfaces	15%	Intermittently	Daily	3+
Average Rating				3

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

Table 75 Skilled and capacitated system users

Number of officials confirmed	Number of officials attended	Number of officials did not attend	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
67	33	34	27	6

The Department maintained a financial management capability rating of level 2 (partial compliance) mainly due to the high percentage of officials who is confirmed but did not attend courses, as well as all officials not 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 more users trained.

Optimal utilisation of system

The Department achieved a financial management capability rating of level 3 (nominal compliance) for the optimal utilisation of the system.

Month- and Year-end closure

The Department achieved a financial management capability rating of level 3+ (full compliance) as their month- and year-end closure was done prior to the predetermined dates of National Treasury.

System Controller Functions

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

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

Monitor Applicable Interfaces

The Department achieved a financial management capability rating of level 3+ (full compliance) as their interfaces were monitored and reported on a daily basis.

Personnel and Salary Administration System (PERSAL)

Table 76 Management of activities on PERSAL

Requirements	Weight	Standard Level 3	Standard Level 3+	Rating
Skilled and capacitated system users	30%	In accordance with profile	Various Modules	2
Optimal utilisation of system	20%	80% - 90%	91% - 100%	3
System Controller Functions	20%	80 – 90%	91 – 100%	3
Establishment Management	10%	Quarterly	Monthly	3
Adhere to Minimum Information Requirements	5%	Annually	Continuous process	2
Leave Audit	15%	Annually	Continuous process	3
Average Rating				3

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

Table 77 Skilled and capacitated system users

Number of officials confirmed	Number of officials attended	Number of officials did not attend	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
30	14	16	12	2

The Department maintained a financial management capability rating of level 2 (partial compliance) mainly due to the high percentage of officials who is confirmed but did not attend courses, as well as all officials not 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 more users trained.

Optimal Utilisation of system

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

System Controller Functions

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

Establishment Management

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

Adhere to Minimum Information Requirements

As not all information is captured on the system, the Department achieved a 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 situation will be monitored by the Provincial Treasury to ensure compliance.

Leave Audit

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

Logistical Information System (LOGIS)

Table 78 Management of activities on LOGIS

Requirements	Weight	Standard Level 3	Standard Level 3+	Rating
Skilled and capacitated system users	30%	In accordance with profile	All Modules	2
Optimal utilisation of system	20%	80% - 90%	91% - 100%	3
Days per issue	10%	5 days	3 days	2
Financial Controls	20%	Monthly	Continuous process	3
System Control Functions	20%	80 – 90%	91 – 100%	3
Average Rating				3

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

Table 79 Skilled and capacitated system users

Number of officials confirmed	Number of officials attended	Number of officials did not attend	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
23	7	16	6	1

The Department maintained a financial management capability rating of level 2 (partial compliance) mainly due to the high percentage of officials who is confirmed but did not attend courses, as well as all officials not 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 more users trained.

Optimal utilisation of the System

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

Most payments for goods and services are processed through LOGIS and the Departmental assets are maintained per LOGIS Selection WMMT - Maintain Serial Detail Information.

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 2009/2010 financial year was 13.8 days, the performance of the Department is therefore below the standard.

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

Financial Controls

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

The BAS/LOGIS reconciliations were performed on a monthly basis. The Department should perform timeous payments and the clearing of the Resubmission Queue per LOGIS Procurement Integration.

System Control functions

The Department achieved a financial management capability rating of level 3 (nominal compliance). User profiles and password confidentiality are maintained.

3.7.8 Public Entity: The Western Cape Housing and Development Fund

3.7.8.1 Accounting policies and standards

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. For the 2009/10 financial year, the WCHDF received an Unqualified Audit Report from the Auditor-General of South Africa

(AGSA), compared to the 2008/09 financial year when the AGSA issued a Disclaimer.

The Fund is being disestablished, however, the National Housing Act must first be amended in order for the Provincial Housing Act to be changed, to accommodate the disestablishment of the Fund.

PT (Accounting) identified a number of key accounting policies and standards against which entities are rated in terms of compliance and its financial management capability. The purpose of the exercise is inter alia to monitor progress towards an improved financial management capability rating. Various tools are available to entities to ensure improved ratings, improved integrity of data and also that the financial reporting that is understandable, relevant, reliable and comparable. PT introduced various initiatives to address accounting matters in collaboration with the relevant entities. The entity made full use of all these opportunities and actively contributed with regards to the following:

- Workshops on reporting requirements
- Quarterly CFO's forum
- Bi-lateral discussions
- IYM reporting
- Submission of AFS for preview prior to 31 May
- Compilation of a prescribed audit file with supporting documentation
- Interim financial statements as at 30 September 2009 (a new initiative during 2009/10)

An assessment of the financial management capability of the Entity was undertaken based on 2009/10 AFS, Auditor-General of South Africa (AGSA) audit findings and IYM reporting, that revealed the following:

Basis of Accounting

The National Treasury approved a deviation from the basis of accounting applicable to the entity, which granted the entity exemption from preparing the financial statements in terms of the GRAP reporting framework for the 2009/10 financial year. The interim financial statements and annual financial statements for 2009/10 were prepared on an entity-specific basis of accounting. For 2010/11 the entity must comply with GRAP, in terms of a framework issued by the National Treasury.

Accounting of Assets

The WCHDF received a disclaimed audit opinion for 2008/09 and for 2009/10 improved to an unqualified audit opinion. Poor control over properties and poor debtors management had resulted in poor audit outcomes in recent years, however, much progress was made in the 2009/10 financial year. Although the property register has been sanitised to a large extent and most values of assets have been adjusted, there are still issues of concern.

The AGSA indicated that material misstatements to the value of R58 549 351 arose from Property that was included in the property register at the incorrect value and properties that are not the ownership of the fund, which had to be removed from the register. The AGSA indicated that this misstatement was due to inadequate oversight to ensure that the valuations of properties are accurate and that only properties that are owned by the Fund are recorded in the financial statements.

The misstatement was corrected during the audit process and the financial statements accordingly adjusted. This is indicative of a level 2 financial management capability. The Department of Human Settlements has indicated that it aims to finalise the sanitation of the property register and the debtors' books by March 2011, at which stage, depending on enabling legislation, the WCHDF will be closed and the remaining assets of the Fund will be transferred to the books of the Department. The Provincial Treasury strongly supports this aim, and will continue bi-lateral discussions to assist the accounting process.

Accounting of Debtors

The AGSA reported that debtors to the value of R R6 662 742 that did not exist were included in the financial statements. The AGSA indicated that this misstatement was due to inadequate oversight to ensure that the debtors included in the financial statements exist and are recorded in the financial statements.

The misstatement was corrected during the audit process and the financial statements accordingly adjusted. This is indicative of a level 2 financial management capability.

Conclusion

Closer interaction between the Fund, Department and Provincial Treasury is required and the action plan prepared by the Department of Human Settlements for the closure of the fund should be adhered to. Compliance with the GRAP reporting framework for 2010/11 and the transfer of assets and liabilities to the Department of Human Settlements are of particular importance.

3.7.8.2 Corporate Governance

The Housing Development Fund under the ownership and control of the Department has made great strides in improving its audit opinion from a disclaimer in 2008/09 to a clean report in the 2009/10 financial year.

3.8 Department of Environmental Affairs and Development Planning

Overview

Financial management capability assessments of the main attributes were conducted and rated in terms of the assessment tools as contained in Chapter 2 of the FGR&O 2010. The goal of these assessments is to collectively provide an overview of how the department (and its entities) is/are managed as well as recommendations to assist progress to a level 3+ financial management rating.

The following ratings were assigned per assessment area:

Performance Management

- Non financial information - level 2.8
- Financial information – level 3

Compliance with accounting policies and standards – level 3

Enterprise Risk Management – level 2.8

Corporate Governance - level 3

Liabilities Management – level 3

Supply Chain Management – level 2

Movable Asset Management – level 1.5

Financial Systems

- Systems usage – level 3
- Training - level 2

In view of the ratings above, an average rating of level 2.61 is achieved.

The Department has provided a comprehensive financial management improvement plan that inter alia covers the issues raised to move towards a level 3+ rating.

3.8.1 Performance Management

3.8.1.1 Non-financial information

The analysis of departmental performance information management uses the financial management capability model as a point of departure to provide an insight to the information presented in the departmental budget documentation including the Department's Strategic Plan (SP), Annual Performance Plan (APP), Annual Report (AR) and Quarterly Performance Reports (QPRs). The assessment gauges key aspects of the Department's performance information in order to determine the Department's capability level.

The assessment 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 level 4 financial management capabilities. The 2009/10 AR, the 2009/10 and 2010/11 APPs as well as the final 2009/10 QPR have been used in the assessment. The assessment also includes information based on the 2009/10 Auditor-General of South Africa (AGSA) audit report.

Organisational arrangements for managing Performance Information

As part of the broader process of institutional review and organisational refinement, the improvement of performance management information as well as monitoring and evaluation (M and E), is centered on putting in place of the Directorate Strategic Management.

Furthermore, the further refining the Department's focus on monitoring and evaluation in respect of the Department's entity, CapeNature, is a focus area in 2010/11.

Quarterly Performance Reporting on 2009/10 Predetermined Objectives

The Department generally meets the statutory/regulatory and legislative requirements with reference to timely submission of its planning/performance-related documents (strategic-, annual performance plans as well as quarterly performance- and annual reports). The Department of Environmental Affairs and Development Planning has submitted Quarterly Performance Reports (QPRs) in the correct format on a quarterly basis as required. These reports reflected the annual as well as quarterly targets as contained in the Annual Performance Plan as well as progress on the targets. All relevant performance measures contained in the 2009/10 APP are reported on in the QPRs. The targets in the APP and QPR are consistent. However, the Department in most cases reports progress against the targets in a narrative style, and therefore

the performance reported is sometimes not specific to the relevant performance measure target.

What is required of the Department is the establishment of procedures to facilitate effective performance monitoring, evaluation and corrective action throughout the financial year based on the QPRs.

Annual Report 2009/10

In respect of compliance and control, all the performance measures defined in the 2009/10 Annual Performance Plan are reported on in the 2009/10 Annual Report. The format of the APP and AR comply with the National Treasury guidelines and deviations from annual targets are generally identified and quantified in the Annual Report. The targets in both the APP and AR are consistent and in general the units of measurement of both the performance measure targets are consistent with the actual performance reported in the AR. Even though the outputs are not necessarily defined as numbers, outputs largely refer to departmental processes (for example 'approve, develop, finalise and implement, monitor and report, review/complete, facilitate'). Where percentages have been used, the baseline figures have generally been provided.

Strategic Plan 2010/11 – 2014/15

The Department of Environmental Affairs and Development Planning has tabled a Strategic Plan (SP) for 2010/11 – 2014/15 before the start of the 2010/11 financial year. The format of the Strategic Plan is in line with the generic guide for Strategic Plans issued by the National Treasury. The Strategic Plan includes strategic goals as well as the underpinning strategic objectives.

Annual Performance Plan 2010/11

The Departmental APP format generally complies with the generic format and the uniform programme and budget structure prescribed by National Treasury. The document reflects strategic objectives, programme performance indicators/annual targets as well as specific performance targets per quarter.

Although most of the strategic objectives and performance indicators identified by the Department comply with the SMART principle, in that they are specific, measurable, achievable/attainable, realistic and time bound the Department could revisit performance information to ensure the measurability and relevance of indicators and targets in future APPs.

The APP indicates that a key aspect which will impact internal control and governance and in particular performance, revolves around the incremental roll-out of the new departmental structure, which is to be phased in during the next financial years.

A significant area of focus is around improved cooperation and oversight over CapeNature as demonstrated in the development of the related Cooperation Agreement between the Department and the latter public entity.

Conclusion/recommendation

In general, the format of the APP and AR comply with the National Treasury guidelines. The Department reports on a quarterly basis in the format required although the content of the reports could be improved to be more specific to the performance measure targets. The Department (according to the performance management framework) is operating close to a level 3 auditable organisation. Some refining is required from a performance-reporting perspective, particularly the issue of refining sector indicators. Further aspects such as measurability of indicators need to be clearly articulated (including baselines).

In order to reach a financial management capability rating of level 3, which measures compliance and control, the Department needs to improve and document the processes for quarterly performance reporting, which will address accountability and credibility of data. The Guide for the Implementation of Provincial Quarterly Performance reports provides guidance on the production of quality performance information.

General recommendations to improve the overall reliability and usefulness of performance information include Accounting Officers ensuring that an overall performance management system should be in place and documented, sufficient appropriate audit evidence and source documentation exist, there are appropriate information systems to facilitate the preparation of a performance report that is accurate, complete and valid and adequate control processes and procedures should be designed and implemented to ensure the accuracy, completeness and validity of reported predetermined objectives/performance information.

To reach a financial management capability rating of level 4, which measures how resources are used, the Department should also move beyond compliance to focus on costing outputs and instituting practices that would identify those critical outputs that would have a knock-on effect to achieving departmental outcomes. The move beyond compliance involves expanding the focus to include the relationship between inputs and outputs and directing inputs and outputs closer toward the achievement of the desired

outcomes and impact. Going forward the Department, should ensure a stronger linkage between the Provincial Strategic Objectives, SP, APP and Budget.

3.8.1.2 Performance management assessed based on financial information

The Department has an approved revenue and expenditure budget and submitted its Adjustments Budget on time, comprehensive in terms of Section 31 of the PFMA.

All In-year Monitoring (IYM) report on revenue and expenditure were submitted to the Provincial Treasury on or before the 15th day after the end of each reporting month as prescribed in section 40(4)(c) of the Public Finance Management Act, 1999. The IYM reports reflected the actual expenditure and revenue, and were reconciled with the BAS/VULINDLELA reports.

Quarterly quantitative performance

The table below compares actual expenditure with projections on a quarterly basis. Projections (unshaded) seem to increase on a monthly basis, while actual expenditure (shaded) is lower than projected expenditure. Spending per month is indicated as a percentage of the total expenditure.

Table 80 Quarterly analysis on projections: 2009/10

R'000	April	May	June	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
First Quarter	23 406	22 030	26 014	26 528	25 517	28 277	25 871	27 112	29 487	10 527	10 670	11 932	267 371
%	8.75%	8.24%	9.73%	9.92%	9.54%	10.58%	9.68%	10.14%	11.03%	3.94%	3.99%	4.46%	100.00%
Second Quarter	23 406	22 030	26 014	23 934	18 544	18 302	25 413	24 753	20 272	20 594	22 844	23 582	269 688
%	8.68%	8.17%	9.65%	8.26%	6.88%	6.79%	9.42%	9.18%	7.52%	7.64%	8.47%	8.74%	100%
Third Quarter	23 406	22 030	26 014	23 934	18 544	18 302	20 164	19 553	19 484	22 936	25 804	24 890	265 061
%	8.83%	8.31%	9.81%	9.03%	7.00%	6.90%	7.61%	7.38%	7.35%	8.65%	9.74%	9.39%	100.00%
Fourth Quarter	23 406	22 030	26 014	23 934	18 544	18 302	20 164	19 553	19 483	18 320	21 753	31 827	263 330
%	8.89%	8.37%	9.88%	9.09%	7.04%	6.95%	7.66%	7.43%	7.40%	6.96%	8.26%	12.09%	100.00%

Shaded: Actuals

Unshaded: Projections

The Department's original budget allocation for the 2009/10 financial year amounted to R266.757 million, which decreased by R1.696 million or 0.64 per cent to R265.061 million in the Adjustment Estimate, mainly due to a reduction in the transfer payments to CapeNature.

Shifts and virements

Post adjusted estimates' shifts between programmes of the Vote amounted to R2.319 million, i.e. 0.87 per cent, of the adjusted budget, while R9.362 million was shifted within programmes, i.e. 3.53 per cent of the adjusted budget. The Department has managed to reduce its post adjusted estimates' shifts in 2009/10, when compared to the previous financial year, by R2.719 million or 69.25 per cent from R3.342 million in 2008/09 to R623 000 in 2009/10.

The Department effected approved virements at year end amounting to R3.295 million in the 2009/10 financial year, which represents 1.24 per cent of the adjusted budget. The virement was applied to cover over expenditure under Programme 1: Administration, attributed to increased costs related to the Information and Communication Technology (ICT) plan, as well as an increase in respect to legal fees of R1.480 million under Programme 3: Compliance and Enforcement.

Quarterly actual expenditure

At 31 March 2010 the Department's total actual spending amounted to R263.330 million or 99.35 per cent of the adjusted budget, i.e. an under expenditure of R1.731 million or 0.65 per cent of the adjusted budget. This reflected a departmental spending outcome for the financial year within the two per cent under spending norm. During the 2008/09 financial year under spending amounted to R547 000 or 0.27 per cent of the adjusted budget of R205.131 million.

The 2009/10 under spending of R1.731 million can predominantly be attributed to savings of R1.240 million on earmarked allocation for the Built Environment Support Programme (BESP) under Programme 2: Policy Coordination and Environmental Planning, due to, amongst other, political turmoil at municipal level. A further R250 000 was, due to technical reasons, not spent in respect of the Cleanest Town Competition in Programme 4: Environmental Quality Management, but only paid in 2010/11.

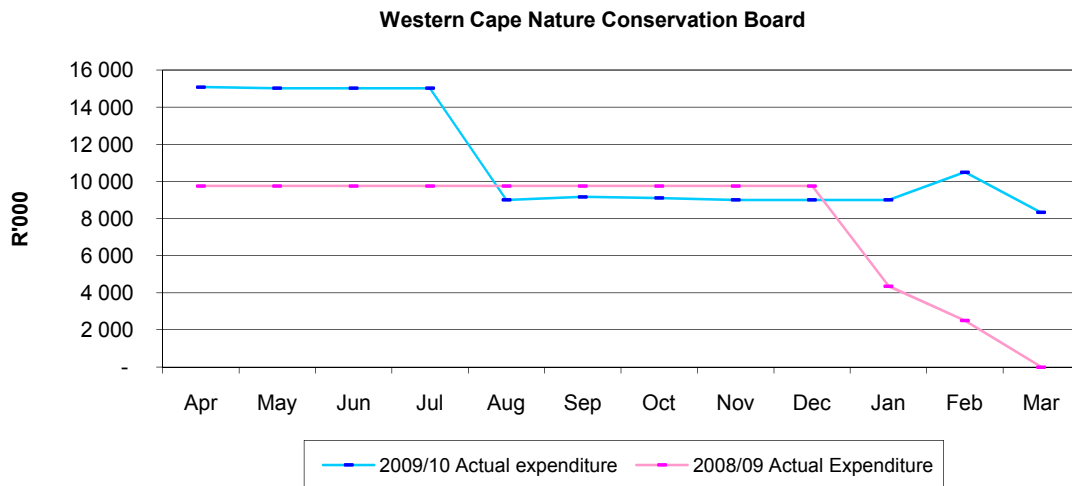
The Department submitted a request to roll an amount of R1.240 million from 2009/10 over to 2010/11, which relates to the savings on the Built Environment Support (BESP) programme earmarked allocation.

No fiscal dumping was brought to the attention of Provincial Treasury, and no unauthorised or irregular expenditure was reported by the Auditor-General in the 2009/10 financial year.

Transfer payments

The graph below provides the actual expenditure for the period ended 31 March 2010 on transfer and subsidies to the Western Cape Nature Conservation Board, trading as CapeNature.

Figure 4 Comparison of Transfers to CapeNature - 2009/10 and 2008/09



Actual transfers varied from month to month, mainly due to the fact that payments to CapeNature were made in terms of an agreed payment schedule based on cash flow needs. Transfer payments of R135.246 million were budgeted for CapeNature in the 2009/10 main budget. This was decreased by a net R1.974 million in the 2009 Adjustment Estimate to R133.272 million, made up of an additional R1.945 million, allocated to CapeNature to accommodate higher than budgeted salary increases, R300 000 in respect of a baboon management project, R120 000 for the Gouritz Biosphere Reserve initiative, R216 000 for the internship programme while R4.555 million was, due to slow spending on infrastructure, reallocated to the 2010/11 main budget.

Revenue

Own revenue collected was mainly in respect of environmental 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 R106 000 was exceeded by R938 000, mainly due to environmental fines (R564 000) and financial transactions in assets and liabilities which include the recovery of previous years' expenditure related to, amongst others staff debt (R323 000). An application was submitted to Treasury to retain the 2009/10 revenue over collection (R938 000) in 2010/11 to cover additional financial obligations to the GEPF.

Since most of the Department's revenue tariffs are prescribed or determined by legislation or national departments, only those which the Department managed were reviewed in the 2009/10 financial year.

March spike

Actual expenditure increased to R31.827 million in March 2010 from an average of R21.046 million during April 2009 to February 2010. This can largely be attributed to expenditure on goods and services, mainly spent on consultants for the finalisation/partial finalisation of projects, payments for publication of the strategic plan and annual performance plan, purchase of computer consumables and payment of legal costs.

Conclusion

The Department of Environmental Affairs and Development Planning generally operates on a level 3 and is moving towards a level 4 financial management capability rating.

3.8.2 Accounting policies and standards

PT (Accounting) identified a number of key accounting policies and standards against which departments are rated in terms of compliance and its financial management capability. The purpose of the exercise is inter alia to monitor progress towards an improved financial management capability rating. Various tools are available to departments to ensure improved ratings, improved integrity of data and also that quality of financial reporting is understandable, relevant, reliable and comparable. PT (Accounting) introduced various initiatives to address accounting matters in collaboration with the relevant departments. The department made full use of all these opportunities and actively contributed with regards to the following:

- Workshops on reporting requirements
- Two-monthly CFO's forums
- Monthly FA's forums
- Bi-lateral discussions
- IYM reporting
- Submission of AFS for preview prior to 31 May
- Compilation of a prescribed audit file with supporting documentation
- Interim financial statements as at 30 September 2009

The Interim financial statements as at 30 September 2009 was a new initiative by PT. Accounting assessments were conducted on the interim financial statements by Accounting Services in terms of a pre-determined assessment framework. Internal Audit also conducted a review of the processes and the controls implemented by departments on the implementation of the interim financial statements and issued a report on its findings per department. The Accounting assessment findings were issued to departments and corrective measures followed up in terms of action plans to ensure that these issues did not re-appear at the year-end.

An assessment of the financial management capability of the Department was undertaken based on the 2009/10 AFS, Auditor General of South Africa (AGSA) audit findings, Interim Financial statements and monthly IYM reporting, that revealed the following:

Management of and reporting on suspense accounts

The Department reported on its disallowance, control and suspense accounts to PT (Accounting) on a monthly basis, together with action plans and time frames to address issues of concern. Such issues were also discussed during bilateral and informal engagements that took place during the year between the Department and Provincial Treasury: Accounting to address problems identified.

The monthly IYM reporting revealed that the balances of Damage Vehicles and Disallowance Damages and Losses stagnated throughout the year. Further enquiries to the department indicated that these accounts have been submitted to the State Attorney and the relevant balances would only be cleared once the State Attorney provides recommendation for the write-off or recovery of these debts. It is recommended that these balances be transferred to the Debt Account for better control, monitoring and reporting, in line with paragraph 17 of Treasury Circular 8 of 2006 dated 18 December 2006 which states that debtors should be raised for unresolved transactions.

The Department has continued to perform at a level 3 financial management capability rating as attained in the previous assessment.

Accounting of assets

The department is on the modified cash basis of accounting, and as such assets are not recognised in the Statement of Financial Position. The department did however compile a disclosure note in which the values of the moveable tangible capital assets are disclosed. Control activities have been developed by the department to facilitate such disclosure and improved reporting that aims to advance accountability and transparency.

The Department therefore continues to operate at a level of less than 3 in terms of its financial management capability rating when compared to the previous 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 rating when compared to the previous assessment.

Expenditure – Payments and journals

Treasury Regulation 8.2.3 states that invoices should be settled within 30 days of receipt of invoice. The department managed to put management controls to monitor and ensure that all payments are paid in accordance with TR 8.2.3.

During the assessment of the Interim Financial Statements of the Department it was established that the Department incorrectly allocated finance lease expenditure to the value of R47, 000 as operating lease expenditure under Goods and Services. By year end the Department had managed to clear all possible SCoA inconsistent allocations on the financial system including the capitalisation of finance lease expenditure as prescribed by NT Classification Circular 4 of 2008/09.

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 reported on a monthly basis that a lease register is maintained on operating and finance leases and this information is disclosed in the audited annual financial statements, with no audit findings.

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

The department submitted their monthly compliance reporting to Provincial Treasury timeously in terms of the legislative requirements and provincial prescripts.

A level 3 financial management capability rating is thus maintained when compared to the previous assessment.

Conclusion/recommendation

In conclusion, the Department of Environmental Affairs and Development Planning has maintained a level 3 financial management capability rating for most criteria. The Department needs to improve controls over the verification of assets against the asset register. The Department should also refer to the criteria as reflected in paragraph 2.3 of Chapter 2, to identify criteria to be addressed in order to progress to an overall rating of 3+.

3.8.3 Corporate Governance

3.8.3.1 Enterprise Risk Management and Governance Systems

This section provides guidance, criteria and norms and standards for 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.

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).

The focus is on compliance and control (Level 3)

Strategic Risk Assessment

A strategic risk assessment was conducted for the Department less than a year ago. All the identified risks have been allocated to senior officials for the management thereof, in order for the controls to substantially mitigate those risks.

Internal Environment

A risk management philosophy has been developed and articulated to all staff via emails as well as awareness campaigns. A risk appetite for the Department has also been defined and effectively communicated to all staff during the scheduled risk assessment workshops.

Operational Risk Assessment

An operational risk assessment was conducted for the Department less than a year ago. The risk events has been identified and assessed on an inherent level, however it has not been coupled to the standard event categorisation framework, commonly referred to as the risk universe. Identified controls have been linked to the identified risks and the management thereof has been allocated to the relevant officials.

Separate Evaluations

As affirmed by the Department, an independent evaluation has never been conducted; therefore no assurance as to the adequacy and effectiveness of the risk management process has been obtained.

Risk Assessment

Risks to be assessed on a residual risk basis

Overall assessment

Based on the above information, the Department achieved a financial management capability rating of level 2.8, as the Department has not met all the set criteria and norms and standards for level 3.

2008/09 and 2009/10 Comparison

For the 2009/10 review, it is evident that the Department has made adequate progress as compared to the 2008/09 review.

3.8.3.2 Normative Financial Management

Internal control frameworks and policies

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 attaining a level 4 financial management capability rating.

The source documents used were the Normative Measures Quarterly Report for departments and the PFMA Compliance Checklist for public entities for the quarter ending June 2010, the Financial Management Capability Maturity survey conducted in June 2010 and the 2009/10 Auditor-General's report for the Department and the Public Entity.

Analysis of Normative Measures Quarterly Report

The CFO structure: Human Resource Capacity

Figure 5 Department of Environmental Affairs and Development Planning Vacancy Rate

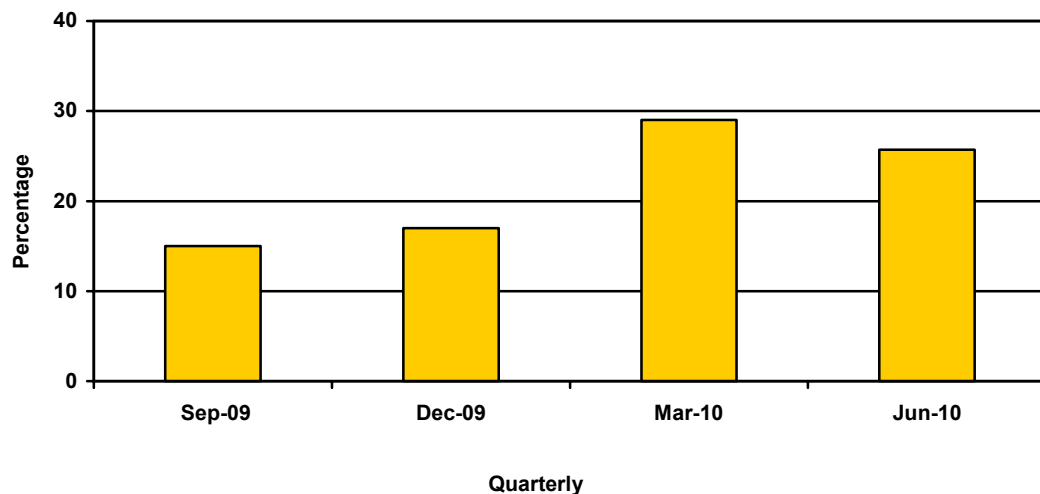


Table 81 Extraction of vacant posts in Finance Component

Component/Unit	Post Description	Post level	Vacant Posts
Finance and Logistical Services	CFO Support Officer	9	1
Budget Administration	Assistant Director	9	1
Internal Control	Assistant Director	9	1
	State Accountant	8	2
Accounting Services	Accounting Clerk	5	1
	Chief Accounting Clerk	7	1
Salary Management	Senior State Accountant	8	2

As depicted in the above figure and table, the Finance Component of the Department had a vacancy rate of 29 per cent in March 2010. The rate has substantially increased since the previous year's assessment which reflected a vacancy rate of 15 per cent. The required national norm for the vacancy rate is 5 per cent and therefore concerns are raised as to whether this might hamper the service delivery of the Department as well as the achievement of their objectives. It is noted that the moratorium placed in the filling of vacancies in the CFO office had an impact on the response to this vacancy rate.

Policies and procedures

The Department complies with majority of all policies and procedures prescribed by the PFMA and Treasury Regulations pertaining to financial management except for an asset management policy which has not yet been approved.

Tabling of Annual Report

The Department and their public entity must annually table their Annual Reports, as prescribed, in the Legislature. Compliance with these requirements is reflected in table below:

Table 82 Compliance with annual reporting requirement

Institution	Date annual report received by Provincial Treasury	Annual report tabled at the Provincial Legislature
Departments:		
Environmental Affairs and Development Planning	31/08/10	30/09/10
Public Entity:		
CapeNature	31/08/10	30/09/10

Analysis

The Department has successfully tabled their 2009/10 AR as well as that of its public entity, within the prescribed timeframes.

Auditor-General's report on the 2009/10 financial year

The Department received a clean audit opinion in the 2009/10 financial year end and an unqualified audit opinion, with other matters in the 2008/09 financial year.

Table 83 Summary of Comparison between the 2008/09 and 2009/10 Audit Reports

Key finding	2008/09	2009/10	Status
Significant difficulties with regards to the availability of requested information to be used for audit purposes	X		Improved
Annual report was not submitted for consideration prior to the tabling of the auditor's report	X		Improved
Financial statements not subject to material amendments.	X		Improved
Lack of control processes and procedures designed and implemented to ensure the accuracy and completeness of reported performance information	X		Improved

Conclusion/recommendation

Based on the assessment, the Department is rated at a level 3 audible organisation. It is imperative that the Department adopt the draft Asset Management Policy and Strategy in order for all assets planning and budgeting to be aligned to the Department's strategic asset plans and budgets which will result in improved service delivery and achievement of objectives.

3.8.4 Liabilities Management

This section deals with the implementation and management of sound cash flow practices as well as the provision of assistance and training in respect of the 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 cash flow 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 and further improve departments and to enable them to reach a standard level of 3 +, new assessment tools were created to assist CFOs to have more control and insight over the functions relating to their banking sections.

The evaluation was based on the activities of the 2009/10 financial year and the findings were as follows:

Table 84 Assessment of Liabilities Management

Requirements	Weight	Standard Level 3 (<90%)	Standard Level 3+ (>90%)	Rating
Submission of Annual Provincial Cash flow Projections (Section 40(4)(a))	10%	By 28 February	By 15 February	7.50%
Monthly alignment of actual expenditure with available cash	20%	11 months compliance	12 months compliance	11.25%
Available Budget equal to available cash (annual)	20%	Not equal	Equal	20.00%
Surrender of voted Surplus Funds	10%	31 May	15 May	10.00%

Requirements	Weight	Standard Level 3 (<90%)	Standard Level 3+ (>90%)	Rating
Submission of monthly Bank Reconciliation	10%	Within 30 days after month end	Within 15 days after month end	10.00%
User account management (Dormant users, etc)	20%	User accounts reconciled on a quarterly basis	User accounts reconciled on a monthly basis	15.00%
Confirm reconciliation of monthly bank transfers	10%	Within 7 working days after calendar month end	Within 5 working days after calendar month end	10.00%
	100%			84.00%

The Department achieved an overall fmc rating of 3 (nominal compliance), which is in line with the 2009/10 financial year.

Submission of Annual Provincial Cash flow Projections

The Department obtained a rating of 7.50 per cent (nominal compliance). The Annual projections in respect of income and expenditure were received on 26 February 2010.

Monthly alignment of actual expenditure with available cash

The Department obtained a rating of 11.25 per cent (partial compliance). The department complied with 9 months.

Available Budget equal to available cash (annual)

The Department obtained a rating of 20 per cent (full compliance). The department did not spend more cash than available budget.

Surrender of voted Surplus funds

The department obtained a rating of 10 per cent (full compliance). Surplus funds were paid to the PRF on 14 May 2010.

Submission of monthly Bank Reconciliations

The Department was rated 10 per cent (full compliance). The monthly bank reconciliations were submitted within 15 days after month end.

User account management (Dormant users, etc)

The Department was rated 15 per cent (nominal compliance). It is preconceived that the department complied with the relevant requirements.

Confirm reconciliation of monthly bank transfers

The Department was rated 10 per cent (full compliance). The department confirmed and reconciled the monthly transfer schedule with Cash Management.

Conclusion/recommendation

The Department achieved an overall rating of 3.46 (nominal compliance), which is in line with the 2009/2010 financial year.

3.8.5 Supply Chain Management

Background

The rating is based on the SCM status verification assessment conducted in 2009/10 financial year, the Procurement Statistical report (2009/10) and findings in the AG's report (2009/10).

Institutionalisation

The department's AOS and its accompanying delegations were only reviewed in October 2009 since issued in 2004.

The SCM structure is vested within the structure of the CFO as required by section 16A4 of the National Treasury Regulations (NTR's). The current SCM structure consists of eight permanent officials.

The Department has only established the bid adjudication committee, the bid evaluation and specification committees are appointed on an ad hoc basis. The members of these two committees are appointed in writing.

The SCM officials received training as per their Individual Development Plan. Line function managers received informal, on the job training.

Internal Control and Compliance to SCM Policy and Prescripts

The Department's SCM structure incorporates varying levels of separation of duties.

The Department has not developed the monitoring mechanism to monitor compliance on SCM performance across the Department.

The Department maintains a proper record keeping of SCM data. A strong room is utilised where all bid documentation is housed.

The Auditor General's Performance Audit findings on the Appointment of Consultants revealed the following:

- The Department did not have a strategy and policy governing the use of consultants within the Department.
- Formal needs assessments were not conducted by the Department for the need to appoint the five consultants reviewed during the audit. The needs assessments were not performed as the department considered the motivation to go out on tender sufficient to warrant the utilisation of the consultant.
- The Department did not have a formal training strategy which made specific reference or provided guidance with specific reference to the transfer of skills when using consultants.
- The Department did not follow a competitive bidding process in the appointment of three (50 per cent) of the six consultants selected for the performance audit on the use of consultants. The motivations to deviate from competitive bid processes were approved although the reasons provided were not sufficiently supported with research/evidence and also did not adequately motivate the need for a limited bidding process.
- The Department did not perform a formal evaluation of the performance of the consultant in all six (100 per cent) consultants selected for the performance audit. The department did not consider a need to complete a formal performance evaluation of the work rendered by the consultant during the time of the project.

Reliability and Integrity of Data

The Department utilises the Electronic Purchasing System-Integrated (EPSi) to obtain quotations for the procurement goods and services between the designated thresholds. The Department has indicated that users of the system have been sufficiently trained

The EPSi statistics for the period under review would be as follows:

Number of quotation awards captured	:	369
Awards with HDI participation	:	155
Value of awards captured	:	R1 835 818.73
Value awarded to HDIs	:	R1 347 907.33

In terms of section 16A7 of the 2008 and 2009 Provincial Treasury Instructions (PTIs) departments are required to capture the detail of quotations invited via the EPSi on the system to ensure credibility of the data. The Department's capturing rate was 100 per cent as at March 2010.

The Department's reporting on awarded bids (statistical information) was in the correct formats within the set timeframes. The general bid/contract statistics for the period under review were as follows:

Bids Awarded	:	19
No. of limited bids	:	5
No. of contract extensions	:	1
Value of bids awards	:	R10 202 792.04
Value of limited bids	:	R1 721 638.07
Value of the contract extensions	:	R32 400.00

Comparison to the 2008/09 Review

The Department's AOS and its accompanying delegations were only reviewed in October 2009 since it was issued in 2004.

The bid committee system still operates in the same manner as in the previous year.

A number of deviations from the normal procurement procedures have decreased in the year under review (5) as compared to the previous year (8).

The Department utilises the EPSi to obtain quotations for procurement below the regulated threshold and has indicated 100 per cent capturing rate as at March 2010 which is a significant improvement when compared to the previous year (5 per cent). The Department's reporting on bids and the adherence to due dates has improved.

Rating in terms of the Financial Capability Model for SCM

In terms of the assessment processes performed, the Department is rated at TWO (2), for the period under review.

Conclusion/recommendation

Steps to take the Department to the next level of financial capability.

In terms of the 2009/10 and verification assessment process conducted at the Department, the following require attention by the Department:

- (a) Demand Management
- (b) Performance management
- (c) Contract Management:
- (d) Appointment of Consultants
- (e) Compliance to SCM policy and prescripts

3.8.6 Moveable Asset Management

Background

The Department was assessed and rated during 2009/10 financial year in terms of the financial capability model for Moveable Asset Management.

The rating was, however, not only based on the compliance/verification assessment report but also on other Asset Management reporting and findings, the AG's report and AM performance throughout the financial year.

Institutionalisation

In terms of sections 38(1)(d) and 44 of the PFMA, the Department must have an Accounting Officer System (AOS) and accompanying delegations to regulate day-to-day AM activities.

The last updated AOS was issued in 2004. The Department was in the process of finalising an updated AOS which was going to incorporate its strategies and plans which have been held in abeyance as the Provincial Treasury is in the process of updating Provincial requirements and drafting a Provincial AO Policy in terms of the Provincial Treasury Red Flag Programme.

The Supply Chain Management structure for the Department consists of 8 officials including the SCM manager. The Department avails its officials for training initiatives facilitated and arranged by the Provincial Treasury. However, it does not have a Skills Development Plan in place for Asset Management training and transfer of skills.

It was indicated that capacity challenges are hindering the progress of completing and implementing Asset Management Strategy and the Department could not attach time frames on the completion of the Asset Management strategy and asset plans.

Internal Control and Compliance to SCM Policy and Prescripts

Section 38(1)(d) of the PFMA states that the Accounting Officer is responsible for the management, including safeguarding and the maintenance of the assets. In order to give effect to this requirement, the Department must have an Asset Management strategy as per the National Treasury's Broad Implementation Plan.

It should be noted that the Department had not effectively and efficiently used the Asset Management Guidelines issued by PT on February 2008 to help the Department fast track the completion of the Asset Management Strategy.

The Department indicated that a draft Asset Management policy is in progress that provides for the alignment of assets to service delivery, asset replacement policy, asset plan, and asset acquisition plan.

The lack of segregation of duties, as indicated above also impacts on internal control for asset management.

The Department has limited control over its Asset Register as this function is outsourced. It was indicated that the Asset Register is updated once a month and the Department reconciles the assets with BAS, however the Asset Register provided to PT was incomplete.

The Operations and Maintenance plans are in draft format. In the interim, the Department is using the Guidelines issued by PT in February 2008 to conduct its Asset Management functions. The purpose of the Guidelines was to assist the Department to draft its own strategy.

Capacity challenges are hindering completion of this strategy and relevant plans accompanying it. Once the unit has sufficient staff, strategies should be completed soon and shortcomings should be minimal.

The Department did not dispose of any assets at the time of the assessment. It was indicated that there was a new disposal committee appointed by the CFO and mandated to conduct an investigation on items/assets to be identified and declared as redundant, surplus, obsolete, unserviceable and useless. Disposal plans will be incorporated in the Asset Management strategy.

The Department attempts maintaining internal control measures through: marking its assets and conducting stocktaking annually.

The Department should take cognisance of the shortcomings highlighted by the Auditor-General in terms of assets which are rated under the section "Compliance with accounting policies and standards" of the Financial Governance Review & Outlook 2010. These shortcomings, the instituted corrective measures and the implemented control measures will be closely monitored and assessed by the Provincial Treasury: Moveable Asset Management (MAM) unit to encourage and promote efficiency, effectiveness and to contribute to the planning and preparation for the asset verification assessment envisaged for the 2010/11 financial year.

Reliability and Integrity of Data

The physical verification assessment gave PT an opportunity to reconcile what was reported in terms of the progress made on the Project Dashboard and Risk Log by the Department against what was actually in place.

The Department regularly submits the Dashboard and Risk Log reports to Provincial Treasury. At the end of the 2009/10 financial year the Department indicated that it was:

- 76 per cent compliant in terms of Asset Management Plans
- 82 per cent compliant in terms of Asset Register
- 73 per cent compliant in terms of Accounting

It must be noted that the Dashboard and Risk Log Report is the Department's indication of its compliance to the National Treasury's Broad Implementation Plan which requirements ought to have been met by March 2008.

A asset verification was conducted by the Department and a stock take certificate was issued to PT: MAM.

Comparison to the 2008/09 Review

It should be noted that there was no physical verification assessment of assets performed by the Provincial Treasury in the 2008/09 financial year. The information pertaining to this year is based on what was submitted by the Department in terms of its progress as per the Project Dashboard and Risk Log. A physical verification of assets was performed for the 2009/10 financial year. Therefore for all intents and purposes, the findings of the 2009/10 financial year cannot really be compared to in the findings of the 2008/09 financial year.

The Asset Management Strategy is still in draft format.

The Department indicated that it was 100 per cent non-compliant on its Asset Management Plans in the 2009 FGR&O. Currently, for the year under review the Department has indicated that it is 76 per cent compliant.

The Department indicated it was 92 per cent compliant in terms of the requirements for an Asset Register for the 2009 FGR&O. The physical verification proved otherwise as it highlighted shortcomings on the Department's Asset Register. This is reflective of the regression in percentage as the Department was found to be 82 per cent compliant.

The Department was 53 per cent compliant to the Accounting requirements for the 2008/09 financial year and has indicated that it is of currently 73 per cent for the 2009/10 financial year.

Capacity and lack of skilled officials continues to be a hindering challenge for the Department.

The Department should take cognisance with regards to the shortcoming highlighted in terms of assets as noted by the Auditor-General and rated under the "Compliance with accounting policies and standards" section of the Financial Governance Review & Outlook 2010. These shortcomings, the instituted corrective measures and the implemented control measures will be closely monitored and assessed by the Provincial Treasury: Moveable Asset Management (MAM) unit to encourage and promote efficiency, effectiveness and to contribute to the planning and preparation for the asset verification assessment envisaged for the 2010/11 financial year.

Rating in terms of the Financial Capability Model for Moveable Asset Management

In terms of the assessment processes performed, the Department is rated at a level **ONE PLUS (1+)**, for the period under review. The "one plus" rating infers that the Department has made some progress from level one and although certain level two criteria may have been met, the Department has not met all the requirements of level two as yet.

Conclusion/recommendation

- Develop and implement an Asset Management Strategy and policies
- Enhance the monitoring of assets within the entire Department to ensure sustainable service delivery by means of developing an AM control framework.
- Capacitate the Asset Management unit and develop a skills development plan.
- Develop a basic AM control framework to safeguard and protect assets.
- A uniform life cycle of assets must be monitored.

- Ensure the Asset Register meets the minimum requirements for Asset Register as per the National Treasury's Asset Management Learner Guide.
- Ensure correct SCOA allocations.
- Develop a maintenance schedule for all asset categories
- Development of a Standard Operating Procedural manual.
- Compile an acquisition; replacement and disposal plan and incorporate them to the strategy.

3.8.7 Supporting and Interlinked Financial Systems

Skilled and capacitated users

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

Review

The evaluation was based on the activities of the 2009/2010 financial year and the findings were as follows:

Basic Accounting System (BAS)

Table 85 Management activities on Basic Accounting System (BAS)

Requirements	Weight	Standard Level 3	Standard Level 3+	Rating
Skilled and capacitated system users	30%	In accordance with profile	Various Modules	2
Optimal utilisation of system	20%	80% - 90%	91% - 100%	3
Month end and Year-end closure	5%	Own accord – due date	Own accord – prior date	3
System Controller Functions	30%	80 – 90%	91 – 100%	3+
Monitor Applicable Interfaces	15%	Intermittently	Daily	3+
Average Rating				3

The Department obtained an overall rating of 3 (nominal compliance).

Table 86 Skilled and capacitated system users

Number of officials confirmed	Number of officials attended	Number of officials did not attend	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
3	2	1	2	0

The Department maintained a financial management capability rating of level 2 (partial compliance) mainly due to all officials not being 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 more users trained.

Optimal utilisation of system:

The department achieved a rating of 3 (nominal compliance) for the optimal utilisation of the system.

Month end and Year-end closure:

The department achieved a rating of 3 (nominal compliance) as their month and year-end closure was done in accordance with the predetermined dates of National Treasury.

System Controller Functions:

The department achieved a rating of 3+ (full compliance), based on the following criteria:

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

Monitor Applicable Interfaces

The department achieved a rating of 3+ (full compliance) as their interfaces were monitored and reported on a daily basis.

Personnel and Salary Administration System (PERSAL)

Table 87 Management activities on Personnel and Salary Administration System (PERSAL)

Requirements	Weight	Standard Level 3	Standard Level 3+	Rating
Skilled and capacitated system users	30%	In accordance with profile	Various Modules	3
Optimal utilisation of system	20%	80% - 90%	91% - 100%	3
System Controller Functions	20%	80 – 90%	91 – 100%	3
Establishment Management	10%	Quarterly	Monthly	3
Adhere to Minimum Information Requirements	5%	Annually	Continuous process	2
Leave Audit	15%	Annually	Continuous process	3
Average Rating				3

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

Table 88 Skilled and capacitated system users

Number of officials confirmed	Number of officials attended	Number of officials did not attend	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
12	12	0	11	1

The department obtained a financial management capability rating of a level 3 (nominal compliance), all users are not trained according their profile.

Optimal Utilisation of system

The department achieved a rating of 3 (nominal compliance).

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 rating of 3 (nominal compliance) as the establishment is maintained on at least a quarterly basis.

Adhere to Minimum Information Requirements

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

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

Leave Audit

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

Logistical Information System (LOGIS)

Table 89 Management activities on Logistical Information System (LOGIS)

Requirements	Weight	Standard Level 3	Standard Level 3+
Skilled and capacitated system users	30%	In accordance with profile	All Modules
Optimal utilisation of system	20%	80% - 90%	91% - 100%
Days per issue	10%	5 days	3 days
Financial Controls	20%	Monthly	Continuous process
System Control Functions	20%	80 – 90%	91 – 100%

This Department is currently not using Logis, will be implemented for the financial year 2010/11.

3.8.8 Public Entity: Western Cape Nature Conservation Board

3.8.8.1 Performance Management

Non financial information

Annual Report 2009/10

The Annual Report provides comprehensive qualitative reporting and accompanying narrative which includes providing in depth information in respect of key achievement/challenges/ deviations (in conjunction with the quantitative reporting).

Strategic Plan 2010/11 – 2014/15

CapeNature tabled a revised Strategic Plan (SP) for 2010/11 – 2014/15 before the start of the 2010/11 financial year. The format of the Strategic Plan is in line with the generic guide for Strategic Plans issued by the National Treasury. The focus of the Strategic Plan is linked to and flows from the Strategic Plan (2010/11 – 2014/15) of the parent Department of Environmental Affairs and Development Planning.

Annual Performance Plan 2010/11

As part of Programme 5, namely Biodiversity Management of the Department of Environmental Affairs and Development Planning, the APP of CapeNature is one of the few public entities which demonstrate general compliance with regard to National Treasury Guidelines in respect of the following strategic documentation:

- i) The 2010/11 APP reflects clear entity strategic objectives, programme performance indicators/annual targets as well as specific performance indicators per quarter; and
- ii) The 2010/11 – 2014/15 Strategic Plan demonstrates an adherence to guidelines and format which broadly indicate the strategic overview, the situational analysis, the strategic objectives as well as the linkages to related provincial and other plans.

Overall the APP (in relation to related documents such as Annual Report and Strategic Plan) maintains consistency/logic and the targets generally adhere to the SMART principle.

3.8.8.2 Accounting policies and standards

The Western Cape Nature Conservation Board is a public entity that resorts under the control of the Department of Environmental Affairs and Development Planning.

CapeNature reported that it has a remote stand alone financial system that does not provide for real-time Business Intelligence and over which it has no direct control. Management of the accounting software had been outsourced to an external company and as a result CapeNature experiences certain management and compliance problems. It wishes to normalise the situation by acquiring an accrual based accounting system that can be managed by CapeNature, which will enable the entity to better comply with reporting requirements and improve control over assets and liabilities.

PT (Accounting) identified a number of key accounting policies and standards against which entities are rated in terms of compliance and its financial management capability. The purpose of the exercise is inter alia to monitor progress towards an improved financial management capability rating. Various tools are available to entities to ensure improved ratings, improved integrity of data and also that the financial reporting that is understandable, relevant, reliable and comparable. PT introduced various initiatives to address accounting matters in collaboration with the relevant entities. The entity made full use of all these opportunities and actively contributed with regards to the following:

- Workshops on reporting requirements
- Quarterly CFO's forum
- Bi-lateral discussions
- IYM reporting
- Submission of AFS for preview prior to 31 May
- Compilation of a prescribed audit file with supporting documentation

- Interim financial statements as at 30 September 2009 (a new initiative during 2009/10)

An assessment of the financial management capability of the Entity was undertaken based on 2009/10 AFS, Auditor-General of South Africa (AGSA) audit findings and IYM reporting, that revealed the following:

Accounting of assets

During Bi-lateral discussions held between the Entity and Provincial Treasury (Accounting) in March 2010, the entity indicated that it was experiencing difficulties with the verification of assets. The Entity also indicated that the introduction of an electronic purchase order system would address the problems being experienced pertaining to supply chain management and also enforce controls to ensure efficiency.

The AGSA reported during the 2009/10 audit process that the fixed asset register is not sufficiently complete and accurate to enable the easy identification and tracking of assets of this public entity. This is contrary to section 51(1)(c) of the PFMA, which stipulates that the accounting authority is responsible for the management, including the safeguarding, of assets of the public entity, and to section 51(1)(a)(i) which further states that the accounting authority must ensure that the public entity has and maintains effective, efficient and transparent systems of financial management and internal control.

The entity continues to perform at a level of less than 3 in terms of its financial management capability when compared to the previous assessment. The entity must address controls over its assets, perform the required physical verification on all assets, and management should ensure that the fixed assets register is updated continuously and in a timely manner.

Conclusion/recommendation

The entity operates at close to a level 3 financial management capability on average. It needs to improve controls over the verification of assets against the asset register and ensure that all movements in assets are recorded promptly and updated in the fixed asset register. It is envisaged that the introduction of an electronic purchase order system will facilitate this. It is also anticipated that the acquisition of an accrual accounting system will facilitate improved control over the books of account and financial reporting.

3.8.8.3 Corporate Governance

Western Cape Conservation Board received an unqualified audit opinion with other matters for the 2009/10 financial year as well as the 2008/09 financial year.

No significant shortcomings were identified in the analysis done on Western Cape Nature Conservation Board's checklist submitted for the Quarter ending 30 June 2010.

3.9 Department of Transport and Public Works

Overview

Financial management capability assessments of the main attributes were conducted and rated in terms of the assessment tools as contained in Chapter 2 of the FGRO 2010. The goal of these assessments is to collectively provide an overview of how the department (and its entities) is/are managed as well as recommendations to assist progress to a level 3+ financial management rating.

The following ratings were assigned per assessment area:

Performance Management

- Non financial information - level 3
- Financial information – level 3

Compliance with accounting policies and standards – level 2.5

Enterprise Risk Management – level 1

Corporate Governance - level 2.5

Liabilities Management – level 3

Supply Chain Management – level 2.5

Movable Asset Management – level 2

Financial Systems

- Systems usage – level 3
- Training - level 2

In view of the ratings above, an average rating of level 2.5 is achieved.

The Department has provided a comprehensive financial management improvement plan that inter alia covers the issues raised to move towards a level 3+ rating.

3.9.1 Performance Management

3.9.1.1 Non-financial information

The analysis of departmental performance information management uses the financial management capability model as a point of departure to provide an insight to the information presented in the departmental budget documentation including the Department's Strategic Plan (SP), Annual Performance Plan (APP), Annual Report (AR) and Quarterly Performance Reports (QPRs). The assessment gauges key aspects of the Department's performance information in order to determine the Department's capability level.

The assessment 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 level 4 financial management capabilities. The 2009/10 AR, the 2009/10 and 2010/11 APPs as well as the final 2009/10 QPR have been used in the assessment. The assessment also includes information based on the 2009/10 Auditor-General of South Africa (AGSA) audit report.

Organisational arrangements for managing Performance Information

The Strategic and Integrated Planning and Departmental Monitoring and Evaluation (M&E) capacity is located in two separate components within the Management sub-programme. Responsible managers with indirect reporting to the Accounting Officer/Executive Officer have been designated for strategic planning and M&E services.

Quarterly Performance Reporting on 2009/10 Predetermined Objectives

The Department of Transport and Public Works has submitted QPRs in the correct format on a quarterly basis. These reports reflected the annual as well as quarterly targets as contained in the Annual Performance Plan as well as progress on the targets.

During the course of the 2009/10 financial year the Department provided reasons for over and under performance and also implemented remedial steps for improved performance in some instances.

The Department developed a Monitoring and Evaluation Framework and is the process of developing a Manual to govern, amongst others, the completeness and accuracy of reported performance information. A process for the provision of a portfolio of evidence (POE) was conducted in respect of each performance measure that was reported on. Information on the POE is

filed by the relevant responsible line manager electronically in the Enterprise Content Management (ECM) system where it is accessible to all. M&E also interrogated and evaluated the accuracy and completeness of the POE.

Annual Report 2009/10

When comparing the performance information in the AR with the APP, all the performance measures defined in the 2009/10 APP are reported on in the 2009/10 AR. It is however noted that not all service delivery achievements have been reported on per sub-programme as required by the AR Guideline on General and Performance Information. There is also consistency between the unit of measurement used for the targets and the actual outputs in the AR. The AR may thus be used in conjunction with the APP to assess the Department's performance over the indicated financial year.

The Department provided a summary of the significant achievements of key service delivery areas within the Programmes for the 2009/10 financial year. Although a synopsis on the achievements has been provided, the Department did not directly link the specific outputs in terms of the targets that contributed towards achieving the Department's outcomes, which will invariably impact on the strategic priorities of government as required by the guide for reporting on performance information. The Department provided reasons for major variances between target and actual output in both the event of targets not being achieved and targets that were exceeded.

Strategic Plan 2010/11 – 2014/15

The Department of Transport and Public Works tabled a revised Strategic Plan (SP) for 2010/11 – 2014/15 before the start of the 2010/11 financial year. The Departmental Strategic Plan is in line with the generic guide for Strategic Plans issued by the National Treasury. The focus of the Strategic Plan is linking to and flowing from various plans developed within the Provincial Government of the Western Cape fulfilling its legislative mandate. The Strategic Plan for the Department of Transport and Public Works contains the Strategic goals and objectives to be attained by the Department over the 2010/11 – 2014/15 period.

Annual Performance Plan 2010/11

The Departmental APP is in line with the generic guide for Annual Performance Plans issued by the National Treasury. The Department referred to the Strategic Plan regarding the situation analysis of the performance delivery and organisational environment rather than presenting the situation analysis in the APP in correlation with the Strategic Plan. The Department

should therefore update and include the situation analysis information in future APPs.

The APP conforms to the programme structure prescribed by the National Treasury for provincial Transport and Public Works departments. Strategic objectives, as well as strategic objective indicators and programme performance indicators are presented for each programme. It is however recommended that the Department present the latter information per sub-programme as required by the Framework for Strategic Plans and Annual Performance Plans prescribed by National Treasury. National sector-specific programme performance indicators as well as provincial specific indicators are presented in the 2010/11 APP. In terms of the Framework for Strategic Plans and Annual Performance Plans, departments must present programme performance indicators and annual targets over the MTEF as well as quarterly targets in a separate table in the APP. Annual outputs were not presented in the estimated quarterly output table, which could provide information on the timelines of the outputs.

The understanding of the reporting period is a challenge specifically regarding target setting. For example in Programme 4: Public and Freight Transport, the Department indicated that "Number of operating licenses issued" has a quarterly reporting period, but an annual target is presented; another example relates to Programme 5: Traffic Management, the performance indicator is "Number of vehicles weighed overloaded as percentage of total vehicles weighed in a year". The reporting period for the latter is reflected as quarterly with quarterly targets, which is not totally clear.

It is important that the performance indicators need to be logically consistent with the defined strategic objectives and goals. For example strategic objective 2.6 relates to socio-economic development, job creation and the equity regarding awarding contracts of which the baseline refers to the value of contracts. When comparing the performance indicators to the strategic objective, baseline and strategic goal, only one of the five performance indicators namely: "Number of work opportunities created" refers to the strategic objective and none to the strategic goal: "to lead the development and implementation of provincial infrastructure and property management in the Western Cape".

Part C of the Framework for Strategic Plans and Annual Performance Plans require of departments to outline the outputs to be achieved through conditional grants. The Department of Transport and Public Works, although receiving 4 conditional grants, did not present the required information in the 2010/11 APP. It is therefore recommended that the Department fully adheres to the requirements of the Framework for Strategic Plans and Annual Performance Plans.

Conclusion/recommendation

The evaluation in terms of guidelines and legislative requirements of the 2009/10 APP and QPR, the 2009/10 AR and the 2010/11 APP revealed that the Department is, according to the performance management framework, almost operating at a level 3 auditable organisation. The Department therefore already operates according to some of the criteria set to operate at the control level.

Although QPRs were submitted in the correct format on a quarterly basis, timely corrective measures to address non performance were not implemented.

The 2009/10 AR includes the entire spectrum of sector specific as well as the provincial specific performance indicators as per the 2009/10 APP. Although the Department reported on all the performance indicators in the AR, not all deviations from the targets were clearly explained.

Sector specific as well as provincial specific performance measures are reflected in the 2010/11 APP and targets were set for the 2010 MTEF. Some of the current year targets were also estimated per quarter in the 2010/11 APP to track progress during the course of the year. To reach a financial management capability rating of level 3, which measures compliance and control, the Department should follow the AR Guideline on General and Performance Information supplied by the Provincial Treasury. This guideline requires from departments to report performance per sub-programme and state the reasons, detailing the factors that contributed to the over or under performance, for major variances between targets and actual performance. Formats of the SP and APP must comply with all aspects of the National Treasury Guideline on Strategic/Annual Performance Plans and where applicable all targets must be set per quarter in the APP. Performance information should be relevant to service delivery and reliable with evidence. The Department also needs to implement a process flow for quarterly performance reporting, which needs to address accountability, revision and credibility of data. The Guide for the Implementation of Provincial Quarterly Performance reports provides guidance on the production of quality performance information.

General recommendations to improve the overall reliability and usefulness of performance information include Accounting Officers ensuring that an overall performance management system should be in place and documented, sufficient appropriate audit evidence and source documentation exist, there are appropriate information systems to facilitate the preparation of a performance report that is accurate, complete and valid and adequate control processes and procedures should be designed and implemented to

ensure the accuracy, completeness and validity of reported predetermined objectives/performance information.

To reach a financial management capability rating of level 4, which measures how resources are used, the Department should also move beyond compliance to focus on costing outputs and instituting practices that would identify those critical outputs that would have a knock-on effect to achieving departmental goals and outcomes. The move beyond compliance involves expanding the focus to include the relationship between inputs and outputs and directing inputs and outputs closer toward the achievement of the desired outcomes and impact. Going forward the Department should ensure a stronger linkage between the Provincial Strategic Objectives, SP, APP and Budget.

3.9.1.2 Performance management assessed based on financial information

As per section 40(4) of the Public Finance Management Act, 1999 (Act No. 1 of 1999), the Department submitted In-year monitoring (IYM) reports by the 15th of each month, providing 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 BAS/Vulindlela downloads were done monthly, with variances indicated to the CFO office and cleared in the succeeding month.

Adjustments Budget 2009

The Department timely submitted its adjustments estimate within Treasury timeframes and it was comprehensive in terms of section 31 of the Public Finance Management Amendment Act, 1999 (PFMA). It was in line with National Treasury's standardised adjustments estimates format.

Quarterly quantitative performance

When reviewing 2009/10 quarterly spending, Transport and Public Works had for the fourth quarter ending March 2010 expended R1.263 billion (32.57 per cent) of total expenditure which came to R3.879 billion.

Comparatively, Transport and Public Works spent R771.922 million (19.90 per cent) of total expenditure during the first quarter, R855.889 million (22.06 per cent) during the second quarter and R987.671 million (25.46 per cent) during the third quarter.

During 2008/09 the Department incurred last quarter expenditure of R873.096 million or 31.56 per cent of the total expenditure for 2009/10 totaling R2.766 billion.

Expenditure for the fourth quarter in 2009/10 is R390.497 million or 44.72 per cent more than spending over the same period during the previous financial year.

Virements

The Department effected virements, which amounted to R24.500 million, in the 2009/10 financial year, representing 0.59 per cent of the adjusted budget. In 2008/09 the Department affected virements of R19.115 million which accounted for 0.62 per cent of the adjusted budget.

Misclassification of expenditure 2009/10

The Department was monthly requested to interrogate its financial data and to correct inconsistencies in the financial system before the monthly BAS forced closure dates. Through dedicated efforts over several months the Department managed to bring down its count of possible misclassified payment transaction from an initial unacceptable level to a manageable level.

Conditional Grant expenditure

The following conditional grants were allocated to the Department from national departments to advance national objectives in the Province:

Infrastructure Grant to Provinces (IGP)

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 both 2009/10 and 2008/09 the Department disbursed its full IGP allocation, which comprised R364.644 million during 2009/10 and R299.002 million during 2008/09 .

The Department displayed sound capacity to expend its 2009/10 IGP allocation and obviated a roll-over of unspent funds.

Devolution of Property Rates Grant

The grant is transferred to the Province to enable Transport and Public Works to be accountable for the payment of provincial property rates to municipalities in respect of provincial government owned properties. Spending during 2009/10 amounted to R250.285 million (93.10 per cent) and was R18.546 million below the total available grant provision of R268.831 million.

All claims were not paid due to accounts received after the financial year-end as well as delays in the transfer of new sites for the Departments of Education and Health.

Transport Disaster Management Grant

The grant is transferred to the Province to relieve the effects of severe floods in specific identified areas. Spending on the Transport Disaster Management Grant for 2009/10 aggregated to R204.061 million (52.25 per cent), which was R186.490 million below the available provincial provision of R390.551 million.

As a result of a combination of the late approval of the rollovers and receipt of the new allocation, the magnitude thereof and design and procurement lead times, under spending of R186.490 million occurred on the grant.

2009/10 Expenditure outcome

The Department had for 2009/10 spent R3.872 billion or 92.85 per cent (under spending of 7.15 per cent) against the adjusted budget of R4.170 billion. This, following a total net increase of R647.231 million (18.37 per cent) on the main budget of R3.523 billion, resulted in under spending of R297.990 million, for which rollover to 2010/11 was requested.

During 2008/09, the Department had over the same period ending March 2009 incurred aggregate expenditure of R2.766 billion or 89.81 per cent against the total adjusted budget amounting to R3.080 billion (resulting in under spending of R313.933 million), following a total increase of R469.645 million (18.00 per cent) on the main budget of R2.621 billion.

Flood damage is a natural phenomenon that has become an annual occurrence with varying impact. Flood damage repair causes the crowding out of existing projects and causes undue pressure on limited resources. In the 2009/10 Adjustments Estimate R390.551 million in the form of a national Transport Disaster Management Grant was appropriated, consisting of rollovers from the previous financial year of R273.651 million and a new allocation of R116.900 million. As a result of a combination of the late approval of the rollovers and receipt of the new allocation, the magnitude thereof and design and procurement lead times, under spending of R186.490 million occurred on the grant. If this under spending is left out of the

equation, then the spending performance for the Vote reflects a spend result of 97.05 per cent or 2.51 per cent below the adjusted appropriation bringing the expenditure close to the 2 per cent under spending norm.

No fiscal dumping as well as any unauthorised expenditure has been noted. However, the Auditor-General has highlighted irregular expenditure amounting to R212.919 million and fruitless and wasteful expenditure amounting to R1.087 million.

"March spike" anomaly

Due to the nature of its activities, the Department has increased expenditure in the last financial quarter of each year. Contributing factors include the builders' holidays in December and the fact that the execution phase of contract is normally later in a financial year, while the initial part of the year is spend on planning. It is also in the summer months when the weather permits road resealing and other earth works in the Province.

In March 2010 the Department realised actual expenditure of R604.120 million or 15.57 per cent of the total expenditure of R3.879 billion. This is R218.741 million or 56.76 per cent more than over the same period in the previous financial year, considering that in 2008/09 the Department incurred March 2009 actual expenditure of R385.518 million or 13.93 per cent of total expenditure of R2.766 billion.

Revenue collection

Transport and Public Works realised total own receipts amounting to R981.059 million or 113.09 per cent of the adjusted receipts budget totaling R867.513 million. This is R12.773 million or 1.32 per cent more than revenue collection over the same period during 2008/09.

When reviewing 2008/09, the Department collected own receipts amounting to R968.286 million or 110.16 per cent of the adjusted receipts budget totaling R879.001 million.

Personnel budget

The degree of variance between original compensation of employee cash flow 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 indicate potential unrealistic estimates, which calls for funds to eventually be shifted elsewhere in the Department to be applied meaningfully, normally during the adjustments estimates process.

During the review period, the Department cited total expenditure of R304.423 million or 90.84 per cent of the compensation of employees adjusted budget amounting to R335.112 million, which translated into average real expenditure of R25.369 million per month across the whole establishment which totaled 1 657 officials in March 2010 compared to 1 602 during March 2009.

When comparing actual expenditure to original cash flow, the Department originally anticipated to spend R331.333 million on compensation of employees by March 2010 at an average rate of R27.611 million per month.

During 2008/09 the vote spent a total of R260.926 million or 96.13 per cent of the compensation of employees adjusted budget of R271.437 million at an average rate of R21.744 million per month which resulted in total under spending of R1.029 million by March 2009.

Conclusion/recommendation

The Department has exhibited expenditure close to 2 per cent under spending norm and all rollovers were within the provisions of the National Treasury Regulations.

The Department is making rapid strides towards becoming a level four auditable public organisation in the near future.

3.9.2 Compliance with Accounting policies and standards

PT (Accounting) identified a number of key accounting policies and standards against which departments are rated in terms of compliance and its financial management capability. The purpose of the exercise is inter alia to monitor progress towards an improved financial management capability rating. Various tools are available to departments to ensure improved ratings, improved integrity of data and also that the financial reporting that is understandable, relevant, reliable and comparable. PT (Accounting) introduced various initiatives to address accounting matters in collaboration with the relevant departments. The department made full use of all these opportunities and actively contributed with regards to the following:

- Workshops on reporting requirements
- Two-monthly CFO's forum
- Monthly FA's forum
- Bi-lateral discussions
- IYM reporting

- Submission of AFS for preview prior to 31 May
- Compilation of a prescribed audit file with supporting documentation
- Interim financial statements as at 30 September 2009

The Interim financial statements as at 30 September 2009 was a new initiative by PT. Accounting assessments were conducted on the interim financial statements by Accounting Services in terms of a pre-determined assessment framework. Internal Audit also conducted a review of the processes and the controls implemented by departments on the implementation of the interim financial statements and issued a report on its findings per department. The Accounting assessment findings were issued to the department and corrective measures followed up in terms of action plans to ensure that these issues did not re-appear at the year-end.

The Department diligently attends and participates in the PT driven Financial Accountants and Chief Financial Officers Forums and attend workshops offered by the Treasury where financial management issues are discussed amongst all the provincial departments.

In its endeavours to enhance financial management, the Department has instituted various control measures and processes. This has certainly contributed to improved financial management and the Department needs to be congratulated on receiving an unqualified audit report with emphasis of matters for the 2009/10 financial year.

An assessment of the financial management capability of the Department of Transport and Public Works based on the 2009/10 audit findings and IYM reporting revealed the following:

Management of and reporting on suspense accounts

The Department reported to PT (Accounting) on a monthly basis on the state of control and suspense accounts, together with action plans and time frames to address uncleared balances. These issues of concern were also addressed during bilateral and informal engagements that took place during the year between the Department and Provincial Treasury: Accounting.

Monthly reconciliations of all control and suspense accounts are performed by the Department to confirm the balance of each account. The Department maintains a financial management capability of level 3.

Accounting of assets

In respect of accounting for Immoveable assets, Provincial Treasury provided further guidance on the National Treasury Sector Specific Guide on Immoveable Assets. This guidance ensured full disclosure of immovable assets by the Department in terms of its existing assets register.

However, material misstatements raised in the AGSA management report on the 2009/10 AFS highlights the need for improved processes on the recording of immovable asset movements, as well as stringent management controls over these processes to improve the quality of information used for AFS purposes in order to avoid the possibility of material misstatements.

In this regard the Department's performs at a financial management capability rating of level 2+ and it is recommended that the Department strengthens its management controls on processes and procedures for the management of its asset register.

Financial reconciliations

The Department performs BAS/PERSAL, BAS/LOGIS and BAS/PMG financial reconciliations on a monthly basis and all differences are addressed on a continuous basis. The Department maintains its financial management capability level of 3 and to move to level 4 should clear all differences on a monthly basis before book closure instead of reporting differences as reconciliation items.

Supporting documentation

For the period under review the Department maintained adequate controls over supporting documentation as reported in the monthly IYM reports and in the audit file submitted for the Interim Financial Statements for 2009/10. In terms of the 2009/10 audit the AGSA did not elevate any concerns on supporting documentation.

The Department maintains a financial management capability rating of level 3+.

Expenditure – Payments and journals

In the management report to the department, the AGSA highlighted various cases of misstatements in the AFS, non-compliance to Treasury Regulation 8.2.3 relating to invoices not paid within 30 days after receiving the invoice and lease payments not paid in terms of the lease agreement.

Non-compliance issues places a question mark on the integrity of financial information used throughout the year for management and reporting purposes and ultimately on the quality of information used to compile the interim and annual financial statements.

It is recommended that the current processes and management controls be assessed for effectiveness and monitoring should be enhanced to ensure that transactions comply with the prescribed frameworks and guidelines in order to move from its current level 2+ to a level 3 financial management capability rating.

Recording and maintenance of State Guarantees

The value of State Guarantees was disclosed as prescribed. The Department continues to maintain controls over State Guarantees as indicated in the monthly IYM reports and included in the audit file submitted for the Interim Financial Statements. When compared to the previous assessment the Department continues to maintain a level 3 financial management capability rating.

Management of lease liabilities

The Department continues to maintain controls over the management of lease liabilities as indicated in the monthly IYM reports. The AGSA reported for the financial period under review that misstatements in the AFS for lease liabilities amounted to R1.5 million.

Although departmental processes on the management of lease liabilities may be effective, it is important that management controls be assessed and improved to identify and close gaps in order to progress from its current level to a level 3 financial management capability rating.

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

The Department reported in the monthly IYM reports that financial information is submitted to the CFO and AO on a monthly basis throughout the period under review as a monitoring and control measure to ensure that non-compliance issues are highlighted, investigated and acted upon to ensure that further control measures are instituted.

In this regard the Department operates at a level 3+ financial management capability rating when compared to the prior year's assessment and all monthly/quarterly/annual reporting is taking place in terms of legislative requirements.

Conclusion/recommendation

In conclusion, the Department of the Transport and Public Works has improved its financial management capability ratings in most of the areas assessed for compliance with accounting policies, procedures and standards. In general the department is operating close to a level 3 financial management capability. The most significant area to be addressed in terms of the above assessment would be the accounting of assets, not losing sight of all other issues highlighted by Provincial Treasury in this report.

3.9.3 Corporate Governance

3.9.3.1 Enterprise Risk Management

This section provides guidance, criteria and norms and standards for 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.

In a letter dated 8 February 2010 the Department informed the Provincial Treasury that it will not be able to fully comply with the section 38(1)(a)(i) of the PFMA. This was mainly due to a high vacancy rate as result of the moratorium placed on the filling of vacancies and the corporatisation of the function.

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 between 2 and 5 years ago and risk response strategies were not developed. Regular risk assessments are essential to give assurance to the Department's business processes.

Internal environment

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

Operational Risk Assessment

The risk event has not been identified and assessed on an inherent level. Existing controls were not identified and documented.

Overall assessment

Based on the above information, the Department has achieved a rating of level 1, as the Department has met all the set criteria and norms and standards for level 1. In order to achieve a rating at the next level, level 2, the Department needs to achieve all of the following set criteria and norms and standards:

Strategic Risk Assessment

Strategic risks identified.

Risk response strategies developed and relevant processes developed.

Organisational structure supports developed processes.

Internal Environment

Risk Management Philosophy is articulated in writing and communicated to all staff in writing.

Management philosophy and operating style fully reflects acceptance of risk management principles.

Risk appetite defined and communicated to all staff in writing.

Operational Risk Assessment

Action plans developed.

2008/09 and 2009/10 Comparison

For the 2009/10 review, it is evident that the Department has made no improvement as compared to the 2008/09 financial year.

Normative Financial Management

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

The source documents used were the Normative Measures Quarterly Report for departments and the PFMA Compliance Checklist for public entities for the quarter ending June 2009, and the 2008/09 Auditor-General's report for the Department and the Public Entity.

Analysis of Normative Measures Quarterly Report

The CFO structure: Human Resource Capacity

A comparison was made of the vacancy rate within the CFO structure as at December 2009 and June 2010. At December 2010, the vacancy rate was at 27 per cent. By June 2010 this rate was reduced to 24 per cent. Though considerably higher than the national norm of 5 per cent, the improvement in this area is acknowledged, considering the moratorium placed on the filling of vacant posts.

Table 90 Extraction of vacant posts in Finance Component

Component/Unit	Post Description	Post level	No of vacant posts
Financial Accounting	Director	13	1
	Personal Assistant	5	1
	Assistant Director	10	1
	State Accountant	8	1
	Financial Clerks	5	3

Resources are being shared to alleviate the capacity constraints faced in these units, but this temporary solution is hampering service delivery and is placing an extra strain on staff to deliver on additional objectives. In addition, staff is expected to deliver these additional tasks without being equipped with the necessary skills as the number of staff involved in structured training programmes in the finance component is reported to be at 22 per cent. According to the Quarterly Questionnaire as at December 2009, only 32 per cent of employees within the CFO structure had finance related qualifications or were studying towards this qualifications.

Tabling of Annual Reports

The Department must annually table their Annual Report, as prescribed, in the Legislature. Compliance with these requirements is reflected in table below:

Table 91 Compliance with annual reporting requirement

Institution	Date annual report received by Provincial Treasury	Annual report tabled at the Provincial Legislature
Department:		
Transport and Public Works	31/08/10	30/09/10

Analysis

The Department has successfully tabled their 2009/10 Annual Report within the prescribed timeframe.

Auditor-General's report on the 2009/10 financial year

The Department received an unqualified audit opinion, with other matters in the 2009/10 which is a marked improvement from the qualified audit opinion of the 2008/09 financial year. As depicted below, the Department has significantly reduced the number of findings in the audit report. However, the four areas that remained unchanged are a concern. Action must be taken by the Department to resolve these prior year's audit findings.

Table 92 Summary of Comparison between the 2008/09 and 2009/10 Audit Reports

Key finding	2008/09	2009/10	Status
Material corrections made to the financial statements submitted for audit	X		Improved
Significant deficiencies in the design and implementation of internal control in respect of Financial and risk management	X		Improved
Prior years Audit findings have not been substantially addressed	X		Improved
Information systems were not appropriate to facilitate the preparation of a performance report that is accurate and complete/Lack of sufficient audit evidence	X	X	Unchanged
Lack of control processes and procedures designed and implemented to ensure the accuracy and completeness of reported performance information	X	X	Unchanged
The Department did not have/implement an approved fraud prevention plan as required by Treasury Regulation 3.2.1	X		Improved
Irregular Expenditure	X	X	Unchanged
Unauthorised Expenditure	X		Improved
Material under spending on the budget	X	X	Unchanged

Overall assessment

In light of the aforementioned the Department has progressed remarkably from receiving a qualified audit opinion to an unqualified audit opinion. The Department must review the possibility of filling key posts in the CFO structure even by means of short term contracts as these posts are critical to improving

financial management and service delivery in the Department. In general, skills development of the staff across the board in the CFO structure should be seriously addressed and all staff must be subjected to structured training programmes. Based on the information in the assessment, the Department is operating at a level 2.5 audible organisation.

3.9.4 Liabilities Management

This section deals with the implementation and management of sound cash flow practices as well as the provision of assistance and training in respect of the 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 cash flow 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 and further improve departments and to enable them to reach a standard level of 3+, new assessment tools were created to assist CFOs to have more control and insight over the functions relating to their banking sections.

The evaluation was based on the activities of the 2009/10 financial year and the findings were as follows:

Table 93 Assessment of Liabilities Management

Requirements	Weight	Standard Level 3 (<90%)	Standard Level 3+ (>90%)	Rating
Submission of Annual Provincial Cash flow Projections (Section 40(4)(a))	10%	By 28 February	By 15 February	7.50%
Monthly alignment of actual expenditure with available cash	20%	11 months compliance	12 months compliance	20.00%
Available Budget equal to available cash (annual)	20%	Not equal	Equal	20.00%
Surrender of voted Surplus Funds	10%	31 May	15 May	10.00%
Submission of monthly Bank Reconciliation	10%	Within 30 days after month end	Within 15 days after month end	9.17%
User account management (Dormant users, etc)	20%	User accounts reconciled on a quarterly basis	User accounts reconciled on a monthly basis	15.00%
Confirm reconciliation of monthly bank transfers	10%	Within 7 working days after calendar month end	Within 5 working days after calendar month end	7.50%
	100%			89.17%

The Department achieved an overall rating of level 3 (nominal compliance), which is in line with the 2009/10 financial year.

Submission of Annual Provincial Cashflow Projections

The Department obtained a rating of 7.5 per cent (nominal compliance). The Annual projections in respect of income and expenditure were received on 26 February 2010.

Monthly alignment of actual expenditure with available cash

The Department obtained a rating of 20 per cent (full compliance). The Department complied with 12 months.

Available Budget equal to available cash (annual)

The Department obtained a rating of 20 per cent (full compliance). The Department did not spend more cash than available budget.

Surrender of voted Surplus funds

The Department obtained a rating of 10 per cent (full compliance). Surplus funds were paid to the PRF on 14 May 2010.

Submission of monthly Bank Reconciliations

The Department was rated 9.17 per cent (nominal compliance). The monthly bank reconciliations were submitted within 30 days after month end.

User account management (Dormant users, etc)

The Department was rated 15 per cent (nominal compliance). It is preconceived that the Department complied with the relevant requirements.

Confirm reconciliation of monthly bank transfers

The Department was rated 7.50 per cent (nominal compliance). The Department should confirm and reconcile the monthly transfer schedule with Cash Management.

3.9.5 Supply Chain Management

Background

During the 2009/10 financial year, a Supply Chain Management status verification assessment was performed at the Department of Transport and Public Works via a one-on-one engagement with the department. The objective of this assessment was to gauge the progress made by the

Department since the 2006/07 SCM compliance assessment. The assessment is further based on the AG's report and statistical data information supplied by the department to the Provincial Treasury.

Institutionalisation

In terms of sections 38(1)(a)(iii) and 44 of the PFMA, Accounting Officers must establish an Accounting Officer System (AOS) and accompanying delegations to regulate day-to-day SCM activities and ensure the effective and efficient management of SCM processes and procedures. The updating of the AOS and delegations is vital in order to capture the latest legislation issued by both the National and Provincial Treasuries.

The Department has provisionally complied with the requirements as indicated in paragraph 2.1 above however, the delegations have not been updated to alleviate the risks identified within the Department during 2008/09. It must also be pointed out that the Department has recently been making a concerted effort in addressing the updates of the AOS and accompanying delegations. The Department of the Premier has established a Standing Committee to compile a minimum set of delegations for SCM for the Province. The Department has representation on this committee.

Due to the modernisation process, a total review and reassessment of SCM policy, the department has been unable to issue their AO system and accompanying delegations.

As part of the departments re-engineering process for SCM, the following documents have been drafted and are in the process of being work shopped:

- Development of a conceptual design for the departmental SCM roster system;
- Assessment for expenditure from a SCM perspective;
- Development of a standard operating procedural manual for management and treatment of SCM abuse;
- Development of a standard operating procedural manual for the establishment and implementation of SCM monitoring and evaluation and complaints forum;
- Ad hoc services manual relating to Financial Management micro structure; and
- Facilitating SCM specialist workshop to develop conceptual design for Accounting Officers System Blue print.

The vacancy rate within the SCM unit is currently being addressed. The Department is undertaking a total re-engineering of the SCM structure and is in the process of filling vacant posts on the current structure. This could not previously have been effected as a result of the moratorium imposed in the Province and also due to the fact that the department changed MEC's at regular intervals who in turn placed an embargo on the filling of posts.

The Department in its 2008/09 annual report noted the following in respect of SCM:

"Supply chain management (SCM) was introduced to the Department through the regulated Framework for SCM, which took effect 5 December 2003. This governance action signifies moving away from a traditional rule-based concept of procurement to the modernised concept of SCM. In broad terms SCM is a set of inter- and intra organisational processes that produces and delivers goods and services to customers. The implementation and improvement of SCM as contemplated in the framework is an ongoing process. It is recognised that the SCM System in its current form is not adequately aligned to meet the business and control objectives of the Department. A critical factor in relation to alignment is the way in which the department conducts its business (i.e. centralised, decentralised or a hybrid structure), and institutionalisation of the concept (changing the mindset). With the macrostructure for the department approved, the development of the organisational design for the SCM and the review of the microstructures can commence. Substantial investment has already been made in training efforts. The existing Accounting Officer's SCM System has been reviewed and the first draft working document distributed to stakeholders to solicit comments."

The Department has given effect to the required committee system by establishing specification, evaluation and adjudication committees. All committee members are appointed in writing and training for such members has been provided so as to capacitate members to perform their duties effectively and efficiently.

SCM officials have been trained on a regular basis. The Department has for the past 3 years undertaken the following training:

- Programme in Public Procurement and Supply Management;
- Advance programme Public Procurement and Supply Management;
- Basic Asset Management;
- Project Management;
- Contract Management;
- Strategic Sourcing; and
- Report writing skills.

Training in respect of the CIDB has also been effected and is ongoing. Workshops have been held to discuss compliancy matters involving the implementation of the CIDB Act and regulations, Contractor Development Programmes workshops and various workshops on 'Toolkit' training.

Internal Control and Compliance to SCM Policy and Prescripts

The Department has progressively made attempts to address the concerns, gaps and non-complaint areas as identified in the 2006/07 assessment. Generally, the areas to be addressed by the Department during the 2010/11 financial year are:

- (a) Demand Management;
- (b) Acquisition Management;
- (c) Contract Management;
- (d) Monitoring of SCM performance; and
- (e) Management of Risk and Risk Mitigation.

Demand and Acquisition management

The Department is taking progressive steps in this area. Although the Department is undertaking a re-engineering process, planning sections within the Branches plan for projects as is reflected in the annual performance plan, the budget and the strategic plan of the Department. A procurement plan is being developed based on a demand management standard and operating procedures. This will be effected in the re-engineering phase.

SCM officials have received training in the crucial area of demand management. Courses such as Strategic Sourcing, Project Management and the UNISA courses are facilitated by the SCM unit.

The Department has a risk plan for SCM that forms part of the overall risk plan of the Department. This plan will also be updated in the re-engineering process.

Monitoring mechanisms have been developed to monitor compliance of SCM. It was indicated that SCM performance assessments are also conducted. The Department undertakes compliance assessments on all SCM related matters within the Department, including CIDB operations. This unit is responsible for:

- SCM implementation plan in terms of which compliance and performance are measured;
- Operation plan;

- Inspection plan per Branch in entire department;
- Assessments of SCM and effecting corrective measures, identifying control gaps and aligning standard operating procedures;
- Implementing Register of Audit findings containing recommendations, interventions and responsible person; and
- Intervention training.

Consultants

The department in its 2008/09 annual report noted the following in respect of consultants contracted-in by the Department: *"The Provincial Treasury undertook an assessment on the procurement and use of specific consultants contracted-in by the Department. The interim report was concluded on 31 March 2009. The findings, root causes and recommendations require deepened investigation to examine the whole population and not just the sample. This action is necessary to take the appropriate remedial action. Work on the matter commenced by the department."*

Commodity analysis will be undertaken as part of the re-engineering process within the Department. However as the procurement consultants are in respect of services required by the Department, SCM officials are trained in respect of all commodities where consultants are involved. A list of consultants and the rotation thereof in place, however this will be addressed fully in the re-engineering process.

The Auditor-General of South Africa engaged with the Head of the Department to conduct a performance audit of the use of consultants, contractors and agency/outsourced services by the Department. A summary of the key findings are as follows:

- Formal needs assessments were not conducted of the need to appoint consultants;
- A competitive and transparent appointment process was not always followed during the appointment of consultants;
- Declaration of financial and related party interests not completed and signed when limited bidding was used;
- Contract administration was inadequate as appointment letters, formal contracts and SLAs were not issued timely or not issued at all;
- The department did not effectively monitor the performance of consultants to ensure the timely completion of deliverables;

- Inadequate financial and administrative control over payment of invoices contributed to duplicate payments, payment of a credit note and payments of invoices without the required supporting information;
- Completed deliverables of consultants were not implemented or utilised;
- Use of limited bidding was not reported to the Provincial Treasury and the Auditor-General of South Africa; and
- The actual expenditure on consultants as reported in the department's annual report for the 2008-09 financial year did not agree with the expenditure as per the basic accounting system (BAS) for the 2008/09 financial year

Stemming from the abovementioned process conducted by the Auditor General, corrective measures envisaged by the AO to address areas of improvement were documented depicting timeframes and responsibilities.

Reliability and Integrity of Data

The Department utilises the Electronic Purchasing System-Integrated (EPSi) to obtain quotations for the procurement goods and service between the designated thresholds. The Department has indicated that users of the system have been sufficiently trained with new users being training as and when required.

The EPSi statistics for the period (1 April 2009 to 31 March 2010) under review would be as follows:

Number of quotation awards captured	:	1443
Awards with HDI participation	:	1244
Value of awards captured	:	R26 862 537.51
Value awarded to HDIs	:	R21 086 565.95

In terms of section 16A7 of the 2008 and 2009 Provincial Treasury Instructions (PTI's) Departments are required to capture the detail of quotations awarded via the EPSi on the system to ensure credibility of the data. The Department's capturing rate was 54 per cent, which reflects a vast improvement from the 2008/09 financial years where the percentage was 5 per cent.

The Department's reporting on awarded bids (statistical information) was in the correct formats within the set timeframes. The general bid/contract statistics for the period under review were as follows:

Bids Awarded	:	356
No. of limited bids	:	27
Value of bids awards	:	R1 445 236 825.89
Value of limited bids	:	R60 607 457.38

The Department maintains a database of awarded contracts and is thus able to report statistics to both National and Provincial Treasuries.

Comparison to the 2008/09 Review

The bid committee system is operational, functional and meets the regulatory and policy requirements. Members are being trained regularly.

The SCM structure will also be addressed in the re-engineering process. The structure addresses the legislative requirements of SCM.

The Department must continue to address SCM standardisation by developing internal policies, practice notes and procedural notes. The Department's procurement has mostly been centralised at the Head Office.

The Department continues to perform regular assessments on SCM performance and has a programme in place to effect corrective measures.

The Department utilises the EPSi to obtain quotations for procurement below the regulated threshold and has indicated 54 per cent capturing rate which is a significant improvement when compared to the previous year (5 per cent). The Department's reporting on bids and the adherence to due dates is maintained to be at a reasonable responsive level.

In addition the performance audit on consultants highlighted further issues as highlighted above.

Rating in terms of the Financial Capability Model for SCM

It terms of this assessment, it has been noted that the Department has progressed considerably since the previous assessment performed during the 2006/07 financial year.

In terms of the assessment processes performed, the Department is rated at TWO PLUS (2+), for the period under review. The "two plus" rating infers that he Department has made some progress from level two and although certain

level three criteria may have been met, has not met all the requirements of level three as yet.

Steps to take the Department to the next level of financial capability

In terms of the 2009/10 and verification assessment process conducted at the Department, the following require attention by the Department:

- (a) Demand Management: process must be defined fully to give effect. However the department will incorporate this during the re-engineering phase.
- (b) Consultants: Give effect to the proper management of consultants, proper terms of reference, performance and skills transfer. The recommendations highlighted in the Auditor General's performance audit of the Department must also be taken cognisance of. These include:
 - Conducting formal needs assessments, before consultants are appointed. Furthermore, procedures detailing the steps to be followed to perform the needs assessments for the appointment of consultants should be developed;
 - Ensure that officials that are involved in the appointment of consultants through limited bidding processes complete and sign declarations of financial and related party interests. The appointed consultants should also be required to declare their financial and related party interests;
 - Ensure that the use of limited bidding for all contracts exceeding R1 million is reported to the Provincial Treasury and the Auditor-General of South Africa;
 - Ensure that the information reported in the Department's annual report on the utilisation of consultants is complete and accurate. The expenditure as per the annual report should reconcile with the expenditure in basic accounting system;
 - Consultancy payments should be monitored against the approved maximum contract value to ensure that the total cost of the consultant remains within the approved contract value. Project managers should motivate the need to exceed the approved contract value and prior approval should be obtained from the relevant delegated official;
 - Appointment letters, formal contracts and service level agreements should be issued to consultants timely. Time frames should be determined within which this contractual documentation has to be

approved and concluded. Furthermore, payments should not be made before the contractual documentation has been approved and concluded; and

- Consider taking disciplinary action against project managers that did not obtain approval for the use of limited bidding in terms of the requirements of the Accounting Officer's supply chain management system and the Accounting Officer's delegation.
- (c) Acquisition Management: continue to develop and refine current policies and procedures. Training and staff development should remain a high priority. The department has effected training on SCM but also needs to address training for line functionaries. Ensure compliance to the EPSi system requirements and policy. Maintain and improve on adherence to reporting requirements.
- (d) Monitoring of SCM Performance: The refinement of the assessment framework and methodology as well as a retrospective analysis of SCM performance,
- (e) Management of Risk and Risk Mitigation: Maintain, update and give effect to risk and action plans.

During the 2010/11 financial year the Provincial Treasury will focus on the development and implementation of the requirements of the SM Blueprint developed in terms of the Premier's Modernisation Programme, which will inter alia include aspects such as integrated training and the refinement of SCM policy and procedures once approval has been granted by Cabinet in the 3rd quarter, 2010/11.

3.9.6 Moveable Asset Management

Background

The Department was assessed against the financial capability model for moveable assets taking into account reporting in terms of the National Treasury's Broad Implementation Plan (inclusive of the Project Dashboard, Risk Log and Questionnaire) and the AG findings.

Institutionalisation

In terms of the reporting to Provincial Treasury in respect of the National Treasury's Broad Implementation Plan the Department indicated that during the year under review a 40 per cent improvement has been made in order to give effect to the Asset Management plans.

Although the Accounting Officers System does not provide for Asset Management and is currently being reviewed, the Department utilises the National Treasury Learner Guide as well as the Asset Management Guidelines issued by Provincial Treasury to guide the asset management process.

The structure for moveable asset management within the Department depicts cross-functional duties of officials dealing with assets.

Asset Clerks attended the LOGIS asset management course which is presented by Provincial Treasury and the Department was also represented at the Asset Management workshops facilitated by National Treasury.

Internal Control and Compliance to AM Policy and Prescripts

The Department currently functions on a decentralised basis whereby Central Supply Chain Management is responsible for the management/co-ordination/overseeing/reporting/compliance role of all movable assets on behalf of the entire Department. It therefore stands to reason that especially at institutional level asset management is not a segregated function within the Department.

The Department utilises LOGIS and thereby has an asset register which meets the minimum requirements as determined by National Treasury.

It should be noted that the Department has raised its concern in respect of the National Treasury Broad Implementation Plan reporting template which does not provide for the "work-in-progress" option. It is thereby forced to report as "postponed/outstanding" resulting in an inaccurate perception on the implementation or development of its Asset Management policies or strategies or any asset management requirements. However it must be noted that this does not preclude the Department from noting its progress in the risk log.

The Department should take cognisance with regards to the shortcomings highlighted in terms of assets as noted by the Auditor-General and rated under the "Compliance with accounting policies and standards" section of the Financial Governance Review and Outlook 2010. These shortcomings, the instituted corrective measures and the implemented control measures will be closely monitored and assessed by the Provincial Treasury: Moveable Asset Management (MAM) unit to encourage and promote efficiency, effectiveness and to contribute to the planning and preparation for the asset management verification assessment envisaged for the 2010/11 financial year.

Reliability and integrity of Data

Due to the Department's challenge as expressed in terms of reporting on the Project Dashboard and Risk Log it is difficult to track the credibility of the data captured by the Department. The planned physical verification assessment planned for the 2010/11 financial year would provide insight to Provincial Treasury to better gauge the extent of the progress made in terms of compliance to National Treasury's Broad Implementation Plan.

The Department concluded its annual stock takes and subsequently forwarded the annual stock take certificates as required by Treasury Circular 25/2010 to Provincial Treasury.

Comparison to the 2008/09 Review

In 2008/09 the department reported that it was:

- 100 per cent non-compliant to Asset Management Plans
- 62 per cent compliant with its Asset Register; and
- 100 per cent non-compliant with accounting requirements.

In 2009/10 the department reported that it was:

- 60 per cent compliant
- 80 per cent compliant with its asset Register; and
- 60 per cent compliant with the Accounting requirements.

It is clear from the information above that the Department has made considerable improvement in terms of compliance to the National Treasury Broad Implementation Plan.

The postponed or outstanding areas as reported are as follows.

- Planning - Definition of assets, Roll of assets in program delivery, Non-asset solutions, asset life-cycle, Life-cycle costing, Accountability and responsibility, Elements of the best Asset strategy;
- Acquisition - Analysis of alternatives, Development of an Acquisition Plan, Receipt and acceptance of assets, Establishing ownership and control;
- Operation and Maintenance - Establishing performance indicators, development of Operation and Maintenance Plan, Monitoring condition and use, maintenance scheduling, Tracking of assets, transfers, loans, off-site repairs, Safeguarding and protecting of assets; and

- Disposal - Identification of surplus, obsolete and under-performing assets; Replacement Strategy, evaluation of disposal alternatives; Write-off damaged or missing assets; Development of disposal plan.

Rating

Hence it may be concluded that the Department is rated at a level 2.

Steps to take the Department to the next level of capability

- Fast tracking the postponed/outstanding requirements of the National Treasury's Broad Implementation Plan for Asset Management;
- Standardise AM procedures;
- Ensure and monitor compliance to the relevant policies and procedures;
- Enhance the monitoring of assets to ensure sustainable service delivery;
- Establish a basic AM control framework to safeguard and protect assets; and
- The development and implementation of relevant asset plans.

3.9.7 Supporting and Interlinked Financial Systems

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

Review

The evaluation was based on the activities of the 2009/10 financial year and the findings were as follows:

Basic Accounting System (BAS)

Table 94 Management of activities on BAS

Requirements	Weight	Standard Level 3	Standard Level 3+	Rating
Skilled and capacitated system users	30%	In accordance with profile	Various Modules	2
Optimal utilisation of system	20%	80% - 90%	91% - 100%	3
Month- and Year-end closure	5%	Own accord – due date	Own accord – prior date	3
System Controller Functions	30%	80 – 90%	91 – 100%	3+
Monitor Applicable Interfaces	15%	Intermittently	Daily	3+
Average Rating				3

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

Table 95 Skilled and capacitated system users

Number of officials confirmed	Number of officials attended	Number of officials did not attend	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
80	42	38	40	2

The Department maintained a financial management capability rating of level 2 (partial compliance) mainly due to the high percentage of officials who is confirmed but did not attend courses, as well as all officials not 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 more users trained.

Optimal utilisation of system

The Department achieved a financial management capability rating of level 3 (nominal compliance) for the optimal utilisation of the system.

Month- and Year-end closure

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

System Controller Functions

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

- Logging of calls to the Provincial Helpdesk;
- Maintenance of Security Profiles;
- The reinstate of Transaction Processing Rules;
- Requesting/monitoring and distributing of automated Basic Accounting System reports;
- Maintenance of segment details;
- Maintenance/update of departmental parameters;
- Provide practical individual training to users;

- Monitor Technical stability of work station including Local area network; and
- Assisting non-financial users of Basic Accounting System.

Monitor Applicable Interfaces

The Department achieved a financial management capability rating of level 3+ (full compliance) as their interfaces were monitored and reported on a daily basis.

Personnel and Salary Administration System (PERSAL)

Table 96 Management of activities on PERSAL

Requirements	Weight	Standard Level 3	Standard Level 3+	Rating
Skilled and capacitated system users	30%	In accordance with profile	Various Modules	2
Optimal utilisation of system	20%	80% - 90%	91% - 100%	3
System Controller Functions	20%	80 – 90%	91 – 100%	3
Establishment Management	10%	Quarterly	Monthly	3
Adhere to Minimum Information Requirements	5%	Annually	Continuous process	2
Leave Audit	15%	Annually	Continuous process	3
Average Rating				3

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

Table 97 Skilled and capacitated system users

Number of officials confirmed	Number of officials attended	Number of officials did not attend	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
19	11	8	8	3

The Department maintained a financial management capability rating of level 2 (partial compliance) mainly due to the high percentage of officials who is confirmed but did not attend courses, as well as all officials not 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 more users trained.

Optimal Utilisation of system

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

System Controller Functions

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

Establishment Management

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

Adhere to Minimum Information Requirements

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

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

Leave Audit

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

Logistical Information System (LOGIS)

Table 98 Management of activities on LOGIS

Requirements	Weight	Standard Level 3	Standard Level 3+	Rating
Skilled and capacitated system users	30%	In accordance with profile	All Modules	2
Optimal utilisation of system	20%	80% - 90%	91% - 100%	3
Days per issue	10%	5 days	3 days	2
Financial Controls	20%	Monthly	Continuous process	3
System Control Functions	20%	80 – 90%	91 – 100%	3
Average Rating				3

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

Table 99 Skilled and capacitated system users

Number of officials confirmed	Number of officials attended	Number of officials did not attend	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
81	50	31	47	3

Although there was an increase in nominations the Department maintained a financial management capability rating of level 2 (partial compliance) mainly due to of officials who is confirmed but did not attend courses, as well as all officials not 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 to getting more users trained.

Optimal utilisation of the System

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

Not all payments for goods and services are processed through LOGIS - the Department should maintain their assets per LOGIS Selection WMMT - Maintain Serial Detail Information.

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 2009/10 financial year was 8.5 days, the performance of the Department is therefore below the standard.

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

Financial Controls

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

The BAS/LOGIS Reconciliation was done on a monthly basis. The Department has timeous payments and clears the Resubmission Queue per LOGIS Procurement Integration constantly.

System Control functions

The Department achieved a financial management capability rating of level 3 (nominal compliance). User profiles and password confidentiality are maintained.

Conclusion/recommendation

Many meetings, interactions and reports are currently been develop to assist with the departments capabilities.

3.9.8 Trading Entity: Government Motor Transport (GMT)

The Government Garage (GG) was inherited by the Western Cape Provincial Government from the pre-1994 Regime. The financial transactions of the GG were governed by prescripts issued by the then Department of State Expenditure. In essence, from a financial transacting perspective the GG was treated as a "trading account". Since the coming into effect of the PFMA, the "trading account" evolved into a "trading entity", namely Government Motor Transport Trading Entity (GMT). GMT that operates under the administration of the Department of Transport and Public Works provides state vehicles asset tariffs, for use by national and provincial departments as well as other entities. The trading entity provides the services within a prescribed framework contained in Chapter 19 of the Treasury Regulations.

In terms of TR18.2 the Annual Financial Statements (AFS) of trading entities must conform to GAAP as an accounting framework to present AFS. GMT could not record its financial transactions to conform to GAAP as the accounting systems (BAS and previously FMS) are both cash based while GAAP requires an accrual based accounting system. All transactions are recorded on BAS.

GMT instituted the following remedial interim steps within the accounting system constraints to address the non-compliance of the AFS in accordance with the standards of GAAP:

- The preparation of a separate GAAP compliance implementation framework.
- The preparation of accounting policies.
- The compilation of Accounting Standard operating procedures.

- The transferring of skills integrated with the process in the aforementioned steps.

Furthermore, the expert knowledge and skill of a chartered accountant was contracted to assist. To normalise the situation and to prevent the conversion into GAAP, it became essential to acquire a GAAP compliant accounting system in terms of Treasury Regulation 17.3 to record transactions in GAAP. The National Treasury granted approval for the new system.

The entity is currently busy with the implementation of a new system, which will address all concerns related to the operations of GMT. The new system is planned to be fully implemented by 1 April 2011.

This assessment was conducted based on the 2009/10 audit findings by the AGSA and the monthly IYM reporting of the entity.

3.9.8.1 Accounting policies and standards

Accounting of assets

The AGSA reported that GMT understated the value of GG vehicles due to the residual values not being re-assessed as required in terms GAAP standards. These vehicles had reached the end of its economic life but were still in use. In this case, it appears that processes needs to be enhanced to ensure that GAAP accounting policy requirements are met with efficient management controls put in place.

Management controls to ensure the compliance with GAAP accounting policies relating to the accounting of assets remains a challenge and GMT is currently operating at a level 2+. It should be moving towards a level 3 financial management capability rating, by implementing enhanced management controls over the accounting of assets in terms of prescribed accounting policy requirements.

Financial reconciliations

Management controls over the validity and accuracy of debtors through monthly reconciliations appears to be lacking since the AGSA has highlighted trade receivables amounting to R15.7 million that had already been settled, which was included in the debtor's listing at year-end. This management control deficiency could result in the overstatement of debtors and a misstatement in the AFS had it not been corrected.

GMT needs to enhance management control processes and monitoring over debtors management in order to improve its current financial management capability from a level 2+ to a level 3 rating.

Supporting documentation

GMT has reported in monthly IYM reports that transactions are verifiable based on adequate supporting documentation. No significant difficulties were reported by the AGSA throughout the audit process. The entity is currently operating at a level 3+ financial management capability rating and could progress to level 4 when information on supporting documentation supports management planning and decision-making.

Expenditure – Payments and journals

Management controls over financial transactions appears to be lacking when taking into consideration the following instances of non-compliance that should have been prevented:

Journals: Conversion journals from cash to accrual process at year end were not approved and authorised as reported in the management report of the AGSA.

Payments: The AGSA also reported in the management report that the entity is not settling all its accounts of suppliers within 30 days of receiving the invoice, resulting in non-compliance with TR8.2.3.

GMT needs to improve its management controls over payments and journals to ensure that financial information is credible and accurate for management reporting purposes. GMT is therefore operating at a financial management capability rating of level 2+ and moving towards a level 3.

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

GMT compiles a comprehensive monthly report on its financial performance and position that informs TPW, its parent department, and the Provincial Treasury of its state of affairs. With the implementation of a GAAP accounting systems GMT should be in an even better position to provide more meaningful information and manage its operation more effectively. Currently, GMT is reporting to all management levels as prescribed and is therefore rated at level 3 financial management rating that could improve to level 3+ when based on a GAAP reporting framework.

Management controls

From the above assessments it is evident that GMT has instituted processes and controls as part of the management of the GMT as a trading entity. These processes and management controls will, however, required further enhancement with the implementation of GAAP accounting to be supported

by the new accrual accounting system. Financial management controls, processes and reporting will have to be revised to ensure full compliance with GAAP accounting standards and prescripts.

The entity currently operating at a level 2+ financial management capability rating within the current situation and management controls and procedures needs to be enhanced in order to comply with GAAP accounting frameworks.

Conclusion/recommendation

In order to achieve overall level 3+ financial management capability rating, GMT should ensure compliance with GAAP accounting policies and standards and ensure that all the above issues raised during the 2009/10 assessment is addressed. This will also set the basis for effectively implementing accrual accounting processes to attained accurate accounting information for management decision making for the 2010/11 financial year.

3.9.8.2 Corporate Governance

GMT received an unqualified audit opinion with other matters for the 2009/10 financial year as well as the 2008/09 financial year. No significant shortcomings were identified in the analysis done.

3.9.8.3 Supply Chain Management and Moveable Asset Management

Background

During the 2009/10 financial year the entity was assessed in terms of a physical asset management verification assessment conducted by Provincial Treasury, the AG's findings and rated in terms of the financial capability model for Moveable Asset Management.

Institutionalisation

GMT has developed a standard operating procedural (SOP) manual relating to Property, Plant and Equipment (PPE) which deals with acquisition procedures, procedures during the useful life of the PPE, procedures at the end of the useful life of the PPE and the Annual Financial Statement Disclosure requirements. It also focuses on accounting procedures, financial control procedures and budgeting procedures. In addition, it notes legislative compliance procedures but does not specify the relevant legislation and prescripts which should be complied with.

The structure of GMT is deemed adequate and reflects its core business which is the fleet of Provincial Government of the Western Cape.

The Entity further undertakes training and skills development around its core business in terms of capacitating its officials and maintaining institutional memory.

Internal Control and Compliance to AM Policy and Prescripts

Separation of duties in terms of its core business is clearly recognisable from the organisational structure of GMT.

LOGIS is used to procure all goods and services required by GMT and further give effect to the management and accounting for assets, other than the fleet. Fleetman is in turn utilised to account, manage and control the fleet.

All procurement and provisioning processes undertaken by the Entity is done in accordance with the Accounting Officer's System of its parent Department (DTPW).

The Fleetman asset register is reconciled on a monthly basis with the Logis vehicle acquisitions to ensure correctness. It must be noted that the Fleetman Asset Register which meets the minimum requirements in terms of the National Treasury's Broad Implementation Plan, is updated daily and is recognised as the official asset register of GMT. It must be further noted that the LOGIS Asset Register is only kept for record purposes as it cannot provide for Depreciation in terms of the GAAP requirements.

GMT has also processed mapped the replacement and the repairs of its fleet and developed guidelines in terms of the disposal of vehicles under its control. However, the Head Office of the Department of Transport and Public Works is responsible for the disposal of the other assets and ensuring compliance in relation thereto.

Reliability and Integrity of Data

Although all data associated with the fleet is captured and stored on the Fleetman system and therefore provides credible information with regards to the fleet, not all assets are captured onto this system allowing the Entity to manage and maintain two asset registers. However, this is not considered problematic as the fleet represents 95 per cent of its assets on the Annual Financial Statements rendering the assets other than the fleet as insignificant.

In terms of the manual and guidelines developed by the Entity annual stock takes should be performed. This did occur and the stock take certificates were presented to the Head Office who in turn submitted it to the Provincial Treasury as required by Treasury Circular 25/2010.

Rating

Hence it may be concluded that the GMT is rated at a level 3.

Steps to take the institution to the next level of financial capability

- Integration of financial and non-financial systems;
- Continuous Moveable Asset Management capacitation and training programme in place; and
- Cost effective management of risk.

3.10 Department of Agriculture

Overview

Financial management capability assessments of the main attributes were conducted and rated in terms of the assessment tools as contained in Chapter 2 of the FGRO 2010. The goal of these assessments is to collectively provide an overview of how the department (and its entities) is/are managed as well as recommendations to assist progress to a level 3+ financial management rating.

The following ratings were assigned per assessment area:

Performance Management

- Non financial information - level 3
- Financial information – level 3

Compliance with accounting policies and standards – level 2.5

Enterprise Risk Management – level 2.8

Corporate Governance - level 3

Liabilities Management – level 3

Supply Chain Management – level 3

Movable Asset Management – level 2.5

Financial Systems

- Systems usage – level 3
- Training - level 2

In view of the ratings above, an average rating of level 2.78 is achieved.

The Department has provided a comprehensive financial management improvement plan that inter alia covers the issues raised to move towards a level 3+ rating.

3.10.1 Performance Management

3.10.1.1 Non-financial information

The analysis of departmental performance information management uses the financial management capability model as a point of departure to provide an insight to the information presented in the departmental budget documentation including the Department's Strategic Plan (SP), Annual Performance Plan (APP), Annual Report (AR) and Quarterly Performance Reports (QPRs). The assessment gauges key aspects of the Department's performance information in order to determine the Department's capability level according to the following characteristics: level 1 start-up level (no proper control environment and/or roles and functions not clearly separated); level 2 development level (proper internal control framework and performance reporting processes); level 3 (focus is on compliance and control); level 4 (information level, measuring how resources are used) level 5 (managed level focus on balancing efficient and economical use of resources with quality/effectiveness of results achieved); and level 6 (focus on continuous improvement and learning).

The assessment 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 level 4 financial management capabilities. The 2009/10 AR, the 2009/10 and 2010/11 APPs as well as the final 2009/10 QPR have been used in the assessment.

Organisational arrangements for managing Performance Information

The Department has officials that are responsible for planning, reporting and monitoring and evaluation of non-financial information. These persons liaise with the programme managers and report to the Chief Financial Officer in the Financial Management sub-directorate.

Quarterly Performance Report on 2009/10 Predetermined Objectives

The Department submits the quarterly narrative report and an Excel reporting model. The report provides an overview of the service delivery and organisational environment, strategic overview, key policy developments, legislative changes, recent quarterly outputs and achievements and the reasons for deviating from the performance targets set.

Also in this report, the Department identifies challenges that prevent the Department from delivering on its mandate and proposes solutions to mitigate such challenges. These are reported in a way that enable facilitates monitoring of performance information.

Draft Annual Report 2009/10

The assessment generally confirmed consistency between the AR, the APP and the QPR of the Department for the financial years 2009/10. The consistency is in respect of the strategic objectives, the performance indicators and the actual targets that the Department has set to achieve at the beginning of the financial year. These are largely set in a way that would enable the monitoring of performance in the Department.

An example of a randomly picked strategic objective aimed to implement the Land Redistribution for Agricultural Development (LRAD) programme for historically disadvantaged communities as a stepping stone to improved opportunities identified the measurable objective as the food security projects in poor communities in the Western Cape. The performance measure indicator thereof is the number of food insecure households benefitting from the interventions. An annual performance target of 550 households is set, of which 130 households were envisaged to be assisted in the first quarter.

The Department has developed the strategic objectives per sub-programme and made a distinction between the national transversal performance indicators and the Western Cape specific indicators in the APP and have reported against these in the AR. Deviations from the annual targets are identified per sub-programme and per performance indicator and substantiated as such in the AR.

The format of the APP generally complies with the National Treasury Guideline on Strategic and Annual Performance Plans. All sector-specific performance measures defined at national level are included in the APP. A distinction has been made between the annual and quarterly performance targets for both transversal and Western Cape specific indicators and the Department has reported on all targets set in the APP.

The Department has achieved its objectives and targets set in the APP and these are reflected in the AR. The Department has adequately substantiated the deviations from the targets set and provided the resolutions undertaken to mitigate the challenges that have been experienced.

Strategic Plan 2010/11 – 2014/15

The Department has submitted a revised Strategic Plan (SP) for 2010/11 - 2014/15 as required. The formats, structure and content of the SP is in line with the generic guide for Strategic Plans issued by the National Treasury.

Annual Performance Plan 2010/11

The APP complies with the uniform programme structure defined by the national government. The national transversal indicators are separated from the Western Cape specific indicators and are all included in the APP. Both sets of performance indicators are linked to the strategic objectives in each programme and sub-programme. The corresponding targets are set for the year and for each quarter, where applicable. Most of the targets are measurable in terms of numbers.

For the quarterly performance targets set, the Department reports on the progress made in achieving these targets, the reasons for deviations from the target (where applicable) and the remedial steps that would be undertaken to address the challenges experienced.

Conclusions and recommendations

Overall, the Department complied with the legislative and technical requirements of the QPR, APP and the AR. According to the performance management framework, the Department operates close to the Financial Management Capability Model level 3 and already shows some few aspects of level 4 capability.

The Department validates actual outputs on a quarterly basis, explains main deviations from targets and provides resolutions thereof. Also, the Department quarterly identifies the challenges faced and responses on actual outputs.

General recommendations to improve the overall reliability and usefulness of performance information include Accounting Officers ensuring that an overall performance management system should be in place and documented, sufficient appropriate audit evidence and source documentation exist, there are appropriate information systems to facilitate the preparation of a performance report that is accurate, complete and valid and adequate control processes and procedures should be designed and implemented to ensure the accuracy, completeness and validity of reported predetermined objectives/performance information.

Going forward the Department should ensure strong linkages between the Provincial Strategic Objectives, SP, APP and the Budget. The Department needs to focus on efficacy and transparent processes, systems and internal controls to improve the management of performance information.

In order to reach a financial management capability level 4, which measures how the resources are used, the Department should move beyond compliance to focus on costing outputs and instituting practices that would identify critical outputs that would have a knock-on effect on achieving departmental outcomes. The move beyond compliance involves expanding the focus to include the relationship between inputs and outputs.

According to the performance management framework, Casidra has complied with some of the aspects of Financial Management Capability Model level 3. In order to reach a financial management capability level 3, the entity should develop and meet all statutory and regulatory requirements such as the timely submission of the CP and the AR. To a large extent these documents should follow the National Treasury guidelines in terms of the formats, structure and the content.

The performance indicators should be defined and be reported on consistently in the CP and the AR. In instances where the entity could not achieve the targets set, the deviations should be adequately substantiated and the resolutions undertaken to mitigate the challenges that have been experienced to be provided.

3.10.1.2 Performance management assessed based on financial information

As required in Section 40(4) of the Public Finance Management Act No. 1 of 1999, the Department submitted by the 15th of each month actual payments and receipts collected for that month, as well as projections of anticipated payments and receipts collection for the remainder of the financial year.

Reported payments and receipts were verified against the Vulindlela system, reporting done on a monthly basis and material deviations followed-up by the CFO office.

Annual outcome

Agriculture has for the period ending 31 March 2010, incurred payments of R490.117 million (99.33 per cent) against an adjusted allocation of R493.468 million following a total net adjustment of R94.861 million (23.8 per cent) on the main allocation of R398.607 million. The Department under spent its 2009/10 adjusted allocation by R3.351 million (0.67 per cent), well within the two per cent under spending norm.

In 2008/09 the outcome was 94.4 per cent with payments of R355.699 million against an adjusted estimate of R376.644 million.

The Department improved on its 2008/09 financial performance.

Quarterly spending performance

Agriculture had for the fourth quarter, 2009/10, expended R207.940 million (42.43 per cent) of total payments of R490.117 million versus R86.681 million (17.69 per cent) during the first quarter, R95.521 million (19.49 per cent) during the second quarter and R99.975 million (20.4 per cent) during the third quarter.

During 2008/09, the Department spent R74.0 million (20.82 per cent) of the total payments during the first quarter, R88.5 million (24.89 per cent) during the second quarter, R80.7 million (22.7 per cent) during the third quarter and R112.3 million (31.6 per cent) during the fourth quarter.

The Department spent more during the fourth quarter of 2009/10 than the year before as a result of rapid dissemination of supplemental national funds of R94.861 million received during the adjusted estimates towards Agriculture Disaster Management in the Province.

Transfer payments

Agriculture made total transfers of R185.782 million (98.57 per cent) against an adjusted transfers provision of R188.48 million following a hefty augment of R115.289 million (157.52 per cent) on the main allocation of R73.191 million during the adjusted estimate.

Transfers to Casidra (Pty) Ltd, its implementing arm, for infrastructure and start-up projects came to R148.269 million (79.81 per cent) of the total amount transferred during 2009/10. An amount of R102.850 million (69.37 per cent) of the R148.269 million transferred to Casidra (Pty) Ltd was done during the fourth quarter of 2009/10.

The Department displayed sound capacity to expend its 2009/10 additional allocation and obviated a huge roll-over of unspent funds.

Adjustments estimates 2009/10

Adjustments to the main estimate were received on time and in line with the provisions of Section 31 of the Public Finance Management Act, 1999 (PFMA).

During 2009/10 the Department introduced adjustments of R94.861 million (23.80 per cent) on the main allocation of R398.607 million. The adjustments mainly comprised approved roll-overs of R15.421 million, additional national

Agriculture Disaster Management funds of R76.900 million and other shifts totaling R2.540 million. The Department also retained additional receipts from 2009/10 of R1.315 million.

During the previous financial year, the Department passed adjustments of R31.940 million which equated to a 9.2 per cent increase on the 2008/09 main estimates of R344.704 million.

The main appropriation was adjusted upward by 23.80 per cent during 2009/10 mainly due to the augmentation of the Agriculture Disaster Management grant by national Agriculture to meliorate the effects of drought and floods suffered in the province.

Post Adjusted Estimates adjustments

For the past financial year, total net virements affected after the adjusted estimate came to R9.042 million or 1.83 per cent of the adjusted budget, compared to R7.500 million or 2.0 per cent in the financial year before.

An additional R15.305 million (3.10 per cent of adjusted budget) was shifted after the 2009/10 adjusted estimate, compared to R12.668 million (3.36 per cent) in 2008/09. This cites an Improvement on the previous year.

"March Spike" anomaly

Payments in this sector are seasonal, due to summer harvesting in the Western Cape, and tend to hike towards the end of the financial year. The spiked payments during March 2010 can predominantly be attributed to delayed procurement of goods and services, journalising of inter-departmental claims, late tranche transfers to NGOs or bulk transfers to public entities as a result of additional funds passed during the adjustments estimates. However, the biggest contributor was the disaster funds transferred to Casidra (Pty) Ltd. during February and March 2010 exceeding R84 million.

During 2009/10 payments totalled R490.117 million of which R130.853 million (26.70 per cent) was transacted during March 2010 compared to R55.8 million (15.7 per cent) of total payments of R355.6 million during 2008/09.

March payments proliferated relative to that of a year before.

National Conditional Grant payments

Conditional grants payments for 2009/10 came to R158.816 million (32.40 per cent) of total payments of R490.117 million.

Land Care Programme Grant: Poverty Relief and Infrastructure Development

The purpose of the grant was to achieve maximum efficiency from the use of natural resources and to ensure record productivity, food security and job creation. During 2009/10 the Department disseminated the full allocation of R3.085 million by the third quarter of the financial year, similar as in the 2008/09 financial year.

Comprehensive Agricultural Support Programme Grant (CASP)

This grant was appropriated to the Province to extend the provision of agricultural support services and to advance agricultural growth among emerging farmers. Payments of R57.598 million (99.93 per cent) were made against this grant of R57.640 million. In 2008/09 the full provision of R49.205 million was spent.

Agriculture Disaster Management grant

The Agriculture Disaster Management grant was introduced to the Province to aid areas seriously affected by natural floods and droughts. During 2009/10 the Department spent R92.143 million (97.21 per cent) against this allocation of R94.788 million, following an adjusted estimate increase of R84.788 million on the main allocation of R10 million. A total of R90.495 million (98.22 per cent) of this allocation was spent during the fourth quarter with the unspent portion of R2.645 million available for roll-over to the 2010/11 financial year.

During 2008/09 the Department incurred payments of R5.687 million or 41.8 per cent against the total DoRA provision of R13.575 million.

The Department showed capacity to exceed its previous year's disaster grant payouts.

Ilima/Letsema Projects grant

This grant aimed to assist vulnerable farming communities to achieve an increase in agricultural production. The Department had incurred payments of R5.990 million (99.84 per cent) of the R6 million allocation, resulting in under spending of R10 000. However, no objectives were not met by not spending this R10 000.

Receipts

Agriculture collected R24.255 million (104.09 per cent) of the augmented receipts estimate of R23.303 million, following an adjustment of R1.315 million (5.99 per cent) on the main estimate of R21.988 million. This represents an over collection of R952 000, requested for retention in 2010/11.

During the previous financial year the Department collected R25.518 million (106.8 per cent) against the revised own receipts estimate of R23.875 million.

While the Department over collected on its 2009/10 receipts estimates, the receipts forecasts remain comparatively understated relative to actual past receipts collections.

Conclusion/recommendation

The Department spent within the two per cent under spending norm, all rollovers were within the provisions of the National Treasury Regulations, and no last-minute fiscal dumping could be drawn from the information reported.

The Auditor-General's Office did not identify any material irregularities respecting payments and receipts for 2009/10.

Altogether and mindful of budget implementation findings, the Department is closer to reaching a level four auditable public organisation than it was a year ago.

3.10.2 Accounting policies and standards

PT (Accounting) identified a number of key accounting policies and standards against which departments are rated in terms of compliance and its financial management capability. The purpose of the exercise is inter alia to monitor progress towards an improved financial management capability rating. Various tools are available to departments to ensure improved ratings, improved integrity of data and also that the financial reporting is understandable, relevant, reliable and comparable.

PT (Accounting) introduced various initiatives to address accounting matters in collaboration with the relevant departments. The Department made full use of all these opportunities and actively contributed with regards to the following:

- Workshops on reporting requirements
- Two-monthly CFO's forum
- Monthly FA's forum
- Bi-lateral discussions
- IYM reporting
- Submission of AFS for preview prior to 31 May
- Compilation of a prescribed audit file with supporting documentation
- Interim financial statements as at 30 September 2009

The Interim financial statements as at 30 September 2009 was a new initiative by PT. Accounting assessments were conducted on the interim financial statements by Accounting Services in terms of a pre-determined assessment framework. Internal Audit also conducted a review of the processes and the controls implemented by departments on the implementation of the interim financial statements and issued a report on its findings per department. The Accounting assessment findings were issued to departments and corrective measures followed up in terms of action plans to ensure that these issues did not re-appear at the year-end.

The Department diligently attends and participates in the PT driven Financial Accountants and Chief Financial Officers Forums, and attends workshops offered by the Treasury where financial management issues are discussed amongst all the provincial departments.

In its endeavours to enhance financial management across all Departments, PT has instituted various control measures and processes, notwithstanding that full implementation and monitoring remains a challenge. This has surely improved financial management and the Department must be congratulated on receiving an unqualified audit report with no other matters for the 2009/10 financial year.

An assessment of the financial management capability of the Department was undertaken based on the monthly IYM reporting, 2009/10 AFS, and the Auditor-General of South Africa (AGSA) audit findings, that revealed the following:

Management of and reporting on suspense accounts

Control and suspense accounts were monitored effectively by the Department over the period. The Department reported in the monthly IYM that reconciliations were performed of all control and suspense accounts and monitored the balances of these accounts utilising a monthly age analysis. The monthly IYM confirmed that suspense accounts were consistently cleared and that the balances in the clearing accounts were addressed which allowed the Department to successfully close their books on a monthly basis.

The AGSA reported no findings with regards to suspense accounts.

The Department performs at a level 3+ financial management capability rating when compared to the previous assessment.

Accounting of assets

The Department reported in the IYM on a monthly bases that the asset register was updated and monitored for movable assets. The monthly IYM showed that the Department performed monthly LOGIS and BAS reconciliations to accurately account for major and minor asset additions and revenue received from the sale of major assets.

The AGSA reported that the asset disposal schedule as approved by the Department did not agree to the financial statements resulting in an understatement of R878 000 in the financial statements. It was further reported that assets did not have unique numbers, and that intangible assets recorded on BAS were not recorded on the asset register.

The Department performs at a level 2+ financial management capability rating compared to the previous assessment.

Financial reconciliations

The Department reported in the monthly IYM that financial reconciliations were compiled, reconciled and signed off by the CFO. The IYM validated that the Department submitted reconciliations of BAS and PMG, BAS and LOGIS, as well as PERSAL and BAS on a monthly basis, signed off by the CFO.

The Department continues to perform at a level 3 financial management capability rating when compared to the previous assessment.

Supporting Documentation

The Department reported in the monthly IYM that all transactions are supported by authentic and verifiable source documents.

On the other hand the AGSA reported, as an administrative matter, that journals processed in respect of the following transactions did not have sufficient supporting documentation available to indicate the reasons why the journals were processed.

- 13 journals in respect of adjustments made to departmental revenue;
- 26 journals in respect of Transfer payments;
- 30 journals in respect of Expenditure;
- 36 journals in respect of travel and subsistence claims; and
- 30 journals in respect of adjustments made to Employee Cost.

It was further reported by the AGSA that journals did not indicate the salary levels of the officials authorising the journals and therefore it could not be confirmed that the delegated officials authorised the journals.

The Department remains on a level 2+ financial management capability rating in this regard. The issue with regards to supporting documentation was raised in the previous assessment, but since it remains a problem, management controls should be enhanced and enforced.

Expenditure - Payments and journals

The monthly IYM showed that expenditure payments and journals have been managed effectively by the Department in terms of SCOA allocations, and that appropriate delegations have been implemented and were executed by staff.

No significant audit findings were raised by the AGSA, however it was reported as an administrative matter that invoices were not paid within 30 days which the Department needs to pay attention to.

The Department performs at a level 3 financial management capability rating.

Recording and maintenance of State Guarantees

The disclosure of departmental State Guarantees reflects effective management, 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 confirmed in the monthly IYM reports that a lease register is maintained and updated monthly. The AGSA raised no findings affecting lease liabilities.

The Department performs at a level 3 financial management capability rating when compared to the previous assessment.

Management of thefts and losses

Departmental control measures are in place for the reporting and management of theft and losses as reported in the IYM. The AGSA raised no audit findings with regards to the Department's management of thefts and losses.

The Department therefore 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 submitted monthly compliance reports to Provincial Treasury in accordance with legislative requirements that were signed off by the CFO and Accounting Officer. Financial reports, as part of the IYM report, were provided to the Accounting Officer on unresolved items and the Chief Financial Officer continue to follow up these transactions on a monthly basis.

The Department performs at a level 3 financial management capability rating when compared to the previous assessment.

Conclusion/recommendation

In order to achieve a full level 3 financial management capability rating, the Department needs to improve controls over the accounting of assets and supporting documentation.

3.10.3 Corporate Governance

3.10.3.1 Enterprise Risk Management and Governance Systems

This section provides guidance, criteria and norms and standards for 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.

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).

The focus is on compliance and control (Level 3).

Internal environment

The department complies with the following:

Commitment to competence displayed in appointment and development practices.

Assignment of authority and responsibility.

The Risk Management Philosophy and risk appetite defined and articulated in writing and communicated to staff.

Management's philosophy and operating style that reflects acceptance of risk management principles.

Event Identification and Risk Assessment

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

Control Activities

Control activities are designed to address risk events and 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.

Overall assessment

The Department has achieved a financial management capability rating of level 2, as the Department has not met all the set criteria and norms and standards for level 3. In order to achieve a rating at the next level, level 3, the Department needs to achieve the following set criteria and norms and standards:

Event Identification and Risk Assessment

All risk events are grouped in terms of event categories.

All risks are assessed on a residual basis.

Monitoring

The risk management process is subject to regular internal audit evaluation.

2008/09 and 2009/10 Comparison

For the 2009/2010 review, it is evident that the department has made some improvement as compared to the 2008/09 review.

3.10.3.2 Normative Financial Management

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 attaining a level 4 financial management capability rating.

The source documents used were the Normative Measures Quarterly Report for departments and the PFMA Compliance Checklist for public entities for the quarter ending June 2010, the Financial Management Capability Maturity survey conducted in June 2010 and the 2009/10 Auditor-General's report for the Department and the Public Entity.

Analysis of Normative Measures Quarterly Report

The CFO structure: Human Resource Capacity

The Department has a vacancy rate in the CFO structure of 0 per cent for the year under review, but due to restructuring of the CFOs office which was implemented end of March 2010, the vacancy rate increased to 33 per cent, the filling of these additional vacancies may pose a major risk.

The breakdown of the restructured CFO organisational structure is that 58 posts are filled, 21 posts are vacant and 14 posts are unfunded. The bulk of the vacant and unfunded posts that exist are within the Supply Chain Management; Internal Control and Management Accounting components within the CFO organisational structure

See table depicted below: Summary of vacant posts in most affected components.

Table 100 Summary of vacant posts in most affected components

Component/Unit	Post Description	Post level	Status
Supply Chain Management	Administrative Officer	6	(1) Vacant
	Procurement Clerk	5	(2) Vacant
	Administrative Clerk	5	(3) Vacant
	Storeman	5	(1) Vacant
	Tender Clerk	5	(1) Vacant
Internal Control	Assistant Manager	9	(1) Vacant
	State Accountant	8	(4) Vacant
	Accounting Clerk	5	(3) Vacant
Management Accounting	Assistant Manager	9	(1) Vacant
	State Accountant	8	(7) Vacant
	Accounting Clerk	5	(2) Vacant

Resources are being shared to alleviate the capacity constraints faced in these units, but this temporary solution is hampering service delivery and is placing an extra strain on staff to deliver on additional objectives. In addition, staff is expected to deliver these additional tasks without being equipped with the necessary skills as the number of staff involved in structured training programmes in the finance component is reported to be at 29.03 per cent.

Policies and procedures

The Department complies in the main with all policies and procedures prescribed by the PFMA and Treasury Regulations pertaining to financial management except for a risk management strategy and related policies and procedures manual for the effective management of assets which has not yet been finalised and implemented. There are no procedures, endorsed by the Accounting Officer, to ensure that all reactions to audit reports are followed up to determine whether satisfactory action has been taken.

Tabling of Annual Report

The Department and public entity must annually table their Annual Reports, as prescribed, in the Legislature. Compliance with these requirements is reflected in the table below:

Table 101 Compliance with annual reporting requirement

Institution	Date annual report received by Provincial Treasury	Annual report tabled at the Provincial Legislature
Departments:		
Agriculture	31/08/10	30/09/10
Public Entity:		
Casidra	31/08/10	30/09/10

The Department has successfully tabled their 2009/10 Annual Report as well as that of its public entity, within the prescribed timeframes.

Auditor-General's report on the 2009/10 financial year

The Department received a clean audit opinion in the 2009/10 financial year.

Table 102 Summary of Comparison between the 2008/09 and 2009/10 Audit Reports

Key finding	2008/09	2009/10	Status
Material corrections made to the financial statements submitted for audit	x	-	improved
Significant deficiencies in the design and implementation of internal control in respect of Financial and risk management	x	-	Improved
Prior years Audit findings have not been substantially addressed.	x	-	Improved
Information systems were not appropriate to facilitate the preparation of a performance report that is accurate and complete/Lack of sufficient audit evidence.	X	-	Improved
Lack of control processes and procedures designed and implemented to ensure the accuracy and completeness of reported performance information	X	-	Improved
Material under spending on the budget	X	-	improved

Overall assessment and recommendation

Based on the above the department is rated at a level 3 in respect of this section. It is further recommended that the Department review the possibility of filling key posts in the Internal Control component (State Accountant, Assistant Manager), Supply Chain Management component (Administrative officer, Procurement Clerk, Administrative Clerk, Storeman and Tender Clerk) and the Management Accounting component (State Accountant – Expenditure Control), even by means of short term contracts as these posts are critical to improving financial management and service delivery in the department. In general, skills development of the staff across the board in the CFO structure should be seriously addressed and all staff must be subjected to structured training programmes.

3.10.4 Liabilities Management

This section deals with the implementation and management of sound cash flow practices as well as the provision of assistance and training in respect of the 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 practise of sound cash flow 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 and further improve departments and to enable them to reach a standard level of 3 +, new assessment tools were created to assist CFO's to have more control and insight over the functions relating to their banking sections.

The evaluation was based on the activities of the 2009/2010 financial year and the findings were as follows:

Table 103 Assessment of Liabilities Management

Requirements	Weight	Standard Level 3 (<90%)	Standard Level 3+ (>90%)	Rating
Submission of Annual Provincial Cash flow Projections (Section 40(4)(a))	10%	By 28 February	By 15 February	7.50%
Monthly alignment of actual expenditure with available cash	20%	11 months compliance	12 months compliance	20.00%
Available Budget equal to available cash (annual)	20%	Not equal	Equal	15.00%
Surrender of voted Surplus Funds	10%	31 May	15 May	10.00%
Submission of monthly Bank Reconciliation	10%	Within 30 days after month end	Within 15 days after month end	10.00%
User account management (Dormant users, etc)	20%	User accounts reconciled on a quarterly basis	User accounts reconciled on a monthly basis	15.00%
Confirm reconciliation of monthly bank transfers	10%	Within 7 working days after calendar month end	Within 5 working days after calendar month end	7.50%
	100%			85.00%

The Department achieved an overall rating of 3 (nominal compliance), which is in line with the 2009/10 financial year.

Submission of Annual Provincial Cashflow Projections

The Department obtained a rating of 7.5 per cent (nominal compliance). The Annual projections in respect of income and expenditure were received on 26 February 2010.

Monthly alignment of actual expenditure with available cash

The Department obtained a rating of 20 per cent (full compliance). The department complied with 12 months.

Available Budget equal to available cash (annual)

The Department obtained a rating of 15 per cent (nominal compliance). The department overspent on their cash by R1.609 million.

Surrender of voted Surplus funds

The department obtained a rating of 10 per cent (full compliance). Surplus funds were paid to the PRF on 30 April 2010.

Submission of monthly Bank Reconciliations

The Department was rated 10 per cent (full compliance). The monthly bank reconciliations were submitted within 15 days after month end.

User account management (Dormant users, etc)

The Department was rated 15 per cent (nominal compliance). It is preconceived that the department complied with the relevant requirements.

Confirm reconciliation of monthly bank transfers

The Department was rated 7.50 per cent (nominal compliance). The department should confirm and reconcile the monthly transfer schedule with Cash Management.

3.10.5 Supply Chain Management

This report is based on the analysis of information made from the status verification assessment conducted at the Department, Procurement statistics report and material findings on AG's report for the financial year under review.

The aforementioned information is utilised to rate the Department against the Province's Financial Capability Model for SCM.

Institutionalisation

The AOS and the accompanying delegations have been reviewed in March 2008 and are aligned to SCM regulatory and legislative framework. However, the current updates on AOS have been held in abeyance as the Provincial Treasury is in the process of updating Provincial requirements and drafting a Provincial AO Policy in terms of the Provincial Treasury Red Flag Programme.

Furthermore, the updates of the Delegations have also been differed until the generic provincial delegation in terms of the Premier's Modernisation Programme has been finalised and issued.

The current SCM structure of the Department is currently inadequate and does not give effect to National Treasury's Normative Measures: Perfecting the Basics Phase 1 and the Department is cognisant of the situation. It is waiting for the Organisational Development to review its structure. However, the Department has measures in place to ensure that it gives effect to efficient and effective Supply Chain Management.

The Department has a skills development plan in place which makes provision for the training of its officials on a regular basis to ensure that officials engaging in SCM processes have the necessary required skills and competencies. The Department also provides in house/on the job training for its SCM officials, line function officials engaging in the procurement process as well as its Bid Committee members, as and when deemed necessary.

Internal Control and Compliance to SCM Policy and Prescripts

Despite the fact that the SCM structure is currently inadequate, and has three vacant posts, the Department makes a concerted effort to ensure that it separates its SCM duties to give effect to all elements of SCM. Hence, from the assessment it is noted that the Department gives effect to compliance to the SCM legislative framework.

The Department has not filled the vacant posts due to a moratorium being placed by the Department of the Premier on the filling of all Programme 1 vacant posts due to the Modernisation process. The Department has indicated that in light of the Provincial Government Modernisation process and to assist with the matching and placing of redundant staff, a possible solution would be to utilise staff from areas that are affected by Modernisation and has merely for that reason decided not to fill the vacant posts at this stage.

Little progress has been made in respect of the incorporation of a Demand Management section in the SCM unit. The Department only has a procurement plan for store items. The Department reiterated that it is impossible to perform this function due to the nature of services and the variety of products procured.

No monitoring mechanism has been developed to monitor compliance and SCM performance across the Department. However, the Department is in the process of implementing such a function. The monitoring unit's place on the structure must still be concluded. The Department indicated that it has implemented a compliance checklist to encourage compliance and assist with internal controls. Assistance and guidance has been requested from the Provincial Treasury in this regard.

The Department has not commenced with the development of a standard operating procedural manual yet.

Reliability and Integrity of Data

The Department utilises EPSi system when procuring its requirements between the threshold value of R10 000.00 – R200 000.00. The following is the EPSi statistics as reflected in the EPSI report:

Number of adjudicated quotes	:	1 536
Value of adjudicated quotes	:	R30 005 657.15
Number of HDI adjudicated quotes:		1 151
Value of HDI adjudicated quotes	:	R20 125 795

The adjudication rate of the Department for the financial year under review is 99.80 per cent which indicates that the Department has maintained the good performance.

The Department has awarded a total of 16 bids during the financial year under review which all were competitive bids, There were no contract extension and limited bids awarded during the 2009/10 financial year. The following is the statistics:

Total amount of bids awarded	:	R10 113 899.78
Per cent awarded to No Franchise	:	61.96
Per cent awarded to Women	:	45.82

The aforementioned rates on HDI statistics reflects that Department plays a huge role in promoting the requirements of the Preferential Procurement Policy Frameworks Act.

Comparison to the 2008/09 Review and Rating

The Department has verified and substantiated to Provincial Treasury that requests to deviate from normal procurement processes are sufficiently motivated and submitted to the AO for approval and signature.

Bid committees are constituted as required, and have also received in-house training from the SCM unit to ensure that members have the required skills and competencies on application of SCM policies and prescripts.

When comparing the two financial years, the Department had a 100 per cent adjudication rate for the last financial year, and has also obtained a 99.80 per cent during the year under review

Contracts are monitored effectively and efficiently and proper contract procedures are in place. Senior Officials of the line function are normally appointed as Project Managers who are responsible for the managing and monitoring of the contracts.

Rating in terms of the Financial Capability Model for SCM

Given the above, the Department is rated at level **3** in terms of the Financial Capability Model for SCM; this means that whilst the Department has managed to sustain most of the level three requirements. The Department has not commenced implementing the Level four requirements; hence, it has not progressed to the next level.

Steps to take the Department to the next level of financial capability

In order for the Department to ensure complete sustainability on the current performance and be able to achieve the next level of capability, the following should be given cognisance:

- Demand management:

Consider including demand management into the SCM structure or fully give effect to demand management requirements; and

Continuously monitor the existing procurement plan and incorporate updates as and when required.
- Acquisition management:

Continuously ensure compliance to applicable legislative and regulatory framework;

Continue providing SCM training to officials engaging in SCM activities;

Maintain and improve satisfactory SCM reporting requirements;

Consider developing Standard Operating Procedural Manuals to ensure uniformity in SCM processes and building of institutional memory.
- Monitoring SCM performance:

Monitor departmental SCM performance retrospectively and consider developing an assessment tool to achieve this requirement;

Ensure achievement of operational functionality in SCM.
- SCM risk management

Identify and manage risk associated with SCM as well developing appropriate control measures to mitigate risks; and

Ensure available resources are utilised effectively and efficiently

During the 2010/11 financial year the Provincial Treasury will focus on the development and implementation of the requirements of the SM Blueprint developed in terms of the Premier's Modernisation Programme, which will inter alia include aspects such as integrated training and the refinement of SCM policy and procedures.

3.10.6 Moveable Asset Management

For the 2009/10 financial year, an Asset Management verification assessment was performed at the head office of the Department of Agriculture. The objective of this assessment was to physically verify the Department's progress in terms of the National Treasury's Broad Implementation Plan (Risk Log and Dashboard reports submitted to the Provincial Treasury on a quarterly basis by the Department).

Institutionalisation

In terms of sections 38(1)(d) and 44 of the PFMA, the Department must have an Accounting Officer's System and delegations. The Department has complied with the requirements by implementing and maintaining their Accounting Officer's System and Delegations regularly. The last updated AOS was issued December 2008. Current updates (2009/10) have been held in abeyance as the Provincial Treasury is in the process of updating Provincial requirements and drafting a Provincial AO Policy in terms of the Provincial Treasury Red Flag Programme. The update of SCM delegations have been held in abeyance as the generic provincial delegations to be issued in terms of the Premier's Modernisation Programme has not been finalised and issued.

The Department's organisational structure consists of 3 clerks reporting to an Assistant Director (ASD). The ASD reports to the head of Supply Chain Management, who subsequently reports to the Chief Financial Officer (CFO). Two of these three clerks are contract workers.

The Organisational Development (OD) unit from the Department of the Premier reviewed the Asset Management structure and recommended that the Asset Management component must report directly to an Asset Manager and that the Asset Manager should report to the CFO. The required structure as per OD's recommendations is more than double to the current existing structure. This therefore means there is a high vacancy rate in the Department and it obviously affects its capacity to deliver on its service delivery obligations. Although the attrition rate of staff is not always within the control of a department, departments must endeavour to manage the recruitment and retention of staff effectively and efficiently in terms of the generally accepted national norm of 5 per cent. The Department was in the process of implementing the OD's recommendations when a moratorium was placed by the Modernisation process of the provincial government in respect of the filling of vacancies in respect of financial management posts.

It must be noted that the Department takes the initiative of capacitating its staff by means of convening in-house training. It also has a procedural manual in place to help capacitate its officials. The Department also convenes departmental forums to facilitate skills and knowledge transfer.

Internal Control and Compliance to SCM Policy and Prescripts

Section 38(1)(d) of the PFMA states that the Accounting Officer is responsible for the management, including safeguarding and the maintenance of the assets. In order to give effect to the above piece of legislation, the Department must have an Asset Management strategy as per the National Treasury Broad Implementation Plan.

The Department is making a concerted effort to implement internal control measures e.g. marking its assets; conducting stocktaking annually; having security at the gate signing in and searching out going vehicles and using a GPS device to track its assets.

Notwithstanding the above internal control measures the Provincial Treasury established through its Asset Management status verification assessment that, some departmental assets did not have markings and as a result could not be verified. Some could not be traced from the floor to the Asset Register and vice versa.

At the time of the assessment, the Department's Asset Management Strategy was still work in progress. Capacity challenges are hindering completion of this strategy and relevant plans accompanying it. Once these strategies are completed, shortcomings should be minimal.

Reliability and Integrity of Data

The physical verification assessment gave Provincial Treasury an opportunity to reconcile what was reported in terms of the progress made on the Project Dashboard and Risk Log report by the Department against what was actually in place.

It must be noted that prior to the assessment, the Department was not fully reporting to the Provincial Treasury its progress in terms of the Project Dashboard and Risk Log. After the assessment it must be noted there was improvement in terms of reporting.

The Department has completed 89 per cent of its strategy and plans which are however, still in draft format.

The Department's Asset Register meets the minimum requirements of Asset Register as per the minimum requirements contained under the National Treasury Broad Implementation Plan. However, there are fields that are not completed by the Department, e.g. custodian in respect of accountability, performance indicators such as capacity; conditions; useful life (in some instances) and warranties or guarantees.

Comparison to the 2008/09 Review

It should be noted that there was no physical verification of assets performed in the 2008/09 financial year. The information pertaining to that year is based on what was submitted by the Department in terms of its progress as per the Project Dashboard and Risk Log. A physical verification of assets was performed for the first time in the 2009/10 financial year. Therefore most of the findings found in the 2009/10 financial year cannot really be compared to what was found in the 2008/09 financial year as the 2009/10 financial year's

scope of assessment included a verification process which the previous financial year's assessment did not require and was based purely on what the Department reported on.

The Asset Management Strategy is still in draft format.

Capacity and lack of skilled officials continues to be a hindering challenge at the Department.

The Department should take cognisance with regards to the shortcoming highlighted in terms of assets as noted by the Auditor-General and rated under the "Compliance with accounting policies and standards" section of the Financial Governance Review & Outlook 2010. These shortcomings, the instituted corrective measures and the implemented control measures will be closely monitored and assessed by the Provincial Treasury: Moveable Asset Management (MAM) unit to encourage and promote efficiency, effectiveness and to contribute to the planning and preparation for the asset verification assessment envisaged for the 2010/11 financial year.

Rating in terms of the Financial Capability Model for Moveable Asset Management

In terms of the assessment processes performed, the Department is rated at **2+**, for the period under review. The "two plus" rating infers that the Department has made some progress from level two and although certain level three criteria may have been met, the Department has not met all the requirements of level three as yet.

Steps to take the Department to the next level of financial capability

- Develop and implement Asset Management Strategy;
- Enhance the monitoring of assets within the entire Department to ensure sustainable service delivery;
- Continuously capacitate the Asset Management unit;
- Develop a basic Asset Management control framework to safeguard and protect assets;
- Ensure asset locations are easily identifiable;
- A uniform life cycle must be implemented; and
- Development of maintenance schedules.

3.10.7 Supporting and Interlinked Financial Systems

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

Review

The evaluation was based on the activities of the 2009/2010 financial year and the findings were as follows:

Basic Accounting System (BAS)

Table 104 Management activities on Basic Accounting System (BAS)

Requirements	Weight	Standard Level 3	Standard Level 3+	Rating
Skilled and capacitated system users	30%	In accordance with profile	Various Modules	2
Optimal utilisation of system	20%	80% - 90%	91% - 100%	3
Month end and Year-end closure	5%	Own accord – due date	Own accord – prior date	3+
System Controller Functions	30%	80 – 90%	91 – 100%	3+
Monitor Applicable Interfaces	15%	Intermittently	Daily	3+
Average Rating				3

The department obtained an overall rating of 3 (nominal compliance)

Table 105 Skilled and capacitated system users

Number of officials confirmed	Number of officials attended	Number of officials did not attend	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
23	13	10	13	0

The department maintained a financial management capability rating of level 2 (partial compliance) mainly due to the high percentage of officials who is confirmed but did not attend courses, as well as all officials not being 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 more users trained.

Optimal utilisation of system:

The department achieved a rating of 3 (nominal compliance) for the optimal utilisation of the system.

Month end and Year-end closure:

The department achieved a rating of 3+ (full compliance) as their month and year-end closure was done prior to the predetermined dates of National Treasury.

System Controller Functions:

The department achieved a rating of 3+ (full compliance), based on the following criteria:

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

Monitor Applicable Interfaces

The department achieved a rating of 3+ (full compliance) as their interfaces were monitored and reported on a daily basis.

Personnel and Salary Administration System (PERSAL)

Table 106 Management activities on Personnel and Salary Administration System (PERSAL)

Requirements	Weight	Standard Level 3	Standard Level 3+	Rating
Skilled and capacitated system users	30%	In accordance with profile	Various Modules	2
Optimal utilisation of system	20%	80% - 90%	91% - 100%	3
System Controller Functions	20%	80 – 90%	91 – 100%	3
Establishment Management	10%	Quarterly	Monthly	3
Adhere to Minimum Information Requirements	5%	Annually	Continuous process	2
Leave Audit	15%	Annually	Continuous process	3
Average Rating				3

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

Table 107 Skilled and capacitated system users

Number of officials confirmed	Number of officials attended	Number of officials did not attend	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
14	10	4	9	1

The department maintained a financial management capability rating of level 2 (partial compliance) mainly due to the fact that all officials are not 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 more users trained.

Optimal Utilisation of system

The department achieved a rating of 3 (nominal compliance)

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 rating of 3 (nominal compliance) as the establishment is maintained on at least a quarterly basis.

Adhere to Minimum Information Requirements

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

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

Leave Audit

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

Logistical Information System (LOGIS)

Table 108 Management activities on Logistical Information System (LOGIS)

Requirements	Weight	Standard Level 3	Standard Level 3+	Rating
Skilled and capacitated system users	30%	In accordance with profile	All Modules	2
Optimal utilisation of system	20%	80% - 90%	91% - 100%	3
Days per issue	10%	5 days	3 days	2
Financial Controls	20%	Monthly	Continuous process	3
System Control Functions	20%	80 – 90%	91 – 100%	3
Average Rating				3

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

Table 109 Skilled and capacitated system users

Number of officials confirmed	Number of officials attended	Number of officials did not attend	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 of level 2 (partial compliance) mainly due to the high percentage of officials who is confirmed but did not attend courses, as well as all officials not being 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 more users trained.

Optimal utilisation of the System

The department achieved a rating of 3 (2 = partial/3 = nominal/4 = full compliance) for its control over inventories and assets.

Most payments for goods and services are processed through LOGIS - the Departmental assets are maintained per LOGIS Selection WMMT - Maintain Serial Detail Information.

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 2009/2010 financial year was 10.2 days, the performance of the department is therefore below the standard.

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

Financial Controls

The department achieved a rating of 3 (nominal compliance).

BAS/LOGIS Reconciliation were performed on a monthly basis. The Department concludes timeous payments and clears the Resubmission Queue per LOGIS Procurement Integration on request.

System Control functions

The Department achieved a rating of 3 (nominal compliance). User profiles and password confidentiality is maintained.

3.10.8 Public Entity: Casidra (Pty) Ltd

3.10.8.1 Performance Management

Non-financial information

Casidra's Corporate Plan outlines the purpose of the entity, the strategic intent, the legislative mandate, the strategic and measurable objectives and the performance indicators. The performance targets to achieve the indicators were initially not set. However, the strategic objectives and performance indicators were developed per programme and sub-programme. There is some improvement with the non-financial information provided in the draft AR as compared to the CP. For instance, the AR makes provision for actual targets achieved, even though initial targets were not set as reported in the CP.

The performance indicators in the CP of the public entity are linked to the strategic objectives in each programme and sub-programme. The corresponding targets are set for the year but a clear distinction between quarterly and annual performance targets was not made. Most of the targets are measurable in terms of numbers. There are cases where Casidra set percentage planned targets without the baseline numbers.

3.10.8.2 Accounting policies and standards

Casidra (Pty) Ltd provides services to enhance the quality of life of rural communities and is registered as a private company in the 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).

The Entity's management controls are generally effective and efficient, which has lead to an unqualified audit report for 2009/10. No significant shortcomings were identified in the IYM reporting submitted for the period. The entity's financial management capability is rated at level 3.

Casidra should direct any accounting queries to the Provincial Treasury: Accounting Services and via the IYM process to the parent department and the Provincial Treasury.

3.11 Department of Economic Development and Tourism

Overview

Financial management capability assessments of the main attributes were conducted and rated in terms of the assessment tools as contained in Chapter 2 of the FGRO 2010. The goal of these assessments is to collectively provide an overview of how the department (and its entities) is/are managed as well as recommendations to assist progress to a level 3+ financial management rating.

Department -

The following ratings were assigned per assessment area:

Performance management -

- Non financial information - level 3
- Financial information – level 3

Compliance with accounting policies and standards – level 2.5

Enterprise Risk Management – level 2.5

Corporate Governance - level 3

Liabilities management – level 3

Supply Chain Management – level 2

Movable Asset Management – level 3

Financial Systems

- Systems usage – level 3
- Training - level 2

In view of the ratings above, an average rating of level 2.80 is achieved.

The Department has not provided a comprehensive financial management improvement plan that inter alia covers the issues raised to move towards a level 3+ rating.

3.11.1 Performance Management

3.11.1.1 Non-financial information

The analysis of departmental performance information management uses the financial management capability model as a point of departure to provide an insight to the information presented in the departmental budget documentation including the Department's Strategic Plan (SP), Annual Performance Plan (APP), Annual Report (AR) and Quarterly Performance Reports (QPRs). The assessment gauges key aspects of the Department's performance information in order to determine the Department's capability level.

The assessment 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 level 4 financial management capabilities. The 2009/10 AR, the 2009/10 and 2010/11 APPs as well as the final 2009/10 QPR have been used in the assessment. The assessment also includes information based on the 2009/10 Auditor-General of South Africa (AGSA) audit report.

Organisational arrangements for managing performance information

Performance information within the Department of Economic Development and Tourism is strictly gathered and monitored through the Department's Departmental Operation and Performance Management System (DOPMS). A DOPMS panel, consisting of the Accounting Officer, Chief Financial Officer, HR Manager, DOPMS manager and all Programme Managers, has also been established. All programmes present information to the Panel and this is evaluated in terms of discussing constraints and providing advice as to how to improve delivery within the various projects.

The Management Accounting sub-directorate further evaluates all performance against expenditure. This is later compiled into the quarterly performance reports and later consolidated into the Department's Annual Report. All actual information provided is also verified by the Internal Control unit who regularly conduct Audits on Performance Information to verify the actual achievements claimed by management during the quarterly and annual reporting processes. Management reports are later drafted and submitted via the Office of the Chief Financial Officer to the Accounting Officer for discussion in the Departmental Top Management Committee meetings.

Quarterly Performance Reporting on 2009/10 Predetermined Objectives

The Department of Economic Development and Tourism has submitted QPRs in the correct format on a quarterly basis. These reports reflected the annual as well as quarterly targets as contained in the Annual Performance Plan.

A large number of performance indicators relate to processes, planning, and workshops. The majority of performance indicators are quantitative making it difficult to assess the qualitative impact of the Department interventions. The Department indicates that the Strategic Goals contained in the 5 year Strategic Plan are more qualitative. The need to ensure that the Department is able to measure the qualitative impact of its interventions on a yearly basis should be addressed.

Strategic Plan 2010/11 – 2014/15

The Department of Economic Development and Tourism tabled a revised Strategic Plan (SP) 2010/11 – 2014/15 before the start of the 2010/11 financial year. The focus of the Strategic Plan is strategically important, linked to and flowing from various plans developed within the Provincial Government of the Western Cape and to fulfill its legislative mandate. The 2010/11 – 2014/15 Strategic Plan's particular focus is on the applicability of measurable objectives as well as objectives conforming to the SMART principle. The strategic goals are clearly articulated and the format and structure of the SP is as prescribed by the National Treasury.

Annual Report 2009/10

The AR Guideline for General and Performance Information for the year ended 31 March 2010 requires that the programme performance of provincial departments must be in accordance with their Annual Performance Plans as tabled in the legislature. All performance information included in the 2009/10 APP is included in the 2009/10 AR and is in line with the AR guideline for General and Performance Information. A technical assessment generally confirmed consistency between the AR, the APP, and the QPR of the Department for the 2009/10 financial year. The consistency referred to is in respect of the strategic objectives, the performance indicators and the actual targets that the Department has set to achieve at the beginning of the financial year.

The Department provides a narrative section for each of the performance indicators. In this section the Department clearly indicates whether a target has been achieved or not. Where there are significant deviations from the target the Department has provided a detailed narrative explaining the reasons for the deviation. The Department has provided a significant amount

of detail regarding challenges experienced. The Department has also indicated interventions and progress made in the section that speaks to priorities from the APP. This provides useful information regarding approaches taken by the Department in addressing specific challenges.

Annual Performance Plan 2010/11

The Department's 2010/11 Annual Performance Plan complies with most of the National Treasury prescripts relating to the structure and format of the Annual Performance Plan. The Department has included the section "relating expenditure trends to strategic goals". Budget information has also been provided in terms of programme and economic classification. The Department has complied with the Framework for Strategic Plans and Annual Performance Plans as guided by National Treasury and provided an overview of the related expenditure trends to strategic goals per programme.

Most of the strategic objectives and performance indicators identified by the Department comply with the SMART principle, in that they are specific, measurable, achievable/attainable, realistic and time bound. Certain indicators could be reviewed particularly for its consistency and applicability to strategic objectives. There are a number of performance indicators that relate to processes, planning, and workshops. Ideally the performance indicators should illustrate the link between the Department's outputs and the outcomes or impact of the Departmental initiatives and therefore there is scope to refine the indicators along this line.

Entities affiliated to the Department

The Department has two public entities namely the Western Cape Investment and Trade Promotion Agency (Wesgro) and the Destination Marketing Organisation (DMO)/Cape Town Routes Unlimited (CTRU). Both Wesgro and DMO/CTRU submitted Annual Reports for the 2009/10 financial year of a satisfactory standard. Wesgro and DMO/CTRU also submitted 2010/11 Annual Performance Plans which satisfactorily complied to National Treasury guidelines. The Department evaluates the public entities on a quarterly basis with regards to their quarterly performance reporting. This is a written evaluation that is thoroughly assessed and discussed with the public entities.

Recommendations/Conclusion

An evaluation in terms of guidelines and legislative requirements of the 2009/10 APP and QPR, draft 2009/10 AR and the 2010/11 APP revealed that, according to the performance management framework, the Department is operating at a capability level 3 moving towards the region of a capability level 4. In most instances the Department has provided comprehensive

explanations for deviations from targets. There are a few instances where the Department was unable to report on progress made as information was not available at the time of reporting in the AR. When choosing performance measures the Department needs to take into consideration the availability and/or the timing of the release of certain information required for reporting. The Department is encouraged to draw closer links between the performance indicators and its strategic goals and objectives and in particular to limit the number of performance indicators which measure inputs and processes.

General recommendations to improve the overall reliability and usefulness of performance information include Accounting Officers ensuring that an overall performance management system should be in place and documented, sufficient appropriate audit evidence and source documentation exist, there are appropriate information systems to facilitate the preparation of a performance report that is accurate, complete and valid and adequate control processes and procedures should be designed and implemented to ensure the accuracy, completeness and validity of reported predetermined objectives/performance information.

To reach a financial management capability rating of level 4, which measures how resources are used, the Department should also move beyond compliance to focus on costing outputs and instituting practices that would identify those critical outputs that would have a knock-on effect to achieving departmental outcomes. The move beyond compliance involves expanding the focus to include the relationship between inputs and outputs and directing inputs and outputs closer toward the achievement of the desired outcomes and impact. Going forward the Department, should ensure a stronger linkage between the Provincial Strategic Objectives, SP, APP and Budget.

3.11.1.2 Performance management assessed based on financial information

From the Public Finance perspective, the following has been noted regarding the performance of the Department of Economic Development and Tourism:

- The Department's budget for the 2009/10 financial year of R264.466 million was tabled in the Provincial Parliament;
- The Department has been consistently submitting 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); and

- 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 2009/10 for Economic Development and Tourism. The percentage indicated in the table represents an actual amount spent per month of the total actual expenditure.

Table 110 Quarterly Analysis on expenditure projections

R'000	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Quarter 1	16 095	6 498	37 173	25 473	24 143	46 647	12 004	26 139	25 757	13 866	22 098	20 573	276 466
%	5.8%	2.4%	13.4%	9.2%	8.7%	16.9%	4.3%	9.5%	9.3%	5.0%	8.0%	7.4%	100.0%
Quarter 2	16 095	6 498	37 173	14 031	35 713	24 027	17 539	32 385	28 427	13 616	22 761	16 201	264 466
%	6.1%	2.5%	14.1%	5.3%	13.5%	9.1%	6.6%	12.2%	10.7%	5.1%	8.6%	6.1%	100.0%
Quarter 3	16 095	6 498	37 173	14 031	35 713	24 027	13 204	12 609	51 721	22 546	16 212	14 633	264 462
%	6.1%	2.5%	14.1%	5.3%	13.5%	9.1%	5.0%	4.8%	19.6%	8.5%	6.1%	5.5%	100.0%
Quarter 4	16 095	6 498	37 173	14 031	35 713	24 027	13 204	12 609	51 719	12 566	17 399	22 183	263 217
%	6.1%	2.5%	14.1%	5.3%	13.6%	9.1%	5.0%	4.8%	19.6%	4.8%	6.6%	8.4%	100.0%

Shaded: Actuals

Unshaded: Projections

Given the picture of the above table, the Department needs to improve on expenditure forecasting, as forecasts in a prior quarter differ significantly from actual expenditure. Forecasts often tend to exceed actual expenditure on a monthly basis throughout the year. This can be seen in the table above where projections (*not shaded*) and actuals (*shaded*) are compared on a monthly basis. A similar spending trend was found in the 2008/09 financial year as well.

In terms of the SCOA inconsistent classification combinations model and the responsibility download through the Vulindlela system, it reveals that the Department experienced relatively few erroneously classified transactions. In total, 4 transactions with a total value of R354.00 were reported as erroneous for the period ending 31 March 2009/10. Monitoring of these errors will continue during the new financial year.

Fewer shifts were made in the Adjustments Budget, both within a vote and within programmes than in 2008/09. These shifts were mainly to alleviate budget pressures on transfer and subsidies for various projects by shifting savings mainly from compensation of employees. 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: Integrated Economic Development Services, Programme 4: Business Regulation and Governance and Programme 6: Tourism, Arts and Entertainment.

The Department indicated that it ensured that transfer payments are backed by Section 38 agreement, and instituted the necessary monitoring mechanisms.

The Department submitted the Adjustments Budget timeously and was comprehensive in terms of Section 31 of the PFMA. In the 2009 adjustment estimate the Department's budget was reduced by R12 million, decreasing from the original budget allocation of R276.466 million to R264.466 million 2009/10 adjusted budget. The reason for a decline in budget was due to Western Cape Liquor Act not being promulgated as anticipated during the year under review.

In terms of spending outcomes, the Department has at the end of the 2009/10 financial year under spent its adjusted budget by 0.5 per cent or R1.249 million, which is within the 2 per cent under spending norm. The under spending was due to posts not being filled in 2009/10.

The Department has not requested any funds to be rolled over from the 2009/10 financial year, likewise in the previous financial year (2008/09) the Department did not request any rollover of funding.

As per 2009/10 Audit report the Department recorded no irregular expenditure nor unauthorised expenditure according to the 2009/10 audited Annual Financial Statements.

The Department collected R11.921 million in provincial own receipts compared to the adjusted budget of R5.670 million for the 2009/10 financial year resulting in a surplus of R6.251 million or 110.2 per cent of the adjusted budget. The surplus was mainly driven by *Liquor licenses item* for interest received from collection that surpassed projection as well as *Financial Transactions in assets and Liabilities* category due to R5 million transferred to the Department from Wesgro, representing a cash surplus relating to the 2008/09 financial year.

There were no tariffs revised nor recorded in a tariff register during the 2009/10 financial year.

The Department did not experience a March spike in 2009/10. Spending as at March 2010 totaled to R22.183 million constituting 8.4 per cent of the total expenditure of R263.217 million in 2009/10, which is on par to the average spending rate of 8.33 per cent per month.

Conclusion

The Department of Economic Development and Tourism generally operates on level 3 financial management capability rating.

3.11.2 Accounting policies and standards (Accounting)

PT (Accounting) identified a number of key accounting policies and standards against which departments are rated in terms of compliance and its financial management capability. The purpose of the exercise is inter alia to monitor progress towards an improved financial management capability rating. Various tools are available to departments to ensure improved ratings, improved integrity of data and also that the financial reporting that is understandable, relevant, reliable and comparable. PT (Accounting) introduced various initiatives to address accounting matters in collaboration with the relevant departments. The department made full use of all these opportunities and actively contributed with regards to the following:

- Workshops on reporting requirements
- Two-monthly CFO's forum
- Monthly FA's forum
- Bi-lateral discussions
- IYM reporting
- Submission of AFS for preview prior to 31 May
- Compilation of a prescribed audit file with supporting documentation
- Interim financial statements as at 30 September 2009

The Interim financial statements as at 30 September 2009 was a new initiative by PT. Accounting assessments were conducted on the interim financial statements by Accounting Services in terms of a pre-determined assessment framework. Internal Audit also conducted a review of the processes and the controls implemented by departments on the implementation of the interim financial statements and issued a report on its findings per department. The Accounting assessment findings were issued to departments and corrective measures followed up in terms of action plans to ensure that these issues did not re-appear at the year-end.

The Department diligently attends and participates in the PT driven Financial Accountants and Chief Financial Officers Forums and attend workshops offered by the Treasury where financial management issues are discussed amongst all the provincial departments.

An assessment of the financial management capability of the department was undertaken based on the findings of the Interim Financial Statements, pre-audit AFS assessment, Annual Financial Statements, monthly IYM reporting and 2009/10 audit reports, that revealed the following:

Management of and reporting on suspense accounts

The Department reported on its disallowance, control and suspense accounts to PT (Accounting) on a monthly basis, together with action plans and time frames to address issues of concern. Such issues were also discussed during bilateral and informal engagements that took place during the year between the Department and Provincial Treasury: Accounting to address problems identified. The Department could therefore report that suspense, control and disallowance accounts were regularly followed up and cleared within a reasonable period of time and that a monthly reconciliation of control and suspense accounts was performed, which made it possible for the Department to close their books successfully on a monthly basis. The Department also confirmed that the Basic Accounting System reports on suspense accounts are reviewed on a monthly basis in order to monitor the progress of clearing these accounts.

The Department maintains its performance at a level 3 financial management capability rating when compared to the previous Review's assessment.

Financial reconciliations

The Department reported that reconciliations of BAS/PMG and PERSAL/BAS are performed on a monthly basis.

The Department is therefore maintaining a level 3 financial management capability rating since its last assessment.

Expenditure – Payments and journals

The Provincial Treasury (Accounting) monitors incorrect expenditure classifications in consultation with departments. The Department managed to clear all payment classifications which were deemed to be inconsistent in terms of the SCoA classifications applied by the province, by implementing proper internal controls.

The AGSA also reported that not all payments were settled within the prescribed period of 30 days after receipt of invoice and also reported that a small number of processed journals were not stamped "PROCESSED" and that the department failed to perform reconciliations of creditors on a regular basis, which points to internal controls not being effectively implemented.

An analysis of the AFS showed that finance lease expenditures were incorrectly classified as current expenditure. The Department also failed to split the interest portion of finance leases (current expenditure) from the capital portion.

The Department therefore deteriorated to a level 2+ financial management capability rating when compared to the previous assessment which was at level 3.

Management of lease liabilities

PT Accounting identified and reported during pre-audit checking that finance lease expenditures and commitments were not properly classified and disclosed for the period under review. PT Accounting agreed to conduct a separate training session with the Department in order to ensure that the Department in future complies with the prescribed reporting requirements. This training is scheduled to take place during the 2010/11 financial year.

The Department deteriorated to a level 2+ financial management capability rating when compared to the previous assessment which was rated at level 3.

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 on 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 assessment.

Conclusion/recommendation

Overall the Department's financial management capability rating is bordering just below a level 3 and to fully comply with a level 3 financial management capability, the Department needs to ensure that all authorised journals are stamped "PROCESSED", that finance leases are properly reported and disclosed in the financial statements. Reconciliations on creditors should be performed on a regular basis in order to ensure adequate control over creditor payments.

3.11.3 Corporate Governance

3.11.3.1 Enterprise Risk Management Systems

This section provides guidance, criteria and norms and standards for 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.

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)

The focus is on compliance and control (Level 3)

Strategic risk assessment

A strategic risk assessment was conducted for the Department less than six months ago. Risk response strategies were developed.

Internal environment

A risk management philosophy has been developed for the Department and a risk appetite for the Department has also been defined, however the department did not provide the required evidence in respect of communiqué to all staff.

Operational Risk Assessment

The risk events have been identified and assessed on an inherent level. It is clear that the existing controls have been identified. Control gaps have been identified and action plans has been developed accordingly.

Overall assessment

Based on the above information, the Department achieved a financial management capability rating of level 3, as the Department has not met all the set criteria and norms and standards for level 4.

2009/10 and 2010/11 Comparison

For the 2010/2011 review, it is evident that the department has made some improvement as compared to the 2009/10.

We do not agree with your assessment of the ERM function within the department. The following should be noted;

“Compliance to the Risk Management Philosophy articulated in writing and communicated to all staff”

The departmental Fraud and Risk Management Committee approved the revised ERM policy During March 2009, which was subsequently sign off by the Accounting Officer on the 1 April 2009. The policy included the risk appetite for the department. This document was placed on the departmental share drive for all employees to view. We also included this policy in the departmental Financial Manual that was issued to all staff members. Lastly, in each workshop that we had with the relevant clients, we conducted a presentation to the clients that included risk appetite and how we would use it to evaluate the risks that they identified.

“Risk Management does not feature as a standing agenda point at all management meetings”

Firstly, we do not believe that including risk management as an item on the agenda is the appropriate tool to measure the acceptance of risk by departmental officials. Management decisions that included the “impact and likelihood of risks” is how you will be able to measure how management have embraced the concept of risk and the relevance to any work environment. You should also note that we performed a risk monitoring assignment towards the end of the financial year, which included a questionnaire that the clients had to answer. The significant results of this assignment indicated that management wanted the ERM unit to conduct additional risk assessments, update current risk assessments and assist with business processes to mitigate risks. Therefore based on these activities we were able to determine that management and other staff have accepted risk management principles and have found this an invaluable to for service delivery.

In conclusion, we urge you to change the rating to a level 3 based on the above.

3.11.3.2 Normative Financial Management

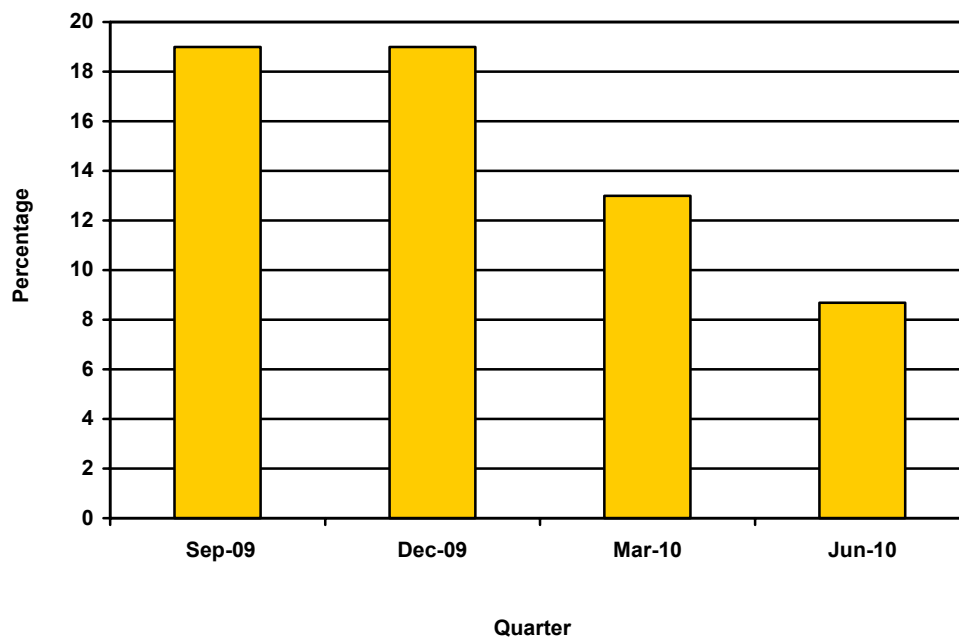
The findings discussed in this section provide a review of the PFMA implementation and financial management improvement of the department in line with the provincial strategy of attaining a level 4 financial management capability rating.

The source documents used were the Normative Measures Quarterly Report for departments and the PFMA Compliance Checklist for public entities for the quarter ending June 2010, and the 2009/10 Auditor-General's report for the Department and the Public Entities.

Analysis of Normative Measures Quarterly Report

The CFO structure: Human Resource Capacity

Figure 6 Department of Economic Development and Tourism Vacancy Rate



The figure above clearly depicts a downward trend in the vacancy rate from September 2009 to June 2010 from 19 per cent to 8.68 per cent, respectively. The Department has made significant strides in capacitating the financial management unit and has managed to reduce the vacancy rate close to the required national norm of 5 per cent.

Table 111 Extraction of filled and vacant posts in Finance Component

Component/Unit	Post Description	Post level	No. of vacant post
Office of the CFO	Office Manager	10	1
Management Accounting	State Accountant	8	1
Internal Control	State Accountant	8	1
Supply Chain Management	State Accountant	8	1

Although the vacancy rate is acceptable, it is noted that the vacant posts are key posts on a supervisory level. Hence, the Department is advised to fill these

posts as soon as possible. The impact from the moratorium placed on the filling of posts in the CFO office was also taken cognisance of.

The average length to fill a vacant post is 3 months and the number of staff involved in structured training programmes in the finance component is reported to be at 98 per cent. This is within the required national norm 3 months and 90 per cent, respectively.

Policies and procedures

The Department complies with all policies and procedures prescribed by the PFMA and Treasury Regulations pertaining to financial management, except for an approved staff retention policy which is in draft form and has not yet been implemented. The Department is encouraged to finalise the staff retention policy as this may affect the vacancy rate and in turn impact on the service delivery objectives of the department.

Tabling of Annual Report

The Department and public entities must annually table their Annual Reports, as prescribed, in the Legislature. Compliance with these requirements is reflected in table below:

Table 112 Compliance with annual reporting requirement

Institution	Date annual report received by Provincial Treasury	Annual report tabled at the Provincial Legislature
Departments:		
Economic Development and Tourism	31/08/09	30/09/09
Public Entity:		
Cape Town Routes Unlimited Wesgro Western Cape Liquor Board	31/08/09	30/09/09

Analysis

The Department has successfully tabled their 2008/09 AR as well as that of its public entities, within the prescribed timeframes.

Auditor-General's report on the 2009/10 financial year

The Department improved their audit outcome from an unqualified audit opinion with other matters in the 2008/09 financial year to an unqualified audit opinion with no other matters (Clean report) for the year 2009/10. This is clearly depicted in the table below.

Below is a summary of comparison between the 2008/09 and 2009/10 Audit Reports.

Table 113 Summary of Comparison between the 2008/09 and 2009/10 Audit Reports

Key finding	2008/09	2009/10	Status
Income from the Liquor Board is included in departmental revenue	X	-	Improved
The financial statements were subject to material amendments resulting from the audit	X	-	Improved
The annual report was not submitted for consideration prior to the tabling of the auditors report.	X	-	Improved

Overall assessment and recommendation

Based on the assessment, the Department is operating on a level 3 maturity level. However, the Department must develop a formalised retention policy which is regularly reviewed by management to gauge its effectiveness in respect of keeping posts filled.

3.11.4 Liabilities Management

This section deals with the implementation and management of sound cash flow practices as well as the provision of assistance and training in respect of the 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 practise of sound cash flow 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 and further improve departments and to enable them to reach a standard level of 3+, new assessment tools were created to assist CFO's to have more control and insight over the functions relating to their banking sections.

The evaluation was based on the activities of the 2009/10 financial year and the findings were as follows:

Table 114 Assessment of Liabilities Management

Requirements	Weight	Standard Level 3 (< 90%)	Standard Level 3+ (> 90%)	Rating
Submission of Annual Provincial Cash flow Projections (Section 40(4)(a))	10%	By 28 February	By 15 February	10.00%
Monthly alignment of actual expenditure with available cash	20%	11 months compliance	12 months compliance	20.00%
Available Budget equal to available cash (annual)	20%	Not equal	Equal	17.50%
Surrender of voted Surplus Funds	10%	31 May	15 May	10.00%
Submission of monthly Bank Reconciliation	10%	Within 30 days after month end	Within 15 days after month end	9.79%
User account management (Dormant users, etc)	20%	User accounts reconciled on a quarterly basis	User accounts reconciled on a monthly basis	15.00%
Confirm reconciliation of monthly bank transfers	10%	Within 7 working days after calendar month end	Within 5 working days after calendar month end	7.50%
	100%			87.29%

The Department achieved an overall rating of level 3 (nominal compliance), which is in line with the 2009/10 financial year.

Submission of Annual Provincial Cashflow Projections

The Department obtained a rating of 10 per cent (full compliance). The Annual projections in respect of income and expenditure were ready for submission by 15 February 2010, but finally received on 26 February 2010.

Monthly alignment of actual expenditure with available cash

The Department obtained a rating of 20 per cent (full compliance). The Department complied with 12 months.

Available Budget equal to available cash (annual)

The Department obtained a rating of 17.50 per cent (nominal compliance). The Department overspent on their cash by R104 thousand.

Surrender of voted Surplus funds

The Department obtained a rating of 10 per cent (full compliance). Surplus funds were paid to the PRF on 10 May 2010.

Submission of monthly Bank Reconciliations

The Department was rated 9.79 per cent (nominal compliance). The monthly bank reconciliations were submitted within 30 days after month end.

Should be "full compliance" because the monthly reconciliations were all submitted within 15 days after month end.

User account management (Dormant users, etc)

The Department was rated 15 per cent (nominal compliance). It is preconceived that the Department complied with the relevant requirements.

Confirm reconciliation of monthly bank transfers

The Department was rated 7.50 per cent (nominal compliance). The Department should confirm and reconcile the monthly transfer schedule with Cash Management.

3.11.5 Supply Chain Management

Scope of Review

The review is based on information contained in the SCM status verification report (2009/10), Procurement Statistics report (2009/10) and material findings contained in the AG's report (2009/10).

Institutionalisation

PT has held in abeyance the requirement for the Department to review its AO System in view of the fact that PT is in the process of updating Provincial requirements and drafting a Provincial AO Policy in terms of the Provincial Treasury Red Flag Programme.

The SCM Structure caters for all the elements of SCM. There are no existing vacancies within the SCM unit. One of the key positions in the CFO Structure is that of SCM Practitioner. The Department has on 1 April 2010 filled the vacancy of SCM Manager. Although there are no vacancies in SCM, the vacancy rate for the entire CFO Structure as at 31 March 2010, was indicated to be 13 per cent which is above the National norm of 5 per cent. This could

pose a risk to the sustainability of financial management efficiency and compliance to prescribed norms and standards within the Department.

The 3 Bid Committees have been established in terms of the relevant statutory requirements. All the SCM officials have received training on the Designated Purchasing System (*Sourcelink/EPsi* Training). Most of the officials in the SCM unit are also engaged in the formal UNISA Programmes in Public Procurement and Advanced Procurement.

Internal Control and Compliance to SCM Policy and Prescripts

The various functions in SCM are adequately separated and SCM processes are standardised through the Departmental Financial Manual and supported with training.

The CFO has indicated that monitoring is effected through a reporting mechanism that consists of monthly commitments per Programme and quarterly performance reporting. An orders database checklist is also provided on a monthly basis to the CFO which monitors the orders issued, payments processed, if any orders were split and if a supplier is over utilised.

Reliability and Integrity of Data

For the 2009/10 financial year the Department issued 445 Requests for quotations via the Open System of the Electronic Purchasing System (EPsi). This translated to a spend of R14.2 million of which R5.2 million was on vendors that are classified as HDI. The spend that was put through the Closed System was R3.1 million with R634 000 awarded to suppliers classified as HDI.

Formal bidding for the period under review was reported as follows:

Bids Awarded	:	4
No. of limited bids	:	3
No. of contract extensions	:	None
Value of bids awards	:	R1.535 million
Value of limited bids	:	R1.035 million

Motivation from the Department to substantiate the award of limited bids indicated that the unique nature of the services requested, being a MEDS Synthesis Report and Sector Support initiative, warranted the route of deviation in procurement.

The Department has made a significant effort to retrospectively adjudicate the outstanding quotations as instructed through PT Circular 10/2010. The adjudication rate on the Open System at 31 March 2010 was 103 per cent (the figure being >100 per cent due to the Department adjudicating a quotation and then subsequently cancelling the request).

The Department complies with the monthly reporting of procurement information to the Provincial Treasury. Deviations in procurement from the open process were managed and sufficiently motivated for in the reporting to Provincial Treasury for the year under review.

The 2009/10 AG Performance Audit on the use of consultants and outsourced services

The following areas of deficiency around the appointment of consultants, contractors and agencies/outsourced services were highlighted in the 2009/10 Performance Audit:

- A lack of policy to guide the use of consultants,
- Non-compliance to National Treasury Practice Note SCM 3 of 2003,
- A lack of planning and needs assessment prior to the appointment of a consultant,
- Inadequate Performance Management and monitoring of consultants,
- The use of consultants to compensate for the lack of permanent staff,
- The extension of contracts and the circumstances under which contracts are extended or modified.

The Department has since taken up the recommendations made by the Auditor –General which was implemented in the 2009/10 financial year.

Comparison to the 2008/09 Review and Rating

The Department has shown progress in that it has;

- Updated the delegations and incorporated the content of the new Provincial Treasury Instructions of 2009,
- Implemented the underlying principles of Demand management through the application of the *Critical Paths Methodology*,
- Filled the vacancies within SCM,
- Provided the Bid Committee members with the requisite training and appointment in terms of the regulatory framework,

- Maintains a Service Level Agreement database for Contract Management purposes,
- Duly reports on procurement information to Provincial and National Treasury,
- Improved its adjudication rate on the Electronic Purchasing System to 100 per cent,
- Processes transactions , including deviations in accordance with the applicable legislation and
- Performs monthly reviews of SCM application and has measures in place to guard against weaknesses in the internal control environment.

The Department was rated at a Level 2, SCM Financial Capability for the 2008/09 financial year. In view of the fact that the Department has taken up the recommendations that emanated from the last SCM Compliance assessment, is maintaining an effective and efficient SCM environment that includes credible reporting, adherence to the adjudication requirements and proper management and reporting of limited bids, a progressive rating of Level **2+**, SCM Financial Capability is concluded for the 2009/10 financial year. Whilst the Department has chartered a clear path toward achieving the level 3 financial capability for SCM; the Department has to reflect consistency and sustainability of the improvements put in place that will clearly place them at a level 3.

Steps to take the department to the next level

- Implementation of a Treasury endorsed Accounting Officer's Framework and ongoing review of accompanying delegations.
- Incorporate the requirements for the appointment of consultants within the Department's Accounting Officer's Framework, that clearly defines needs assessments, performance monitoring and transfer of skills
- Implementation of contract management principles so that contractor performance and succession planning initiatives are in place.
- Maintain and sustain a consistent and comparable reporting of SCM information.
- Implementation of standard operating procedural manuals for SCM processes.
- Continuous SCM capacitation and training programme in place.

Ongoing implementation of SCM procedures in line with the statutory frameworks and legislative requirements.

3.11.6 Moveable Asset Management

Background

The Department was assessed and rated during 2009/10 financial year in terms of the financial capability model for Moveable Asset Management.

The rating was however not only based on the compliance/verification assessment report but also on other Asset Management reporting and findings, the AG's report and AM performance throughout the financial year.

Institutionalisation

The Department has developed and implemented an Asset Management Strategy/Policy as required by the National Treasury Broad Implementation Plan (NTBIP). The Departments strategies are incorporated in terms of section 38(1(d) of the Public Finance Managements Act, 1999 (Act 1 of 1999).

The Asset Management Unit has an organisational structure which incorporates the moveable asset management functions. The Asset Management structure is complete and adequate with only one Deputy Director post is vacant but there is an acting appointment.

The Department has a Skills Development Plan in place for Asset Management and all the officials have received training from Provincial Treasury. The Department also attends the SCM/AM Forum meetings which are facilitated by the Provincial Treasury.

The Department is currently using the Financial Manual of 2008/09 financial year which includes AM Strategy/Policies to train their current and new officials of the Asset Management unit.

Internal Control and Compliance to AM Policy and Prescripts

The Department has job descriptions which clearly defines the roles and responsibilities of the officials in the Asset Management unit. The Department still needs to fill the vacant post to encourage and promote segregation of duties and to avoid overlapping of functions.

Monthly BAS and LOGIS reconciliation is performed by the Asset Management unit as reiterated in PT Circulars 39/2007 and 36/2008 respectively.

The Department still needs to incorporate a complete Asset Management Strategy in the Accounting Officer's system. In order for the Department to fully comply with the NTBIP they need to perform three things in their Dashboard, which is Life-cycle costing, establishing of performance indicators and write-off of damage or missing assets.

Asset Management Policies are incorporated in the Department's Financial Manual and roles of the Asset Controllers are noted clearly. The Department's computer related equipment is secured with a PC lock and the pool equipment is locked in a steel cabinet in order to mitigate the weakness of internal controls and risk. The Asset Management Framework in the Accounting Officer's system is still in a draft format.

The Asset Management procedures and processes are standardised and incorporated in the Accounting Officer's System which adheres to section 38(1)(d) of the Public Finance Management Act, 1999 (PFMA) which places the responsibility for financial and risk management, as well as the effective and efficient use of assets, on the Accounting Officer. Also, Treasury Regulation 10.1 (issued in terms of section 76 of the said Act) requires the Accounting Officer to ensure that processes and procedures are in place for the effective, efficient, economical and legal use of the assets are adhered to, and implemented.

The Departmental Asset Register (AR) meets all the minimum requirements of an Asset Register as stated in the Dashboard template.

The Department has procedures in place for Operations and Maintenance Plan Policy and are incorporated in the Financial Manual for 2008/2009 financial year. However, the Department has not attached the Operation and Maintenance Plan schedule to the policy for Operation and Maintenance Plans. The life-cycle costing plan was still a work-in-progress and expected to be completed during the 2009/10 financial year.

The Department has Disposal plans and procedures incorporated in Chapter 11 paragraphs 11.1 of the Accounting Officer's system. The Departments Disposal Policy was incorporated in the Financial Manual for 2008/09 financial year. The Department has a Board of Survey (Disposal Committee) which is incorporated under the disposal plan paragraph 6.12.2 to 6.12.2.2.

Reliability and Integrity of Data

All the Departmental Officials in the Asset Management unit have received training on BAS/LOGIS from Provincial Treasury (Financial and Interlinked Systems). All these Systems are being used effectively and efficiently for the loading of assets and to perform monthly reconciliations etc.

During the physical verification assessment performed at the Department, it was noted that the Department's Asset Register still needs to be upgraded in order to monitor the movement of the assets within (in/out) the Department.

The Department has conducted and completed its annual stock take for the financial year 2008/09. All the processes for stock take in the Department were

incorporated in the financial manual for 2008/09 financial year and all assets of the Department are subject to asset count verification on a quarterly basis and an annual verification before year-end.

The Department through the Chief Financial Officer/delegate of the Department has submitted the stock take certificate to the Provincial Treasury.

The reporting on the National Treasury's Broad Implementation Plan for AM during the financial year 2009/10 revealed 100 per cent compliancy to Planning, 100 per cent compliancy to Acquisition, 100 per cent compliancy to Operation and maintenance, 100 per cent compliancy to Disposal, 100 per cent compliancy to the Accounting requirements and 100 per cent compliancy to the Asset Register requirements.

The Department is currently using LOGIS to load all the data regarding assets, therefore it also reflects on the system when assets are disposed and also when assets are booked-out for repairs/maintenance.

The Department should take cognisance of the shortcomings highlighted by the Auditor-General in terms of assets which are rated under the section "Compliance with accounting policies and standards" of the Financial Governance Review & Outlook 2010. These shortcomings, the instituted corrective measures and the implemented control measures will be closely monitored and assessed by the Provincial Treasury: Moveable Asset Management (MAM) unit to encourage and promote efficiency, effectiveness and to contribute to the planning and preparation for the asset verification assessment envisaged for the 2010/11 financial year.

Comparison to the 2008/09 Review in terms of the financial capability model for Moveable Asset Management

In 2008/09 financial year the Department was monitored through the project Dashboard and the Risk Log report and it has been noticed through the submission of the quarterly report that the Department is making a huge effort to meet all the requirements of the Broad Implementation Plan from National Treasury. The Departmental statistics in respect of dashboard report during the 2008/09 financial year was as follows: Compliancy to Asset Management Planning 96 per cent; Asset Register and accounting requirements 100 per cent. However, in the period under review the Department has finally implemented the entire National Treasury requirements with regards to the Broad Implementation Plan.

During the period under review a full Asset Management assessment was performed and the Department was rated accordingly. The progress made by the Department was noted.

Rating

The Department has been rated at a level 3 against the financial capability model for Asset Management.

Conclusion/Recommendation

In order for the Department of Economic Development and Tourism to proceed to the next level of financial capability, it should implement the following:

- AM practice and procedure managed with prudence in an efficient and effective manner;
- Achievement of operational functionality in AM;
- Formalised and implemented AM practices and policies in place (standard operating procedural manuals in place);
- Consistent and comparable AM reporting;
- 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;
- Development of a maintenance schedule for all assets;
- Asset locations must be easily identifiable;
- Develop a basic AM control framework to safeguard and protect assets;
- Enhance the monitoring of assets within the entire Department of Economic Development and Tourism to ensure sustainable service delivery;
- Capacitate the asset management unit; and
- The Department should implement and adhered to AG's findings in respect of major and minor assets disclosure in the AFS in the coming financial year.

3.11.7 Supporting and Interlinked Financial Systems

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

Review

The evaluation was based on the activities of the 2009/10 financial year and the findings were as follows:

Basic Accounting System (BAS)

Table 115 Management of activities on BAS

Requirements	Weight	Standard Level 3	Standard Level 3+	Rating
Skilled and capacitated system users	30%	In accordance with profile	Various Modules	2
Optimal utilisation of system	20%	80% - 90%	91% - 100%	3
Month- and Year-end closure	5%	Own accord – due date	Own accord – prior date	3+
System Controller Functions	30%	80 – 90%	91 – 100%	3+
Monitor Applicable Interfaces	15%	Intermittently	Daily	3+
Average Rating				3

The Department obtained an overall rating of level 3.

Table 116 Skilled and capacitated system users

Number of officials confirmed	Number of officials attended	Number of officials did not attend	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
0	0	0	0	0

The Department maintained a financial management capability rating of level 2 (partial compliance), due to non officials who confirmed, and all officials are not trained in accordance with their profiles.

The Directorate Supporting and Interlinked 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 more users trained.

Optimal utilisation of system

The Department achieved a financial management capability rating of level 3 (nominal compliance) for the optimal utilisation of the system.

Month- and Year-end closure

The Department achieved a financial management capability rating of level 3+ (nominal compliance) as their month- and year-end closure was done prior to the predetermined dates of National Treasury.

System Controller Functions

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

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

Monitor Applicable Interfaces

The Department achieved a financial management capability rating of level 3+ (full compliance) as their interfaces were monitored and reported on a daily basis.

Personnel and Salary Administration System (PERSAL)

Table 117 Management of activities on PERSAL

Requirements	Weight	Standard Level 3	Standard Level 4	Rating
Skilled and capacitated system users	30%	In accordance with profile	Various Modules	2
Optimal utilisation of system	20%	80% - 90%	91% - 100%	3
System Controller Functions	20%	80 – 90%	91 – 100%	3
Establishment Management	10%	Quarterly	Monthly	3
Adhere to Minimum Information Requirements	5%	Annually	Continuous process	3
Leave Audit	15%	Annually	Continuous process	3
Average Rating				3

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

Table 118 Skilled and capacitated system users

Number of officials confirmed	Number of officials attended	Number of officials did not attend	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 maintained a financial management capability rating of level 2 (partial compliance), mainly due to the high percentage of officials who confirmed but did not attend courses, as well as all officials not being trained in accordance with their profiles.

The Directorate Supporting and Interlinked 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 more users trained.

Optimal Utilisation of system

The Department achieved a financial management capability rating of level 3 (nominal compliance), but there is still functionalities not fully utilised.

System Controller Functions

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

Establishment Management

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

Adhere to Minimum Information Requirements

The Department achieved a financial management capability rating of level 3 (nominal compliance), this Department distributed questionnaires an updated most of their personnel details.

Reports indicating the outstanding information are available and are provided by Provincial Treasury to departments on request.

Leave Audit

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

Logistical Information System (LOGIS)

This Department is not currently using LOGIS.

3.11.8 Public Entity: Western Cape Liquor Board

3.11.8.1 Compliance with accounting policies and standards

For the 2009/10 financial year, the Entity received an Unqualified Audit Report from the Auditor-General of South Africa (AGSA).

PT (Accounting) identified a number of key accounting policies and standards against which entities are rated in terms of compliance and its financial management capability. The purpose of the exercise is inter alia to monitor progress towards an improved financial management capability rating. Various tools are available to entities to ensure improved ratings, improved integrity of data and also that the financial reporting that is understandable, relevant, reliable and comparable. PT introduced various initiatives to address accounting matters in collaboration with the relevant entities. The entity made full use of all these opportunities and actively contributed with regards to the following:

- Workshops on reporting requirements
- Quarterly CFO's forum
- Bi-lateral discussions
- IYM reporting
- Submission of AFS for preview prior to 31 May
- Compilation of a prescribed audit file with supporting documentation
- Interim financial statements as at 30 September 2009 (a new initiative during 2009/10)

An assessment of the financial management capability of the Entity was undertaken based on 2009/10 AFS, Auditor-General of South Africa (AGSA) audit findings and IYM reporting, that revealed the following:

Basis of accounting

Provincial Treasury approved a deviation from the basis of accounting applicable to the entity, which granted the entity exemption from preparing the interim financial statements in terms of the accrual based reporting framework for the 2009/10 financial year. This was due to the entity being a programme in the books of the Department of Economic Development and Tourism, which operates on a modified cash basis of accounting, and the

costs and effort involved in replicating the statements on an accrual basis of accounting. The entity compiled AFS at year-end, as required for entities listed in Schedule 3 (c) of the PFMA.

Accounting of assets

Asset management transactions were accounted for in terms of prescribed accounting policy requirements.

The entity therefore maintained a level 3 financial management capability level when compared to the prior year assessment.

Financial reconciliations

The entity remained unable to accurately and completely account for the liquor license fees collected by SARS. During in-year bi-lateral engagements with PT the entity confirmed that it would proactively consult with SARS in order to improve the revenue reconciliations and financial reporting. The situation will, however, only be fully resolved once the Western Cape Liquor Act is promulgated, as this will allow the entity to collect its own revenue. The AGSA reported that the amount disclosed for license revenue in note 2 of the financial statement is materially inconsistent with license revenue disclosed in other parts of the annual report.

The entity avoided a qualification by the AGSA for the first time. The entity is thus progressing towards a level 3 financial management capability rating.

Supporting documentation

The entity is maintaining its performance at a level 3 financial management capability rating achieved during the prior year's assessment as it continued to have an efficient system of maintaining source documents for audit purposes.

Expenditure – Payments and journals

Payments and journals have been correctly classified, as verified by the AGSA.

The entity is therefore maintaining at a level 3 financial management capability level when compared to the previous year assessment.

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

Since all levels of reporting are fully informed, Liquor Board is maintaining its performance at the level 3 financial management capability rating achieved during the prior year's assessment.

Conclusion/recommendation

To fully comply with a level 3 financial management capability, the Entity needs to separate its books of account from those of the Department in order to ensure improved reporting in terms of the accrual basis of accounting, and put controls in place to properly report on revenue from liquor licenses.

3.11.8.2 Corporate Governance

The Liquor Board improved their audit outcome from a qualified audit opinion in 2008/09 to an unqualified audit opinion with other matters in the 2009/10 financial year, which signifies an improvement in the financial management of the public entity.

The following issues were highlighted in the 2009/10 audit report:

- Restatement of corresponding figures
- Material inconsistencies in other information included in the annual report
- Reliability of reported performance information
- Lack of leadership of the accounting authority in respect of the oversight role relating to predetermined objectives.

It is important that the Department institute action plans to address these shortcomings and to prevent a reoccurrence thereof in the next audit.

3.11.9 Public Entity: Western Cape Investment and Trade Promotion Agency (WESGRO)

3.11.9.1 Compliance with accounting policies and standards

For the 2009/10 financial year, the Entity received an Unqualified Audit Report from the Auditor-General of South Africa (AGSA).

PT (Accounting) identified a number of key accounting policies and standards against which entities are rated in terms of compliance and its financial management capability. The purpose of the exercise is inter alia to monitor progress towards an improved financial management capability

rating. Various tools are available to entities to ensure improved ratings, improved integrity of data and also that the financial reporting that is understandable, relevant, reliable and comparable. PT introduced various initiatives to address accounting matters in collaboration with the relevant entities. The entity made full use of all these opportunities and actively contributed with regards to the following:

- Workshops on reporting requirements
- Quarterly CFO's forum
- Bi-lateral discussions
- IYM reporting
- Submission of AFS for preview prior to 31 May
- Compilation of a prescribed audit file with supporting documentation
- Interim financial statements as at 30 September 2009 (a new initiative during 2009/10)

An assessment of the financial management capability of the Entity was undertaken based on 2009/10 AFS, Auditor-General of South Africa (AGSA) audit findings and IYM reporting, that revealed the following:

Accounting of assets

Asset management transactions were accounted for in terms of prescribed accounting policy requirements. The entity addressed the audit outcomes of the previous year.

The entity is therefore improving on its performance to a level 3 financial management capability level when compared to the previous year's assessment of level 2.

Supporting documentation

The Auditor-General reported that no significant difficulties were experienced on the availability of requested information during the audit process.

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

Expenditure – Payments and journals

The Auditor-General reported procurement amounting to R947,986 from suppliers who could not provide the entity with tax clearance certificates. This is in contravention of legal requirements and thus constitutes irregular expenditure.

The entity reported fruitless and wasteful expenditure relating to penalties and interest charged by the South African Revenue Services (SARS) due to the late payment of PAYE and UIF pertaining to Directors' remuneration during the 2009/10 tax year.

Due to the occurrence of payments relating to irregular and fruitless and wasteful expenditure, which points to poor internal controls, the entity continues to perform at a level 2 financial management capability rating, as in the previous year assessment.

Accounting treatment of transactions

The entity addressed the issues regarding the omission of accounting policies and the insufficient disclosure of transactions, as included in the previous assessment.

The entity has therefore improved on its performance to a level 3 financial management capability level when compared to the previous year assessment of level 2.

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

Wesgro is continuing its performance of a level 3 financial management capability for monthly reporting of financial information. All levels of reporting are fully informed.

Conclusion/recommendation

The entity has improved its financial management capability ratings when compared to the previous assessment. To fully comply with a level 3 financial management capability, the entity needs to put controls in place to prevent irregular and fruitless and wasteful expenditure payments.

3.11.9.2 Corporate Governance

Western Cape Investment and Trade Promotion Agency received an unqualified audit opinion with other matters for the 2009/10 as well as for the 2008/09 financial year.

The following issues were highlighted in the 2009/10 audit report:

- Irregular expenditure;
- Reasons for major variances between planned and actual reported targets were not explained;
- Lack of effective, efficient and transparent systems and internal controls regarding performance management;
- Inadequate quarterly reporting on predetermined objectives;
- Non-adherence to Public Finance Management Act, 1999 and Treasury Regulations of 2005; and
- Lapses occurred in the accounting authority's oversight responsibility over reporting on predetermined objectives and compliance with laws and regulations.

It is important that the entity institute action plans to address these shortcomings and to prevent a reoccurrence thereof in the next audit.

3.11.10 Public Entity: Destination Marketing Organisation (DMO)

3.11.10.1 Compliance with accounting policies and standards

For the 2009/10 financial year, the Entity received an Unqualified Audit Report from the Auditor-General of South Africa (AGSA).

PT (Accounting) identified a number of key accounting policies and standards against which entities are rated in terms of compliance and its financial management capability. The purpose of the exercise is inter alia to monitor progress towards an improved financial management capability rating. Various tools are available to entities to ensure improved ratings, improved integrity of data and also that the financial reporting that is understandable, relevant, reliable and comparable. PT introduced various initiatives to address accounting matters in collaboration with the relevant entities. The entity made full use of all these opportunities and actively contributed with regards to the following:

- Workshops on reporting requirements
- Quarterly CFO's forum
- Bi-lateral discussions
- IYM reporting
- Submission of AFS for preview prior to 31 May

- Compilation of a prescribed audit file with supporting documentation
- Interim financial statements as at 30 September 2009 (a new initiative during 2009/10)

An assessment of the financial management capability of the Entity was undertaken based on 2009/10 AFS, Auditor-General of South Africa (AGSA) audit findings and IYM reporting, that revealed the following:

Management of and reporting on suspense accounts

The entity managed to clear an irrecoverable amount of R 798,131 from THETA as recommended by the AGSA in the prior year. No new issues were raised by the AGSA for the period under review.

The entity has therefore improved on its performance to a level 3 financial management capability level when compared to the prior year assessment.

Procedures for the identification and reporting of fruitless and wasteful expenditure

No fruitless and wasteful expenditure was reported by the department or identified by the AGSA.

The entity therefore improved to a level 3 financial management capability rating when compared to the previous year assessment.

Accounting of assets

The entity disclosed all assets in the annual financial statements in accordance with the applicable reporting framework and the entity addressed the audit outcomes of the previous year. No issues were raised by the AGSA for the period under review.

The entity has therefore improved on its performance to a level 3 financial management capability when compared to the prior year's assessment which was at level 2.

Management of debtors

An analysis of the AFS showed that the ageing of trade receivables reveals that 68 per cent of the total (R1 6691 000) trade receivables are more than 60 days plus which poses a credit risk to the entity.

This is an indication that the entity is performing at a level 2+ financial management capability rating.

Conclusion/recommendation

To fully comply with a level 3 financial management capability, the entity needs to put controls in place in that will improve on the management and collection of trade receivables.

3.11.10.2 Corporate Governance

The public entity has made great strides in improving its audit opinion from an unqualified audit opinion with other matters in the 2008/09 financial year to a clean report in the 2009/10 financial year.

3.12 Department of Cultural Affairs and Sport

Overview

Financial management capability assessments of the main attributes were conducted and rated in terms of the assessment tools as contained in Chapter 2 of the FGRO 2010. The goal of these assessments is to collectively provide an overview of how the department (and its entities) is/are managed as well as recommendations to assist progress to a level 3+ financial management rating.

Department -

The following ratings were assigned per assessment area:

Performance management

- Non financial information - level 3
- Financial information – level 3

Compliance with accounting policies and standards – level 2.5

Enterprise Risk Management – level 2.5

Corporate Governance - level 3

Liabilities management – level 3

Supply Chain Management – level 2

Movable Asset Management – level 1

Financial Systems

- Systems usage – level 3
- Training - level 2

In view of the ratings above, an average rating of level 2.5 is achieved.

The Department has provided a comprehensive financial management improvement plan that inter alia covers the issues raised to move towards a level 3+ rating.

3.12.1 Performance Management

3.12.1.1 Non-financial information

The analysis of departmental performance information management uses the financial management capability model as a point of departure to provide an insight to the information presented in the departmental budget documentation including the Department's Strategic Plan (SP), Annual Performance Plan (APP), Annual Report (AR) and Quarterly Performance Reports (QPRs). The assessment gauges key aspects of the Department's performance information in order to determine the Department's capability level.

The assessment 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 level 4 financial management capabilities. The 2009/10 AR, the 2009/10 and 2010/11 APPs as well as the final 2009/10 QPR have been used in the assessment. The assessment also includes information based on the 2009/10 Auditor-General of South Africa (AGSA) audit report.

Organisational arrangements for managing Performance Information

The Strategic Planning and Monitoring and Evaluation (M&E) capacity is located in two separate components within the Management Services sub-programme. Responsible managers with direct reporting to the Accounting Officer/Executive Officer have been designated for strategic planning services and for research and M&E services.

Quarterly Performance Reporting on 2009/10 Predetermined Objectives

The Department has submitted QPRs in the correct format on a quarterly basis as required. These reports reflected the annual as well as quarterly targets as contained in the Annual Performance Plan as well as progress on the targets. However, a challenge for the Department is the establishment of procedures to facilitate effective performance monitoring, evaluation and corrective action throughout the financial year.

The final management report on the regularity audit of the Western Cape Department of Cultural Affairs and Sport for the year ended 31 March 2010 indicated that the Department of Cultural Affairs and Sport did not have documented and approved internal policies and procedures to address the process of collection/recording/processing/monitoring/reporting of performance information.

The Accounting Officer should also ensure that the Department has and maintain an effective, efficient and transparent system and internal control regarding performance management which represent how the institution's processes of performance planning, monitoring, measurement, review and reporting should be conducted, organised and managed, as required in terms of section 38(1)(a)(i) and (b) of the PFMA. Adequate monitoring and controls should also ensure that performance information reported in the annual report is reliable.

Annual Report 2009/10

When comparing the performance information in the AR with the APP, all the performance measures defined in the 2009/10 APP are reported on in the 2009/10 AR per sub-programme. There is also consistency between the unit of measurement used for the targets and the actual outputs in the AR. The AR may thus be used in conjunction with the APP to assess the Department's performance over the indicated financial year.

The Department provided a summary of the significant achievements of each sub-programme within the Programmes for the 2009/10 financial year, focusing on the achievement of targets. The Department provided reasons for major variances between target and actual output in both the event of targets not being achieved and targets that were exceeded. Although a synopsis on the achievements has been provided, the Department did not directly link the specific outputs in terms of the targets that contributed towards achieving the Department's outcomes, which will invariably impact on the strategic priorities of government.

Strategic Plan 2010/11 – 2014/15

The Department tabled a revised SP for 2010/11 – 2014/15 before the start of the 2010/11 financial year. The format of the SP is in line with the generic guide for Strategic Plans issued by the National Treasury. The focus of the Strategic Plan is linking to and flowing from various plans developed within the Provincial Government of the Western Cape fulfilling its legislative mandate. The Strategic Plan for the Department of Cultural Affairs and Sport contains the Strategic goals and objectives to be attained by the Department over the 2010/11 – 2014/15 period.

Annual Performance Plan 2010/11

The Departmental APP is in line with the generic guide for Annual Performance Plans issued by the National Treasury. However, revision of the technical lay-out and formatting is recommended for improvement of future publications.

The Departmental APP for 2010/11 complies with the uniform sector specific programme structure prescribed by National Treasury. The Strategic objectives are developed in terms of the Department's core mandate and goals. Strategic objectives and performance indicators for Programme 1: Administration has been included in the 2010/11 APP, which is an improvement on the 2009/10 APP.

The Departmental APP includes the entire sector specific as well as the provincial specific performance measures for the 2010/11 financial year. Sector specific performance measures should be considered as the main performance measures of the Department. Discussions should be initiated between the Province and the National Department to ensure the development of relevant targets that relate to the Provincial Legislative Mandate, for reporting purposes. Duplication of performance measures between the sector specific and provincial specific performance indicators should be limited. Although annual and quarterly targets were set for the 2010 MTEF the reporting periods are misinterpreted in some instances (e.g. quarterly targets provided for an annual indicator).

Although most of the strategic objectives and performance indicators identified by the Department comply with the SMART principle, in that they are specific, measurable, achievable/attainable, realistic and time bound the Department should revisit performance information to ensure the relevance of indicators and achievability of targets in future APPs.

Entities affiliated to the Department

The Western Cape Language Committee, Heritage Western Cape and Cultural Commission are entities affiliated to the Department of Cultural Affairs and Sport. These entities compiled Strategic and Annual Performance Plans for the 2010/11 financial year and are monitored by the Department on a quarterly basis.

Conclusion/recommendation

The evaluation in terms of guidelines and legislative requirements of the 2009/10 APP and QPR, the 2009/10 AR and the 2010/11 APP revealed that the Department is, according to the performance management framework, almost operating at a level 3 auditable organisation. The Department therefore already operates according to some of the criteria set to operate at the control level.

Although QPRs were submitted in the correct format on a quarterly basis, timely corrective measures to address non performance were not implemented.

The 2009/10 AR included the entire spectrum of sector specific as well as the provincial specific performance indicators as per the 2009/10 APP and deviations from the targets were explained.

Sector specific as well as provincial specific performance measures are reflected in the 2010/11 APP and targets were set for the 2010 MTEF.

To reach a financial management capability rating of level 3, which measures compliance and control, the Department needs to implement a process flow for quarterly performance reporting, which needs to address accountability and credibility of data. The Guide for the Implementation of Provincial Quarterly Performance reports provides guidance on the production of quality performance information.

General recommendations to improve the overall reliability and usefulness of performance information include Accounting Officers ensuring that an overall performance management system should be in place and documented, sufficient appropriate audit evidence and source documentation exist, there are appropriate information systems to facilitate the preparation of a performance report that is accurate, complete and valid and adequate control processes and procedures should be designed and implemented to ensure the accuracy, completeness and validity of reported predetermined objectives/performance information.

To achieve a financial management capability rating of level 4, which measures how resources are used, the Department should also move beyond compliance to focus on costing outputs and instituting practices that would identify those critical outputs that would have a knock-on effect to achieving departmental outcomes. The move beyond compliance involves expanding the focus to include the relationship between inputs and outputs and directing inputs and outputs closer toward the achievement of the desired outcomes and impact. Going forward the Department, should ensure a stronger linkage between the Provincial Strategic Objectives, SP, APP and Budget.

3.12.1.2 Performance management assessed based on financial information

Public Finance notes the following with regard to financial performance of the Department:

- The Department had an approved expenditure and revenue budget for the 2009/10 financial year;
- The Department 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);

- Actual expenditure and revenue corresponds to the BAS and Vulindlela reports drawn on Responsibility level, but differs from Vulindlela reports drawn on a Programme level. In cases where differences occurred on Responsibility level, the Department could provide satisfactory answers. It is the opinion that the Department can draw BAS reports on a Programme level instead of responsibility level; and
- According to the SCOA misclassification tool, 119 transactions to the value of R15.925 million transactions were classified as incorrect at the end of 2009/10. The Department needs should reduce their count of suspected misclassified payment transactions to a more manageable degree.

Table 119 Quarterly Analysis on projections: 2009/10

R'000	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
First Quarter	17 225	18 004	17 818	39 019	34 026	23 920	28 482	21 761	22 652	25 408	29 099	19 031	296 445
%	5.81%	6.07%	6.01%	13.16%	11.48%	8.07%	9.61%	7.34%	7.64%	8.57%	9.82%	6.42%	100.00%
Second Quarter	17 225	18 004	17 818	29 028	18 172	28 786	36 133	28 938	29 242	26 701	28 899	18 971	297 917
%	5.78%	6.04%	5.98%	9.74%	6.10%	9.66%	12.13%	9.71%	9.82%	8.96%	9.70%	6.37%	100.00%
Third Quarter	17 225	18 004	17 818	29 028	18 172	28 786	26 495	29 305	21 707	37 377	33 742	24 437	302 096
%	5.70%	5.96%	5.90%	9.61%	6.02%	9.53%	8.77%	9.70%	7.19%	12.37%	11.17%	8.09%	100.00%
Fourth Quarter	17 226	18 004	17 818	29 028	18 172	28 786	26 495	29 305	21 707	30 429	33 198	31 562	301 730
%	5.71%	5.97%	5.91%	9.62%	6.02%	9.54%	8.78%	9.71%	7.19%	10.08%	11.00%	10.46%	100.00%

Shaded: Actuals

Unshaded: Projections

As illustrated in the table above, it appears that there is room for improvement with regards to expenditure forecasting, as forecasts in prior quarters differ from the actual expenditure throughout the year. This can be observed where actual 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 main budget in 2009/10 for the Department was R296.445 million. During the adjustment estimate it was increased by R5.651 million to R302.096 million. The Department has spent R301.730 million or 99.89 per cent of the adjusted budget. This outcome seems to translate to a credible budget for the Department.

The Department reflected an under spending of R366 000 or 0.11 per cent in 2009/10. This outcome is within the 2 per cent under spending norm for Departments. The under spending is in mainly in Programme 4: Sport and Recreation due to the shifting of stipends paid to volunteers and the slow filling of the vacant management positions.

The Department submitted its adjustments budget on time and it was comprehensive in terms of Section 31 of the PFMA.

The Department effected shifts to the value of R7.985 million or 2.6 per cent of the adjusted budget. The shifts made between the programmes are above 2 per cent of the adjusted budget, therefore the Department needs to be more accurate and realistic when allocating the budgets.

The Department effected virements to the amount of R3.626 million. This represents 1.2 per cent of the adjusted budget.

The Department complies with DORA prescripts and spending of national conditional grants are as per the business plans and payment schedules.

The Community Library Services Grant received the full adjusted budget of R41.073 million, which includes the roll over amount of R97 000. The Department spent the full budget of the grant. The roll over was used to transform urban and rural library infrastructure, facilities and services through a recapitalised programme.

The Department received the full allocation of R38.237 million for the Mass Sport and Recreation Participation Programme (MSRPP) grant. Actual expenditure amounted to R38.063 million or 99.55 per cent of the grant budget. The underspending amounts to R174 000 which was surrendered to the National Department of Sport and Recreation. No rollover was requested.

The Department did not engage in fiscal dumping and did not report irregular expenditure in 2009/10.

Accruals which exceeded the payment terms of 30 days as prescribed in Treasury Regulation 8.3.2 amounted to R793 000.

The Department collected R1.043 million in provincial own receipts compared to the R561 000 adjusted budget for 2009/10. This represents an over-collection of R482 000 or 46.2 per cent on the adjusted budget. This over collection was mainly due to fines and penalties for lost library books.

There was no application for approval received from the Department for the revision on tariffs in 2009/10.

Conclusion

The Department generally operates at a financial management capacity level of 3 and moving towards a level 3+ financial management capability rating.

3.12.2 Accounting policies and standards

PT (Accounting) identified a number of key accounting policies and standards against which departments are rated in terms of compliance and its financial management capability.

The purpose of the exercise is inter alia to monitor progress towards an improved financial management capability rating. Various tools are available to departments to ensure improved ratings, improved integrity of data and also that the financial reporting is understandable, relevant, reliable and comparable.

PT (Accounting) introduced various initiatives to address accounting matters in collaboration with the relevant departments. The department fully utilised these opportunities and actively contributed with regards to the following:

- Workshops on reporting requirements
- Two-monthly CFO's forum
- Monthly FA's forum
- Bi-lateral discussions
- IYM reporting
- Submission of AFS for preview prior to 31 May
- Compilation of a prescribed audit files with supporting documentation
- Interim financial statements as at 30 September 2009

The interim financial statements as at 30 September 2009 was a new initiative introduced by the PT. Accounting assessments were conducted on the interim financial statements by Accounting Services in terms of a pre-determined assessment framework. Internal Audit also conducted a review of the processes and the controls implemented by departments on the implementation of the interim financial statements and issued a report on its findings per department. The Accounting assessment findings were issued to the department and corrective measures followed up in terms of action plans to ensure that these issues did not re-appear at the year-end.

The Department diligently attends and participates in the PT driven Financial Accountants and Chief Financial Officers Forums and attend workshop offered by PT where financial management issues are discussed amongst all the provincial departments.

In its endeavour to enhance financial management, the Department has instituted various control measures and processes, notwithstanding that full implementation and monitoring remains a challenge. This has surely improved

financial management and the Department must be congratulated on receiving an unqualified audit report for the 2009/10 financial year.

An assessment of the financial management capability of the Department based on the 2009/10 audit findings and IYM reporting revealed the following:

Management of and reporting on suspense accounts

The Department reported in the monthly IYM report that suspense, control and disallowance accounts are regularly followed-up and cleared within a reasonable period of time.

The Department continues to maintain a level 3 financial management capability rating when compared to the previous assessment.

Accounting of assets

Since the previous assessment, the Department improved its processes and controls over the recording of assets in the asset register to ensure completeness and accuracy of financial information and there were no audit findings in this regard.

The Department has therefore improved from a level 2 to a level 3 financial management capability rating compared to the prior financial period.

Financial reconciliations

The Department experienced a backlog in compiling and submitting monthly reconciliations of BAS/LOGIS (minor and major assets) during the period under review due to a lack of capacity. The Department subsequently filled certain vacant posts, including the Manager responsible for SCM. Through bi-lateral engagements the Provincial Treasury provided support throughout the year and asset reconciliations were brought up to date and the Department was able to submit financial statements based on accurate financial reports.

The Department has therefore improved from a level 2 to a level 3 financial management capability rating.

Expenditure – Payments and journals

The Department disclosed accruals exceeding 30 days in the AFS for 2009/10 that amounted to R793 000, which is an indication of non-compliance with Treasury Regulation 8.2.3. Furthermore, if these payments had been accounted for in the 2009/10 financial year, voted funds would have been exceeded, resulting in unauthorised expenditure being incurred.

The Department is performing close to a level 3 and should ensure that all invoices are settled within 30 days of receiving in order to move towards to a level 3 financial management capability rating.

Management of lease liabilities

The Department has implemented and maintains lease registers as prescribed, as reported in the monthly IYM, and continues to perform at a financial management capability rating of level 3.

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

The Department compiles and submits monthly IYM reports as prescribed on or before the 15th of each month, signed off by the CFO and AO.

The Department continues to perform at a level 3 financial management capability rating.

Conclusion/recommendation

The Department has made progress in most areas assessed. In particular it needs to improve management controls over payments in order to improve its overall financial management capability rating of a level 3.

3.12.3 Corporate Governance

3.12.3.1 Enterprise Risk Management and Governance Systems

This section provides guidance, criteria and norms and standards for 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.

Strategic risk assessment

A strategic risk assessment was conducted for the Department during 2009.

Internal environment

A risk management philosophy has been developed and distributed through the communications component to all Departmental officials and a risk appetite for the Department has also been defined.

Operational Risk Assessment

The risk events have been identified and assessed on an inherent level. Existing controls have been identified and documented.

Overall assessment

Based on the above information, the Department has achieved a rating of level 2.8, as the Department has not met all the set criteria and norms and standards for level 3. In order to achieve a rating at the next level, level 3, the Department needs to achieve all of the following set criteria and norms and standards:

Risk Response

- Risk responses strategies take into account the cost of risk vs cost of control.

Information and Communication

- Communication of risk to external stakeholders.
- Attain explicit information required for evaluating accountability.

2008/09 and 2009/10 Comparison

For the 2009/10 Review, it is evident that the Department has made significant improvement as compared to the 2008/09.

3.12.3.2 Normative Financial Management

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

The source documents used were the Normative Measures Quarterly Report for departments and the PFMA Compliance Checklist for public entities for the quarter ending June 2010, the Financial Management Capability Maturity survey conducted in June 2010 and the 2009/10 Auditor-General's report for the Department and the Public Entities.

Analysis of Normative Measures Quarterly Report

The CFO Structure: Human Resource Capacity

The vacancy rate in the CFO structure is 12 per cent, however, these posts are currently filled on contract basis. The department is in the process of filling these posts on a permanent basis of which the Assistant Director post interviews were already conducted and the appointment will be effected 1 September 2010. Furthermore, the average length to fill a vacant post is 10.8 months, however cognisance should be taken of the moratorium which ended 28 February 2010, that prevented the Department from filling its vacant posts. There are 26 per cent staff officials that are in structured training programmes within the Department.

Table 120 Extraction of vacant posts in Finance Component

Component/Unit	Post Description	Post level	No of vacant posts
Budget Management	Assistant Director: Expenditure and Revenue Control	9	1
Supply Chain Management	Senior Administration Clerk: Supply Chain Management	5	2
Accounting Services	Senior Administration Clerk: Banking	5	1
Accounting Services	Chief Accounting Clerk	7	1

Policies and procedures

The Department complies with the majority of policies and procedures prescribed by the PFMA and Treasury Regulations pertaining to financial management, however, the inventory management policy and the management of donor funds have not been finalised and implemented.

Tabling of Annual Report

The Department and public entities must annually table their Annual Reports, as prescribed, in the Legislature. Compliance with these requirements is reflected in the table below:

Table 121 Compliance with annual reporting requirement

Institution	Date annual report received by Provincial Treasury	Annual report tabled at the Provincial Legislature
Department:		
Cultural Affairs and Sport	31/08/10	30/09/10
Public Entity:		
Heritage WC	31/08/10	30/09/10
WC Cultural Commission		
WC Language Committee		

Analysis

The Department has successfully tabled their 2009/10 AR as well as that of its public entities, within the prescribed timeframes.

Auditor-General's report on the 2009/10 financial year

The Department improved their audit outcome from a unqualified audit opinion with other matters in the 2008/09 financial year to a unqualified audit opinion with no other matters (Clean report) for the 2009/10 financial year. This is clearly depicted in the table below.

Table 122 Summary of Comparison between the 2008/09 and 2009/10 Audit Reports

Key finding	2008/09	2009/10	Status
Non-compliance with applicable legislation: Exceeded the payment terms of 30 days	X		Improved
Significant difficulties were experienced during the audit concerning delays or the availability of requested information	X		Improved
The prior year Audit findings have not been substantially addressed	X		Improved
Information systems were not appropriate to facilitate the preparation of a performance report that is accurate and complete	X		Improved
Adequate control processes and procedures are not designed and implemented to ensure accuracy and completeness of reported performance information	X		Improved

Overall assessment and recommendation

Based on the above information, the Department achieved a financial management capability rating of 3. However, the Department should seriously review its skills development and ensure that all staff in the CFO structure be subjected to a structured training programme.

3.12.4 Liabilities Management

This section deals with the implementation and management of sound cash flow practices as well as the provision of assistance and training in respect of the 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 practise of sound cash flow 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 and further improve departments and to enable them to reach a standard level of 3+, new assessment tools were created to assist CFO's to have more control and insight over the functions relating to their banking sections.

The evaluation was based on the activities of the 2009/10 financial year and the findings were as follows:

Table 123 Assessment of Liabilities Management

Requirements	Weight	Standard Level 3 (< 90%)	Standard Level 3+ (> 90%)	Rating
Submission of Annual Provincial Cash flow Projections (Section 40(4)(a))	10%	By 28 February	By 15 February	7.50%
Monthly alignment of actual expenditure with available cash	20%	11 months compliance	12 months compliance	20.00%
Available Budget equal to available cash (annual)	20%	Not equal	Equal	17.50%
Surrender of voted Surplus Funds	10%	31 May	15 May	10.00%
Submission of monthly Bank Reconciliation	10%	Within 30 days after month end	Within 15 days after month end	6.46%
User account management (Dormant users, etc)	20%	User accounts reconciled on a quarterly basis	User accounts reconciled on a monthly basis	15.00%
Confirm reconciliation of monthly bank transfers	10%	Within 7 working days after calendar month end	Within 5 working days after calendar month end	7.50%
	100%			83.96%

The Department achieved an overall rating of level 3 (nominal compliance), which is in line with the 2009/10 financial year.

Submission of Annual Provincial Cashflow Projections

The Department obtained a rating of 7.5 per cent (nominal compliance). The Annual projections in respect of income and expenditure were received on 26 February 2010.

Monthly alignment of actual expenditure with available cash

The Department obtained a rating of 20 per cent (full compliance). The Department complied with 12 months.

Available Budget equal to available cash (annual)

The Department obtained a rating of 17.50 per cent (nominal compliance). The Department overspent on their cash by R486 thousand.

Surrender of voted Surplus funds

The Department obtained a rating of 10 per cent (full compliance). Surplus funds were paid to the PRF on 14 May 2010.

Submission of monthly Bank Reconciliations

The Department was rated 6.46 per cent (partial compliance). The monthly bank reconciliations were submitted within 30 days after month end.

User account management (Dormant users, etc)

The Department was rated 15 per cent (nominal compliance). It is preconceived that the Department complied with the relevant requirements.

Confirm reconciliation of monthly bank transfers

The Department was rated 7.50 per cent (nominal compliance). The Department should confirm and reconcile the monthly transfer schedule with Cash Management.

3.12.5 Supply Chain Management

Background

This report is based on the status verification assessment conducted at the Department of Cultural Affairs and Sport, Procurement statistics report, and material findings on AG's report for the financial year under review.

The aforementioned information will be utilised to rate the Department against the Province's Financial Capability Model for SCM.

Institutionalisation

The current AOs of the Department was updated in 2007. However, the current updates have been held in abeyance as the Provincial Treasury is in the process of updating Provincial requirements and drafting a Provincial AO Policy in terms of the Provincial Treasury Red Flag Programme.

The Department updated its delegation in the 2009/10 financial year. However, once the generic provincial delegation in terms of the Premier's Modernisation Programme has been finalised and issued the Department will then be required to update its delegation to align it to the minimum requirements.

The existing SCM structure for the Department is inadequate and does not fully give effect to National Treasury's Normative Measures of Perfecting the Basics Phase 1. However, the financial constraint still remains a significant challenge to the Department to ensure the above.

The Department has and maintains three bid committees as required. However, most members have not yet received formal training and the Department needs to ensure that this happens in order to enhance knowledge and skills required to enable the efficient and effective functioning of these committees.

The Department has identified training needs for its SCM officials; through the implementation of a skills development plan. According to the training schedule provided, some officials have attended training.

Internal Control and Compliance to SCM Policy and Prescripts

Despite the inadequate SCM structure, the Department is striving to separate duties to give effect to a smooth operating environment. However, capacity constraints have prevented the Department from segregating duties specifically in the following areas; Demand management, Contract management and SCM performance.

As part of the solution to supplement capacity, the Department envisages utilising redundant staff affected by the modernisation process to address the capacity constraints.

On perusal of the number and the nature of SCM queries received from the Department by the Provincial Treasury, the Department appears to have a lack of control over non-compliance issues. As the Department engages in high frequency/volume procurement activities, it is challenged with lack of planning which resulted in numerous deviations from normal procurement procedures and non-payment of the service providers within the required timeframe. However, in trying to address these anomalies, the Department envisaged implementing a Procurement Plan with effect from 1 April 2010. The implementation of a Procurement plan was aimed at reducing the deviations from normal procurement process due to lack of planning.

Furthermore, the Department has made progress in paying service providers within the required timeframe, with the SCM unit monitoring of outstanding orders and invoices by drafting a report on a monthly basis and notifying the line functionaries of the outstanding orders and invoices.

The Department has attempted to standardise some of its SCM processes by developing a checklist for orders, bid administration, requisitions and payments etc. to ensure improvement on standardisation of SCM processes.

The Department is addressing its lack of internal controls and risk mitigation procedures through its Enterprise Risk Management Unit (ERM), through the facilitation of a control identification process whereby SCM was also requested to report on the existing controls, address the effectiveness of controls, to identify gaps and propose an action plan. The SCM unit further informs the internal control of non compliance areas on a monthly basis to help identify gaps and update the existing controls.

Currently, the Department does not give effect to monitoring of SCM internal processes retrospectively as required by the prescripts.

The AGSA highlighted the following issues:

- Non-payment of suppliers within the required timeframe (30 days); and
- Service rendered before generating an order.

Although Management has provided response in the management report and the findings were considered to be non material, the Department should maintain consistency in the manner in which it conducts its procurement processes to ensure compliance to SCM regulatory framework. The Provincial Treasury: AM unit will be monitoring issues raised by the AGSA and the Department should ensure that it updates control measures put in place.

Reliability and Integrity of Data

The Department utilises the EPSi when sourcing quotation between the threshold value of R10 000 - R200 000 and below is the EPSi statistics of the Department for the financial year under review.

Number of requested quotes	:	1 435
Number of adjudicated quotes	:	681
Adjudicated quote value	:	R17 835 198.78
Number of HDI quote	:	514
HDI quote value	:	R12 481 731.11

During the financial year under review the Department was requested to adjudicate quotes retrospectively from 1 April 2009 to 30 September 2009 as from this period the function was never performed. The Department has now successfully performed this function and obtained an adjudication rate of 96.87 per cent for the year under review.

The EPSi system's users within the Department have received system's training as well as refresher training for the old staff which speaks to the improved systems utilisation and compliance.

The aforementioned figure on number of quotations awarded to HDI's also reveals that the Department takes into consideration the requirements of the Preferential Procurement Policy Frameworks Act when awarding quotations.

During the financial year under review, the Department awarded 7 bids in total and the following is an extract from procurement statistics report:

Number of competitive bids awarded	:	2
Total value	:	R725 277.00
Number of limited bids	:	5
Total value	:	R3 144 808.95
Per cent of bids awarded to no franchise	:	0.52
Per cent of bids awarded to women	:	2.95

In respect of the 5 bids procured via the limited bidding process, the motivation provided by the Department is deemed sufficient. As most of limited procurement was specifically for 2010 FIFA World Cup requirements, the Department was required to only make use of the listed prospective service providers prescribed by FIFA for the World Cup.

The monitoring of contracts within the Department remains a challenge. Currently the Department's SCM strategy regarding contract management is looking at forming closer links with line function managers to monitor contracts effectively and efficiently.

The aforementioned area requires attention by the Department to enable the achievement of value for money within procurement.

Comparison to the 2008/09 Review and Rating

Due to lack of planning for procurement processes that existed in the previous financial years, the Department implemented a procurement plan during the year under review to improve planning as well as limiting deviations from normal procurement processes.

The Department experienced a high staff turnover during the past years; however, it has successfully filled some of the most crucial vacant posts which include the SCM Manager, 2 x Assistant Directors and temporary appointments in an attempt to address the gaps.

The Department has also strived to standardise some of its procurement processes to improve compliance and create institutional memory which was lacking in previous financial years.

It has also attempted to implement control measures to monitor payment of service provider as well non compliance from procurement process to ensure compliance to legislative framework.

In light of the above, the Department has made tremendous progress from the state that it was in during the 2008/09 financial year. Therefore the Department is rated at level TWO (2) for the period under review; this means that the Department has been able to sustain previous level requirements and made concerted efforts to meet all the requirements of level two.

Steps to take the Department to the next level of financial

The Department improved from the previous Review. However, to ensure sustainability the current performance in respect of SCM should be maintained. The following steps should be considered to elevate the Department to the next level of financial management capability:

- Refine the current structure to be able to give effect to all aspects of Supply Chain Management;
- Monitor the implementation of a procurement plan;

- Continuously make provision for training of SCM officials to enhance the skills and knowledge on SCM and monitor the effectiveness of the training attended;
- Continue standardising SCM process and also consider developing the Standard Operational Procedural Manual;
- Ensure reporting requirements are met e.g. adjudication of quotes;
- Ensure that transactions processed and controlled are in accordance with applicable legislative and regulatory framework;
- Ensure reliability and integrity of procurement data (Integrity of SCM data supports SCM operational planning decisions and monitoring activities);
- Monitor SCM performance internally and develop an assessment tool to achieve this requirement; and
- Implement recommendations made by the AGSA.

3.12.6 Moveable Asset Management

Background

The Department was assessed and rated during 2009/10 financial year in terms of the financial capability model for Moveable Asset Management.

However the rating was not only based on the compliance/verification assessment report but also on other Asset Management reporting and findings, the AGSA's report and AM performance throughout the financial year.

Institutionalisation

The Department has not developed and implemented an Asset Management Policy/Strategy; therefore the Department is non-compliant to National Treasury's Board Implementation Plan. It was found that the Department has not utilised the Asset Management Guidelines which were issued on February 2008 by Provincial Treasury to assist in developing the Asset Management strategy and to implement Acquisition, Operations and Maintenance and Disposal plans.

The Department's Asset Management structure is not updated or aligned to the current operational requirements. The Asset Management component within the Department consists of four posts; three posts are occupied by permanent officials and one on a contract basis. The Deputy Director post

was still vacant during the time of the assessment but the post has subsequently been filled.

Asset Management officials within the Department have attended training conducted by National Treasury and received BAS and LOGIS training from Provincial Treasury. It was found that the Department has not developed a skills development plan to equip Asset Management officials.

Internal Control and Compliance to AM Policy and Prescripts

The Department still needs to develop an Asset Management strategy that will contain acquisition, operational, maintenance and disposal plans in order to comply fully with National Treasury's Broad Implementation Plan and Provincial Treasury's Asset Management Guidelines. The Department does perform BAS and LOGIS reconciliations but they do not submit the information or reports to the Provincial Treasury as required by section 40(4)(c) of the Public Finance management Act (Act 1 of 1999) and as was reiterated through the issuance of PT Circulars 39/2007 and 36/2008 respectively.

The Department has made provisions for the mitigation of internal control weakness and risk mitigation procedures within the Asset Management environment by installing cameras at its main entrance. The Department needs to budget for safety measures and implement the safety measures to minimise losses/thefts.

The Department's Asset Register does not meet the minimum requirements prescribed, however, it was indicated that an updated Asset Register will be made available when the Department has completely cleaned-up all the unnecessary information and updated the Asset Register according to the National Treasury's Broad Implementation Plan, Asset Management Learner's Guide and Asset Management Guidelines.

Operation and Maintenance plans have not been developed by the Department and there is no uniform life cycle process that the Department and its institutions will conform to.

Reliability and Integrity of Data

The Department has received training on BAS/LOGIS from Provincial Treasury (Financial and Interlinked Systems). All these Systems are being used effectively and efficiently for the loading of assets and to perform monthly reconciliations etc.

The Department has conducted and completed its annual stock-take for the 2009/10 financial year. However, the departmental stock-take certificate has not been submitted to the Provincial Treasury as prescribed.

It be noted that the National Treasury's reporting requirements with regards to the Broad Implementation Plan have not been fully implemented. However, reports in respect of Dashboard and Risk Log have been forwarded to Provincial Treasury with some outstanding/postponed items. The report reveals that the Department is 94 per cent compliant to planning of assets, 80 per cent compliant to acquisition, 80 per cent compliant to operation and maintenance, 80 per cent compliant to disposal, 84 per cent compliant to the accounting requirements and 100 per cent compliant to the Asset Register requirements.

The Departmental system (LOGIS) does indicate on the Asset Register when asset(s) are booked out for repairs/maintenance.

The Department should take cognisance of the shortcomings highlighted by the AGSA in terms of assets which are rated by the Accounting unit under the section "Compliance with accounting policies and standards" of the Financial Governance Review & Outlook 2010. These shortcomings, the instituted corrective measures and the implemented control measures will be closely monitored and assessed by the Provincial Treasury: Moveable Asset Management (MAM) unit to encourage and promote efficiency, effectiveness and to contribute to the planning and preparation for the asset verification assessment envisaged for the 2010/11 financial year.

Comparison to the 2008/09 Review in terms of the financial capability model for Moveable Asset Management

During the 2008/09 financial year the Department was monitored through the Project Dashboard and the Risk Log report. The Departmental statistics in respect of the dashboard report during the 2008/09 financial year were as follows:

- 65 per cent compliant to Asset Management Plans;
- 100 per cent to Asset Register; and
- 100 per cent on accounting requirements.

However, in the 2009/10 financial year, the Dashboard report status was as follows:

- Asset Management Plans 84 per cent compliant;
- Asset Register; and
- Accounting 100 per cent compliant.

It should be noted that there was no physical verification assessment of assets performed by the Provincial Treasury in the 2008/09 financial year. The information pertaining to 2008/09 financial year is based on what was

submitted by the Department in terms of its progress as per the Project Dashboard and Risk Log. A physical verification of assets was performed for the 2009/2010 financial year. Therefore for all intents and purposes, the findings of the 2009/10 financial year cannot really be compared to in the findings of the 2008/09 financial year.

Rating

The Department has been rated at a level 1 against the financial capability model for Asset Management for the period under review.

Conclusion/Recommendations

In order for the Department of Cultural Affairs and Sport to proceed to the next level of financial capability, it should implement the following:

- Develop and implement Asset Management Strategy and policy;
- Enhance the monitoring of assets within the entire Department to ensure sustainable service delivery;
- Capacitate the asset management unit;
- Skills Development Plan for asset management unit to be in place;
- Asset locations must be easily identifiable;
- A uniform asset life cycle must be implemented;
- The development of acquisition, replacement and disposal plans;
- Development of a maintenance schedule for all assets;
- Establishment of a generic AM control framework to safeguard and protect assets;
- Transactions and processes must be controlled and in accordance with the applicable policy and legislative requirements;
- Department must satisfactorily meet the AM reporting requirements;
- The Department should implement all matters raised by the Auditor-General in respect of assets; and
- Develop a Standing Operating Procedural Manual.

3.12.7 Supporting and Interlinked Financial Systems

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

Review

The evaluation was based on the activities of the 2009/10 financial year and the findings were as follows:

Basic Accounting System (BAS)

Table 124 Management of activities on BAS

Requirements	Weight	Standard Level 3	Standard Level 3+	Rating
Skilled and capacitated system users	30%	In accordance with profile	Various Modules	2
Optimal utilisation of system	20%	80% - 90%	91% - 100%	3
Month- and Year-end closure	5%	Own accord – due date	Own accord – prior date	3+
System Controller Functions	30%	80 – 90%	91 – 100%	3+
Monitor Applicable Interfaces	15%	Intermittently	Daily	3+
Average Rating				3

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

Table 125 Skilled and capacitated system users

Number of officials confirmed	Number of officials attended	Number of officials did not attend	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
8	7	1	4	3

The Department maintained a financial management capability rating level 2 (partial compliance), mainly due to 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.

Optimal utilisation of system

The Department achieved a financial management capability rating of level 3 (nominal compliance) for the optimal utilisation of the system.

Month- and Year-end closure

The Department achieved a financial management capability rating of level 3+ (full compliance) as their month- and year-end closure was done prior to the predetermined dates of National Treasury.

System Controller Functions

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

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

Monitor Applicable Interfaces

The Department achieved a financial management capability rating of level 3+ (full compliance) as their interfaces were monitored and reported on a daily basis.

Personnel and Salary Administration System (PERSAL)

Table 126 Management of activities on PERSAL

Requirements	Weight	Standard Level 3	Standard Level 3+	Rating
Skilled and capacitated system users	30%	In accordance with profile	Various Modules	2
Optimal utilisation of system	20%	80% - 90%	91% - 100%	3
System Controller Functions	20%	80 – 90%	91 – 100%	3
Establishment Management	10%	Quarterly	Monthly	3
Adhere to Minimum Information Requirements	5%	Annually	Continuous process	2
Leave Audit	15%	Annually	Continuous process	3
Average Rating				3

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

Table 127 Skilled and capacitated system users

Number of officials confirmed	Number of officials attended	Number of officials did not attend	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
22	15	7	10	5

The Department maintained a financial management capability rating of level 2 (partial compliance), mainly due to 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

Optimal Utilisation of system

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

System Controller Functions

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

Establishment Management

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

Adhere to Minimum Information Requirements

As not all information is captured on the system, the Department achieved a 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 situation will be monitored by the Provincial Treasury to ensure compliance.

Leave Audit

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

Logistical Information System (LOGIS)

Table 128 Management of activities on LOGIS

Requirements	Weight	Standard Level 3	Standard Level 3+	Rating
Skilled and capacitated system users	30%	In accordance with profile	All Modules	2
Optimal utilisation of system	20%	80% - 90%	91% - 100%	3
Days per issue	10%	5 days	3 days	3+
Financial Controls	20%	Monthly	Continuous process	3
System Control Functions	20%	80 – 90%	91 – 100%	3
Average Rating				3

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

Table 129 Skilled and capacitated system users

Number of officials confirmed	Number of officials attended	Number of officials did not attend	Number of officials qualified for a certificate (70% pass rate)	Number of officials not qualifying for a certificate
45	22	23	20	2

The Department maintained a financial management capability rating of level 2 (partial compliance), mainly due to 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

Optimal utilisation of the System

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

Most payments for goods and services are processed through LOGIS - the Departmental assets are maintained per LOGIS Selection WMMT - Maintain Serial Detail Information.

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 2009/10 financial year was 2.7 days, the performance of the Department is therefore above standard.

Financial Controls

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

The BAS/LOGIS Reconciliation were conducted on a monthly basis. Timeous payments and the clearing of the Resubmission Queue per LOGIS Procurement Integration are done, as required.

System Control functions

The Department achieved a financial management capability rating of level 3 (nominal compliance). User profiles and password confidentiality are maintained.

3.12.8 Public Entity: Western Cape Language Commission

3.12.8.1 Accounting policies and standards

The Western Cape Language Commission is a public entity that resorts under the control of the Department of Cultural Affairs and Sport.

The entity has received unqualified audit opinions for the 2007/08, 2008/09 and 2009/10 financial years. The entity is performing its basic accounting functions according to prescripts and in general is maintaining a level 3 financial management capability rating.

PT (Accounting) identified a number of key accounting policies and standards against which entities are rated in terms of compliance and its financial management capability.

The purpose of the exercise is inter alia to monitor progress towards an improved financial management capability rating. Various tools are available to the entity to ensure improved ratings, improved integrity of data and also that the financial reporting is understandable, relevant, reliable and comparable.

PT (Accounting) introduced various initiatives to address accounting matters in collaboration with the relevant entities. The entity fully utilised these opportunities and actively contributed with regards to the following:

- Quarterly CFO's forum
- Bi-lateral engagements
- Quarterly IYM reporting
- Submission of AFS for preview prior to 31 May

- Compilation of a prescribed audit files with supporting documentation
- Interim financial statements as at 30 September 2009

The following requires attention in order to improve the financial management capability of the entity:

Management controls

Misstatements of members' remuneration and related party transactions were not prevented or detected by the entity's internal controls before it was identified by the AGSA. This relates to a reporting requirement that was corrected only after the AGSA had detected the error. It is an indication that although processes are in place, controls are not effectively implemented which places the entity's financial management capability rating at a level 2+. The entity has not progressed from the previous assessment level.

Conclusion/recommendation

The entity needs to improve management controls over the information included in the AFS in order to achieve a financial management capability rating of level 3.

3.12.8.2 Corporate Governance

The Heritage Western Cape and Western Cape Cultural Commission received a clean audit for the 2009/10 financial year. However, the Western Cape Language Committee received an unqualified audit opinion with other matters as a result of planned and reported performance targets not being specific and measurable.

3.12.9 Public Entity: Western Cape Cultural Commission

3.12.9.1 Accounting policies and standards

The public entity resorts under the control of the Department of Cultural Affairs and Sport.

The entity received an adverse audit opinion in 2007/08, unqualified opinion on 2008/09 and a clean audit report for the 2009/10 financial year.

PT (Accounting) identified a number of key accounting policies and standards against which entities are rated in terms of compliance and its financial management capability.

The purpose of the exercise is inter alia to monitor progress towards an improved financial management capability rating. Various tools are available to the entity to ensure improved ratings, improved integrity of data and also that the financial reporting is understandable, relevant, reliable and comparable.

PT (Accounting) introduced various initiatives to address accounting matters in collaboration with the relevant entities. The entity fully utilised these opportunities and actively contributed with regards to the following:

- Quarterly CFO's forum
- Bi-lateral engagements
- Quarterly IYM reporting
- Submission of AFS for preview prior to 31 May
- Compilation of a prescribed audit files with supporting documentation
- Interim financial statements as at 30 September 2009

Although the entity received a clean audit report for 2009/10, the following requires attention:

Management of and reporting on suspense accounts

In the interim financial statement management report and during formal and informal bi-lateral engagements with the entity, the entity reported that monthly reconciliations of the suspense accounts are performed, regular follow ups are made and that suspense account balances are cleared within a reasonable period of time.

The entity has improved from a level 2 to a level 3 financial management capability rating.

Accounting of assets

As part of the interim financial statement assessments, PT (accounting) noted in their findings that an asset register has been compiled for the interim financial statements. However, there were some areas of concern that should be corrected prior to year end. Bi-lateral engagements by PT and the entity took place and the issues were resolved before year end.

The entity has improved from a level 2 to a level 3 financial management capability rating when compared to the previous assessment.

Material misstatements

The AGSA reported numerous misstatements in the annual financial statements that were not prevented or detected by the Public Entity's systems of internal controls before it were identified by the auditors.

The above reflects internal control deficiencies which need to be addressed to enable the entity to move from a level 2 to a level 3 financial management capability rating.

Conclusion/recommendation

The WCCC has, when compared to the previous assessment, improved from a level 2 to a level 3 financial management capability rating.

3.12.9.2 Corporate Governance

The Heritage Western Cape and Western Cape Cultural Commission received a clean audit for the 2009/10 financial year. However, the Western Cape Language Committee received an unqualified audit opinion with other matters as a result of planned and reported performance targets not being specific and measurable.

3.12.10 Public Entity: Western Cape Heritage Commission

3.12.10.1 Accounting policies and standards

The Heritage Western Cape is a public entity that is resorts under the control of the Department of Cultural Affairs and Sport (Vote 13).

The entity had an adverse audit opinion in 2007/08, unqualified opinion on 2008/09 and a clean audit report for 2009/10.

PT (Accounting) identified a number of key accounting policies and standards against which entities are rated in terms of compliance and its financial management capability.

The purpose of the exercise is inter alia to monitor progress towards an improved financial management capability rating. Various tools are available to the entity to ensure improved ratings, improved integrity of data and also that the financial reporting is understandable, relevant, reliable and comparable.

PT (Accounting) introduced various initiatives to address accounting matters in collaboration with the relevant entities. The entity fully utilised these opportunities and actively contributed with regards to the following:

- Quarterly CFO's forum
- Bi-lateral engagements
- Quarterly IYM reporting
- Submission of AFS for preview prior to 31 May
- Compilation of a prescribed audit files with supporting documentation
- Interim financial statements as at 30 September 2009

However, the following issue was identified based on the 2009/10 audit findings that requires further attention as indicated below:

Material misstatements

The AGSA reported that disclosure notes on directors' remuneration on an individual basis was incomplete.

Management should institute adequate review procedures pertaining to financial statements to ensure completeness and accuracy of financial information included in the annual financial statements in order to perform at a financial management rating of level 3.

Conclusion/recommendation

The HWC needs to improve management controls to ensure the completeness and accuracy of financial statements submitted in order to maintain a financial management capability rating of level 3.

3.12.10.2 Corporate Governance

The Heritage Western Cape and Western Cape Cultural Commission received a clean audit for the 2009/10 financial year. However, the Western Cape Language Committee received an unqualified audit opinion with other matters as a result of planned and reported performance targets not being specific and measurable.