

**Provincial Government Western Cape  
Provincial Treasury**

**Financial Governance Review  
& Outlook  
2009**

**Provincial Departments,  
Public and Trading Entities**



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# Foreword

The Financial Governance Review and Outlook (FGR&O) 2009 is a Provincial Treasury initiative that provides an independent assessment of the financial management capability levels of departments and their entities. It builds on the work done in the previous two FGR&O assessments and continues to provide comparative analysis to gauge progress made by departments and their entities as well as to address areas where further improvements are required. The FGR&O is structured around the various disciplines in Provincial Treasury, namely budgets, revenue, expenditure, accounting, corporate governance, financial systems, supply chain and asset management. It strongly supports the tenth strategic objective of the WC Provincial Government relating to clean, value-driven and responsive government.

To effectively comply with section 18 of the PFMA, and to drive the tenth strategic objective of the Western Cape, the Provincial Treasury has introduced a number of initiatives to improve the financial management capability of departments and entities. The two pronounced initiatives of the Provincial Treasury are the Financial Management Improvement Programme (FMIP) and the Overall Delivery Improvement Plan. The outcomes of these initiatives will be monitored and evaluated over the next five years to raise the financial management capability of departments and their entities to a level 3+ through the Provincial Treasury Line Function Forum (PT LFF) that are managed through various projects.

Year on year comparative assessment of the audit outcomes reveal that departments maintained the status quo regarding audit qualifications i.e. one qualified audit opinion for both 2007/08 and 2008/09 financial years, whilst entities improved their audit outcomes from five qualified audit opinions in 2007/08 financial year to three in the 2008/09 financial year. To contextualize the level 3+ financial management capability in terms of the audit outcomes, departments and entities will be required to achieve and maintain unqualified audit opinions with no other matters, and progress towards efficient and effective use of resources.

The Financial Governance Review and Outlook 2009 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: 27 JANUARY 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                                     |
| LFF     | Line Function Forum                                    |
| LOGIS   | Logistical Information System                          |
| MTEF    | Medium Term Expenditure Framework                      |
| NT      | National Treasury                                      |
| PDC     | Provincial Department 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                      |
| 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 2009 presents a third round of annual assessments and continues to build on previous comparative assessments of the financial management capability of departments and their entities and to monitor progress towards level 3+ auditable organisation.

The assessment framework applied by the Treasury have remained basically unchanged compared to that used in the previous year's assessments and is based on the Auditor-General's financial management capability model. The assessment framework was adapted 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
- Cash Management
- 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. It should be acknowledged that the 2008/09 audit outcomes of public and trading entities have improved when compared to 2007/08 and that of departments have remained fairly stable. The following assessment areas are highlighted per department and their entities that require remedial steps to improve the financial management capability.

## Department of the Premier

It is acknowledged that the Department of the Premier plays a policy co-ordination and oversight role and based on this mandate, it may sometimes be difficult to quantify measurable targets. In comparing the Department's 2007/08 Annual Performance Plan as well as Annual Report to the documents as drafted in 2008/09, it is noted that the Department is operating close to a level 3 competency level. Even though the information provided is deemed as credible, to begin to make the shift to a level 4 competency the Department in conjunction with Provincial Treasury, need to focus on the economic, efficient and effective utilisation of resources and the related measurement (pertaining to non-financial information) reflected in a reliable manner – including the provision of results-based information. Going forward the Department, having entered into a new electoral cycle, should ensure a stronger linkage between the Strategic Plan, Annual Performance Plan and Budget.

From a budget management point of view, the Department of the Premier operates at a financial management capability of level 2 and should improve on expenditure forecasting and management, institute measures to curb irregular expenditure and revise revenue tariffs annually in order to move to a level 3 financial management capability rating.

The Department of the Premier has maintained its level 3 financial management capability rating on the accounting of REAL transactions, but needs to improve controls over procurement of goods and services, assets and ensure that all invoices are paid within 30 days of receipt of the invoice.

The Department has not met all the set criteria and norms and standards on risk management for level 1. In order to achieve a rating at the next level, the Department needs to articulate its risk management philosophy and define and identify its risk appetite, risk events and existing controls and action plans.

In terms Normative Financial Management, the Department's financial management capability was rated at between levels 2 and 3, moving towards level 3.

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

The Department was rated at a level 3 in 2007/08 in terms of the financial capability model for SCM. A full SCM compliance assessment was performed in 2008/09 and the Department has been rated at a level 2. This must not be construed as the Department having regressed, but is due to the fact that a more detailed and rigorous assessment of the Department was conducted in the 2008/09 financial year thereby enabling the better reflection on the capability assessment of the Department in the 2008/09 financial year.

The Department is rated at a level 2 in terms of the financial management capability model on Moveable Asset Management. Adequate control measures and capacitating of officials involved with asset management must be affected so that officials are aware of their responsibility to keep the assets in safe custody and inform asset management of any movement which may come into effect, thereby ensuring that each employee can give account at anytime of the assets entrusted to them.

### **Western Cape Youth Commission**

The public entity received a qualified audit opinion based on inadequate controls relating to subsistence and travel claims, operating expenditure, irregular expenditure, fruitless and wasteful expenditure and non-compliance with applicable legislation.

The Western Cape Youth Commission has ceased to operate from 1 June 2009. Provincial youth development is consolidated under the National Youth Development Agency Act, 2008.

### **Provincial Development Council**

The CFO position is vacant and a CEO was appointed with effect from 1 July 2009. Addressing the high vacancy rate could improve the performance and the financial management capability rating of the entity to a level 3 financial management capability rating. Management controls and monitoring should be instituted as a matter of urgency to ensure that accounting policies are adhered to for correct and accurate reporting in financial statements.

### **Provincial Parliament**

The Provincial Parliament generally operates on level 3 and is moving towards a level 4 financial management capability rating in terms of its budget management.

The Provincial Parliament is maintaining a level 3 financial management capability rating when compared to the previous year's assessment on compliance with accounting policies and standards, however, the root causes of irregular expenditure needs to be investigated and managed.

The assessment of Provincial Parliament in the areas of the efficient use of financial systems (BAS, PERSAL, LOGIS and Vulindlela) achieved an average overall financial management capability rating of level 3, but Provincial Parliament should attend to training of officials and minimum information requirements.

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

## **Provincial Treasury**

The assessment of the 2008/09 Annual Performance Plan, 2008/09 Annual Report, 2009/10 Annual Performance Plan and 4th Quarter 2008/09 Quarterly Performance Report suggests that the Department is operating close to a level 3 auditable organisation according to the financial management capability assessment framework. Although the Annual Performance Plan has progressively improved from previous financial years, the 2009/10 Annual Performance Plan requires further refinement with respect to the formulation of clearly defined and measurable performance indicators and targets. It is recommended that the Annual Report includes 'Remedial Steps' for reported deviations within set performance targets.

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.

To fully comply with accounting standards and procedures and achieve a level 3 financial management capability, the Department needs to ensure that the BAS/LOGIS reconciliations for minor assets are compiled and reviewed on a monthly basis, updating and completeness verification of asset registers are undertaken and implement an official declaration of interest document.

On Risk Management, the Department has met all the set criteria and norms and standards for level 1. In order to achieve level 2, the Department needs to articulate its risk management philosophy and define and identify its risk appetite, risk events and existing controls and action plans.

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

The Department was rated on a level 3 in 2007/08 in terms of the financial capability for SCM. A full SCM compliance assessment was performed in 2008/09 and the Department has been rated at a level 2. This must not be construed as the Department having regressed, but is due to the fact a more detailed and rigorous assessment of the Department was conducted in the 2008/09 financial year thereby enabling the better reflection on the capability assessment of the Department in the 2008/09 financial year.

For the 2008/09 financial year, the Department is rated at a level 2 in terms of the financial management capability model for Moveable Asset Management. The Department needs to fast track the postponed/outstanding requirements of the National Treasury's Broad implementation Plan for Asset Management, develop the relevant plans and address AGSA findings.

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

The WCCRB management should align the current accounting controls to the updated accounting framework, in doing so management will facilitate the transition towards a level 4 financial management capacity. The entity should address any concerns via the Helpdesk facility offered by Provincial Treasury: Accounting Services and the IYM process.

## Department of Community Safety

The Department has improved marginally, but remains at a level 2 financial management capability with regard to the performance information as assessed. In order to achieve level 3, the Department must reconsider the appropriateness of a number of the performance indicators. This includes reviewing the consistency in the logical link between the defined strategic objectives and performance measures.

The Department needs to ensure that information on remedies for under-performance is provided in the Annual Report, the recently developed management system for the reporting of performance information, including the collection and verification of evidence, are implemented as a matter of priority if it wishes to progress to a level 4 capability.

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

In order to achieve a level 3 financial management capability rating on the compliance with accounting policies and standards, the Department needs to improve controls over the verification of assets, monthly reporting of financial information to the PT and ensure that all payments are paid within 30 days of receipt of invoice.

On Risk Management the Department achieved a rating of level 2, 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 implement the following, amongst others: event identification, risk assessment, control activities, information and communication as well as monitoring. For the 2008/09 review, it is evident that the Department has made improvement on risk management as compared to the 2007/08 review but remains at level 2. The Department has a risk management philosophy and the risk appetite has been defined.

In terms of Normative Financial Management, the Department has not met all the set requirements for level 3.

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

The Department maintains a financial management capability rating level 2. A full SCM compliance assessment was performed in 2008/09 and also in the 2007/08 financial years. Comparatively the Department has not been able to elevate itself to the next level.

The Department is rated at level 1 in terms of the financial management capability model for Moveable Asset Management. The Department needs to fast track the postponed/outstanding requirements of the National Treasury's Broad Implementation Plan for Asset Management.

## Department of Education

The Department is operating at a financial management capability of level 3 with regard to performance management. There is however a few instances where the wording used in the performance measure differs between the Annual Report and Annual Performance Plan for 2008/09 and between the nationally prescribed performance measures and those contained in the Annual Performance Plan for 2009/10. The Department has provided comprehensive explanations for deviations from targets.

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

Assessment of compliance with accounting policies and standards indicated that the Department currently operates at a level 2 financial management capability. To move beyond this level, the information contained in the IYM and AGSA reports should be reviewed continuously, and it is suggested that management strengthen the controls to monitor suspense accounts, debtors and ensure that payments are made within 30 days of receipt of payments.

With regards to Risk Management the Department achieved a rating of level 1, as the Department did not meet all the set criteria and norms and standards for level 2. In order to achieve the next level, the Department needs to have articulated and communicated a risk management philosophy, acceptance of risk management principles, defined risk appetite, identified control gaps and developed action plans.

The Financial Management Capability Model for normative financial management clearly indicates that the Department is still moving towards attaining a level 3 financial management capability rating.

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

The Department was rated on a level 3 in 2007/08 in terms of the financial management capability for SCM. A full SCM compliance assessment was performed in 2008/09 and the Department has been rated at a level 2. This must not be construed as the Department having regressed, but is due to the fact a more detailed and rigorous assessment of the Department was conducted in the 2008/09 financial year thereby enabling the better reflection on the capability assessment of the Department in the 2008/09 financial year.

For the 2008/09 financial year the Department is rated at a level 3 in terms of the financial management capability model for Moveable Asset Management. The Department needs to fast track the postponed/outstanding requirements of the National Treasury's Broad Implementation Plan for Asset Management and address AGSA findings.

## Department of Health

The performance management assessment revealed that the Department is approaching a financial management capability of level 3. The level of consistency in reporting performance information between the Annual Report, Annual Performance Plan and Quarterly Performance Report has improved since the previous year's assessment. This high level of consistency between the Annual Report 2008/09 and the 2008/09 Annual Performance Plan in terms of performance indicators and targets enables an assessment of the actual performance of the Department against the targets set in the Annual Performance Plan.

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

In an assessment of compliance with accounting policies and standards, the Department of Health is operating at slightly above a financial management capability level 2. To move towards a level 3 financial management capability the Department must reinforce the internal financial instructions rolled out as well as addressing the issues identified by the auditors.

While the normative financial management remains close to a level 3 financial management capability rating when compared to the previous assessment, no improvement was made on enterprise risk management compared to the 2007/08 assessment and remains at level 1.

Based on normative compliance indicators, and comparing the 2007/08 to 2008/09 Audit findings, there is an indication that the Department of Health has not resolved certain issues that were highlighted by the AGSA for the 2007/08 financial year and of greater concern is the status of the issues that reflect a deterioration in the 2008/09 financial year. The Department is rated at a level 2.5 financial management capability rating moving towards level 3.

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

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

For the 2008/09 financial year the Department is rated at a level 2 financial management capability for Moveable Asset Management. The Department needs to fast track the postponed/outstanding requirements of the National Treasury's Broad Implementation Plan for Asset Management and address AGSA findings.

## Cape Medical Depot

CMD has made progress in terms of moving from a level 2 towards a level 3 financial management capability rating. The acquisition of an accrual based accounting system should be addressed and monitored by management. 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 Depot.

## Department of Social Development

An assessment of the 2008/09 Annual Performance Plan and fourth quarter Quarterly Performance Report, the 2008/09 Annual Report and the 2009/10 Annual Performance Plan revealed that the Department is, according to the performance management framework, almost operating at a level 3 financial management capability. The 2008/09 Annual Report included the entire spectrum of sector specific as well as the provincial specific performance indicators as per the 2008/09 Annual Performance Plan, which is a major improvement on the 2007/08 Annual Report. Although the Department reported on all the performance indicators in the Annual Report, not all deviations from the targets were quantified and reasons were not given for all deviations.

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

An assessment of compliance with accounting policies and standards revealed that for the Department to move towards a level 3 financial management capability rating, the Department needs to improve controls over assets, allocation of expenditure and ensure that all invoices are paid within 30 days of receipt of the invoices.

An assessment on Risk Management revealed that the Department achieved a rating of level 2 as they have met all the set criteria and norms and standards for level 2 and needs to submit certain verifying information to achieve level 3.

In terms of Normative Financial Management, the Department has made some important strides towards achieving a level 3 financial management capability rating.

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

With regards to SCM assessments, the Department maintains a financial management capability rating of level 2. A full SCM compliance and value for money assessment was performed in 2008/09 which enabled PT to give a true reflection of the capability level of the Department and recommendations in the Review should be attended to.

For the 2008/09 financial year, the Department is rated at a level 2 financial management capability rating on Moveable Asset Management. The Department needs to fast track the postponed/outstanding requirements of the National Treasury's Broad Implementation Plan for Asset Management and address AGSA findings.

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

Analysis of the 2008/09 4th quarter Quarterly Performance Report and the 2008/09 Annual Report on performance management information and the financial capability framework suggest that the Department is operating close to a level 3 financial management capability rating.

In terms of the Annual Report, although the Department does provide brief comments for deviations from performance targets, the Department should provide detail of the major variances between targets and actual output performance as per the Annual Report Guideline provided on general and performance information by the Provincial Treasury. Remedies for below target performance and corrective measures should also be included.

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

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

Based on an assessment of Normative Financial Management from information supplied to Provincial Treasury, the status in the Department remains unchanged leaning towards level 3. The Department has not made significant improvements to move to a level 3 financial management capability rating. On an overall assessment of Risk Management, the Department achieved a rating of level 1, as the Department has not met all the set criteria and norms and standards for level 2.

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

The Department maintains a financial management capability rating of level 2 for SCM. It should be noted that a full SCM compliance and value for money assessment was performed in 2008/09 which enabled Provincial Treasury to verify its assessment.

The Department is rated at a level 2 level in terms of the financial management capability model for Moveable Asset Management. The Department must fast track the postponed/outstanding requirements of the National Treasury's Broad Implementation Plan for Asset Management.

## **Western Cape Housing Development Fund**

Closer interaction with Provincial Treasury is required to address accounting issues. The parent department in its oversight role must manage the action plan to ensure the closure of the Fund by 31 March 2010.

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

The performance measures defined in the 2008/09 Annual Performance Plan are reported on in the 2008/09 Annual Report by the Department. As a rule, the Department identified deviations from annual targets and indicated the relevant reasons for the related performance. The Annual Report reflects a basic consistency between the unit of measurement used in the targets and the actual outcomes, despite minor deviations. On the management of non-financial information, the Department operates close to a financial management capability of level 3.

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

To fully comply with accounting policies and standards to achieve a level 3 financial management capability rating, the Department needs to improve controls over the verification of assets against the asset register.

Normative financial management remains at level 3 financial management capability when compared to the previous assessment, and Enterprise Risk management was assessed at level 2, improving on the 2007/08 assessment.

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

The Department maintains a financial management capability rating of level 2 for SCM. A full SCM compliance and value for money assessment was performed in 2008/09 which enabled PT to verify its rating.

The Department is rated at a level 1 in terms of the financial management capability model for Moveable Asset Management. The Department needs to fast track the postponed/outstanding requirements of the National Treasury's Broad Implementation Plan for Asset Management, implement adequate control over its asset register, implement asset management training and address AGSA findings.

## **Western Cape Nature Conservation Board**

The Western Cape Nature Conservation Board received an unqualified audit opinion for the 2008/09 financial year, compared to 2007/08 financial year when the Entity was qualified. This represents a major improvement in the Entity's financial management.

The development and implementation of a fraud prevention plan to address the risks identified in the Entity's risk assessment is the only shortcoming identified in the Checklist submitted to the Provincial Treasury for the period ending 30 June 2009.

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

The Department has made progress over the last financial year towards achieving a level 3 financial management capability rating in terms of its performance information. To achieve level 3, the Department must reconsider the suitability of several performance targets. The Department is also encouraged to set quarterly targets for the nationally defined sector specific performance measures, where applicable.

On the management of its Budget, the Department currently operates at a financial management capability of level 3 and is making rapid strides towards achieving a level 4.

In order to improve compliance with accounting policies and standards towards a level 3 financial management capability rating, the Department needs to improve controls over financial reconciliations, expenditure and ensure that all invoices are paid within 30 days of receipt of the invoices.

While the normative financial management is moving towards a level 3 financial management capability rating when compared to the previous assessment, no improvement was made on enterprise risk management compared to the 2007/08 assessment and remains at level 1. In order to improve on Risk Management, the Department needs to articulate a risk management philosophy, define its risk appetite, accept risk management principles and identify control gaps and develop action plans.

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

The Department maintains a financial management capability rating of level 2 for SCM. Various assessments on SCM procedures were conducted by the Provincial Treasury in the 2008/09 financial year and it must be noted that unless a concerted effort and commitment is made by the Department, it will regress further in respect of SCM.

For the 2008/09 financial year the Department is rated at a level 1 in terms of the financial management capability model for Moveable Asset Management. The Department needs to fast track the postponed/outstanding requirements of the National Treasury's Broad Implementation Plan for Asset Management, implement adequate control over its asset register, implement asset management training, and address AGSA findings.

## **Government Motor Transport (GMT)**

GMT is currently planning the development of an accrual based accounting system that is GAAP compliant to be implemented in the 2010/11 financial year. In order to achieve a level 3 financial management capability rating, GMT should improve on accounting of assets, financial reconciliations, accounting treatment of transactions and management controls. This will also provide the foundation for implementing accrual accounting processes.

## **Department of Agriculture**

Overall, the Department technically complied with the requirements of the Annual Performance Plan and Annual Report. The Department's annual report explains most deviations from targets and mentions remedies for below and above target performance that the Department will take forward in the future and these challenges are relevant to actual outputs per quarter. The Department is therefore showing some elements of the level 4 financial management capability.

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

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

The Department achieved a rating of level 2 on Risk Management, as it has not met all the set norms and standards for level 3.

On Normative Financial Management the Department was rated close to level 3 due to asset management function's organisational structure not being sufficiently resourced and procedures not implemented.

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

The Department of Agriculture appears to have made progressive strides in terms of implementing an effective and efficient Supply Chain Management (SCM) system. The Department has shown a vast improvement when comparing the 2007/08 and 2008/09 financial years' assessments. The Department has significantly moved from a level 2 financial capability rating of SCM to level 3.

The Department is rated at level 2 in terms of the financial management capability model for Moveable Asset Management. The Department needs to fast track the postponed/outstanding requirements of the National Treasury's Broad Implementation Plan for Asset Management, and address AG findings.

## **CASIDRA**

Casidra's management controls are generally effective and efficient, which has led to the unqualified audit report for 2008/09. It is recommended that the finance staff at the project farms are adequately trained and supervised by the Head Office in order to achieve a level 3 financial management capability level.

## Department of Economic Development and Tourism

The Department is operating in the region of a financial management capability of level 3 in terms of performance management. There are however instances where the Department has not reported on performance measures contained in the Annual Performance Plan. 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 Annual Report. 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 measures and its strategic goals and in particular to limit the number of performance measures which measure inputs and processes.

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

The Department maintains a level 3 financial management capability level on accounting policies and standards. However, ineffective internal financial reporting controls, which resulted into a material misstatement, could have lead to a qualification of the financial statements if the Department did not adjust its statements during the audit. It is therefore recommended that the Department improve on the effectiveness of internal controls in order to prevent material misstatements in the annual financial statements.

While Normative Financial Management remains close to a level 3 financial management capability rating when compared to the previous assessment, no improvement was made on Enterprise Risk Management compared to the 2007/08 assessment and remains at level 2.

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

The Department was rated on a level 3 in 2007/08 in terms of the financial capability for SCM. A full SCM compliance assessment was performed in 2008/09 and the Department has been rated at a level 2. This must not be construed as the Department having regressed, but is due to the fact that a more detailed and rigorous assessment of the Department was conducted in the 2008/09 financial year thereby enabling the better reflection on the capability assessment of the Department in the 2008/09 financial year.

The Department is rated at a level 2 level in terms of the financial management capability model for Moveable Asset Management. The Department needs to fast track the postponed/outstanding requirements of the National Treasury's Broad Implementation Plan for Asset Management.

## **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 utilize 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**

A new proposed legislation has been introduced once again, namely the Western Cape Liquor Bill, 2008. The entity is confident that the financial management capability will improve once the Western Cape Liquor Bill is promulgated, enabling the WC Liquor Board to accumulate its own revenue. The amended Western Cape Liquor Bill was put up for public comments in October 2009. The Liquor Board is not operating independently and therefore it is not rated in terms of the financial management capability model.

To overcome the internal control deficiencies and weaknesses of revenue management, the WC Liquor Board should investigate and propose methods of identifying various revenue sources. This should include the creation of a separate bank account wherein all liquor licence revenue should flow into.

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

The Department is approaching a financial management capability rating of level 3 in relation to performance management. The inclusion of deviations from the annual targets set for a specific financial year as well as reasons for the deviations from the target in the Annual Report is of great importance to start moving towards the next level. The introduction of sector specific performance measures have been negotiated nationally and prescribed by National Treasury. Although these sector specific performance measures have been included in the 2009/10 Annual Performance Plan, reporting on these performance measures remains a challenge to the Department.

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

In order to improve compliance with accounting policies and standards towards a level 3 financial management capability rating, the Department needs to improve controls over financial reconciliations, management of contingent liabilities, accounting for assets and ensure that suppliers are paid within 30 days of receipt of invoice.

While the Normative Financial Management remains between levels 2 and 3 financial management capability when compared to the previous assessment, no improvement was made on Enterprise Risk Management compared to the 2007/08 assessment and remains at level 1.

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

The Department has not made any progress on SCM when comparing the 2007/08 and 2008/09 financial years' assessments. The Department remains at a level 1 financial capability for SCM. A concerted effort and level of commitment is required for the Department to elevate itself to the next level of capability.

The Department is assessed at a level 1 in terms of the financial management capability Model for Moveable Asset Management. The Department needs to fast track the postponed/outstanding requirements of the National Treasury's Broad Implementation Plan for Asset Management, implement adequate control over its asset register, implement asset management training, and address AG findings.

### **Western Cape Cultural Commission**

The Entity is performing its basic accounting functions according to prescripts and in general is performing close to a level 3 financial management capability rating. If the entity could address all the accounting issues raised the performance and the financial management capability rating could improve to a level 3 financial management capability rating in future.

### **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 identify internal control deficiencies and communicate it timeously to allow for corrective action to be taken.

### **Heritage Western Cape**

The entity should address compliance with Treasury Regulation 28.3.1 regarding acceptable levels of materiality and the disclosure of the sensitivity analysis in terms of International Financial Reporting Standard 7 in order to fully perform at a level 3 financial capability rating.

## Conclusion

Although very few departments have shown overall progress compared to the previous round of assessments, departments in general are still performing at an average level of 2+ whilst some departments experienced a measure of regression in certain areas of financial management capability. Generally departments have achieved a level 2+ financial management capability rating on performance management, budget management, financial accounting, norms and standards, cash management and financial systems. In the areas of risk management, supply chain management and moveable asset management, departments generally performed at level 2.

The average assessment of 2+ has remained consistent over the last three years and should not be viewed as complacency on the part of departments and their entities in progressing to higher levels of financial management capability. In context, the overall assessment must take the external and internal environmental challenges into account. These include inter alia financial management reforms that are taking place in the fields of performance management, budgeting, accounting and asset management that are continuously evolving year on year. The AGSA is also raising the standard of auditing and broadening its audit scope thereby creating further challenges to the various role players to maintain or improve the overall financial management capability of their departments and entities. Coupled to these external factors are also the following internal factors that are impeding the progress of departments and entities in raising their level of financial management capability beyond level 2+:

- Inadequate capacity and skills to deal with these reforms
- High vacancy rates
- High staff turnover
- Inadequate systems
- Lack of standard operating procedures

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 Line Function Forum chaired by the Head of Treasury. 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   |
|------------------------------------|---|--|--|
| <b>Level 1 – Start-up level</b>    | No proper control framework.  | <ul style="list-style-type: none"><li>• Mandate and functions of entity not clearly understood.</li><li>• Roles and functions not clearly separated from other entities.</li></ul>   | Start-up issues.   |
| <b>Level 2 – Development level</b> | A proper internal control framework and financial accounting processes have been developed. | All elements of an internal control framework required by management are developed and documented. This includes the following: <ul style="list-style-type: none"><li>• The adequate communication of management framework.</li><li>• Systems to integrate the management framework.</li><li>• Provision for maintenance and updating.</li></ul> | Lack of implemented controls are looked at in terms of the following categories: <ul style="list-style-type: none"><li>• Authorisations (for example no proper delegations of responsibilities).</li><li>• Policy framework (for example not documented or approved).</li><li>• Independent management reconciliations (for example a lack of proper framework for performing independent reconciliations and checks).</li></ul> |

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

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

## 2.2 Assessment of Performance Management

### 2.2.1 Non-financial information

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

| Capability level                      | Definition  | Detailed characteristics   | Criteria   |
|---------------------------------------|---|--|--|
| Level 1 – <i>Start-up level</i>       | No proper control framework.  | <ul style="list-style-type: none"> <li>Mandate and functions of entity not clearly understood.</li> <li>Roles and functions not clearly separated from other entities.</li> </ul>  | Start-up issues.   |
| Level 2 –<br><i>Development level</i> | A proper internal control framework and financial accounting processes have been developed. | <p>All elements of an internal control framework required by management are developed and documented. This includes the following:</p> <ul style="list-style-type: none"> <li>The adequate communication of management framework.</li> <li>Systems to integrate the management framework.</li> <li>Provision for maintenance and updating.</li> </ul>  | <p>Lack of implemented controls are looked at in terms of the following categories:</p> <ul style="list-style-type: none"> <li>Monitoring (for example the lack of framework for monitoring).</li> </ul>   |
| 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"> <li>Officials with appropriate training and capacity can carry out their functions effectively.</li> <li>Information reported can be relied upon. Systems must be in place to collect data and provide evidence of the service delivered.</li> </ul> | <p>Meet statutory and regulatory requirements – Strategic Plan, Annual Performance Plan, Annual Report and Quarterly Performance Report.</p> <ul style="list-style-type: none"> <li>All main performance indicators defined in the 2008/09 APP must be reported on in the 2008/09 Annual Report. The units of performance measurement (targets and actual) in the APP and annual report must be the same.</li> </ul> |

| Capability level                      | Definition                                 | Detailed characteristics   | Criteria   |
|---------------------------------------|--|--|--|
|                                       |  |  | <ul style="list-style-type: none"> <li>• All deviations from annual targets must be adequately identified and quantified in the annual report.</li> <li>• The APP must comply with the uniform programme structure as defined nationally.</li> <li>• All sector-specific performance measures defined at national level must be included in the APP.</li> <li>• The measurable objectives must be defined logically consistent with the defined strategic objectives and measurable objectives must clearly link onto strategic objectives.</li> <li>• Measurable objectives must be measurable i.e. units must readily be measured on a quarterly or annual basis and defined for each performance measure.</li> <li>• All targets must be measurable or defined as numbers and not as percentages (without a baseline), or as “ongoing”, “completed” etc.</li> <li>• Where applicable all targets must be set per quarter in the APP.</li> </ul> |
| Level 4 –<br><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.<br>Promote consistent and comparable non-financial information reports. | <ul style="list-style-type: none"> <li>• 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 in the future.</li> <li>• The number of measurable objectives defined must be kept to a level which the Department can manage.</li> <li>• 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.</li> </ul>  |

| Capability level                  | Definition   | Detailed characteristics  | Criteria   |
|-----------------------------------|--|---|--|
| 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"> <li>• Cost-effective utilisation of resources.</li> <li>• Project costing and financing.</li> <li>• Continual updating of strategic plans.</li> </ul>   | The Department must prove the costing of the outputs/activities that determine the budget allocations. |
| Level 6 – <i>Optimising level</i> | Focus on continuous improvement and learning.  | <ul style="list-style-type: none"> <li>• Strategic financial and performance training for non-financial employees.</li> <li>• Continuous internal assessment of financial and performance management processes, improvements and measurements.</li> </ul> |  |

## 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 15<sup>th</sup> 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).    |

| Requirements  | Level 2   | Level 3  | Level 4  |
|---|---|--|--|
| 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 into Standard Chart of Accounts (SCoA).   | Necessary guidelines, procedures and training in place in order to address accounting requirements.     | Staff capacitated to correctly allocate transactions into SCoA.  | Optimal understanding and application of SCoA resulting in REAL time processing of transactions based on integrated activities of the Department holistically. |
| 5.2 Delegations (N&S).  | Delegations revised, approved and issued by the MEC/AO.   | Delegations implemented by staff.  | Delegations effectively interpreted and applied by officials in promoting the optimal and appropriate use of resources.  |
| 5.3 Authorisations.   | Frameworks and processes in place to ensure that authorisations are executed into delegations.          | Authorisations are executed by duly assigned officials into of 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 into TRs and additional best practices issued.                             | AFS – integrity of data reliable and readily available.  |
| 6. Procedures for the identification and reporting of: <ul style="list-style-type: none"> <li>o unauthorised expenditure.</li> <li>o fruitless and wasteful expenditure.</li> <li>o irregular expenditure.</li> </ul> | Reporting requirements developed, implemented and monitored.  | Officials fully capacitated to identify cases. Cases are recorded and followed up consistently.                  | All relevant cases timeously identified and reported, must be 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.  |

| Requirements   | Level 2  | Level 3  | Level 4  |
|--|--|--|--|
| 9. Management of thefts and losses.  | Relevant policies and operational procedures are instituted to ensure timeous notification and recording of Thefts and Losses. | Staff capacitated to comply with policy procedures and legislative requirements.                         |  |
| 10. Management of contingent liabilities.                                    | Appropriate and proper guidelines for the identification, monitoring and control of contingent liabilities instituted.         | Officials are able to report on all contingent liabilities within their scope of responsibility.         | Appropriate risk management strategy put in place to manage contingent liabilities.  |
| 11. Monthly reporting of financial information to the CFO/AO/EA/ Department. | Reporting mechanisms in place.   | Monthly/quarterly/annual reporting taking place according to legislative requirements.                   | All levels of reporting fully informed.  |
| 12. Related party transactions.  | Control measures and procedures in place to identify and manage related party transactions.                                    | Related party transactions identified and reported on in the AFS.  | Significant influence and/or control over financial and/or operating policies by related parties are identified and reported on. |
| 13. Management controls.   | Management controls and procedures to identify non-compliance wrt the above developed and implemented.                         | Management controls and procedures to identify non-compliance wrt the above implemented and complied to. | Management controls and procedures on accounting practises in place to ensure the effective and efficient use of resources.      |

## 2.4 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:<br><i>Start-up level</i>    | No proper control framework.  |  |
| Level 2:<br><i>Development level</i> | A proper internal control framework and financial accounting processes have been developed. | <p><b><u>ENTERPRISE RISK MANAGEMENT SYSTEMS</u></b></p> <p><b>Strategic Risk Assessment:</b></p> <ul style="list-style-type: none"> <li>• Strategic risks identified.</li> <li>• Risk response strategies developed and relevant processes developed.</li> <li>• Organisational structure supports developed processes.</li> </ul> <p><b>Internal Environment:</b></p> <ul style="list-style-type: none"> <li>• Risk Management Philosophy is articulated in writing and communicated to staff.</li> <li>• Management's philosophy and operating style reflects acceptance of risk management principles.</li> <li>• Risk appetite defined.</li> </ul> <p><b>Operational Risk Assessment:</b></p> <ul style="list-style-type: none"> <li>• Risk events identified and assessed on an inherent level.</li> <li>• Existing controls identified and documented (process and control maps).</li> <li>• Control gaps identified and action plans developed.</li> </ul>  |
| Level 3:<br><i>Control level</i>     | Focus is on compliance and control.   | <p><b><u>ENTERPRISE RISK MANAGEMENT SYSTEMS</u></b></p> <p><b>Internal Environment:</b></p> <ul style="list-style-type: none"> <li>• Compliance to Commitment to competence displayed in appointment and development practices.</li> <li>• Compliance to the Assignment of authority and responsibility.</li> <li>• Compliance to the Risk Management Philosophy articulated in writing and communicated to staff.</li> <li>• Compliance to Management's philosophy and operating style that reflects acceptance of risk management principles.</li> <li>• Compliance to Risk appetite defined.</li> </ul> <p><b>Event Identification:</b></p> <ul style="list-style-type: none"> <li>• Risk events are identified at least annually and are incorporated into daily activities.</li> <li>• Risk events are grouped in terms of event categories.</li> </ul> <p><b>Risk Assessment:</b></p> <ul style="list-style-type: none"> <li>• Risks are assessed on a residual risk basis.</li> </ul> <p><b>Control Activities:</b></p> <ul style="list-style-type: none"> <li>• Control activities are designed to address risk events.</li> <li>• Control activities are designed using a recognised control framework.</li> </ul> <p><b>Information and Communication:</b></p> <ul style="list-style-type: none"> <li>• Pertinent information is collected.</li> <li>• Integrated systems to analyse information is available.</li> <li>• Information is communicated in the right quantity to the right person at the right time.</li> </ul> <p><b>Monitoring:</b></p> <ul style="list-style-type: none"> <li>• The risk management process is subject to ongoing internal evaluation.</li> <li>• The risk management process is subject to regular internal audit evaluation.</li> </ul> |

| Capability level                     | Outline  | Governance Criteria & Norms and Standards   |
|--------------------------------------|--|---|
| Level 4:<br><i>Information level</i> | Focus on measuring how resources are used.   | <p><b><u>ENTERPRISE RISK MANAGEMENT SYSTEMS</u></b></p> <p><b>Risk Response:</b></p> <ul style="list-style-type: none"> <li>• Risk responses strategies take into account the cost of risk vs cost of control.</li> </ul> <p><b>Information and Communication:</b></p> <ul style="list-style-type: none"> <li>• Communication of risk to external stakeholders.</li> <li>• Attain explicit information required for evaluating accountability.</li> </ul> |
| Level 5:<br><i>Managed level</i>     | Focus on balancing efficient and economical use of resources with quality/effectiveness of results achieved. |   |
| Level 6:<br><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<br><i>Development Level</i> | A proper internal control framework and financial accounting processes have been developed. | <ul style="list-style-type: none"> <li>• CFO tables 12 management reports on financial issues.</li> <li>• Debt, debt write-off, debt recovery, risk management, asset management, procurement, bid administration, internal control, cash management, creditor management policies and procedures within the finance component documented and approved?</li> <li>• Are regular information sessions held with the rest of the management team to explain the principles of financial management and to emphasise their responsibility for financial management? [sec 44 &amp; 45 of PFMA]</li> <li>• Is there an approved policy on subsistence and travel?</li> <li>• Complete set of delegations compiled and approved in terms of current NTRs.</li> <li>• Has the AO established procedures to facilitate effective performance measurement? [TR 5.3.1]</li> </ul> |

| Capability level                | Outline                             | Criteria  |
|---------------------------------|-------------------------------------|---|
|                                 |                                     | <ul style="list-style-type: none"> <li>• Is the SP consistent with the medium term expenditure estimates? [TR5.2.2 (a)]</li> <li>• Is there a formal documented procedure providing for management to monitor stock losses?</li> <li>• Are control measures in place to ensure that all transactions are supported by authentic and verifiable source documents, clearly indicating the approved accounting allocation? [TR.17.1.1.1]</li> <li>• Is there an effective Recruitment and Selection Plan in place?</li> </ul>  |
| Level 3<br><i>Control Level</i> | Focus is on compliance and control. | <p><b>Debt Management</b></p> <ul style="list-style-type: none"> <li>• Does the Department comply with the policy and procedures to ensure effective collection of outstanding debt? [TR.11.2.1]</li> <li>• Does the Department produce a debtor's age analysis on a regular basis?</li> <li>• The number of days before payment is received not exceeding 30 days.</li> <li>• % of debt in terms of own revenue.</li> <li>• Amount in arrears exceeding 6 months. [R 0]</li> <li>• Does the Department comply with the policy and procedures on debt write-off?</li> <li>• % of bad debt not exceeding 0.5 per cent.</li> </ul> <p><b>Asset Management</b></p> <ul style="list-style-type: none"> <li>• Does the Department comply with the policy and procedure manual to ensure effective management of assets? [sec 38(1)(d) of the PFMA &amp; TR10.1.2]</li> </ul> <p><b>Credit Management</b></p> <ul style="list-style-type: none"> <li>• Are all payments due to creditors settled within the prescribed period? [TR8.2.3]</li> <li>• Effective utilisation of the creditors' age analysis?</li> <li>• Are interest free facilities and possible discount utilised to the fullest extent? [TR.15.10.1.2]</li> </ul> <p><b>Cash Management</b></p> <ul style="list-style-type: none"> <li>• Is the collection of revenue monitored on a regular basis and reported to the executive authority? [sec 39 (2)(b) of the PFMA]</li> <li>• Is cash received deposited on a regular basis, where possible? [TR 15.10]</li> <li>• Are bank reconciliation's done on a daily basis by the Department? [TR15.10.1.2(j)]</li> </ul> <p><b>Travel and Subsistence Policy</b></p> <ul style="list-style-type: none"> <li>• Is S&amp;T payments done in terms of the policy?</li> <li>• Authorisations (delegations of authority followed by the employees)</li> <li>• Segregation of duties followed during everyday operations</li> <li>• Is the AO monitoring and evaluating performance and ensuring that corrective actions are taken? [TR 5.3.1]</li> <li>• Are all transactions supported by authentic and verifiable source documents which clearly indicate the approved accounting allocation?</li> <li>• <b>Signed agreement within 3 months from date of appointment on or before 30 April and aligned with objectives in the strategic plan</b></li> </ul> |

| Capability level | Outline | Criteria   |
|------------------|---------|--|
|                  |         | <ul style="list-style-type: none"> <li>• The vacancy rate does not exceed 5 per cent. [PSR, Chapter 1, Part III]</li> <li>• The average period of vacancy not exceeding 3 months.</li> <li>• Is the content of the strategic plan in accordance with the requirements of the Treasury Regulations and Public Service Regulations? [TR 5.2.2 and PSR, Chapter 1, Part III.B]</li> <li>• Strategic plans approved and tabled in legislator in the Legislature? [TR 5.2.1]</li> <li>• Is the strategic plan performance based? [TR 5.2.2 (d)]</li> <li>• Is reporting on performance against the strategic plan done on a regular basis? [TR.5.3.1]</li> <li>• Is over/underspending monitored on a regular basis to ensure that it's within acceptable percentages and reported to the relevant executive authority? [sec 39 of the PFMA]</li> <li>• Are the certified payroll reports returned to the CFO as required? [TR 8.3.5]</li> <li>• Do Schedule 3A &amp; 3C Public entities under the control of the Department report on a regular basis regarding actual revenue and expenditure? [TR.26.1.1]</li> <li>• Do Schedule 3A &amp; 3C Public entities report on a regular basis on the extent of compliance with the PFMA and Treasury Regulations? [TR26.1.2]</li> <li>• Has the Department submitted the annual report, including the audited financial statements and the audit report, timeously to the executive authority?</li> <li>• Has the executive authority tabled the Department's annual report including the financial statements and audit report thereon in the legislature? [sec 65(1) of PFMA]</li> <li>• Has the executive authority tabled the annual reports of public entities under his/her control in the legislature? [sec 65(1) of PFMA]</li> <li>• Is a schedule regarding disciplinary procedures and criminal charges submitted to the relevant treasury and the Auditor-General? [TR 4.3.3]</li> </ul> |

## 2.5 Cash Management

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

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

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

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

## 2.6 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"> <li>Mandate and functions of entity not clearly understood.</li> <li>Roles and functions not clearly separated from other entities.</li> </ul> | Start-up issues. | <ul style="list-style-type: none"> <li>Isolated attempts and accomplishments in place at developing business practices.</li> <li>Process of implementing new programme or policy perhaps due to new legislation being implemented. (PFMA; NTRs etc.).</li> <li>Data or records kept may not be accurate (quotations and bid information).</li> <li>Environment is not stable (no mitigation of risk or identifiable control measures).</li> </ul> |

CHAPTER 2: FINANCIAL MANAGEMENT CAPABILITY ASSESSMENT TOOLS

| Capability level                   | Definition  | Detailed characteristics   | Criteria   | SCM Criteria   |
|------------------------------------|---|--|--|--|
| Level 2 – <i>Development level</i> | 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"> <li>• The adequate communication of management framework.</li> <li>• Systems to integrate the management framework.</li> <li>• Provision for maintenance and updating.</li> </ul> | Lack of implemented controls are looked at in terms of the following categories: <ul style="list-style-type: none"> <li>• Authorisations (for example no proper delegations of responsibilities).</li> <li>• Policy framework (for example not documented or approved).</li> <li>• Independent management reconciliations (for example a lack of proper framework for performing independent reconciliations and checks).</li> <li>• Monitoring (for example the lack of framework for monitoring).</li> <li>• Physical security of assets or resources (for example no framework for the physical security of assets or resources).</li> <li>• Control environment issues (for example a lack of capacity).</li> <li>• Internal audit (no internal audit and no reliance on the work of internal audit).</li> <li>• The AC (no properly functioning AC).</li> </ul> | <ul style="list-style-type: none"> <li>• SCM Unit in Place.</li> <li>• Ensuring that structures like bid committees are in place.</li> <li>• Policy implementation and development (AO system; Delegations).</li> <li>• Standardisation of procedures.</li> <li>• Establishment of a basic SCM control framework.</li> </ul> |

| Capability level                      | Definition                                 | Detailed characteristics   | Criteria   | SCM Criteria  |
|---------------------------------------|--|--|--|---|
| Level 3 –<br><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"> <li>• Officials with appropriate training and capacity can carry out their functions effectively.</li> <li>• Information reported can be relied upon.</li> </ul> | <p>Implemented controls that are not functioning appropriately can be broken down into the following categories:</p> <ul style="list-style-type: none"> <li>• Authorisations, (delegations of authority not followed by the employees).</li> <li>• Segregation of duties, (Segregation of duties is not followed during the everyday operations).</li> <li>• Reconciliations, (reconciliation is not performed as required by the policy document).</li> <li>• Monitoring (monitoring has not taken place as required by the management framework).</li> <li>• Physical security of assets.</li> </ul> | <ul style="list-style-type: none"> <li>• Adequate resources available.</li> <li>• Delegations in place.</li> <li>• AO System in terms of section 38(1)(iii)(a) of the PFMA.</li> <li>• Transactions processed and controlled in accordance with applicable legislative and regulatory framework.</li> <li>• SCM operations are monitored and controlled.</li> <li>• Satisfactory SCM reporting requirements.</li> <li>• Reliable data (Integrity of SCM data supports SCM operational planning decisions and monitoring activities).</li> <li>• Organisation meets statutory and regulatory obligations.</li> <li>• Move towards developing Standard operating Procedural Manuals.</li> </ul> |
| Level 4 –<br><i>Information level</i> | Focus on measuring how resources are used. | <p>The economic, efficient and effective utilisation of resources is managed, measured and reflected in reliable financial information.</p>  |  | <ul style="list-style-type: none"> <li>• Integration of financial and non-financial systems.</li> <li>• SCM Officials received training in SCM.</li> <li>• Cost effective management of risk.</li> <li>• Effective usage of resources.</li> <li>• SCM practice and procedure managed with prudence in an efficient and effective manner.</li> <li>• Achievement of operational functionality in SCM.</li> <li>• Formalised and implemented SCM practices and policies in place (standard operating procedural manuals in place).</li> </ul>   |

CHAPTER 2: FINANCIAL MANAGEMENT CAPABILITY ASSESSMENT TOOLS

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

| Capability level                  | Definition                                    | Detailed characteristics  | Criteria | SCM Criteria  |
|-----------------------------------|---|---|----------|---|
| Level 6 – <i>Optimising level</i> | Focus on continuous improvement and learning. | <ul style="list-style-type: none"> <li>• Strategic financial training for non-financial employees.</li> <li>• Continuous internal assessment of financial management processes, improvements and measurements.</li> </ul> |          | <ul style="list-style-type: none"> <li>• Strategic SCM objectives in place.</li> <li>• Service delivery improvements in place.</li> <li>• Future improvement areas concentrated on:                             <ul style="list-style-type: none"> <li>- Developing prospective information to anticipate both internal and external changes that may affect the Department's performance.</li> <li>- Measuring a comparative study of provincial departmental performance against each other and setting strategic targets for improvement.</li> <li>- Benchmarking and utilising best practice.</li> <li>- Finding ways to minimise costs and maximise revenue, and to improve quantity and quality of outputs, by introducing new technology or improving existing processes.</li> </ul> </li> </ul> |

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

| Capability level        | Definition                          | Detailed characteristics   | Criteria   | Moveable Asset Management Criteria   |
|-------------------------|-------------------------------------|--|--|--|
|                         |                                     |  | <ul style="list-style-type: none"> <li>Monitoring (for example the lack of framework for monitoring).</li> <li>Physical security of assets or resources (for example no framework for the physical security of assets or resources).</li> <li>Control environment issues (for example a lack of capacity).</li> <li>Internal audit (no internal audit and no reliance on the work of internal audit).</li> <li>The AC (no properly functioning AC).</li> </ul> |  |
| 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"> <li>Officials with appropriate training and capacity can carry out their functions effectively.</li> <li>Information reported can be relied upon.</li> </ul> | <p>Implemented controls that are not functioning appropriately can be broken down into the following categories:</p> <ul style="list-style-type: none"> <li>Authorisations, (delegations of authority not followed by the employees).</li> <li>Segregation of duties, (Segregation of duties is not followed during the everyday operations).</li> <li>Reconciliations, (reconciliation is not performed as required by the policy document).</li> </ul>       | <ul style="list-style-type: none"> <li>Adequate resources available.</li> <li>Delegations in place.</li> <li>AO System in terms of section 38(1)(d) of the PFMA.</li> <li>Asset Register in place.</li> <li>Assets are safeguarded.</li> <li>Transactions processed and controlled in accordance with applicable legislative and regulatory framework.</li> <li>AM operations are monitored and controlled.</li> <li>Satisfactory AM reporting requirements.</li> <li>Reliable data (Integrity of Asset register, Valuations etc.).</li> <li>Organisation meets statutory and regulatory obligations.</li> </ul> |

## CHAPTER 2: FINANCIAL MANAGEMENT CAPABILITY ASSESSMENT TOOLS

| Capability level                   | Definition                                 | Detailed characteristics   | Criteria   | Moveable Asset Management Criteria   |
|------------------------------------|--|--|--|--|
|                                    |  |  | <ul style="list-style-type: none"> <li>• Monitoring (monitoring has not taken place as required by the management framework).</li> <li>• Physical security of assets.</li> </ul> | <ul style="list-style-type: none"> <li>• Move towards developing Standard operating Procedural Manuals.</li> </ul>   |
| 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 financial information. |  | <ul style="list-style-type: none"> <li>• Integration of financial and non-financial systems.</li> <li>• AM Officials received training in SCM.</li> <li>• Cost effective management of risk.</li> <li>• Effective usage of resources.</li> <li>• AM practice and procedure managed with prudence in an efficient and effective manner.</li> <li>• Achievement of operational functionality in AM.</li> <li>• Formalised and implemented AM practices and policies in place (standard operating procedural manuals in place).</li> <li>• Consistent and comparable AM reporting.</li> <li>• Generating of information provides a basis developing performance management indicators, cost and quality measures are in place as well as ensuring that the intended measures are being achieved thereby defining accountability.</li> </ul> |

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

| Capability level | Definition | Detailed characteristics | Criteria | Moveable Asset Management Criteria   |
|------------------|------------|--------------------------|----------|--|
|                  |            |                          |          | <ul style="list-style-type: none"> <li>- Introducing new technology or improving existing processes.</li> <li>- Finding ways to minimise costs and maximise revenue, and to improve quantity and quality of outputs, by</li> </ul> |

## 2.8 Supporting and Interlinked Financial Systems

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

**Table 7: Management of Supporting and Interlinked Financial Systems: Levels 3 and 4 assessment tool**

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



# 3

## Financial Management Capability Assessments of departments and entities

### 3.1 Department of the Premier

#### 3.1.1 Performance Management

##### 3.1.1.1 Non-financial information

The analysis of departmental performance that follows 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 assessment framework provided in Chapter 2.

In past financial years, the emphasis has been on formulating clear measurable objectives and setting realistic and measurable performance indicators and targets. For the period under review, this assessment will comment on the applicability and validity of those measurable objectives and performance indicators. The aim is to ensure that the departmental APP, when read together with the AR and QPRs clearly reflect stated performance expectations; performance accomplishments; demonstrated capacity to learn, adapt and improve; and whether the information obtained and communicated is fair and reliable.

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 a level 4 financial management capability. The 2008/09 AR, the 2008/09 and 2009/10 APPs as well as the final 2008/09 QPR have been used in the assessment.

### **Annual Report 2008/09**

All the performance measures defined in the 2008/09 APP are reported on in the 2008/09 AR. In general, the Department identified deviations from annual targets and indicated the appropriate reasons that relate to the particular performance targets. The range of reasons that was provided includes financial-resource constraints, the draft nature of outputs (for example the completion of draft policy/framework vis-à-vis policy/framework finalised and implemented), reprioritisation of capacity and funds; as well as pertinent challenges faced by the Department (include procurement-related challenges with reference to service providers such as SITA).

As a rule, the same unit of measurement for performance targets was used in both the AR and APP. Limited deviations from this general practice, are reflected in the reporting against the *“number of existing structures, norms and standards audited for relevancy to strategic agenda of PGWC and amended/consolidated as required”* (Sub-programme 2.2, Strategic Human Resources). The response namely, *“there was a continuation of the regular meetings of the respective structures”* does not speak to the aforementioned performance measure. An additional example relates the *“number of IDPs in which the rights of the vulnerable and marginalised are mainstreamed”*. The response namely: *“Two human rights workshops were held to assist with the influencing the IDP processes in terms of mainstreaming human rights concerns”* as well as *“Roadshow to four districts”* does not necessarily speak to the set target which highlights number of targeted IDPs. (It is acknowledged that departmental agency is reflected in the interventions – but reiterating the latter point, it does not accurately reflect performance against the set target).

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

### **APP 2009/10**

The Department’s 2009/10 APP complies with the programme structure as collectively agreed to and stipulated by the National Treasury. The structure of the APP follows a logical and coherent representation of programmes, sub-programmes in keeping with the strategic objectives of the Department.

An initial engagement with the Department’s APP reveals that the format embraces a process-based approach to service-delivery performance management, which essentially highlights that components are responsible for performance measures across sub-programmes. In general, most of the performance targets as identified by the Department comply with the SMART principle. It is recognised that the Department provides as a rule the baseline figures with reference to their annual targets and have shifted away from providing percentages.

### Conclusion/recommendation

In comparing the Department's 2007/08 APP as well as AR to the documents as drafted in 2008/09, it is noted that the Department is operating close to a level 3 competency level. Even though the information provided is deemed as credible, to begin to make the shift to a level 4 competency the Department in conjunction with Provincial Treasury, need to focus on the economic, efficient and effective utilisation of resources and the related measurement (pertaining to non-financial information) reflected in a reliable manner – including the provision of results-based information.

The Department should institutionalise processes for dealing with non financial/performance information, highlighting the collection methodology, systems, verification and audit processes. 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 outputs. 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 SP, APP and Budget.

#### 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 Office of the Premier:

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

The table below compares the projected expenditure to the actual expenditure on a quarterly basis for 2008/09.

**Table 1: Quarterly Analysis on projections: 2008/09**

| R'000          | Apr    | May    | Jun    | Jul    | Aug    | Sep    | Oct    | Nov    | Dec    | Jan    | Feb    | Mar    | Total   |
|----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|
| First Quarter  | 36 252 | 25 593 | 30 029 | 30 369 | 26 687 | 26 687 | 32 855 | 36 122 | 27 826 | 28 859 | 25 230 | 25 878 | 352 387 |
| %              | 10.29% | 7.26%  | 8.52%  | 8.62%  | 7.57%  | 7.57%  | 9.32%  | 10.25% | 7.90%  | 8.19%  | 7.16%  | 7.34%  | 100.00% |
| Second Quarter | 36 252 | 25 593 | 30 029 | 43 294 | 34 939 | 37 887 | 32 789 | 36 116 | 27 929 | 28 987 | 25 333 | 25 910 | 385 058 |
| %              | 9.41%  | 6.65%  | 7.80%  | 11.24% | 9.07%  | 9.84%  | 8.52%  | 9.38%  | 7.25%  | 7.53%  | 6.58%  | 6.73%  | 100.00% |
| Third Quarter  | 36 252 | 25 593 | 30 029 | 43 294 | 34 939 | 37 887 | 30 034 | 34 065 | 37 722 | 38 733 | 36 800 | 34 459 | 419 807 |
| %              | 8.64%  | 6.10%  | 7.15%  | 10.31% | 8.32%  | 9.02%  | 7.15%  | 8.11%  | 8.99%  | 9.23%  | 8.77%  | 8.21%  | 100.00% |
| Fourth Quarter | 36 252 | 25 593 | 30 029 | 43 294 | 34 939 | 37 886 | 30 034 | 34 065 | 37 718 | 52 622 | 36 462 | 30 599 | 429 493 |
| %              | 8.44%  | 5.96%  | 6.99%  | 10.08% | 8.13%  | 8.82%  | 6.99%  | 7.93%  | 8.78%  | 12.25% | 8.49%  | 7.12%  | 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 higher when compared to the projected expenditure (unshaded) on a monthly basis.

The Department's original budget allocation for the 2008/09 financial year was R407.473 million. However, in the Adjustment Estimate it was augmented with R42.531 million to R450.004 million. R7.870 million, i.e. 1.7 per cent of the adjusted budget was shifted between programmes within the vote, while R15.500 million was shifted within programmes i.e. 3.4 per cent of the adjusted budget. Of the R15.500 million, R5.500 million was shifted as a result of the creation of a new sub-programme: "2010 FIFA World Cup" which was not anticipated earlier in the financial year. This reduces the 3.4 per cent shifted to 2 per cent of the adjusted budget. In this sense, the original budget of the Department can be deemed credible.

In terms of virements affected, the Department adhered to the prescribed limit of not exceeding the 8 per cent of the amount appropriated under the main division for 2008/09 as stipulated and required in terms of section 43(2) of the PFMA. The total amount of virements effected was R4.072 million and these virements have been applied in order to offset overspending within the programmes.

Although the Department complied with the 8 per cent limit, it should be noted that not all virements resided within the applicable financial statutory requirements. section 43 as envisaged in the Public Finance Management Act, Act 1 of 1999 (PFMA) read in conjunction with National Treasury Regulations as issued, prohibits the use of saving in an amount specifically and exclusively appropriated for a purpose mentioned under a main division within a vote. This Department used underspending on earmarked funds for 2010 FIFA World Cup from Programme 3: Policy and Governance to defray overspending in Programme 2: Institutional Development to the amount of R2.233 million.

The Department ensured that transfer payments are backed by section 38 agreements, and instituted the necessary monitoring mechanisms.

In terms of SCOA classification, the Department of the Premier experienced relatively few erroneously classified transactions. In total, 44 transactions with a total value of R808 130 were reported as erroneous for the period of 2008/09. Monitoring of these errors will continue during the new financial year.

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

As 31 March 2009 the Office of the Premier incurred a total expenditure R429.493 million or 95.4 per cent of its R450.004 million of its adjusted budget. With an under spending of R20.511 million or 4.6 per cent of the adjusted budget for 2008/09, the Department's spending outcome for the financial year is above the 2 per cent under spending norm. The under spending increased in 2008/09 when compared to 2007/08, with under spending was recorded at R2.736 million or 0.7 per cent of its adjusted budget of R373.274 million.

As disclosed in note 34.2 of the Annual Financial Statements, irregular expenditure to the value of R1.090 million has been incurred in the financial year under review, mainly relating to the following items:

- Irregular expenditure amounting to R442 075 was incurred on photocopier leases during the year under review. The total amount was condoned in terms of Practice Note 5 of 2006 issued by National Treasury.
- Irregular expenditure of R552 439 was incurred as a result of SCM bid procedures, which were not complied with.
- Irregular expenditure of R90 726 was incurred as a result of misappropriation of assets by an official of the Department.

The Department of the Premier collected R664 000 in provincial own receipts compared to the adjusted budget of R503 000 for the 2008/09 financial year. This recovery was R161 000 or 32 per cent more than the adjusted budget, which was mainly due to unanticipated increase in sales of Government Gazettes. Given the above recovery, the Department has requested roll over retention for the purpose of upgrading the 2010 FIFA World Cup Philippi stadium in 2009/10.

The Department of the Premier did not revise any tariffs in the 2008/09 financial year.

The Department did not experience a March spike in 2008/09. Spending in March 2008 of R30.599 million makes up 7 per cent of the total expenditure of R429.493 million in 2008/09. This is less than the 8.3 per cent average monthly spending within a financial year.

### **Conclusion**

From a budget management point of view, the DotP operates at a financial management capability of level 2 and should improve on expenditure forecasting and management, institute measures to curb irregular expenditure and also revise revenue tariffs annually in order to move to a level three financial management capability rating.

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

An assessment of the financial management capability of the Department was undertaken based on 2008/09 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 that suspense, control and disallowance accounts were regularly followed up and cleared within a reasonable period of time. Monthly reconciliations of control and suspense accounts were performed, which made it possible for the Department to close their books successfully on a monthly basis. Basic Accounting System 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 Auditor-General's report indicated that difficulties were experienced in verifying assets from the floor to asset register and asset register to floor. Furthermore, pertinent information is not identified and captured in a form and time frame to support financial reporting, making it difficult to identify and provide the evidence required to substantiate the figures disclosed in the financial statements.

The above shortcomings are indicative of a level 2 financial management capability rating with a decrease from level 3 when compared to the previous year's assessment.

### **Financial reconciliations**

During 2008/09 financial year the Department failed to submit signed BAS/PERSAL and BAS/LOGIS reconciliations on a monthly basis. An intervention was undertaken by PT in this regard as a result all the outstanding reconciliations were submitted by year-end.

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

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

The Auditor-General's management report reflected that payments are being made after 30 days of receipt of invoice in contravention of Treasury Regulation 8.2.3. PT has taken this issue up during bi-lateral discussions and will continue to monitor progress.

This is indicative of a level 2 financial management capability rating, not assessed previously when compared to the previous assessment.

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

As reported in the Auditor-General's audit report for 2008/09, irregular expenditure totaling R1 090 000 was incurred as a result of transactions that were entered into that resulted in non-compliance with policies.

This reflects deterioration in the performance from a level 3 to level 2 financial management capability rating when compared to the previous year's assessment.

### **Management of contingent liabilities**

There were no findings raised by the AGSA and 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. 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 maintained its level 3 financial management capability rating, the Department needs to improve controls over procurement of goods and services, assets and ensure that all invoices are paid within 30 days of receipt of the invoices as required by Treasury Regulation 8.2.3.

### **PUBLIC ENTITY: Provincial Development Council (PDC)**

The Provincial Development Council (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. However, there are some issues, based on the 2008/09 Auditor-General of South Africa audit findings that require further attention, as mentioned below.

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

The AGSA reported that evidence of a procurement process could in one instance not be provided as prescribed in items of section 51(1)(a)(iii) and (b)(ii) of the PFMA. Subsequently this transaction was classified as "irregular".

Management needs to implement appropriate policies and procedures relating to supply chain management processes in order to improve its financial management capability rating to level 3 to avoid future instances of irregular expenditure.

### **Accounting of asset**

The AGSA reported that the entity did not undertake an annual review of residual values and useful lives of assets. Accounting standard AC123 relating to Property, Plant and Equipment, which requires the annual assessment of useful lives and residual values was not complied with.

The entity needs to implement control measures over the reporting on assets in order to improve its performance to a level 3 financial management capability rating.

### **Management control**

The AGSA reported that no employee's tax was withheld on consultancy fees paid, resulting in non-compliance to the Income Tax Act 58 of 1962.

Management needs to implement internal controls over legal requirements in order to improve its financial management capability rating to level 3.

### **Conclusion/recommendation**

The CFO position is vacant and a CEO was appointed with effect 1 July 2009. Addressing the high vacancy rate could improve the performance and the financial management capability rating of the entity to a level 3 financial management capability rating. Management controls and monitoring should be instituted as a matter of urgency to ensure that accounting policies are adhered to for correct and accurate reporting in financial statements.

### **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.

#### **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**

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. It is not clear as to whether the existing controls have been identified and documented by means of process and control mapping initiatives.

### **Overall assessment**

Based on the above information, the Department has not achieved a rating of 1, as the Department has not met all the set criteria and norms and standards for level 1. In order to achieve a rating at the next level, the Department needs to achieve all of the following set criteria and norms and standards:

#### **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**

- 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.

### **3.1.3.2 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 2009, the 2008/09 Auditor-General's report for the department and the public entity as well as the Departments feedback on the MTEC 1 report.

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

##### **CFO Structure in the Department**

The vacancy rate in the CFO structure is 29 per cent as at the quarter ending June 2009. Furthermore, the average length to fill a vacant post is 9 months. Although we acknowledge that the situation is further aggravated due to the moratorium that has been put in place, we recommend that management monitor corrective actions to address internal control deficiencies on a regular basis.

### Human resource weaknesses in the Western Cape Provincial Development Council

The entity has a vacancy rate of 39 per cent and 7 posts have been vacant since the 2007/08 financial year. This resulted in the same official performing the majority of the initiation, recording of transactions and loading of payments, which impacts a great deal on good financial management. We acknowledge that the Department will look at appointing 1 post additional to the establishment, however keep in mind that the vacancy rate is still way above the national norm of 5 per cent.

### Going Concern of the Western Cape Youth Commission

The Western Cape Youth Commission has ceased operating from 1 June 2009. The provincial youth development is consolidated with National under the National Youth Development Agency Act, 2008.

### Annual Quarterly and Monthly Reports

The Department and public entities must report monthly on expenditure and revenue; quarterly on performance; and annually they have to table Annual Reports, as prescribed, in the Legislature. Compliance with these requirements is reflected in table below:

**Table 2: Compliance with annual, quarterly and monthly reporting requirement**

| Institution    | Date annual report received by Provincial Treasury | Annual report tabled at the Provincial Legislature | Quarterly performance against strategic plan |
|----------------|--|--|--|
| Departments:   |  |  |  |
| Premier        | 31/08/2009   | 30/09/2009   |  |
| Public Entity: |  |  |  |
| WCPDC          | 28/08/2009   | 30/09/2009   |  |
| WCYC           | Not received                                       | 30/09/2009   |  |

### Analysis

The Department submitted a draft AR, excluding the Audit Committee report, to Provincial Treasury on 31 August 2009 due to the Auditor-General's Report that was received late by the Department. Hence, the G&A Shared Audit Committee could only consider this report on 4 September 2009 in order to compile the Audit Committee Report. However, the Department successfully tabled their 2008/09 AR as well as that of its public entities, within the prescribed timeframes.

### Auditor-General report 2008/09

The Auditor-General expressed an unqualified opinion, with Other Matters for the 2008/09 financial year. This was as result of irregular expenditure, under spending of the budget, payment of debt exceeding 30 days and funds transferred to WCYC.

In comparison with the Auditor-General's report 2007/08, the Auditor-General expressed an unqualified opinion, with Other Matters (irregular expenditure, error in balance of assets and payments of debt exceeding 30 days). Therefore the department's status on financial management remains unchanged.

### **Overall Assessment**

The Department has made some important strides in order to move towards achieving a financial management capability level 3.

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

The public entity received an unqualified audit opinion, with Other Matters for the 2008/09 financial year as a result of irregular expenditure, restatement in the financial statement and non-compliance to applicable legislation. In comparison to the 2007/08 financial year, the status on financial management shows a slight deterioration due to the fact that all the afore-mentioned issues were raised previously and in addition irregular expenditure also incurred.

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

The public entity received a qualified audit opinion and the basis thereof were going concern, subsistence and travel claims, operating expenditure, irregular expenditure, fruitless and wasteful expenditure, internal control deficiencies and non-compliance to applicable legislation. In comparison to the 2007/08 financial year, the status on financial management shows a definite deterioration.

## **3.1.4 Cash Management**

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

### **Review**

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

**Table 3: Assessment Tool**

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

The evaluation was based on the activities of the 2008/09 financial year and the findings were as follows:

**Table 4: Assessment of cash management**

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

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

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

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

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

The Department obtained a financial management capability rating of level 3 (nominal compliance). The Annual projections in respect of income and expenditure were received on 26 February 2009.

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

|   | <b>Project</b> | <b>Actual</b>  | <b>%</b>   | <b>Rating</b> |
|---|----------------|----------------|------------|---------------|
| <b>Original Forecast</b>                          |                |                |            |               |
| APRIL'08  | 29 566         | 30 894         | (4)        | 3             |
| MAY'08  | 28 814         | 32 300         | (12)       | 2             |
| JUNE'08   | 33 713         | 30 394         | 10         | 2             |
| JULY'08   | 33 880         | 40 156         | (19)       | 2             |
| AUG'08  | 32 901         | 39 184         | (19)       | 2             |
| SEP'08  | 36 465         | 34 298         | 6          | 2             |
| OCT'08  | 40 299         | 36 861         | 9          | 2             |
| NOV'08  | 45 566         | 28 165         | 38         | 2             |
| DEC'08  | 35 661         | 41 335         | (16)       | 2             |
| JAN'09  | 29 011         | 54 075         | (86)       | 2             |
| FEB'09  | 31 792         | 35 448         | (11)       | 2             |
| MRC'09  | 29 805         | 4 363          | 85         | 2             |
| <b>Sub-Total</b>                                  | <b>407 473</b> | <b>407 473</b> |            | <b>2</b>      |
| <b>Revised Forecast (after adjustment budget)</b> |                |                |            |               |
| MRC'09  |                |                |            |               |
| Adjustment  | 42 531         | 42 531         |            |               |
| <b>Total</b>                                      | <b>450 004</b> | <b>450 004</b> | <b>100</b> |               |

The Department achieved a rating of 2 (partial compliance). PT adapted a new policy as from June 2009 to assist the departments to align their expenditure to their actual cash receipts on a daily and monthly basis.

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

The Department obtained an average financial management capability rating of level 3 (nominal compliance). PT will assist the Department to submit detail before 3<sup>rd</sup> last working day of each month to enable the Department to achieve the level of full compliance.

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

The Department obtained a financial management capability rating of level 4 (full compliance). Surplus funds were paid to the PRF on 12 May 2009.

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

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

### Beneficiary Payments (Direct Transfers)

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

**Table 6: Beneficiary Payments**

| Payments | Beneficiary Payments | %    |
|----------|----------------------|------|
| 18 256   | 1 044                | 5.72 |

### 3.1.5 Supply Chain Management

When assessing the Department against the capability model for SCM, cognisance needs to be taken of the following:

The Department's SCM unit is vested under its CFO which has a reporting line to a Supply Chain Manager. It has managed to implement SCM and maintain a level of compliance to some of the basic SCM requirements.

The Department has the Accounting Officer's (AO) system in place but it has never reviewed it since 2003. As the AO system is the document that outlines the processes to be followed by the SCM unit when procuring goods and service, it is imperative that the AO System be amended whenever there are changes in legislation and policy.

The Department's SCM structure does not cater for all the requirements for the implementation of an effective and efficient SCM. There is lack of capacity in the SCM unit. Only 4 officials are responsible for the procurement of goods and services. This results in SCM functions being decentralised to line functionaries.

There is a high level of deviation from normal procurement procedures in the department. This could be as a result of the decentralisation of the SCM function as the line functions are not always familiar with the SCM processes.

The Demand Management process is not taken into consideration when goods and services are procured in the Department. Hence deviations from procurement procedures due to lack of planning is a norm.

Contracts are not adequately managed by the Department. As a result contracts are renewed for the period beyond the initial contract period and deviations from normal procurement processes. When contracts are renewed continuously, fairness, competitiveness and cost effectiveness of the procurement process is being compromised as potential suppliers who might offer competitive prices are excluded from participating in the process.

The Department is reporting timeously to the Provincial Treasury on a monthly basis on its procurement statistics with regards to bids it awards. However the compliance assessment revealed that the Department does not report on all the bids awarded specifically those awarded in terms of limited bidding. It has been noted that the

Department has not complied with certain legislation and prescripts with regards to the following:

- Checking National Treasury's List of Restricted Suppliers prior to awards of bids; and
- Notifying SARS of all bids awarded.

When assessing the statistics report extracted from EPSi for the period from 1 April 2008 to 28 February 2009, it has been observed that of the 522 enquiries put on EPSi only 146 were completed (43 were cancelled, 98 were without quotes and 5 were adjudicated). This implies that 0.26 per cent of the enquiries invited via EPSi are not accounted for. This has a negative impact on the credibility of the statistics.

The Department has established only the bid adjudication committee and the specification and evaluation committees are only convened on ad hoc basis.

The Department maintains its records in a user friendly manner which makes it easily retrievable.

The Department does not have an in-house SCM monitoring and evaluation section for monitoring and evaluating the performance of the SCM unit. The function of monitoring and evaluation is performed by the Provincial Treasury, Internal Audit and the AGSA.

### **Rating and Comparison to 2007/08 financial year**

The Department was rated on a level 3 in 2007/08 in terms of the financial capability model for SCM. A full SCM compliance assessment was performed in 2008/09 and the Department has been rated at a level 2. This must not be construed as the Department having regressed, but is due to the fact a more detailed and rigorous assessment of the department was conducted in the 2008/09 financial year thereby enabling the better reflection on the capability assessment of the Department in the 2008/09 financial year.

### **Conclusion/Recommendation**

Steps enabling the department to achieve the next level:

- Review the delegations and AO System to align it with current legislation.
- Ensure compliance and control in respect of SCM and limit deviations. In events where deviations become necessary then ensure compliance, regulatory and policy frameworks.
- Evaluate the current SCM structure to cater for at least Demand management, Acquisition management, 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.
- Ensure proper report keeping and reporting.

- Proper utilisation of the EPSi, to ensure credibility of procurement data.

### **3.1.6 Moveable Asset Management**

Compliance to the National Treasury's Broad Implementation Plan (BIP) was due on 31 March 2008. The Department has indicated that in terms of BIP they are 96 per cent compliant with regards to Asset Management Plan, Acquisition Plan, Operation and Maintenance Plan and Disposal Plan. In terms of the Asset Register they are 85 per cent compliant and with regards to Accounting they are 87 per cent compliant.

The Department has indicated the following outstanding issues:

- Asset life-cycle.
- Establishing performance indicators.
- Operation & maintenance plans.
- Method of depreciation.
- Useful life of an asset.
- Depreciation rate.
- Accumulated depreciation.

The Department has indicated the following mitigation steps with regards to their outstanding requirements:

- Proper warehouse facilities and management to be utilised by the Department - to ensure surplus assets are available for immediate re-deployment, with a proper transit area to, inter alia, prevent incorrect deliveries and to properly manage redundant assets.
- A proper asset management establishment will ensure that assets management could be divided into regions, clusters and branches, to ensure assets are managed properly and that all assets are accounted for at all times. This will include the optimum usage of assets, the verification of the condition of assets, the disposal process of redundant assets and the monthly reconciliation process between systems.
- The compilation of a proper and complete asset site list, to be updated, verified on a quarterly basis. This will include the assistance of IT - Health and the Department of Health, as CHC's are being rolled-out continuously as per municipal geographic structure. Which differs from the IT - (transversal structure) e.g. IT - health, IT - education, ICTI. etc.

The critical issues raised by AGSA were as follows:

- Prior year assets not included in asset register;
- Asset register does not agree to financial statements;
- Assets in asset register which could not be located;
- No supporting documentation for assets purchased;
- Asset disposal not authorised;
- Assets with incorrect locations; and
- Assets transferred not located in asset register.

### **Rating**

On consideration of the above, the Department is rated at a level 2 in terms of the financial management capability model for Moveable Asset Management. It must be noted that this rating is based on the information provided to the Provincial Treasury by the Department in terms of the reporting requirements (Project dashboard and Risk Log) of the National Treasury's Broad Implementation Plan. It must be further noted that a full verification assessment in terms of asset management will be conducted in the 2009/10 financial year which will provide evidence to substantiate, decrease or increase the current rating.

### **Recommendations**

All assets must be properly recorded in the asset register for reporting purposes and ensure that the information is accurate and complete and control mechanisms are in place and prior year assets are included in the AR.

Adequate control measures and capacitation of officials involved with asset management must be affected so that officials are aware of their responsibility to keep the assets in safe custody and inform asset management of any movement which may come into effect, thereby ensuring that each employee can give account at anytime of the assets entrusted to them.

Management must ensure that sufficient, proper documentary evidence of purchased assets is readily available for audit purposes by identifying and by capturing the evidence on the system within a reasonable time frame which supports the figures/amount of the asset purchased.

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

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

The evaluation was based on the activities of the 2008/09 financial year and the findings were as follows:

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

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

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

**Table 8: Skilled and capacitated system users**

| Number of officials nominated | Number of officials attended | Number of officials cancelled | Number of officials qualified for a certificate (70% pass rate) | Number of officials not qualifying for a certificate |
|-------------------------------|------------------------------|-------------------------------|---|--|
| 16                            | 6                            | 10                            | 2   | 4  |

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

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

The Department however needs to commit themselves in getting users trained even though crisis situations exist in the Department.

### **Month end closure**

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

### **Year closure**

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

### **System Controller Functions**

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

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

### Monitor applicable interfaces

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

**Table 9: Personnel and Salary Administration System (PERSAL)**

| Requirements                               | Standard Level 3           | Standard Level 4   | Rating   |
|--|----------------------------|--------------------|----------|
| Skilled and capacitated system users       | In accordance with profile | Various Modules    | 2.5      |
| System Controller Functions                | 80 – 90%                   | 91 – 100%          | 3        |
| Establishment Management                   | Quarterly                  | Monthly            | 3        |
| PERSAL/BAS Reconciliation                  | Monthly by the 20th        | Prior to the 20th  | 3        |
| Adhere to Minimum Information Requirements | Annually                   | Continuous process | 2        |
| Leave Audit                                | Annually                   | Continuous process | 3        |
| <b>Average rating</b>                      |                            |                    | <b>3</b> |

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

**Table 10: Skilled and capacitated system users**

| Number of officials nominated | Number of officials attended | Number of officials cancelled | Number of officials qualified for a certificate (70% pass rate) | Number of officials not qualifying for a certificate |
|-------------------------------|------------------------------|-------------------------------|---|--|
| 24                            | 19                           | 5                             | 15  | 4  |

The Department obtained a rating of 2.5 (partial compliance). Although there is an improvement in attendance, all officials are still not trained in accordance with their profile.

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 even though crisis situations exist in the Department.

### **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.

### **PERSAL/BAS reconciliation**

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

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

As not all information is captured on the system, the Department achieved a financial management capability rating of 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.

**Table 11: Logistical Information System (LOGIS)**

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

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

**Table 12: Skilled and capacitated system users**

| Number of officials nominated | Number of officials attended | Number of officials cancelled | Number of officials qualified for a certificate (70% pass rate) | Number of officials not qualifying for a certificate |
|-------------------------------|------------------------------|-------------------------------|---|--|
| 10                            | 8                            | 2                             | 7   | 1  |

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

**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 2008/09 financial year was 8 days, the performance of the department is therefore below standard.

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

**Stock Management**

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

**Financial Controls**

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

The BAS/LOGIS reconciliations are done on a monthly basis.

**System Control functions**

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

**Table 13: Management Information System (Vulindlela)**

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

**Table 14: Usage of the Management Information System (Vulindlela)**

| <b>Number of registered users</b> | <b>Number of registered users using the system on a regular basis</b> | <b>Number of registered users not using the system on a regular basis</b> | <b>Percentage active users</b> |
|-----------------------------------|---|---|--------------------------------|
| 35                                | 9   | 26  | 25.7%                          |

The Department obtained a financial management capability rating of level 2 (partial compliance) due to the fact that only 25.7 per cent of registered users utilise the system on a regular basis.

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

## **3.2 Provincial Parliament**

### **3.2.1 Performance Management**

#### **3.2.1.1 Non-financial information**

The analysis that follows uses the financial management capability model as a point of departure to provide an insight to the information presented in the Western Cape Provincial Parliament's (WCPP) budget documentation including the WCPP's Strategic Plan (SP), Annual Performance Plan (APP), Annual Report (AR) and Quarterly Performance Reports (QPRs). The assessment gauges key aspects of the WCPPs performance information in order to determine the WCPPs capability level according to the following characteristics: level 1 start-up level (no proper control environment); level 2 development level (proper internal control framework); level 3 (focus 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 aim is to ensure that the APP, when read together with the AR and QPR clearly reflect stated performance expectations; performance accomplishments; demonstrated capacity to learn, adapt and improve; and whether the information obtained and communicated is fair and reliable.

The assessment considers whether the WCPP has reached a level 3 financial management capability, and expresses a view on the extent to which the WCPP is moving towards a level 4 financial management capability. The 2008/09 AR, the 2008/09 and 2009/10 APPs as well as the final 2008/09 QPR have been used in the assessment.

#### **Annual Report 2008/09 and Annual Performance Plan 2008/09**

The Provincial Parliament reported on all non-financial performance against the provincial programme performance indicators in the AR in accordance with the APP. However, annual or cumulative targets are provided in the AR whereas only quarterly targets are outlined in the APP. In some instances the performance measures defined in the APP are not aligned and consistent with the performance measures in the AR. The Provincial Parliament has reported on performance targets in the same order as presented in the APP to facilitate comparison. Reasons for variances and explanations for differences between planned and actual performance are briefly discussed as footnotes under the performance tables.

#### **APP 2009/10**

The APP of Provincial Parliament generally complies with the programme structure for provincial legislatures as prescribed by National Treasury. Strategic objectives are logically consistent and linked to measurable objectives, which in turn are linked to performance measures. Performance measures and targets should comply with the

SMART principles of target setting i.e. setting of performance measures that are Specific, Measurable, Achievable, Realistic and Time-bound. The WCPP should reflect baselines when using percentages. The APP reflects only quarterly targets without annual targets – this has been cited in the 2008/09 APP as well.

### **Conclusions/recommendations**

It is recommended that Provincial Parliament take cognisance of the areas of concern under the 2009/10 APP. Performance measures and targets must comply with the SMART principles. Furthermore, the AR should clearly reflect remedial/corrective measures for below target performance.

The WCPP should institutionalise processes for dealing with non financial/performance information, highlighting the collection methodology, systems, verification and audit processes. The WCPP 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 outputs. 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 WCPP, having entered into a new electoral cycle, should ensure a stronger linkage between the SP, APP and Budget.

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

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

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

It appears as if the Provincial Parliament's forecasting/planning can improve, as forecasts in a prior quarter differ from actual expenditure. This can be viewed in the table below, where the actuals and projections are compared on a quarterly basis. Projections (unshaded) seem to increase on a monthly basis, as actual expenditure (shaded) is mostly lower than projected expenditure.

**Table 15: Quarterly Analysis on projections: 2008/09**

| R'000          | Apr   | May   | Jun   | Jul    | Aug   | Sep   | Oct    | Nov   | Dec    | Jan    | Feb   | Mar   | Total   |
|----------------|-------|-------|-------|--------|-------|-------|--------|-------|--------|--------|-------|-------|---------|
| First Quarter  | 4 442 | 5 345 | 6 624 | 15 962 | 6 547 | 6 591 | 10 320 | 5 187 | 8 963  | 4 623  | 5 326 | 5 455 | 85 385  |
| %              | 5.20% | 6.26% | 7.76% | 18.69% | 7.67% | 7.72% | 12.09% | 6.07% | 10.50% | 5.41%  | 6.24% | 6.39% | 100.00% |
| Second Quarter | 4 442 | 5 345 | 6 626 | 6 175  | 7 411 | 7 769 | 12 759 | 6 733 | 9 939  | 5 929  | 6 188 | 5 646 | 84 962  |
| %              | 5.23% | 6.29% | 7.80% | 7.27%  | 8.72% | 9.14% | 15.02% | 7.92% | 11.70% | 6.98%  | 7.28% | 6.65% | 100.00% |
| Third Quarter  | 4 442 | 5 345 | 6 626 | 6 175  | 7 411 | 7 770 | 9 247  | 5 068 | 13 026 | 10 769 | 7 477 | 6 614 | 89 970  |
| %              | 4.94% | 5.94% | 7.36% | 6.86%  | 8.24% | 8.64% | 10.28% | 5.63% | 14.48% | 11.97% | 8.31% | 7.35% | 100.00% |
| Fourth Quarter | 4 442 | 5 345 | 6 626 | 6 175  | 7 411 | 7 770 | 9 247  | 5 068 | 13 026 | 5 304  | 7 298 | 8 287 | 85 999  |
| %              | 5.17% | 6.22% | 7.70% | 7.18%  | 8.62% | 9.03% | 10.75% | 5.89% | 15.15% | 6.17%  | 8.49% | 9.64% | 100.00% |

*Shaded: Actuals*

*Unshaded: Projections*

In 2008/09, the SCOA saw the addition of two segments being added to the chart namely the Asset segment type and the Project segment. This prompted a need for the roll out of training road shows to be hosted by National Treasury. Thereafter, it further required various initiatives and training sessions to be held internally by all departments. The magnitude of such changes always meant that the first year would result in challenges, considering training is be rolled out to all operational staff affected by this change. Therefore, to assist entities in ensuring data integrity is maintained, National Treasury rolled out a tool identifying erroneous classifications/combinations on the basis of using three segment types, namely the SCOA Item level 3, Project level 2 and Asset segment type. It must be noted that the tool developed by National Treasury was only introduced towards the end of the financial year.

Therefore, on the backdrop of the above-mentioned and according to the misclassification tool, three transactions to the value of R36 748 were identified as incorrect.

Provincial Parliament effected few virements in the 2008/09 financial year amounting to R269 000 or 0.3 per cent of its adjusted budget. The virements were largely to defray over expenditure within Programme 1: Administration and Programme 3: Parliamentary Services. Provincial Parliament also obtained the necessary virement approval.

As at 31 March 2009 the Provincial Parliament spent R85.999 million or 99.5 per cent of its R86.395 million adjusted budget. With an underspending of R396 000 or 0.5 per cent of the adjusted budget in 2008/09, the Provincial Parliament's spending outcome for the financial year is below the 2 per cent under spending norm.

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

Provincial Parliament collected R268 000 in provincial own receipts of the R52 000 adjusted budget of the 2008/09 financial year. This translates an over collection of R216 000 or 415.4 per cent on the adjusted budget, which was largely attributed to increased interest generated on the bank account and financial transactions in assets and liabilities, which was not budgeted for. The bulk of financial transactions are

generally not considered a revenue item, but still needs to be provided for. Repayment of loans and advances previously extended to employees, households, private sector and public corporations for policy purposes are treated as receipts within this item. Due to the uncertainty of these transactions most votes do not provide for income from this source of revenue.

The Provincial Parliament did not revise any tariffs in the 2008/09 financial year.

The Provincial Parliament did not experience an actual 'March spike'. Expenditure for the month of March 2009 (R8.287 million) in relation to the total expenditure (R85.999 million) constitutes 9.6 per cent. This is slightly higher than the monthly average spending of 8.33 per cent. This was largely due to spending within the Goods and Services item relating to final payments made for catering and consultants.

### **Conclusion**

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

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

An assessment of the financial management capability of the Provincial Parliament based on the 2008/09 audit findings and IYM reporting revealed the following:

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

The Provincial Parliament reported on a monthly basis that suspense, control and disallowance accounts are followed up regularly and cleared within reasonable period of time.

The Provincial Parliament is maintaining a level 3 financial management capability rating when compared to the previous year's assessment.

#### **Accounting of assets**

The AGSA reported that the Provincial Parliament did not perform an annual stock take as prescribed. It is recommended that an asset count should be performed at least once a year to verify the accuracy of the asset register in order to move to a financial management capability level 3.

#### **Financial reconciliations**

The BAS/PERSAL and BAS/PMG financial reconciliations are performed as prescribed. The AGSA reported that the monthly BAS/LOGIS reconciliations have not been completed and submitted on time to the Provincial Treasury.

It is recommended that the Provincial Parliament ensure that the monthly BAS/LOGIS reconciliation is completed and submitted on time to Provincial Treasury.

This reflects deterioration from level 3 to level 2 financial management capability.

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

The AGSA reported that the Provincial Parliament incurred and condoned Irregular expenditure of R317 000 for services procured without prior approval in terms of the delegated authority.

It is recommended that the Provincial Parliament investigate the root causes of irregular expenditure and manage it in terms of PFMA and National Treasury guidance in order to move towards a financial management capability 3.

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

There were no audit findings relating to thefts and losses which is an improvement from the previous year and indicative of a financial management capability level 3.

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

The Provincial Parliament submitted their monthly compliance reporting to Provincial Treasury timeously in terms of the 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 Provincial Parliament needs to ensure that the monthly BAS/LOGIS reconciliation is completed and submitted on time to Provincial Treasury. Furthermore it is recommended that the root causes of irregular expenditure be investigated and managed it in terms of the prescribed legislation.

### **3.2.3 Corporate Governance**

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

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

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

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

#### **3.2.4 Cash Management**

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

### 3.2.5 Supply Chain Management

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

### 3.2.6 Moveable Asset Management

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

### 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.

The evaluation was based on the activities of the 2008/09 financial year and the findings were as follows:

**Table 16: Basic Accounting System (BAS)**

| Requirements                         | Standard Level 3           | Standard Level 4        | Rating   |
|--------------------------------------|----------------------------|-------------------------|----------|
| Skilled and capacitated system users | In accordance with profile | Various Modules         | 2,5      |
| Month-end closure                    | Own accord – due date      | Own accord – prior date | 3        |
| Year-end closure                     | Own accord – due date      | Own accord – prior date | 3        |
| System Controller Functions          | 80 – 90%                   | 91 – 100%               | 3        |
| Monitor Applicable Interfaces        | Weekly                     | Daily                   | 4        |
| <b>Average rating</b>                |                            |                         | <b>3</b> |

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

**Table 17: Skilled and capacitated system users**

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

The Provincial Parliament maintained a financial management capability rating of level 2,5 (partial compliance) due to the officials being nominated and not attending courses as well as not all officials being trained in accordance with their profiles.

Provincial Treasury has identified the training gap of all system users and is providing training in accordance with their profiles.

The Provincial Parliament however needs to commit themselves in getting users trained even though crisis situations exist in the Department.

### Month end closure

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

### Year closure

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

### System Controller Functions

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

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

### Monitor applicable interfaces

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

**Table 18: Personnel and Salary Administration System (PERSAL)**

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

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

**Table 19: Skilled and capacitated system users**

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

The Provincial Parliament maintained a financial management capability rating of level 2 (partial compliance) due to the officials not being trained in accordance with their profiles.

Provincial Treasury has identified the training gap of all system users and is providing training in accordance with their profiles.

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

### **System Controller Functions**

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

### **Establishment Management**

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

### **PERSAL/BAS reconciliation**

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

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

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

The report that is provided by Provincial Treasury regarding verification of data has not been requested by the Department.

### **Leave Audit**

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

**Table 20: Logistical Information System (LOGIS)**

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

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

**Table 21: Skilled and capacitated system users**

| Number of officials nominated | Number of officials attended | Number of officials cancelled | Number of officials qualified for a certificate (70% pass rate) | Number of officials not qualifying for a certificate |
|-------------------------------|------------------------------|-------------------------------|---|--|
| 3                             | 2                            | 1                             | 2   | 0  |

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

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

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

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

#### **Stock Management**

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

#### **Financial Controls**

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

### System Control functions

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

**Table 22: Management Information System (Vulindlela)**

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

**Table 23: Usage of the Management Information System (Vulindlela)**

| Number of registered users | Number of registered users using the system on a regular basis | Number of registered users not using the system on a regular basis | Percentage active users |
|----------------------------|--|--|-------------------------|
| 6                          | 4  | 2  | 67%                     |

The Provincial Parliament maintained a financial management capability rating of level 2 (partial compliance) due to the fact that only 67 per cent of registered users utilise the system on a regular basis.

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

## **3.3 Provincial Treasury**

### **3.3.1 Performance Management**

#### **3.3.1.1 Non-financial information**

The analysis of departmental performance that follows 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 (QPR). 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); level 2 development level (proper internal control framework); level 3 (focus 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).

In past financial years, the emphasis has been on formulating clear measurable objectives and setting realistic and measurable performance indicators and targets. For the period under review, this assessment will comment on the applicability and validity of those measurable objectives and performance indicators. The aim is to ensure that the departmental APP, when read together with the AR and QPR clearly reflect stated performance expectations; performance accomplishments; demonstrated capacity to learn, adapt and improve; and whether the information obtained and communicated is fair and reliable.

The assessment considers whether the Department has reached a level 3 financial management capabilities, and expresses a view on the extent to which the Department is moving towards a level 4 financial management capability. The 2008/09 AR, the 2008/09 and 2009/10 APPs as well as the final 2008/09 QPR have been used in the assessment.

#### **Annual Report 2008/09 and Annual Performance Plan 2008/09**

The Department reported on all non-financial performance measures in accordance with the performance measures and targets specified in the Department's 2008/09 APP. Furthermore, performance measures defined in the 2008/09 APP are generally aligned and consistent in the 2008/09 AR. In the AR, the majority of performance targets have been met but in instances where targets have not been met, explanations for variances between planned and actual performances are furnished. Furthermore, these deviations from annual targets are explained at the beginning of each sub-programme, along with acknowledgement of achievements. An explanation of how achievement of targets contributed towards Provincial Treasury measurable objectives is also provided. However, where targets have not been achieved, remedial steps for the deviation from targets are not mentioned in the AR.

## **APP 2009/10**

The APP of the Department complies with the programme structure as prescribed by National Treasury. Each strategic objective is linked to a measurable objective which is in turn linked to a performance measure/indicator. The Department did not include performance indicators for the Administration programme. A standard set of these indicators are still currently under development. Performance indicators in the APP are currently undergoing refinement in order to ensure their compliance with SMART (Specific, Measurable, Achievable, Realistic, Time-bound) principles of target setting. The APP reflects annual targets, which are further divided into quarterly targets. However, certain performance measure indicators are not clearly defined and/or measurable.

## **Conclusions/recommendations**

The assessment of the 2008/09 APP, 2008/09 AR, 2009/10 APP and 4<sup>th</sup> Quarter 2008/09 QPR suggests that the Department is operating close to a level 3 auditable organisation according to the financial management capability assessment framework.

Although the APP has progressively improved from previous financial years, the 2009/10 APP requires further refinement with respect to the formulation of clearly defined and measurable performance indicators and targets. It is furthermore recommended that the Department adhere to the SMART principles of target setting i.e. setting of performance measures that are Specific, Measurable, Achievable, Realistic and Time-bound.

It is recommended that the AR includes 'Remedial Steps' for reported deviations within set performance targets.

The Department should institutionalise processes for dealing with non financial/performance information, highlighting the collection methodology, systems, verification and audit processes. 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 outputs. The move beyond compliance involves expanding the focus beyond the relation between inputs outputs to 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 strong linkages between the SP, APP and Budget.

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

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

- Provincial Treasury has an approved expenditure and revenue budget for the 2008/09 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.
- According to the SCOA misclassification tool, 7 transactions to the value of R158 330 were classified as incorrect at the end of 2008/09.

**Table 24: Quarterly Analysis on projections: 2008/09**

| R'000          | April | May    | June  | July  | Aug    | Sept  | Oct    | Nov    | Dec    | Jan    | Feb    | Mar    | Total   |
|----------------|-------|--------|-------|-------|--------|-------|--------|--------|--------|--------|--------|--------|---------|
| First Quarter  | 6 981 | 10 151 | 8 690 | 9 485 | 10 397 | 9 276 | 10 362 | 10 358 | 9 934  | 11 056 | 11 138 | 13 925 | 121 753 |
| %              | 5.73% | 8.34%  | 7.14% | 7.79% | 8.54%  | 7.62% | 8.51%  | 8.51%  | 8.16%  | 9.08%  | 9.15%  | 11.44% | 100.00% |
| Second Quarter | 6 982 | 10 151 | 8 691 | 9 518 | 9 472  | 9 975 | 11 219 | 9 602  | 9 885  | 10 790 | 12 298 | 13 559 | 122 142 |
| %              | 5.72% | 8.31%  | 7.12% | 7.79% | 7.75%  | 8.17% | 9.19%  | 7.86%  | 8.09%  | 8.83%  | 10.07% | 11.10% | 100.00% |
| Third Quarter  | 6 982 | 10 151 | 8 691 | 9 518 | 9 472  | 9 975 | 11 350 | 9 806  | 10 628 | 11 765 | 10 703 | 12 716 | 121 757 |
| %              | 5.73% | 8.34%  | 7.14% | 7.82% | 7.78%  | 8.19% | 9.32%  | 8.05%  | 8.73%  | 9.66%  | 8.79%  | 10.44% | 100.00% |
| Fourth Quarter | 6 982 | 10 151 | 8 691 | 9 518 | 9 472  | 9 975 | 11 350 | 9 806  | 10 628 | 8 536  | 10 371 | 15 470 | 120 950 |
| %              | 5.77% | 8.39%  | 7.19% | 7.87% | 7.83%  | 8.25% | 9.38%  | 8.11%  | 8.79%  | 7.06%  | 8.57%  | 12.79% | 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) however in some months the projected expenditure is slightly more than the actual expenditure.

The original budget allocated for the Department in 2008/09 was R120.596 million, however in the Adjustment Estimate; the budget was increased by 1.08 per cent or R1.299 million to R121.895 million. R715 000 or 0.6 per cent of the adjusted budget was shifted between programmes of the Department. The shifts made between programmes are below 2 per cent of the adjusted budget, therefore it is clear that the original budget of the Department was realistic.

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

Table 25 below indicates the amount of virements effected at the end of 2008/09 as well as the programmes affected by these virements.

**Table 25: Virements 2008/09**

| From Programme | To Programme                     | Amount<br>R'000 |
|----------------|----------------------------------|-----------------|
| Administration | Sustainable Resource Management  | 1 345           |
| Administration | Asset and Liabilities Management | 192             |
| Administration | Financial Governance             | 588             |
| <b>TOTAL</b>   |                                  | <b>2 125</b>    |

According to the 2008/09 activities, there were minimal virements effected within the Department as depicted in the table above. These virements were used to defray over expenditure within Programme 2, 3 and 4 by utilising savings in Programme 1.

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

The aggregate expenditure incurred in 2008/09 for the Department amounted to R120.950 million or 99.2 per cent of the Adjusted Budget. This indicates that the Department underspent by 0.8 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 2008/09.

The Department revised the tariffs for the 2008/09 financial year and the tariffs were approved by the relevant bodies and recorded in the tariff register.

The Department collected R385.682 million in provincial own receipts in the 2008/09 financial year compared to the R364.819 million adjusted budget. The over collection was R20.863 million or 5.7 per cent more than the adjusted budget, which was mainly due to increased collection on casino and horseracing taxes due to higher than estimated gambling activities in the Western Cape and financial transactions in assets and liabilities that were not budgeted for.

The main appropriation for Provincial own receipts for the 2008/09 financial year is R368.819 million, the amount is R13.473 million or 3.7 per cent less than the actual collection of R382.292 million in the 2007/08 financial year.

The Provincial Treasury's expenditure trends show a March spike. The spending during March amounts to R15.470 million or 12.8 per cent of R120.950 million 2008/09 total expenditure. This is mostly reflected within the Goods and Services as well as the Capital Payments. The Department exceeded the 10 per cent spending norm.

## **Conclusion**

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

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

An assessment of the financial management capability rating of the Department based on 2008/09 Auditor-General of South Africa (AGSA) audit findings and IYM reporting revealed the following:

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

The Department reported that transactions in the suspense accounts are cleared consistently with new entries occurring on a monthly basis except transactions that relates to Department 70.

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

#### **Accounting of assets**

The Department reported that they complied with the minimum requirements of an Asset Register (Moveable Assets). In an audit finding by the AGSA it was indicated that the asset register was incomplete to the extent that:

- Assets that were written-off still reflected in the asset register;
- The amount as reflected in the major asset register did not agree with the disclosure note for Moveable Tangible Assets;
- Some major and minor assets could not be located for physical verification;
- Some minor assets were reflected with a zero cost price in the minor asset register.

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

#### **Financial reconciliations**

The Department reported in their IYM reporting that all bank reconciliations and PERSAL/BAS reconciliations have been compiled. BAS/LOGIS reconciliations for capital assets for the period under review have been compiled but the BAS/LOGIS reconciliations for minor assets are currently being compiled from April 2009.

The Department is maintaining a financial management capability rating of level 2 when compared to the previous year's assessment.

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

A previous audit finding of the AGSA revealed that the Department does not have an approved policy for the authorisation of journals in place. It is hereby reported that management issued a policy for the approval based on the relevant rank of the official and appropriate amount. This is indicative of a level 3 financial management capability rating.

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

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

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

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

### **Related party transactions**

According to a previous audit finding, Provincial Treasury as a department has no official declaration of interest document whereby senior managers were required to declare their interest in suppliers or other companies which might be used by the Department as a service provider. No official declaration of interest document has been implemented yet.

It is recommended that a policy be implemented to ensure that management interest is disclosed. A register of disclosures of interest should also be implemented and maintained in order to achieve a level 3 financial management capability rating.

### **Conclusion/recommendation**

To fully comply with level 3 financial management capability requirements, the Department needs to ensure that the BAS/LOGIS reconciliations for minor assets are compiled and reviewed on a monthly basis, updating and completeness of asset registers are undertaken and implement an official declaration of interest document.

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

The Western Cape Gambling and Racing Board (WCGRB) was established in 1977 in terms of the Western Cape Gambling and Racing Law, and is currently regulated by Law 4 of 1996, as amended. Its primary goal is to control and regulate gambling and racing and activities incidental thereto in the Western Cape.

The WCGRB has obtained unqualified audit reports with no Emphasis of Matter since the 2005/06 financial year.

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

The entity has adequate controls over its suspense accounts. The debtor's collection period for the WCGRB was 18 days for 2008/09, compared to 10 days for 2007/08 and 17 days for 2006/07, which is well within the norm of 50 days. This is indicative of a financial management capability management capability of level 3, and the entity is moving towards a level 4.

### **Accounting of Assets**

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

### **Conclusion/Recommendation**

The WCGRB management should align the current accounting controls to the updated accounting framework, in doing so management will facilitate the transition towards a level 4 financial management capacity. The entity should address any concerns via the Helpdesk facility offered by Provincial Treasury: Accounting Services and the IYM process.

## **3.3.3 Corporate Governance**

### **3.3.3.1 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)**

**Strategic Risk Assessment**

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

**Internal Environment**

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

**Operational Risk Assessment**

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

**Overall Assessment**

Based on the above information, the Department achieved a rating of 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 implement the following:

**Internal Environment**

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

**Operational Risk Assessment**

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

**Monitoring**

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

**2007/08 and 2008/09 Comparison**

For the 2008/09 review, it is evident that the department has made some improvement as compared to the 2007/08 review.

**3.3.3.2 Normative Financial Management**

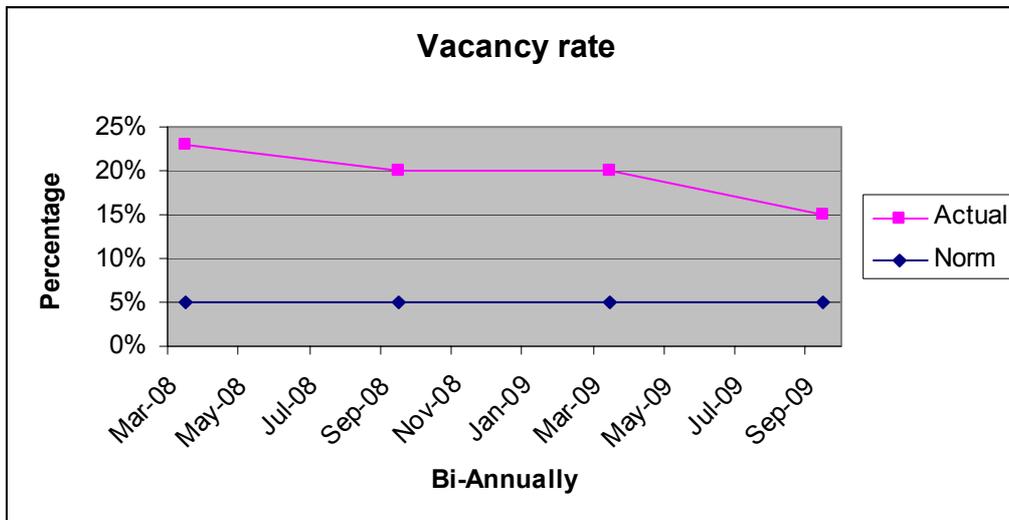
The findings discussed in this section provide a review of the PFMA implementation and financial management improvement of the department in line with the provincial strategy of attaining a level 4 financial management capability rating.

The source documents used were the Normative Measures Quarterly Report for departments 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**

**Figure 1: Department of Provincial Treasury Vacancy Rate**



As depicted in the above figure, the Department has made some strides during the 2008/09 financial year up until currently in reducing the vacancy rate of the finance component from 23 per cent to 15 per cent. However, Procurement (includes bid and contract administration), Internal Control and Enterprise Risk Management are the components most affected by the high vacancy within the finance component. See table depicted below:

**Table 26: Extraction of filled and vacant posts in Finance Component**

| Component/Unit                      | Post Description               | Post level | Status |
|-------------------------------------|--------------------------------|------------|--------|
| Procurement and Contract Management | Assistant Manager              | 8          | Filled |
|                                     | Management State Accountant    | 8          | Vacant |
|                                     | Procurement Officer            | 6          | Vacant |
| Internal Control                    | Financial Management Assistant | 10         | Filled |
|                                     | State Accountant Senior        | 8          | Vacant |
|                                     | Accountant Clerk Chief         | 7          | Vacant |
| Enterprise Risk Management          | Chief risk Officer             | 11         | Filled |
|                                     | Chief Risk Analyst             | 9          | Filled |
|                                     | Risk Analyst                   | 8          | 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 32 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 policy and procedure manual for the effective management of assets which has not yet been finalised and implemented.

### Annual Quarterly and Monthly Reports

The Department and public entities must report monthly on expenditure and revenue; quarterly on performance; and annually they have to table Annual Reports, as prescribed, in the Legislature. Compliance with these requirements is reflected in table below:

**Table 27: Compliance with annual, quarterly and monthly reporting requirement**

| Institution                | Date annual report received by Provincial Treasury | Annual report tabled at the Provincial Legislature | Quarterly performance against strategic plan |
|----------------------------|--|--|--|
| <b>Departments:</b>        |  |  |  |
| Provincial Treasury        | 31/08/09   | 28/09/09   | X  |
| <b>Public Entity:</b>      |  |  |  |
| WC Gambling & Racing Board | 31/08/09   | 28/09/09   | X  |

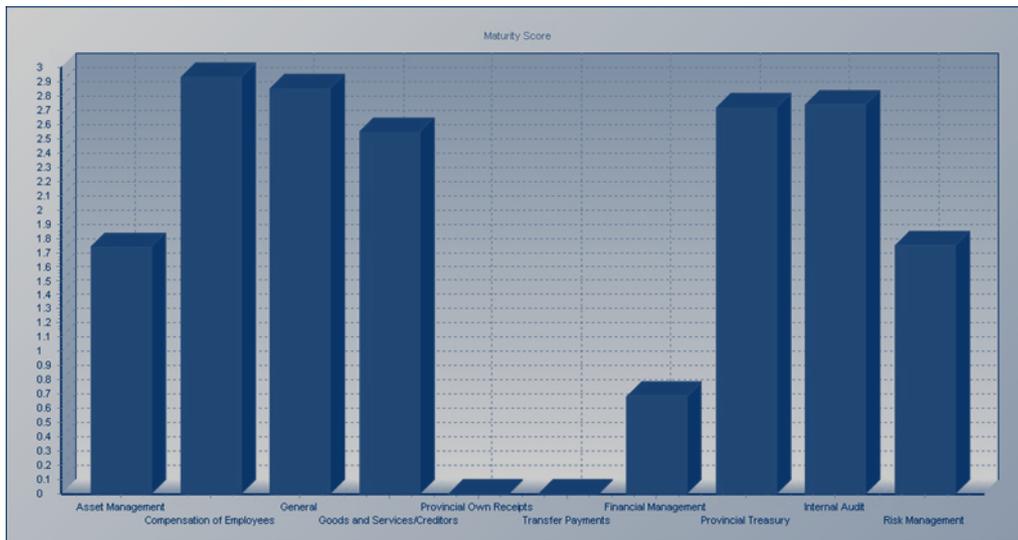
## Analysis

The Department has successfully tabled their 2008/09 AR as well as that of its public entity, within the prescribed timeframes.

### Auditor-General's report on the 2008/09 financial year

The Department received an unqualified audit opinion, with other matters in the 2008/09 as well as the 2007/08 financial year.

**Figure 2: Financial Management Capability Model**



In terms of an assessment done by consultants from the United Nations in conjunction with National Treasury, which was conducted in March 2009, the Department's financial management maturity was rated below a level 2 in 3 of the 9 categories assessed in the survey. Questions under the following categories; Revenue Management and Transfer payments were not answered by the Department, hence the maturity score of 0 for these categories. According to the report, the Department's Risk Management Implementation Strategy/Plan was not yet approved by the Accounting Officer and the Risk Management Policy not communicated to all officers. The CFO's structure was found to be insufficiently resourced, due to a dedicated Asset Management unit being non-existent. In comparing the above assessment to 2008 Financial Governance Review and Outlook, the Department's financial management seems to have deteriorated.

## Recommendation

The Department must review the possibility of filling key posts in the Internal Control component (Senior State Accountant, Chief Accountant clerk and Risk analyst) and the Procurement and contract management component (State Accountant and Procurement officer), 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.

### Western Cape Gambling and Racing Board

Western Cape Gambling and Racing Board received an unqualified audit opinion with other matters for the 2008/09 financial year as well as the 2007/08 financial year.

No significant shortcomings were identified in the analysis done on Western Cape Gambling and Racing Board's checklist submitted for the Quarter ending 30 June 2009.

### Overall assessment

Based on the assessment done by the consultants it is clear that a great deal still needs to be done to improve the financial management within the Department. The Department's financial management capability is rated between a level 2 and 3.

### 3.3.4 Cash Management

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

#### Skilled and capacitated system users

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

The evaluation was based on the activities of the 2008/09 financial year and the findings were as follows:

**Table 28: Assessment of cash management**

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

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

### Submission of Annual Provincial Cash flow Projections

The Department obtained a financial management capability rating of level 3 (nominal compliance). The Annual projections in respect of income and expenditure were received on 27 February 2009.

**Table 29: Deviation between monthly projections and actual expenses**

|   | Project        | Actual         | %          | Rating   |
|---|----------------|----------------|------------|----------|
| <b>Original Forecast</b>                          |                |                |            |          |
| APRIL'08  | 8 197          | 5 815          | 29         | 2        |
| MAY'08  | 8 805          | 5 192          | 41         | 2        |
| JUNE'08   | 8 798          | 12 292         | (40)       | 2        |
| JULY'08   | 10 333         | 9 481          | 8          | 2        |
| AUG'08  | 9 626          | 5 152          | 46         | 2        |
| SEP'08  | 8 644          | 13 667         | (58)       | 2        |
| OCT'08  | 10 225         | 11 628         | (14)       | 2        |
| NOV'08  | 10 373         | 11 098         | (7)        | 2        |
| DEC'08  | 9 816          | 10 087         | (3)        | 4        |
| JAN'09  | 10 912         | 9 746          | 11         | 2        |
| FEB'09  | 11 254         | 9 802          | 13         | 2        |
| MRC'09  | 13 613         | 16 636         | (22)       | 2        |
| <b>Sub-Total</b>                                  | <b>120 596</b> | <b>120 596</b> |            | <b>2</b> |
| <b>Revised Forecast (after adjustment budget)</b> |                |                |            |          |
| MRC'09  |                |                |            |          |
| Adjustment  | 1 299          | 1 299          |            |          |
| <b>Total</b>                                      | <b>121 895</b> | <b>121 895</b> | <b>100</b> |          |

The Department achieved a financial management capability rating of level 2 (partial compliance). PT adapted a new policy as from June 2009 to assist the departments to align their expenditure to their actual cash receipts on a daily and monthly basis.

### Monthly Own Revenue Payover

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

### Repayment of Surplus funds

The Department obtained a rating of 4 (full compliance). Surplus funds were paid to the PRF on 15 May 2009.

### Submission of monthly bank reconciliations

The Department was rated 3 (nominal compliance). The monthly bank reconciliations were submitted within 30 days after month end.

### Beneficiary Payments (Direct Transfers)

The Department achieved a rating of 2 (partial compliance). PT should encourage the department to make optimal use of the Province's financial systems to minimise the usage of Beneficiary Payments (Direct Bank Transfer).

**Table 30: Beneficiary Payments**

| Payments | Beneficiary Payments | %    |
|----------|----------------------|------|
| 8 980    | 120                  | 1.34 |

The evaluation was based on the activities of the 2008/09 financial year and the findings were as follows:

**Table 31: Assessment of cash management**

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

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

### 3.3.5 Supply Chain Management

When assessing the Department against the capability model for SCM, cognisance needs to be taken of the following:

The Department has a SCM unit vested under the structure of the CFO. Only two officials are responsible for procurement functions (excluding the SCM Manager) and since December 2008, one official is now responsible as the post is still vacant.

The Department has not complied with the requirements of Section 38(1)(a)(iii) of the PFMA by implementing and maintaining an Accounting Officer's System and Delegations, which should regularly be updated to keep itself aligned with

development in legislation and policy. The AO system and its accompanying delegations should not be drafted in isolation of each other, as is the case with the Treasury, resulting in conflict between the two documents.

No gifts policy is in place for the acceptance of gifts. It is not clear as to the monetary value of gifts that may be received and if approval is required before a gift can be accepted. The policy should also warn officials against receiving gifts from potential service providers when bids are called for, being evaluated or being accepted.

The Department has established a bid adjudication committee and specifications and evaluation committees are convened on an ad hoc basis.

The demand management process is not taken into consideration for the procurement of goods and services. This could be as a result of line functionaries performing the demand function without being familiar with SCM policies and procedures. This becomes crucial as both the line functionaries and the SCM unit needs to work together in order to perform demand management.

It has also been noted that the SCM unit and line functionaries do not perform market and/or supplier analysis in respect of the services they require.

The Department does not report on all the bids awarded, specifically those awarded in terms of the limited bidding process. It has been noted that the Department has not complied with certain legislation and prescripts with regards to the following:

- Checking National Treasury's List of Restricted Suppliers prior to awards of bids; and
- Notifying SARS of all bids awarded.

Deficiencies in respect of the acquisition management process in terms of the following are evident:

- Misuse of the limited bidding process; and
- Various extensions of bids which places pressure on bidders to maintain offers.

With regard to a proper contract management process being in place, proper control mechanisms with regards to the management of suppliers, which may be as a result of deficiencies in the demand and acquisition management, results in overdue projects, additional/wasteful expenditure and contractors acting outside their mandate.

The Department does not have an in-house SCM monitoring and evaluation section for monitoring and evaluating the performance of the SCM unit. The function of monitoring and evaluation is performed by the Moveable Asset Management unit within the Provincial Treasury, Internal Audit and the Auditor-General.

### **Rating and Comparison to the 2007/08 financial year**

The Department was rated on a level 3 in 2007/08 in terms of the financial management capability for SCM. A full SCM compliance assessment was performed

in 2008/09 and the Department has been rated at a level 2. This must not be construed as the Department having regressed, but is due to the fact a more detailed and rigorous assessment of the Department was conducted in the 2008/09 financial year thereby enabling the better reflection on the capability assessment of the Department in the 2008/09 financial year.

### **Conclusion/Recommendation**

The following steps would provide the right catalyst to move the Department to the next level of financial management capability for SCM:

- Ensure that there adequate resources available for the execution of the SCM processes;
- Ensure that the AO system issued in terms of section 38(1)(iii)(a) of the PFMA needs to be aligned to the legislative framework;
- Address the conflict between the AOS and accompanying delegations and align both documentation accordingly;
- Ensure that SCM operations are monitored and controlled as per Chapter 16a7 of the Provincial Treasury Instructions issued on 29 April 2008;
- Ensure that it reports to the PT on a monthly basis as per Chapter 16a7.2;
- Ensure that the integrity of SCM data supports SCM operational planning, decisions and monitoring activities;
- Move toward developing Standard Operating Procedural Manuals; and
- The SCM unit needs to play an active role with line functionaries in the demand management process.

### **3.3.6 Moveable Asset Management**

The reporting on the National Treasury's Broad Implementation plan for assets in the first quarter (1 April - 30 June) of the 2008/09 financial year provided no information, as the department did not report in this quarter. However, in the second, third and fourth quarter of 2008/09 financial year the department indicated an 83 per cent compliancy to Planning, Acquisition, Operation and maintenance and Disposal, 62 per cent compliancy to the Accounting requirements and a 92 per cent compliancy to the Asset Register requirements.

The expiry date for compliancy to National Treasury Broad Implementation Plan was 31 March 2008. The reason for the department not being fully compliant in the 2008/09 financial year was as a result of the following areas being postponed/outstanding:

- Elements of the best asset strategy in terms of Planning;
- Developing of Acquisition Plans;
- Operation and maintenance plans;

- Disposal Plans;
- Definition and Valuation of assets in terms of Accounting; and
- Performance.

It is evident from the information above that the Department did not meet the deadline in terms of the National Treasury's Broad Implementation Plan. However, it must be noted that the Department is 80 per cent compliant overall.

The Auditor-General's (AG) Management Report for the 2008/09 financial year alluded to following findings:

- Assets written off still reflected on the asset register.
- Variances exist between the value of assets reflected on asset register and the AFS.
- Duplications of asset disclosure.
- Physical verification of certain assets could not be ascertained.
- Recording of assets in asset register is incomplete.

### **Rating**

For the 2008/09 financial year, the Department is rated at a level 2 which is the Developmental level in terms of the financial management capability model for Moveable Asset Management. It must be noted that this rating is based on the information provided by the Department in terms of the reporting requirements (Project dashboard and Risk Log) of the National Treasury's Broad Implementation Plan. It must be further noted that a verification assessment in terms of assets is planned for the 2009/10 financial year.

### **Recommendations**

- Fast tracking the postponed/outstanding requirements of the National Treasury's Broad Implementation Plan for Asset Management.
- Develop the relevant plans.
- Addressing AG findings.

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

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

The evaluation was based on the activities of the 2008/09 financial year and the findings were as follows:

**Table 32: Basic Accounting System (BAS)**

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

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

**Table 33: Skilled and capacitated system users**

| Number of officials nominated | Number of officials attended | Number of officials cancelled | Number of officials qualified for a certificate (70% pass rate) | Number of officials not qualifying for a certificate |
|-------------------------------|------------------------------|-------------------------------|---|--|
| 21                            | 15                           | 6                             | 15  | 0  |

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

Provincial Treasury has identified the training gap of all system users and are providing training in accordance with their profiles.

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

### **Month end closure**

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

### **Year closure**

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

### **System Controller Functions**

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

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

**Monitor applicable interfaces**

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

**Table 34: Personnel and Salary Administration System (PERSAL)**

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

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

**Table 35: Skilled and capacitated system users**

| Number of officials nominated | Number of officials attended | Number of officials cancelled | Number of officials qualified for a certificate (70% pass rate) | Number of officials not qualifying for a certificate |
|-------------------------------|------------------------------|-------------------------------|---|--|
| 12                            | 7                            | 5                             | 5   | 2  |

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

Provincial Treasury has identified the training gap of all system users and is providing training in accordance with their profiles.

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

**System Controller Functions**

The Department achieved a financial management capability rating 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.

**PERSAL/BAS reconciliation**

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

**Adhere to Minimum Information Requirements**

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

Reports indicating the outstanding information have been requested by the Department

**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.

**Table 36: Logistical Information System (LOGIS)**

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

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

**Table 37: Skilled and capacitated system users**

| Number of officials nominated | Number of officials attended | Number of officials cancelled | Number of officials qualified for a certificate (70% pass rate) | Number of officials not qualifying for a certificate |
|-------------------------------|------------------------------|-------------------------------|---|--|
| 14                            | 9                            | 5                             | 9   | 0  |

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

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

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

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

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

The average days per issue during the 2008/09 financial year was 12 days, the performance of the department is therefore below standard at a financial management capability rating of level 2 (partial compliance).

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

#### **Stock Management**

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

#### **Financial Controls**

The Department achieved a financial management capability rating of level 2 (partial compliance) as financial controls are executed on at least a monthly basis.

Even though the Department submit their BAS/LOGIS reconciliation on a monthly basis, they still do not comply with Treasury Circular 15 of 2008 which requires Departments to finalise invoice payments within 30 days.

#### **System Control functions**

The Department achieved a financial management capability rating of level 2 (partial compliance) for the execution of its system control functions.

The Department needs to ensure that their payment reconciliation is attended to from time to time, as there are currently a number of transactions which are lying on both their resubmission queue as well as their payment reconciliation which should have been cleared.

The Department should log calls with Provincial Treasury regarding transactions that they are unable to resolve.

**Table 38: Management Information System (Vulindlela)**

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

**Table 39: Usage of the Management Information System (Vulindlela)**

| Number of registered users | Number of registered users using the system on a regular basis | Number of registered users not using the system on a regular basis | Percentage active users |
|----------------------------|--|--|-------------------------|
| 78                         | 32   | 46   | 41%                     |

The Department obtained a financial management capability rating of level 2 (partial compliance) due to the fact that only 41 per cent of registered users utilise the system on a regular basis.

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

## **3.4 Department of Community Safety**

### **3.4.1 Performance Management**

#### **3.4.1.1 Non-financial information**

The analysis of departmental performance that follows 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 (QPR). 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); level 2 development level (proper internal control framework); level 3 (focus 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).

In past financial years, the emphasis has been on formulating clear measurable objectives and setting realistic and measurable performance indicators and targets. For the period under review, this assessment will comment on the applicability and validity of those measurable objectives and performance indicators. The aim is to ensure that the departmental APP, when read together with the AR and QPRs clearly reflect stated performance expectations; performance accomplishments; demonstrated capacity to learn, adapt and improve; and whether the information obtained and communicated is fair and reliable.

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 a level 4 financial management capability. The 2008/09 AR, the 2008/09 and 2009/10 APPs as well as the final 2008/09 QPR have been used in the assessment.

#### **Annual Report 2008/09**

Discrepancies were noted between the annual targets and quarterly target sections in the Department's 2008/09 APP. In agreement with the Department, this assessment utilises the quarterly targets section of the APP for comparison with the 2008/09 AR.

The AR Guideline for General and Performance information for the year ended 31 March 2009 requires that the programme performance of provincial departments must be in accordance with their strategic and performance plans as tabled in the legislature. The majority of measurable objectives and performance measures defined in the 2008/09 APP are present in the 2008/09 AR. Where this has occurred, the same unit of measurement for performance targets was used in both the AR and the APP. Performance information for sub-programmes 1.2.1.1, 1.2.1.2 and 1.2.1.3 (i.e. Human Resource Management, Financial and Management Support Service and Strategic Services and Communication respectively) were not included in the AR and

therefore could not be assessed. Despite these omissions, the AR can be used in conjunction with the APP to assess the Departments performance over the indicated financial year for the sub-programmes included in the AR.

The AR guideline requires that the departments provide reasons for major variances between target and actual output in the event of targets not being achieved. The AR includes a column indicating remedial actions against deviations from target. The Department has provided information on both positive and negative deviations. However, only information on the cause of the deviation is reported with limited information on interventions the Department has implemented or intends implementing to remedy areas of under-performance. It is therefore difficult to assess whether the Department has identified the challenges correctly and is implementing the appropriate remedies. It should be mentioned that the Department does however provide more succinct information on challenges and responses in the QPRs.

Two instances of inconsistency in information between the APP and the AR were noted. First, the performance indicator for “project status/analysis research reports” present in the APP under Sub-Programme 2.2: Crime prevention has not been included in the AR. Second, the annual target for the ‘client satisfaction survey’ target was set at 1 in the APP but is reported as 4 in the AR. In addition to the above, some reported performance targets in Programme 4.2: Traffic law Enforcement is unclear, specifically the targets for:

- ‘Percentage reduction in pedestrian fatalities on national and provincial roads’;
- ‘Percentage increase of number of arrests for drunk driving’;
- ‘Percentage increase of number of persons screened for possible drunk driving’; and
- ‘Percentage of number of vehicles tested for overloading.

The presentation of the calculation of performance (in percentages) does not clearly link with similar information provided in the target performance column.

In general, the Department has performed well in achieving most of its targets for the 2008/09 financial year and has reported a number of over-performances against targets.

### **APP 2009/10**

The Department’s 2009/10 APP complies with the programme structure prescribed by the National Treasury. The structure of the APP follows a logical and coherent representation of programmes, sub-programmes and their associated strategic and measurable objectives. The number of performance indicators has been reduced significantly when compared to the previous years’ APP. This is in line with recommendations made to the Department. In doing so, the Department has however also removed a number of good performance indicators. An example of this is the number of road fatalities reduced (as facilitated through the implementation of the Motor Vehicle Accident Strategy).

The Department has also replaced previous indicators with performance indicators that do not comply with the Specific, Measurable, Achievable, Relevant and Time-bound (SMART) principle, i.e. the appropriateness of indicators is problematic. This is observed throughout Programmes 2: Secretariat for Safety and Security, 3: Security Risk Management, and 4: Traffic Safety promotion. A number of examples exist throughout these programmes where actual performance outputs have been replaced with the submission of a 'report' on performance as the performance indicator. A further example can be found under sub-programme 2.4: Compliance Monitoring and Investigation, where the strategic objective: 'attend to complaints received within mandate' has a performance indicator stating 'consolidated complaints reports submitted'. A more appropriate indicator would have been to indicate the actual number of complaints received within mandate that have been attended to. The inclusion of indicators such as these constrains the performance assessment of the relevant sub-programmes as there is no clear indication of the nature or value of key outputs generated or progress towards achieving the strategic objectives set by that sub-programme. It has also been observed that no performance information for the any of the Programme's support functions have been recorded in the APP.

Viewing the APP narrative, it is clear that the programme structure and Departmental activities are aligned with the mandate of the Department. The problems encountered in the measurement of these activities does not allow for an adequate representation of the progress the Department makes during the financial year towards achieving its strategic objectives. The Department will however be following a sector specific format from the 2010/11 financial year and will then have to incorporate national sector specific performance indicators in addition to its provincial performance indicators in its APP. The Department is encouraged to focus on improving the quality and measurability of the provincial performance indicators.

The Department has improved the quality of information for deviations from the quarterly targets in the QPRs. Challenges have been identified and appropriate responses have been supplied for most deviations, with only one exception in the most recent (1<sup>st</sup>) QPR of 2009/10. The majority of comments provided are good, with relevant detail provided for all observed deviations. The only exception found was under sub-programme 4.4: Traffic Training and Development where no challenge or response was identified for the under-performance for the quarter.

A point of concern is the management of performance information and evidence thereof. It has been noted that some performance information was amended after sign-off by the respective Programme Directors and verified figures were provided.

## **Conclusion**

In general, the Department should institutionalise processes for dealing with non financial/performance information, highlighting the collection methodology, systems, verification and audit processes. 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 outputs. The move beyond compliance involves expanding the focus beyond the relation between inputs and outputs to 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 strong linkages between the SP, APPs and Budget.

The Department has improved marginally, but remains at a financial management capability rating of level 2 with regard to the performance information assessed.

To reach a financial management capability rating of level 3 capability, the Department must reconsider at the appropriateness of a number of the performance indicators. This includes reviewing the consistency in the logical link between the defined strategic objectives and performance measures. Also, the Department will have to ensure that information on remedies for under-performance is provided in the AR if it wishes to progress to a level 4 financial management capability rating. Lastly, the recently developed management system for the reporting of performance information, including the collection and verification of evidence, must be implemented as a matter of priority.

### 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 Community Safety.

The Department submits its In-year Monitoring (IYM) report on revenue and expenditure to Treasury on or before the 15th day after the end of a reporting month as per section 40(4)(c) of the PFMA, 1999 (Act 1 of 1999).

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

The following table represents the expenditure trend as well as projections based on the 2008/09 expenditure on a quarterly basis.

**Table 40: Quarterly analysis on projections: 2008/09**

| R'000          | April  | May    | June   | July   | Aug    | Sept   | Oct    | Nov    | Dec    | Jan    | Feb    | Mar    | Total          |
|----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|----------------|
| First Quarter  | 16 638 | 16 319 | 15 482 | 17 065 | 16 577 | 18 584 | 18 633 | 19 505 | 18 034 | 16 707 | 15 127 | 15 110 | <b>203 781</b> |
| %              | 8.16%  | 8.01%  | 7.60%  | 8.37%  | 8.13%  | 9.12%  | 9.14%  | 9.57%  | 8.85%  | 8.20%  | 7.42%  | 7.41%  | <b>100.00%</b> |
| Second Quarter | 16 638 | 16 319 | 15 482 | 20 724 | 18 377 | 20 984 | 19 072 | 21 657 | 23 311 | 18 676 | 15 903 | 15 242 | <b>222 385</b> |
| %              | 7.48%  | 7.34%  | 6.96%  | 9.32%  | 8.26%  | 9.44%  | 8.58%  | 9.74%  | 10.48% | 8.40%  | 7.15%  | 6.85%  | <b>100.00%</b> |
| Third Quarter  | 16 638 | 16 319 | 15 482 | 20 724 | 18 385 | 20 972 | 18 948 | 23 380 | 15 650 | 27 012 | 19 665 | 16 349 | <b>229 524</b> |
| %              | 7.25%  | 7.11%  | 6.75%  | 9.03%  | 8.01%  | 9.14%  | 8.26%  | 10.19% | 6.82%  | 11.77% | 8.57%  | 7.12%  | <b>100.00%</b> |
| Fourth Quarter | 16 638 | 16 319 | 15 482 | 20 724 | 18 385 | 20 972 | 18 948 | 23 380 | 15 653 | 23 480 | 23 190 | 29 158 | <b>242 329</b> |
| %              | 6.87%  | 6.73%  | 6.39%  | 8.55%  | 7.59%  | 8.65%  | 7.82%  | 9.65%  | 6.46%  | 9.69%  | 9.57%  | 12.03% | <b>100.00%</b> |

*Shaded: Actuals*

*Unshaded: Projections*

There appears to be a room for improvement with respect to Community Safety's forecasting on expenditure, as forecasts in prior quarters differ from actual expenditure. Actual expenditure (shaded) tends to be higher than the projected expenditure (unshaded) consistently on a monthly basis throughout the financial year. This can be observed when the actual expenditure is compared to the projections on a quarterly basis.

The original budget allocated for the Department in 2008/09 was R228.282 million, however, in the Adjustment Estimate, the budget was increased by R14.421 million or 6.3 per cent to R242.703 million. R7.828 million or 3.2 per cent of the adjusted budget was shifted between programmes, while R1.672 or 0.7 per cent was shifted within the programmes of the Department.

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.

Table 41 below indicates the amount of virements effected at the end of 2008/09 as well as the programmes affected by these virements.

**Table 41: Virements 2008/09**

| From Programme                               | To Programme             | Amount<br>R'000 |
|--|--------------------------|-----------------|
| Provincial Secretariat for Safety & Security | Administration           | 475             |
| Provincial Secretariat for Safety & Security | Security Risk Management | 1 305           |
| Provincial Secretariat for Safety & Security | Traffic Safety Promotion | 1 615           |
| <b>TOTAL</b>                                 |                          | <b>3 395</b>    |

For the 2008/09, there were minimal virements that have been effected within the Department as depicted in the table above. These virements were used to defray over expenditure within the programmes by utilising under expenditure in Programme 2: Provincial Secretariat for Safety and Security.

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

In terms of SCOA classification, the Department of Community Safety experienced relatively few erroneously classified transactions. In total, 9 transactions with a total value of R42 332 were reported as erroneous for the period of 2008/09. Monitoring of these errors will continue during the new financial year

The aggregate expenditure incurred in 2008/09 for the Department amounted to R242.329 million or 99.8 per cent of its Adjusted budget. This translates into an underspending of R374 000 or 0.2 per cent for the year, which is within the 2 per cent underspending norm.

As per the Auditor-General's report for the financial year 2008/09, the Department of Community Safety has for the year under question incurred irregular expenditure amounting to R431 000 as disclosed in note 23.2 to the financial Statements. This resulted from a tender process, which had not been followed properly.

With respect to the 2008/09 revenue outcomes, the Department of Community Safety collected R3.093 million in provincial own receipts compared to the R2.1 million adjusted budget estimation for the 2008/09 financial year. This recovery was R993 000 or 47 per cent more than the adjusted budget, mainly due to over collection on sales of goods and services (course fees and escort fees) as a result of conservative budgeting. The Department requested the revenue retention for utilisation in 2009/10 in order to alleviate pressures on goods and services and to cover training costs at Gene Louw College.

The Department revised the tariffs for Course fees at the Gene Louw Traffic College, tariffs for services rendered on Escort Fees and revision of the price of Lost Accommodation Cards in the 2008/09 financial year.

The Department experienced a March spike during the 2008/09 financial year. This is evident from the fact that expenditure for March 2008/09 was R29.158 million or 12 per cent of the total expenditure, which surpassed the 10 per cent norm.

### **Conclusion**

The Department of Community Safety currently operates on a level 3 financial management capabilities rating.

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

An assessment of the financial management capability rating of the department was undertaken based on 2008/09 Auditor-General of South Africa (AGSA) audit findings and monthly IYM reporting, that revealed the following:

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

In the monthly IYM reporting, the Department reported a consistent 100 per cent compliance with the financial management indicators throughout the 2008/09 financial year. Control and suspense accounts are reconciled on monthly basis, and in this regard the Department is operating at a level 3 financial management capability rating.

#### **Accounting of assets**

The Auditor-General reported that major assets were incorrectly classified and disclosed in the annual financial statements.

It is recommended that management must ensure that major assets are classified correctly in the assets register and agreed to financial statements to ensure reliable reporting of financial information at year end.

The Department is therefore maintains a level 2 financial management capability rating compared to previous year.

### **Financial reconciliations**

The Department reported that reconciliations of BAS/PMG and PERSAL/BAS are performed on a monthly basis signed off by the CFO and indicating reconciliation of the system information.

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

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

The Auditor-General's report indicated that accruals amounting to R731 277 have been outstanding for periods, which exceed the payment terms of 30 days, as set out in the Treasury Regulations. The 2008/09 surplus of the Department amounted to R374 000 which is less than the amount of accruals exceeding 30 days. If the expenditure had been accounted for in the 2008/09 financial year a deficit would have been incurred.

The Department is currently maintaining its level 2 financial management capability when compared to the previous assessment.

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

The disclosure of Departmental State Guarantees reflect effective maintenance as there were no matters arising from the audit report, resulting in level 3 financial management capability rating.

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

The Department reported that there are control measures in place for the reporting and management of thefts and losses. For the period under review no audit findings were raised in this regard.

The Department is therefore maintaining a level 3 financial management capability rating since its last assessment.

### **Management of contingent liabilities**

There were audit findings reported and therefore 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 has over the period under review continuously failed to submit a signed IYM report by the 15th of every month. This issue has been discussed with the CFO in bi-lateral meetings and no remedial steps have been undertaken by the Department to-date.

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 2 financial management capability rating is thus maintained compared to the previous assessment of a level

#### **Conclusion/recommendation**

In order to achieve a level 3 financial management capability rating, the Department needs to improve controls over the verification of assets on the floor to the asset register vice versa, improve monthly reporting of financial information to PT and ensure that all payments are paid within 30 days of receipt of invoice.

### **3.4.3 Corporate Governance**

#### **3.4.3.1 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 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 conducted for the Department, risk response strategies were developed and it was found that the organisation structure supports the processes developed.

#### **Internal Environment**

A risk management philosophy has been developed for the Department and a risk appetite of the Department has also been defined.

#### **Operational Risk Assessment**

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

### **Overall Assessment**

Based on the above information, the department achieved a rating of 2, as the Department 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 implement the following:

### **Event Identification**

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

### **Risk Assessment**

- Risks are assessed on a residual risk basis.

### **Control activities**

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

### **Information and Communication**

- Pertinent information is collected.
- Integrated system to analyse information available.

### **Monitoring**

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

### **2007/08 and 2008/09 Comparison**

For the 2008/09 review, it is evident that the department has made improvement as compared to the 2007/08 review.

#### **3.4.3.2 Normative Financial Management**

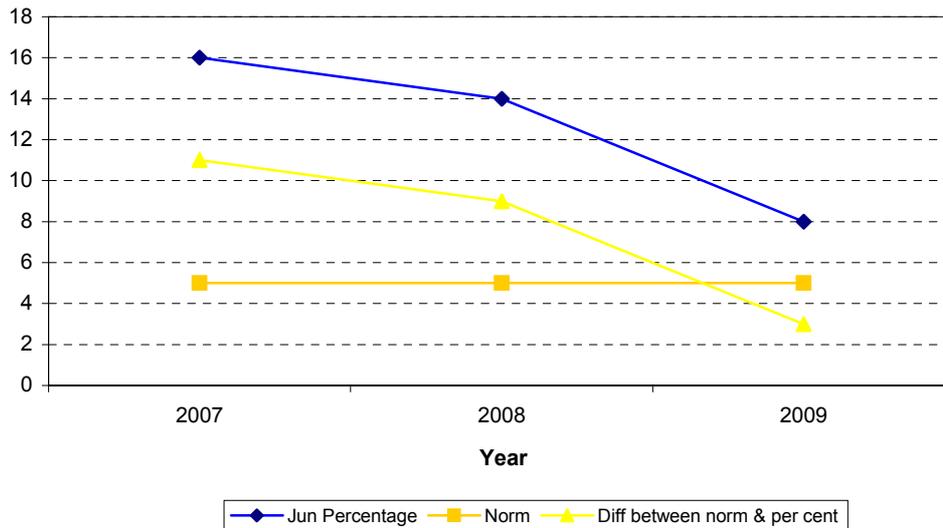
### **Compliance**

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 2008/09 Auditor-General's report for the department and the public entity as well as the Departments feedback on the 2009 MTEC 1 report.

### Analysis of the CFO structure - Human Resources Capacity

Figure 3: Department of Community Safety Vacancy Rate – 3 year Trend Line



In the Finance Component of the Department, the vacancy rate is currently at 8 per cent. 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. The figure above clearly depicts a downward trend year on year from 2007 to 2009.

Only 70 per cent of the staff in the CFO structure have finance related qualifications or are studying towards obtaining related qualifications. According to the National norm this should at least be 90 per cent. However, the Department has indicated that career development plans have been developed for 100 per cent of the staff members in the Finance Section.

The Department has also indicated that it has implemented performance agreements at all levels and career plans have been developed for the total staff compliment.

### Tabling of Annual Reports

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

Compliance with these requirements is reflected in table below:

**Table 42: Compliance with annual, quarterly and monthly reporting requirement**

| Institution        | Date annual report received by Provincial Treasury | Annual report tabled at the Provincial Legislature | Quarterly performance against strategic plan |
|--------------------|--|--|--|
| <b>Department:</b> |  |  |  |
| Community Safety   | 29/08/09   | 30/09/09   | X  |

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

### **Auditor-General's report of the 2008/09 financial year**

#### **Analysis of the Auditor-General's Report**

The Department received an unqualified audit opinion with other matters for the 2008/09 financial year. This Department received the same audit opinion for the 2007/08 financial year, however, for the period under review there were no significant findings regarding the development of and compliance with risk management, good internal control and governance practices.

**Table 43: Summary of Comparison between the 2007/08 and 2008/09 Audit Reports**

| Key finding  | 2007/08 | 2008/09 | Status       |
|--|---------|---------|--------------|
| Irregular expenditure  | X       |         | Improved     |
| Non-compliance with applicable legislation – Treasury Regulations  | X       | X       | Unchanged    |
| Delay in finalisation of audit – Late resolution of findings identified.   | X       |         | Improved     |
| Performance Information – Materially Inconsistent.   | X       | X       | Unchanged    |
| Performance Information – Objectives reported in annual report but not predetermined as per the strategic plan and the budget. | X       |         | Improved     |
| Reported Performance Information – Not Relevant and Reliable   |         | X       | Deteriorated |

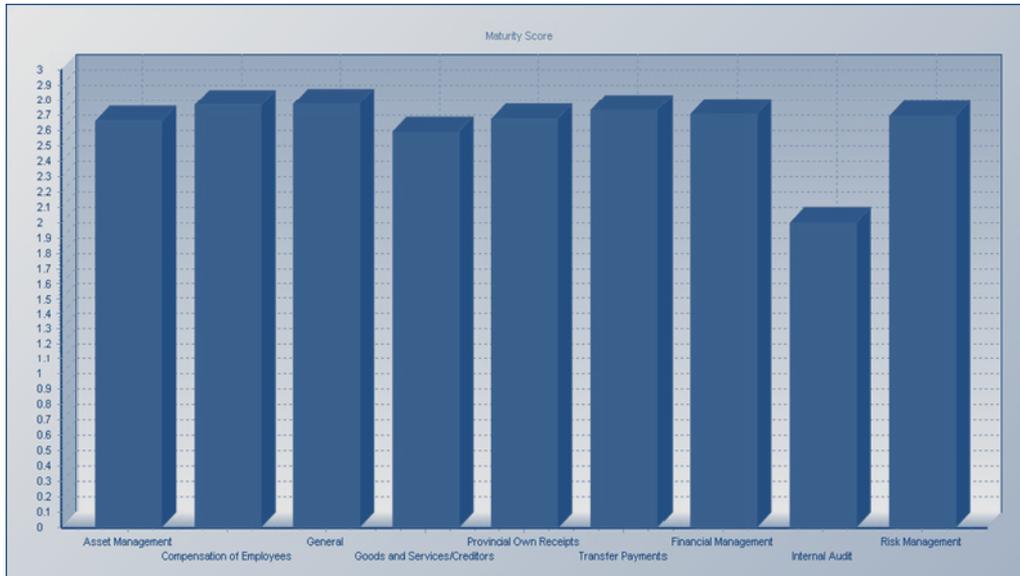
#### **Overall Assessment**

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

## Financial Maturity Capability Model Report - Breakdown per Category

### Provincial Government - Western Cape Community Safety

Figure 4: Financial Management Capability Model



Based on the above figure and information contained in this assessment, 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.

### 3.4.4 Cash Management

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

Table 44: Assessment of cash management

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

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

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

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

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

The Department obtained a financial management capability rating of level 3 (nominal compliance). The Annual projections in respect of income and expenditure were received on 27 February 2009.

**Table 45: Deviation between monthly projections and actual expenses**

|   | <b>Project</b> | <b>Actual</b>  | <b>%</b>   | <b>Rating</b> |
|---|----------------|----------------|------------|---------------|
| <b>Original Forecast</b>                          |                |                |            |               |
| APRIL'08  | 18 069         | 13 858         | 23         | 2             |
| MAY'08  | 18 562         | 21 001         | (13)       | 2             |
| JUNE'08   | 14 129         | 15 533         | (10)       | 2             |
| JULY'08   | 21 567         | 20 886         | 3          | 4             |
| AUG'08  | 17 316         | 19 016         | (10)       | 2             |
| SEP'08  | 16 691         | 18 182         | (9)        | 2             |
| OCT'08  | 24 801         | 20 921         | 16         | 2             |
| NOV'08  | 19 505         | 22 793         | (17)       | 2             |
| DEC'08  | 21 070         | 18 251         | 13         | 2             |
| JAN'09  | 23 226         | 23 684         | (2)        | 4             |
| FEB'09  | 15 865         | 21 685         | (37)       | 2             |
| MRC'09  | 17 481         | 12 472         | 29         | 2             |
| <b>Sub-Total</b>                                  | <b>228 282</b> | <b>228 282</b> |            | <b>2</b>      |
| <b>Revised Forecast (after adjustment budget)</b> |                |                |            |               |
| MRC'09  |                |                |            |               |
| Adjustment  | 14 421         | 14 421         |            |               |
| <b>Total</b>                                      | <b>242 703</b> | <b>242 703</b> | <b>100</b> |               |

The Department achieved a financial management capability rating of level 2 (partial compliance). PT adapted a new policy as from June 2009 to assist the departments to align their expenditure to their actual cash receipts on a daily and monthly basis.

### Monthly Own Revenue Payover

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

### Repayment of Surplus funds

The Department obtained a financial management capability rating of level 4 (full compliance). Surplus funds were paid to the PRF on 25 May 2009.

### Submission of monthly Bank Reconciliations

The Department obtained a financial management capability rating of level 4 (full compliance). The monthly bank reconciliations were submitted within 15 days after month end.

### Beneficiary Payments (Direct Transfers)

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

**Table 46: Beneficiary Payments**

| Payments | Beneficiary Payments | %    |
|----------|----------------------|------|
| 25 544   | 320                  | 1.25 |

## 3.4.5 Supply Chain Management

The departmental Head Office was assessed and will be rated in terms of the financial management capability model for SCM.

The rating will however not only be based on the compliance assessment report but also other SCM reporting and findings, the AG's report and the SCM performance throughout the financial year.

In terms of S38(1)(a)(iii) of the PFMA the Department must have an Accounting Officer's System and Delegations. To ensure that the afore-mentioned documents are current and relevant they must be regularly updated to ensure alignment with current policy and prescripts. Although the Department updated and signed-off on the revised AO system on 26 January 2009, however it was found that the old AO system (outdated) was still being utilised at the time of the assessment (9 February 2009 to 21 February 2009).

The Department has a SCM unit vested under the structure of the CFO. It could not be clearly determined whether this structure gives effect to the demand management requirement as indicated in section 16A.3.2 of the National Treasury Regulations.

Furthermore, this structure was deemed inadequate to give effect to the Department's SCM requirements, which was subsequently reiterated by an Organisational Development (OD) assessment. At the time of the assessment the recommended structure was still under review by the Department.

The Department has made provision for the three committees (specification, evaluation and adjudication) and the members of the said committees have been appointed in writing. However, the following issues/deficiencies arising out of the appointment of members and activities of the committees were noted:

- An official was appointed to both the bid evaluation and adjudication committees;
- No quorum was established even though decisions/recommendations were made;
- Signature of minutes by a non-attending chairperson;
- Declarations of interest were not completed by committee members; and
- Deficient/inaccurate minutes.

The assessment highlighted that the Department's gift policy and gift register is outdated and was not utilised as per set requirements.

The Department reports procurement statistics to the Provincial Treasury on a monthly basis. The EPSi system facilitates the request for quotation process. In terms of paragraph 16A6.2.1 of the Provincial Treasury Instructions, 2005 departments must ensure that the details of quotations awarded must be captured on the system. At the time of the assessment the Department's compliance rate was an estimated 9.3 per cent for the period 1 April 2008 to 31 January 2009. It must however be noted that this matter was addressed with the SCM directorate of the Department which subsequently made a concerted effort to address the matter. A report was extracted from the system at the end of April 2009. This report indicated a 99.76 per cent compliance rate for this requirement for the 2008/09 financial year.

The compliance team assessed various bids as reflected in the document above. Random bids of no specific number were selected from the bid register for this process and evaluated against the legislative framework, policy and prescripts for SCM.

On scrutinising the findings of the compliance assessment the following deductions/areas of concern are highlighted but not limited to:

Deficiencies in respect of the Demand Management process in terms of the following must be highlighted:

- Lack of accurately and/clearly understanding the need/s of the end-user;
- Lack of ensuring the involvement and input of relevant stakeholders from the initiation of the process;
- Absence of performing various analytical processes as identified within the demand management guidelines; and

- Lack of the development of accurate, informative and detailed specifications enabling bidders to supply accurate bids.

Deficiencies in respect of the Acquisition Management process in terms of the following must be highlighted:

- Scheduling of compulsory site inspection in such a manner that it does not adversely affect the opportunities of potential suppliers;
- Providing bidders with sufficient quantitative information allowing for accurate bidding;
- Utilising of the appropriate procurement method in relation to the estimated cost of the goods or services;
- Following of bid opening procedures thus ensure integrity of the bidding process; and
- Utilisation (quoting) of the correct delegation when requesting approval to procure goods or service as this may be construed as unauthorised expenditure.

Deficiencies in respect of the Logistics Management process in terms of:

- Ensuring that provisioning and accounting requirements are adhered to when procuring goods and services; and
- The 30-day payment requirement is adhered to.

Deficiencies in respect of the Contract Management process in terms of:

- Ensuring that service level agreements are drafted correctly;
- Scrutiny of all contractual documents (specifically Service Level Agreements) by legal services; and
- Documentation of changes to contracts.

Deficiencies in respect of the General and Administrative issues in terms of:

- Proper record keeping of all information/decisions taken in terms of SCM activities.

### **Rating and Comparison to the 2007/08 financial year**

The Department maintains a financial management capability rating of level 2. It should be noted that a full SCM compliance assessment was performed in 2008/09 and also in the 2007/08 financial years. Comparatively the Department has not been able to elevate itself to the next level of capability.

### **Conclusion/Recommendation**

Steps enabling the Department to move to the next level:

- Emphases on the areas of deficiency in SCM processes as identified in the above compliance report.
- Continuation of, and the added focus on maintaining a credible information management system (this is inclusive of keeping a proper paper trail in respect of supporting documentation).
- Maintenance of compliance and control in respect of SCM and limitation of deviations from the process. In the event that deviations are required compliance to legislative, regulatory and policy framework must be ensured.
- Consistent training and skills development initiatives of current and new appointments.
- Evaluation of the current SCM structure in terms of the department's requirements, especially in respect of risk mitigation and performance management.
- Continue the review of policy in terms of new legislation and regulatory requirements.
- Ensure that there is consistent and comparable SCM reporting.

#### **3.4.6 Moveable Asset Management**

Compliance to the National Treasury's Broad Implementation Plan (BIP) was due on 31 March 2008. The Department has indicated that in terms of the BIP they are 65 per cent compliant with regards to Asset Management Plans and 100 per cent in terms of the Asset Register and Accounting.

The Department has indicated the following outstanding issues: Definition of assets, Elements of the Best Asset Strategy, Developing of an Acquisition Plan, Monitoring condition and use, Maintenance scheduling, Physical Security, Replacement strategy, Evaluation of disposal alternatives and the Disposal Plan. The Department has appointed a Deputy-Director for Asset Management to fast track all the outstanding requirements.

Currently the Department is busy drafting the Asset Management strategy to address all the outstanding/postponed issues. The document is expected to be completed within the 2009/10 financial year. According to the AG's report, the Department did not receive a qualification with regards to Asset Management.

## Rating

On consideration of all the above, the Department is rated at a level 1 level in terms of the financial management capability model for Moveable Asset Management. It must be noted that this rating is based on the information provided to the Provincial Treasury by the Department in terms of the reporting requirements (Project dashboard and Risk Log) of the National Treasury's Broad Implementation Plan. It must be further noted that a full verification assessment in terms of assets is taking place in the 2009/10 financial year.

## Recommendation

- Fast tracking the requirements of the National Treasury's Broad Implementation Plan for Asset Management.

### 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.

1 (Non Compliance)

2 (Partial Compliance)

3 (Nominal Compliance)

4 (Full Compliance)

The evaluation was based on the activities of the 2008/09 financial year and the findings were as follows:

**Table 47: Basic Accounting System (BAS)**

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

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

**Table 48: Skilled and capacitated system users**

| Number of officials nominated | Number of officials attended | Number of officials cancelled | Number of officials qualified for a certificate (70% pass rate) | Number of officials not qualifying for a certificate |
|-------------------------------|------------------------------|-------------------------------|---|--|
| 12                            | 8                            | 4                             | 8   | 0  |

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

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

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

**Month end closure**

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

**Year closure**

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

**System Controller Functions**

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

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

### Monitor applicable interfaces

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

**Table 49: Personnel and Salary Administration System (PERSAL)**

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

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

**Table 50: Skilled and capacitated system users**

| Number of officials nominated | Number of officials attended | Number of officials cancelled | Number of officials qualified for a certificate (70% pass rate) | Number of officials not qualifying for a certificate |
|-------------------------------|------------------------------|-------------------------------|---|--|
| 37                            | 27                           | 10                            | 22  | 5  |

Although there was an improvement in nominations, the Department maintained a financial management capability rating of level 2 (partial compliance) due to the officials being nominated and not attending courses as well as not all officials being trained in accordance with their profiles.

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

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

### System Controller Functions

The Department achieved a financial management 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 a quarterly basis.

### PERSAL/BAS reconciliation

The Department compiles a monthly PERSAL/BAS reconciliation and therefore achieved a financial management capability rating of level 3 (nominal compliance).

### 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 of level 3 (nominal compliance) as the leave audit is updated on at least an annual basis.

**Table 51: Logistical Information System (LOGIS)**

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

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

**Table 52: Skilled and capacitated system users**

| Number of officials nominated | Number of officials attended | Number of officials cancelled | Number of officials qualified for a certificate (70% pass rate) | Number of officials not qualifying for a certificate |
|-------------------------------|------------------------------|-------------------------------|---|--|
| 36                            | 19                           | 17                            | 16  | 3  |

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

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

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

**Days per issue (service standard)**

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 2008/09 financial year was 28 days, the performance of the department is therefore way below standard.

The possibility for this rating could be that the Cost Centre Managers are scattered and not situated within the vicinity of the store, delaying processes.

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

**Stock Management**

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

**Financial Controls**

The Department achieved a financial management capability rating of level 3 (nominal compliance) for their financial management capability as financial controls are executed on at least a monthly basis. This includes the monthly BAS/LOGIS Reconciliation.

**System Control functions**

The Department achieved a financial management capability rating of level 2 (partial compliance) for the execution of its system control functions.

The Department needs to ensure that their payment reconciliation is attended to from time to time, as there are currently a number of transactions which are lying on both the resubmission queue as well as the payment reconciliation – which should have been cleared.

The Department should log calls with Provincial Treasury (User Support) regarding transactions that they are unable to resolve

**Table 53: Management Information System (Vulindlela)**

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

**Table 54: Usage of the Management Information System (Vulindlela)**

| <b>Number of registered users</b> | <b>Number of registered users using the system on a regular basis</b> | <b>Number of registered users not using the system on a regular basis</b> | <b>Percentage active users</b> |
|-----------------------------------|---|---|--------------------------------|
| 28                                | 15  | 13  | 54%                            |

The Department obtained a financial management capability rating of level 2 (partial compliance) due to the fact that only 54 per cent of registered users utilise the system on a regular basis.

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

## **3.5 Department of Education**

### **3.5.1 Performance Management**

#### **3.5.1.1 Non-financial information**

The analysis of departmental performance that follows 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 (QPR). 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); level 2 development level (proper internal control framework); level 3 (focus 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).

In past financial years, the emphasis has been on formulating clear measurable objectives and setting realistic and measurable performance indicators and targets. For the period under review, this assessment will comment on the applicability and validity of those measurable objectives and performance indicators. The aim is to ensure that the departmental APP, when read together with the AR and QPRs clearly reflects stated performance expectations; performance accomplishments; demonstrated capacity to learn, adapt and improve; and whether the information obtained and communicated is fair and reliable.

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 a level 4 financial management capability. The 2008/09 AR, the 2008/09 and 2009/10 APPs as well as the final 2008/09 QPR have been used in the assessment.

#### **Annual Report 2008/09**

All performance information included in the 2008/09 APP is included in the 2008/09 AR and is in line with the AR guideline for General and Performance Information. There are a few instances of minor wording difference of performance measures in the APP and AR. However, the meaning of the performance measures in the two documents remains the same. Where there is a difference in wording which affect the interpretation of a performance measure the Department has provided an explanation. The Department has in one instance made reference to percentages in the APP and numbers in the AR. There are a few instances where the historical reported performance for 2006/07 differs between the AR and the APP. Lastly, there are a few instances where the target for 2008/09 in the APP is not the same as that reflected in the AR. Each of these inconsistencies is discussed in more detail below.

Examples where the Department has used slightly different wording but the meaning remains the same are “Percentage of youths above compulsory school going age attending schools and other educational institutions” – APP versus “Percentage of youths above compulsory school-going age that attends schools and other educational institutions” - AR. Another example refers to “Percentage of schools with section 21 status” – APP versus “Percentage of schools with section 21 functions” – AR.

In another incidence the Department has indicated the reason for making a change to the wording of a performance measure in the APP and AR. For example, the Department refers to “Percentage of black women in management positions” in the APP and “Percentage of black women in (senior) management positions” in the AR. The reason for the addition of the word “senior” is provided in the AR and relates to terminological discrepancies. Nevertheless, it would appear that the interpretation of the performance measure has remained the same as the target for 2008/09 remains unchanged.

The Department refers to “Percentage of ABET learners relative to adults in the province” in the APP, but “Number of ABET learners relative to adults in the province” in the AR. The unit of measurement used in both the APP and AR is a percentage.

Instances where the historical 2006/07 information in the AR differs to that in the APP include the following:

- “Percentage of schools with an adequate number of functional toilets” (14.5 per cent - AR and 11.7 per cent - APP).
- “Percentage of female students who are in technical fields” (16.9 per cent - AR and 40 per cent - APP). The Department has indicated that the calculations used in previous years were based on an incorrect application of the formula and have hence been adjusted.
- “Number of ABET learners registered for FET” (New PPM – AR and 22 110 – APP). The Department has indicated in the AR that this is a new performance measure. The 2008/09 APP however reflects historical information for this performance measure.
- “Number of public schools with at least one computer facility for teaching and learning” (New PPM – AR and 725 – APP). The Department has indicated in the AR that this is a new performance measure. The 2008/09 APP however reflects historical information for this performance measure.

The last category of inconsistencies between the AR and APP relates to where the target for 2008/09 in the APP is not the same as that reflected in the AR.

- “Percentage of current expenditure going towards non-personnel items (22.9 per cent - AR and 23.6 per cent - APP).
- “Percentage of children with special needs of compulsory school-going age not enrolled in educational institutions” (6 per cent - AR and 6.1 per cent - APP).

- “Percentage of FET students relative to youth in the province” (16.2 per cent - AR and 2.2 per cent - APP). The Department has clarified this difference in a note in the AR stating that “The calculations in the preceding years were based on an incorrect application of the formula and have hence been adjusted in this year”.

“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. Information on “issues requiring ongoing attention” has also been included in the 2008/09 AR and highlights issues that will impact in forthcoming financial years. 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.

#### **APP 2009/10**

The APP conforms to the generic structure prescribed by the National Treasury and the national Department of Education for all provincial departments of education. The Department has made mention of the 5 year Strategic Plan (2005/06 to 2009/10) however no specific reference is made to the strategic goals contained therein. This makes it difficult to draw links between the strategic goals and measurable objectives.

The measurable objectives and performance measures are presented for each sub-programme as per the sector-specific format. A set of performance measures are linked to each of the measurable objectives which are in turn linked to the Key Deliverables of “access, adequacy, efficiency, equity and quality”. The tabular format used allows for ease of assessing the alignment of the key deliverables with the measurable objectives and performance measures.

There are a number of performance measures that are being used for the first time, for which the Department has no baseline information. Examples include, “percentage of women school principals”, “percentage of girl learners who register for Mathematics Grade 12”, “number of NC(V) students enrolled in public FET colleges” etc.

The Department has included a few provincial specific performance measures in addition to the sector-specific performance measures. This enables the Department to monitor progress on provincial initiatives.

In addition to annual reporting, national government also prescribes a sector-specific quarterly performance reporting template and performance indicators. For the 2009/10 financial year the Department is only required to report on two performance measures quarterly these are: “number of learners benefiting from the school nutrition programme” and “number of learners that are benefiting from free learner transport”. The Department has not provided in the APP the quarterly breakdown for the “number of learners that are benefiting from free learner transport”. Unfortunately, the decision to include this as a quarterly input in the sector-specific

quarterly performance reporting template was taken after the Department had finalised its APP and hence does not appear in the APP.

The nature of the “business” of education lends itself to annual reporting and is not conducive to quarterly reporting. Unfortunately, the use of two quarterly performance measures limits the extent to which the Departments quarterly non-financial performance and progress can be monitored. This is an issue that is receiving attention by both the national and provincial government.

### **Conclusion**

In conclusion, the Department is operating in the region of a competency level 3. There is however a few instances where the wording used in the performance measure differs between the AR and APP for 2008/09 and between the nationally prescribed performance measures and those contained in the APP for 2009/10. Comparisons of the 2006/07 historical information contained in the 2008/09 APP and the 2008/09 AR show differences. Ideally historical information should not change. However, where historical figures were based on a miscalculation and indicated as such by the Department, the revision of historical information helps ensure greater accountability when these errors are corrected.

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 measures. This will greatly facilitate the ability to monitor non-financial performance information on a quarterly basis.

The Department should institutionalise processes for dealing with non financial/performance information, highlighting the collection methodology, systems, verification and audit processes. In order for Departments to move beyond a level 3 (compliance phase) requires a focus on costing outputs and instituting practices that would identify those critical outputs that would have a knock-on effect to achieving departmental outputs. 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 SP, APP and Budget.

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

From 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 2008/09 financial year.

- The Department submits its IYM report on revenue and expenditure to Treasury on or before the 15th day after the end of a reporting month in terms of the requirements in section 40(4)(c) of the Public Finance Management Act, 1999 (Act 1 of 1999).
- The Department ensured that the reported actuals on expenditure and revenue reconciled to the BAS/Vulindlela financial system consistently on a monthly basis.
- It appears as if the Department needs to improve on making its forecasts more realistic, as forecasts in a prior quarter differ from actual expenditure. This can be viewed in the table below, where the actuals and projections are compared on a quarterly basis. Projections (unshaded) appear to be inconsistent when measured against the quarterly actual expenditure (shaded). This is evident in that second and fourth quarter projections appears to be more than the actual expenditure, whereas the third quarter projections appear to be less than the actual expenditure. To a large degree the inconsistent projections displayed can be attributed to the unforeseen higher than anticipated increase relating to the Improvement on Conditions of Services. Exacerbating matters was the unforeseen implementation of OSD for educators which saw a backdated payment of four months materialise in 2008/09. This resulted in the department having to reprioritise with the view of not realsising an overall over spending.

**Table 55: Quarterly analysis on projections: 2008/09**

| R'000          | Apr     | May     | Jun     | Jul     | Aug     | Sep     | Oct     | Nov     | Dec     | Jan     | Feb     | Mar     | Total     |
|----------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|-----------|
| First Quarter  | 619 047 | 766 043 | 740 512 | 705 067 | 701 807 | 708 238 | 796 764 | 857 265 | 758 956 | 681 048 | 831 814 | 853 352 | 9 019 913 |
| %              | 7.26%   | 8.98%   | 8.69%   | 8.27%   | 8.23%   | 8.31%   | 9.35%   | 10.05%  | 8.90%   | 7.99%   | 9.76%   | 10.01%  | 105.79%   |
| Second Quarter | 619 047 | 766 043 | 740 512 | 733 519 | 725 593 | 741 260 | 662 934 | 756 042 | 682 525 | 607 245 | 735 295 | 755 845 | 8 525 860 |
| %              | 7.26%   | 8.98%   | 8.69%   | 8.60%   | 8.51%   | 8.69%   | 7.78%   | 8.87%   | 8.01%   | 7.12%   | 8.62%   | 8.87%   | 100.00%   |
| Third Quarter  | 619 047 | 766 043 | 740 512 | 733 519 | 725 593 | 741 260 | 847 696 | 897 342 | 847 997 | 642 038 | 748 159 | 739 652 | 9 048 858 |
| %              | 6.84%   | 8.47%   | 8.18%   | 8.11%   | 8.02%   | 8.19%   | 9.37%   | 9.92%   | 9.37%   | 7.10%   | 8.27%   | 8.17%   | 100.00%   |
| Fourth Quarter | 619 047 | 766 043 | 740 512 | 733 519 | 725 593 | 741 260 | 847 696 | 897 342 | 847 997 | 685 553 | 793 110 | 794 806 | 9 192 478 |
| %              | 6.73%   | 8.33%   | 8.06%   | 7.98%   | 7.89%   | 8.06%   | 9.22%   | 9.76%   | 9.22%   | 7.46%   | 8.63%   | 8.65%   | 100.00%   |

*Shaded: Actuals; Unshaded: Projections*

The Department's original budget allocation for 2008/09 was R9.019.913 billion. In the Adjustments Estimate it was increased with R186.175 million or 2.1 per cent to R9.206.088 billion. R13.241 million, that is 0.1 per cent of the adjusted budget, was shifted between programmes within the vote, while R315.232 million was shifted within programmes, i.e. 3.4 per cent of the adjusted budget. At 3.4 per cent of the adjusted budget which exceeds the norm of 2 per cent, implies that the budget appears not to be credible. However, it must be noted that of the R315.232 million, R160.166 million was originally allocated under Non Profit Institution within Programme 5: Further Education and Training to effect the implementation of the FET Colleges Act 16 of 2006, which stipulates under section 20 that the college is the employer of all lecturers and staff. Due to the lack of readiness from departments nationally to shift this responsibility and functionality to colleges, it was decided nationally the status quo remain the same, i.e. the departments continue with the payroll administration of college staff (lecturers). Therefore, in light of the aforementioned the funding of R160.166 million had to be reallocated from the

Standard Chart of Accounts (SCOA) item Non Profit Institution to Compensation of Employees, of which the department had no control. Hence, the R315.232 million shift can effectively be reduced by R160.166 million resulting in a shift of R150.166 million or 1.6 per cent of the adjusted budget. This, being below the 2 per cent norm, constitutes a more credible budget.

In 2008/09, the SCOA saw the addition of two segments being added to the chart namely the Asset segment type and the Project segment. This prompted a need for the roll out of training road shows to be hosted by National Treasury to all departments with the view to operationalise the updated SCOA in departments. Thereafter, it further required various initiatives and training sessions to be held internally by all departments. The magnitude of such changes in larger departments always meant that the first year would result in challenges, considering training is being rolled out to all operational staff affected by this change. Therefore, to assist departments in ensuring data integrity is maintained, National Treasury rolled out a tool identifying erroneous classifications/combinations on the basis of using three segment types, namely the SCOA Item level 3, Project level 2 and Asset segment type. It must be noted that the tool developed by National Treasury was only introduced towards the end of the financial year.

Therefore, on the backdrop of the above mentioned and according to the misclassification tool, 1 449 transactions to the value of R15.318 million were identified as incorrect.

The Department also effected virements in the 2008/09 financial year amounting to R100.109 million or 1.1 per cent of the adjusted budget of which R34.117 million was shifted between programmes within the vote. The remaining R65.992 million was for shifts within the programmes. The R34.117 million shifts across programmes were largely due to defray over expenditure caused by the implementation of the OSD for Educators in 2008/09 with backdated payments extending to January 2008. 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 2008/09 financial year the department managed three conditional grants namely the National School Nutrition Programme grant, HIV/AIDS (Life Skills) grant and the Further Education and Training (FET) Recapitalisation grant.

The National School Nutrition Programme grant received a budget of R86.561 million of which spending amounted to R81.301 million. However, due to internal constraints from the department with respect to the BAS system invoices to the value of R5.195 million were not remitted, but committed. The full amount of R5.195 million was then subsequently requested for a rollover of which provisional approval has been granted by National Treasury. This, therefore resulted in an under spending of R65 000 or 0.07 per cent of its budget which was surrendered to the National Revenue Fund.

The HIV/AIDS (Life Skills) grant received a budget of R13.847 million of which spending amounted to R13.727 million for the 2008/09 financial year, translating an under spending of R120 000 or 0.9 per cent. The latter, however, was fully committed and therefore a rollover of R120 000 has been requested.

The FET Recapitalisation grant received a budget of R77.305 million of which the full allotment was transferred to the colleges for the 2008/09 financial year.

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

The Department ensured the timely submission of the Adjustments Budget and it was comprehensive in terms of section 31 of the PFMA.

The total expenditure incurred in 2008/09 for the Department amounted to R9.192.478 billion constituting 99.85 per cent of the Adjusted Budget. This effectively indicates that the Department under spent by R13.610 million or 0.15 per cent, which is within the 2 per cent under spending norm. In light of the aforementioned the amount for roll over request was limited and relates to the slight under spending found within infrastructure. At the same time the department realised an under recovery on its revenue of R1.938 million which waived the application for revenue retention.

There was no fiscal dumping and no unauthorised expenditure in 2008/09. However, irregular expenditure of R256 000 for 2008/09 has been reported in the 2008/09 audited Annual Financial Statements.

The Department of Education collected R22.528 million in provincial own receipts compared to the R24.466 million adjusted budget for the 2008/09 financial year. This translates an under collection of R1.938 million or 7.9 per cent of its adjusted budget, which was mainly due to under collections transpiring from the financial transactions in assets and liabilities item, which is considered the Department's major source of revenue. The item financial transaction in assets and liabilities is normally considered a complex item to budget for.

There was no application for approval from the department for the revision on tariffs for reprographical services in the 2008/09 financial year. It does, however, have a tariff register.

The Department in the month of March 2009 spent R794.086 million or 8.6 per cent of the adjusted budget. This signifies a nil return in respect of the March spike as the norm of 10 per cent has not been exceeded.

## **Conclusion**

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

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

An assessment of the financial management capability rating of the Department was undertaken based on 2008/09 Auditor-General of South Africa (AGSA) audit findings and the monthly IYM reporting, that revealed the following:

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

The AGSA reported that the Department is not exercising sufficient review and control over the suspense accounts. It was reported that in certain suspense accounts transactions are included which remains uncleared for a period longer than 12 months.

It is recommended that the Department should implement sufficient controls and mechanisms to effectively manage the clearing of all suspense accounts particularly for long-outstanding transactions.

This is indicative of a level 2 financial management capability rating.

#### **Management of debtors**

The AGSA reported that the Department is not exercising sufficient review and control over the management of debtors and specifically refer to i.e. the over statement of debtors, the debtors age analysis that is not verifiable, the inaccurate calculations of interest on debtors accounts and the lack of information of debtors that are In-duplum as at 31 March 2009.

As reported previously, management control over the outstanding debtors is lacking and the AGSA indicated that the implementation of key activities as per the debtors' improvement project will be followed-up in the next year's audit.

It is recommended that the Department implement sufficient controls and mechanisms to effectively manage debtors in order to achieve a financial management capability rating of level 3.

#### **Financial reconciliations**

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

The Department has maintained its performance in this regard and continues to operate on a level 3 financial management capability rating.

#### **Possible unauthorised expenditure**

The AGSA reported that accruals to the amount of R25 800 000 of the total amount of R116 976 000 disclosed as accruals has been outstanding for more than 30 days as set out in the Treasury Regulations. This amount, in turn, exceeds the voted funds to be surrendered for the year by R12 190 000. Should the department have paid the

amounts due as required, an equivalent amount of unauthorised expenditure would have occurred.

It is recommended that the Department monitors compliance in accordance with National Treasury regulation 8.2.3, stating that all payments due to creditors must be paid within 30 days of receipt of invoice unless determined otherwise, in order to move towards a financial management capability rating of level 3.

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

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

### **Related party transactions**

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

### **Conclusion**

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

## **3.5.3 Corporate Governance**

### **3.5.3.1 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)**

**Strategic risk assessment**

A strategic risk assessment was conducted for the Department, risk response strategies were recorded and it was not possible to determine whether the organisational structure supports the processes developed.

**Internal environment**

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

**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 Criteria and Norms and Standards for level 2. In order to achieve a financial management capability rating at the next level (level 2), the Department needs to have achieved all of the following set Criteria and Norms and Standards for level 2:

**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**

- Existing controls identified and documented (process and control maps).
- Control gaps identified and action plans developed.

**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, the 2008/09 Auditor-General's report for the Department as well as the Department's feedback on the MTEC 1 report.

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

The vacancy rate in the Department's CFO structure is currently standing at 30 per cent as indicated in the Department's MTEC 1 report. However, the Department has indicated that 88.2 per cent of these posts are currently occupied. The moratorium placed on all appointments is noted, hence the Department's inability to fill the vacant posts on a permanent basis.

The Department has indicated that 84 per cent of staff in the finance component has finance related qualifications or studying towards finance related qualifications. All staff has career development plans and attending structured training programmes offered within the province.

### **Annual Quarterly and Monthly Reports**

Departments and public entities must report monthly on expenditure and revenue; quarterly on performance; and annually they have to table Annual Reports, as prescribed, in the Legislature. Compliance with these requirements is reflected in table below:

**Table 56: Compliance with annual, quarterly and monthly reporting requirement**

| <b>Institution</b>  | <b>Date annual report received by Provincial Treasury</b> | <b>Annual report tabled at the Provincial Legislature</b> | <b>Quarterly performance against strategic plan</b> |
|---------------------|---|---|---|
| <b>Departments:</b> |   |   |   |
| Education           | 31/08/09  | 30/09/09  | X   |

### **Analysis**

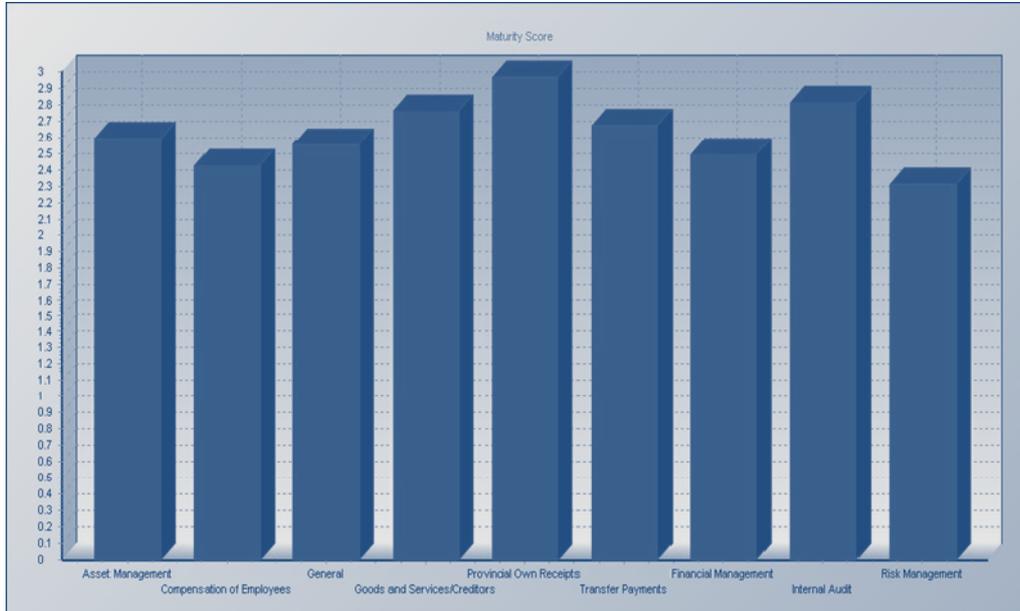
The Department has successfully tabled their 2008/09 Annual Report within the prescribed timeframes.

### **Auditor-General's report on the 2008/09 financial year**

The Department received an unqualified audit opinion for the financial year 2008/09, with other matters, a situation which mirrors the previous years'.

## Overall Assessment

Figure 5: Financial Maturity Capability Model Report



In terms of an assessment done by consultants from the European Union in conjunction with National Treasury, which was conducted in March 2009, the Department's financial management maturity was rated between a level 2 and 3 in virtually all the categories as the above graph depicts. Provincial Own Receipt was the only category in which the Department scored a level 3 maturity score.

### Overall assessment

The financial management capability model clearly indicates that the Department is still moving towards attaining a level 3 financial management maturity and not yet operating at a level 3 auditable organisation as indicated in the 2008 Financial Governance Review and Outlook.

### 3.5.4 Cash Management

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

The evaluation was based on the activities of the 2008/09 financial year and the findings were as follows:

**Table 57: Assessment of cash management**

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

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

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

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

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

The Department obtained a financial management capability rating of level 3 (nominal compliance). The Annual projections in respect of income and expenditure were received on 27 February 2009.

**Table 58: Deviation between monthly projections and actual expenses**

|                          | Project | Actual  | %    | Rating |
|--------------------------|---------|---------|------|--------|
| <b>Original Forecast</b> |         |         |      |        |
| APRIL'08                 | 742 669 | 606 634 | 18   | 2      |
| MAY'08                   | 691 978 | 780 780 | (13) | 2      |
| JUNE'08                  | 671 002 | 744 929 | (11) | 2      |
| JULY'08                  | 725 873 | 734 037 | (1)  | 4      |
| AUG'08                   | 730 917 | 731 235 | (0)  | 4      |
| SEP'08                   | 692 318 | 706 512 | (2)  | 4      |
| OCT'08                   | 792 501 | 873 636 | (10) | 2      |
| NOV'08                   | 858 962 | 928 613 | (8)  | 2      |
| DEC'08                   | 771 036 | 813 076 | (5)  | 3      |

|   | <b>Project</b>   | <b>Actual</b>    | <b>%</b>   | <b>Rating</b> |
|---|------------------|------------------|------------|---------------|
| JAN'09  | 681 691          | 685 418          | (1)        | 4             |
| FEB'09  | 827 373          | 789 301          | 5          | 3             |
| MRC'09  | 833 593          | 625 742          | 25         | 2             |
| <b>Sub-Total</b>                                  | <b>9 019 913</b> | <b>9 019 913</b> |            | <b>3</b>      |
| <b>Revised Forecast (after adjustment budget)</b> |                  |                  |            |               |
| MRC'09  |                  |                  |            |               |
| Adjustment  | 186 175          | 186 175          |            |               |
| <b>Total</b>                                      | <b>9 206 088</b> | <b>9 206 088</b> | <b>100</b> |               |

The Department achieved a financial management capability rating of level 3 (nominal compliance). PT adapted a new policy as from June 2009 to assist the departments to align their expenditure to their actual cash receipts on a daily and monthly basis.

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

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

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

The Department obtained a financial management capability rating of level 4 (full compliance). Surplus funds were paid to the PRF on 29 May 2009.

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

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

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

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

**Table 59: Beneficiary Payments**

| <b>Payments</b> | <b>Beneficiary Payments</b> | <b>%</b> |
|-----------------|-----------------------------|----------|
| 735036          | 712                         | 0.09     |

### **3.5.5 Supply Chain Management**

The departmental Head Office was assessed and rated in terms of the financial capability model for SCM.

The rating will however not only be based on the compliance assessment report but also on other SCM reporting and findings, the AG's report and SCM performance throughout the financial year.

The Department has an SCM unit vested under the structure of the CFO. The unit/directorate is divided into 3 sub-sub-directorates with a diversity of officials. The SCM unit is deemed to have a sufficient management structure which reports to a Senior Manager (director). This would indicate that there is adequate separation of roles and responsibilities to ensure that the necessary control mechanisms are met and maintained. In essence, it would seem that the Department has an adequate structure in place to give effect to an efficient and effective SCM system.

The Department has complied with the requirements of S38(1)(a)(iii) of the PFMA by implementing and maintaining an Accounting Officer's System and Delegations, which is regularly updated to keep itself aligned with development in legislation and policy. The latest review of the Accounting Officer's System and Delegations was approved/signed by the Accounting Officer on 9 September 2008.

Although the department is deemed to have an appropriate/sufficient SCM structure which addresses the various disciplines of SCM, there is a vacancy rate of 24 per cent or 27 per cent which could affect the unit's performance. The reason for the variation in vacancy rate is due to the fact that there is uncertainty surrounding 8 posts on the structure. It was however noted by the assessment team that the Department has implemented adequate control measures to ensure that it achieves its objectives.

During the 2007/08 Auditor-General's audit a concern was raised regarding the non-compliance with section 3.2(c) of the Regulations in terms of the Public Finance Management Act, 1999: Framework for Supply Chain Management issued by National Treasury in terms of section 76(4)(c) of the PFMA, 1999 (Act No. 1 of 1999 as amended by Act 29 of 1999) which requires that a SCM system must provide for the regular assessment of supply chain performance. This matter was also raised by PT at the September 2008 MTEC1 process.

The Department agreed that the regular assessment of SCM does not take place, but alluded to an assessment process by the Internal Audit component as well as self monitoring of SCM through supervision and quality control.

The AG however indicated that no performance assessment was done for the year under review and requested that the matter be adequately addressed during next financial year (2008/09).

It has been noted that that the department is attempting to address the matter of self-assessment by implementing and developing the necessary framework and policy. The effectiveness thereof can however only be determined at the end of the 2008/09 financial year.

The Department has made provision for the required three committees, namely specification, evaluation and adjudication. The committees have been adequately constituted and the member officially appointed in writing. At the time of this assessment it was noted that a non-governmental official was the appointed chairperson of the adjudication committee and that this individual was compensated for performing this function. However, it must be noted that at the time of the report a government official had been appointed in the position of chairperson of the Bid Adjudication Committee for the Department of Education.

The Department reports procurement statistics to the Provincial Treasury on a monthly basis. The information with regards to bids has been received timeously in the required formats. The EPSi system facilitates the request for quotation process invited via the EPSi system. In terms of paragraph 16A6.2.1 of the Provincial Treasury Instructions, 2005 departments must ensure that the details of quotations awarded are captured on the system. The Department's compliance rate to the aforementioned requirement at the time of the SCM compliance assessment was an estimated 69 per cent.

In essence, the Department's record keeping is sufficient as no major issues relating to this matter were found during the SCM compliance assessment.

The compliance team assessed various bids as reflected in the document above. Random bids of no specific number were selected from the bid register for this process and evaluated against the legislative framework, policy and prescripts for SCM.

On scrutinising the finding of the SCM compliance assessment the following deductions/areas of concern are highlighted but not limited to:

**Deficiencies in respect of the demand management process in term of:**

- The determination of accurate estimates including an effective cost analytical process;
- The linking of said requirements to the budget, thus identifying sufficient or insufficient funding prior to advertising of the bid;
- The development of accurate, informative and detailed specifications enabling bidders to submit accurate bids;
- The cancellation of bids and re-adverting thereof (on occasion cancelled more than once); and
- The inaccuracy or delay in the planning of projects (lead times) which subsequently places pressure on timeframes and leads to the cutting of corners when in respect of SCM processes.

**Deficiencies in respect of the acquisition management process in term of:**

- Adverting of bids during period where bids should not be advertised;
- The various extensions of validity of bids (3 – 4 extensions) which places pressure on bidders to maintain offers; and
- Utilising potential bid awards as leverage against suppliers to perform on other contracts.

**Deficiencies in respect of the contract management process in term of:**

- Proper control mechanisms in regards to the management of suppliers (may be as a result of deficiencies in demand and acquisition management) which result in overdue projects, additional/wasteful expenditure and contractors acting outside their mandate.

**Deficiencies in terms of General/administrative issues in term of:**

- Proper record keeping and minutes of all committee meetings, site meetings etc.

**Rating and Comparison to the 2007/08 financial year**

The Department was rated on a level 3 in 2007/08 in terms of the financial management capability model for SCM. A full SCM compliance assessment was performed in 2008/09 and the Department has been rated at a level 2. This must not be construed as the department having regressed, but is due to the fact a more detailed and rigorous assessment of the Department was conducted in the 2008/09 financial year thereby enabling the better reflection on the capability assessment of the Department in the 2008/09 financial year.

**Conclusion/ Recommendation**

Therefore in terms of the Department's assessment the following immediate areas would provide the right catalyst to move the Department to the next level:

- Emphases on the areas of demand management, more specifically succession planning, linking needs to the budget, specification development as well as needs, supplier, industry and commodity analysis must be taken cognisance of;
- Continuation of, and the added focus on maintaining a credible information management system (this is inclusive of keeping a proper paper trail in respect of supporting documentation);
- Maintenance of compliance and control in respect of SCM and limitation of deviations from the process. In the event that deviations are required compliance to legislative, regulatory and policy framework must be ensured;
- Consistent training and skills development initiatives of current and new appointments;

- Evaluation of the current SCM structure in terms of the department's requirements, especially in respect of risk mitigation and performance management;
- Continue the review of policy in terms of new legislation and regulatory requirements; and
- Ensure that there is consistent and comparable SCM reporting.

### **3.5.6 Moveable Asset Management**

The reporting on the National Treasury's Broad Implementation plan for assets in the first quarter (1 April - 30 June) of the financial year 2008/09 revealed 100 per cent compliancy to Planning, 100 per cent compliancy to Acquisition, 88 per cent compliancy to Operation and maintenance, 60 per cent compliancy to Disposal, 92 per cent compliancy to the Accounting requirements and 85 per cent compliancy to the Asset Register requirements. In the second quarter (1 July - 30 September), of 2008/09 financial year the department indicated an increase in compliancy to 80 per cent for the Disposal requirement and 100 per cent in terms of the Accounting requirements and maintained this for the third (1 October - 31 December) and fourth (1 January – 31 March) quarter.

The expiry date for compliancy to National Treasury Broad Implementation Plan was 31 March 2008. The reason for the department not being fully compliant in the 2008/09 financial year was as a result of the following areas being postponed/outstanding:

- Physical security of assets in terms of the Operation and maintenance requirements; and
- Write-off of damaged or missing assets in terms of the Disposal requirements.

It is evident from the information above that the Department did not meet the deadline in terms of the National Treasury's Broad Implementation Plan. However, the Department significantly improved their implementation during the financial year 2008/09 and therefore boasts a 96 per cent compliancy rate.

The Auditor-General's Management Report for the 2008/09 financial year alluded to the following findings:

- Assets on the floor not reflected on asset register or disposal register.
- Understatement of minor assets.
- Asset not bar coded.
- Updates of asset lists not done timeously.
- Movement of assets not updated on asset register.

## Rating

For the 2008/09 financial year the Department is rated at a level 3 which is the Control level in terms of the financial management capability model for Moveable Asset Management. It must be noted that this rating is based on the information provided to the Provincial Treasury by the Department in terms of the reporting requirements (Project dashboard and Risk Log) of the National Treasury's Broad Implementation Plan. It must be further noted that a verification assessment in terms of assets is planned for the 2009/10 financial year.

## Recommendations

- Fast tracking the postponed/outstanding requirements of the National Treasury's Broad Implementation Plan for Asset Management.
- Address the AGSA 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.

The evaluation was based on the activities of the 2008/09 financial year and the findings were as follows:

**Table 60: Basic Accounting System (BAS)**

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

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

**Table 61: Skilled and capacitated system users**

| Number of officials nominated | Number of officials attended | Number of officials cancelled | Number of officials qualified for a certificate (70% pass rate) | Number of officials not qualifying for a certificate |
|-------------------------------|------------------------------|-------------------------------|---|--|
| 65                            | 43                           | 22                            | 30  | 13   |

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

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

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

#### **Month end closure**

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

#### **Year closure**

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

#### **System Controller Functions**

Based on the following criteria the System Controller function maintained a financial management capability rating of level 3 (nominal compliance):

- Logging of calls to the Provincial Helpdesk.
- Maintenance of Security Profiles.
- Reinstating 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 maintained a financial management capability rating of level 4 (full compliance) as their interfaces were monitored and reported on a daily basis.

**Table 62: Personnel and Salary Administration System (PERSAL)**

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

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

**Table 63: Skilled and capacitated system users**

| Number of officials nominated | Number of officials attended | Number of officials cancelled | Number of officials qualified for a certificate (70% pass rate) | Number of officials not qualifying for a certificate |
|-------------------------------|------------------------------|-------------------------------|---|--|
| 40                            | 29                           | 11                            | 19  | 10   |

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

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

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

### **System Controller Functions**

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

### **Establishment Management**

The Department maintained a financial management capability rating of level 2 (partial compliance) as the establishment is maintained on at least a quarterly basis. Duplicate establishment codes exist however. The Department should ensure that the creation of a new establishment and abolishment of the existing establishment must be done simultaneously.

### **PERSAL/BAS reconciliation**

The Department compiled a monthly PERSAL/BAS reconciliation but not by the 20th of each month and therefore maintained a financial management capability rating of

level 2 (partial compliance). The Department needs to put control measures in place to meet the monthly deadlines.

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

Although not all information is captured on the system, the department maintained a financial management capability rating of level 3 (nominal compliance). All new contract workers information is being checked and Department is currently making use of a secondary system.

Reports indicating the outstanding information are available and are provided by Provincial Treasury to departments on request.

### **Leave Audit**

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

**Table 64: Logistical Information System (LOGIS)**

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

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

**Table 65: Skilled and capacitated system users**

| <b>Number of officials nominated</b> | <b>Number of officials attended</b> | <b>Number of officials cancelled</b> | <b>Number of officials qualified for a certificate (70% pass rate)</b> | <b>Number of officials not qualifying for a certificate</b> |
|--------------------------------------|-------------------------------------|--------------------------------------|--|---|
| 22                                   | 15                                  | 7                                    | 12   | 3   |

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

**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 2008/09 financial year was 65 days, the performance of the department is therefore below standard.

The average days per issue is supposed to be 0, since the Department does not have a store as everything they purchase is buy-outs. On the Balanced Scorecard the average days per issue for the months of November and December 2008 was 432 and 350 respectively.

**Stock Management**

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

**Financial Controls**

The Department maintained a financial management capability rating of level 3 (nominal compliance) on financial controls.

The BAS/PERSAL reconciliation is done on a monthly basis. According to the Purchase to Payment Report, the Department complies with the 30 days invoice payments as stipulated in Treasury Circular 15 of 2008.

**System Control functions**

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

**Table 66: Management Information System (Vulindlela)**

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

**Table 67: Usage of the Management Information System (Vulindlela)**

| Number of registered users | Number of registered users using the system on a regular basis | Number of registered users not using the system on a regular basis | Percentage active users |
|----------------------------|--|--|-------------------------|
| 46                         | 28   | 18   | 61%                     |

The Department obtained a financial management capability rating of level 2 (partial compliance) due to the fact that only 61 per cent of registered users utilise the system on a regular basis.

**Conclusion/recommendation**

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

## **3.6 Department of Health**

### **3.6.1 Performance Management**

#### **3.6.1.1 Non-financial information**

The analysis of departmental performance that follows 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); level 2 development level (proper internal control framework); level 3 (focus 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).

In past financial years, the emphasis has been on formulating clear measurable objectives and setting realistic and measurable performance indicators and targets. For the period under review, this assessment will comment on the applicability and validity of those measurable objectives and performance indicators. The aim is to ensure that the departmental APP, when read together with the AR and QPRs clearly reflect stated performance expectations; performance accomplishments; demonstrated capacity to learn, adapt and improve; and whether the information obtained and communicated is fair and reliable.

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 a level 4 financial management capability. The 2008/09 AR, the 2008/09 and 2009/10 APP as well as the final 2008/09 QPR have been used in the assessment.

#### **Annual Report 2008/09**

The AR Guideline for General and Performance information for the year ended 31 March 2009 requires 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 2008/09 AR in accordance with the 2008/09 APP. The targets in both the AR and APP are consistent. The units of measurement of both 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 capacity to report on the measures it has been stated explicitly in both the 2008/09 AR and APP (e.g. certain national indicators for Programme 8: Health Facilities Management). The Department has reported on performance measures and targets in the same order as presented in the APP to facilitate comparison. The same numbering system is also used in both documents where applicable, however there is one instance where the numbering differed (for Programme 5: Central Hospital Services).

In the event of targets not being achieved, departments must provide reasons for major variances between target and actual output according to the framework provided in the guideline. Reasons for variances between planned and actual performance are broadly discussed under the 'Analytical Review of Programme Performance' section and in some instances reasons for deviations are included as footnotes beneath the programme performance tables. Therefore the AR does provide explanations and responses to some areas of below target performance. In most cases the explanations are broad and not indicator-specific and refer to the overall service delivery environment.

#### **APP 2009/10**

The APP format complies with the generic format and the uniform programme and budget structure prescribed by the national government for provincial Health Departments. The APP includes measurable objectives and performance measures assigned to all budget programmes and corresponding sub-programmes. The APP also includes all sector specific as well as the provincial specific performance measures for the 2009/10 financial year.

The Department has clearly mapped its strategic objectives to the measurable objectives in the APP in a logically consistent manner. The measurable objectives in turn have been clearly mapped to the performance measure indicators and targets in the APP. Performance measures for measurable objectives are clearly defined as numbers or percentages. Quarterly targets are also set for all performance measures in the APP.

All relevant performance measures contained in the 2009/10 APP are reported on in the quarterly performance reports. 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.

## Conclusion

In conclusion, the Department is approaching a competency level 3 in relation to the key aspects of the financial management capability examined. The level of consistency in reporting performance information between the AR, APP and QPR has improved since the previous year's assessment. This high level of consistency between the AR 2008/09 and the 2008/09 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.

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.

The Department should institutionalise processes for dealing with non financial/performance information, highlighting the collection methodology, systems, verification and audit processes. 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 outputs. 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 SP, APP and Budget.

### 3.6.1.2 Performance management assessed based on financial information

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

The Department submitted IYM reports on revenue and expenditure on a monthly basis to the Provincial Treasury on or before the 15th day after the end of a reporting month in terms of section 40(4)(c) of the PFMA.

The Department ensured that the IYM reports reflected the actual expenditure and revenue, reconciled with the BAS/VULINDLELA reports. However, there remains room for improvement in expenditure forecasting, as on a month-to-month basis projections changed considerably and therefore the Department will have to improve on its planning.

Numerous shifts were made in the Adjustments Budget, both within a programme as well as between programmes. These shifts were mainly for correcting classifications according to SCoA and to cater for the overspending by shifting savings to items. The virements affected by the Department at the end of the financial year were all within the 8 per cent norm according to section 43(1) of the PFMA. These were mainly used to cover the overspending on Programme 2: District Health Services, Programme 4: Provincial Hospital Services and Programme 5: Central Hospital Services. The Department obtained the necessary virement approvals for it to be effected.

The Department submitted its Adjustments Budget on time and it was comprehensive in terms of section 31 of the PFMA. The Department received R228.832 million in 2008, which is less than the R332.132 million in the Adjustments Budget of 2007. The bulk of this additional allocation in 2008 was from National government and mainly went towards Improvement of Condition of Service (ICS) and inflationary adjustments for Medical Goods and Services.

At the end of the 2008/09 financial year the Department under spent its adjusted budget by 2.4 per cent or R214.960 million, due to the following reasons:

- The under spending of R7.637 million in **Programme 1: Administration** is mainly attributed to posts not filled at Head Office and the Metro Regional Office as well as capital equipment purchased to be paid in the 2009/10 financial year.
- The over expenditure of R31.716 million in **Programme 2: District Health Services** is mainly as a result of increased patient activity, the use of agency staff and a decision to provide Anti Retroviral Treatment (ART) to patients with HIV/Aids. The extent of the over expenditure is reduced by savings on Forensic Pathology Services conditional grant and on Global Fund expenditure.
- The over spending of R7.776 million in **Programme 3: Emergency Medical Services** was mainly on Compensation of Employees and is attributed to the appointment of additional emergency practitioners to assist in the 2010 FIFA World Cup.
- **Programme 4: Provincial Hospital Services** recorded an under spending of R10.910 million due to capital equipment purchased and to be paid in the 2009/10 financial year.
- In **Programme 6: Health Sciences and Training**, there was an under spending of R28.481 million due to the fact that the fact that bursaries were allocated in 2008/09 financial year but only paid to the respective training centers during 2009/10 financial year. Underspending on EPWP was as a result of an overestimation of logistical expenditure, a number of graduation ceremonies not taking place as planned, the planned management information database and the commissioning of the monitoring and evaluation of the EPWP not being finalised before year-end.
- **Programme 7: Health Care Support Services** recorded an under spending of R2.348 million attributed to the non-filling of technician posts at the various technical workshops due to a shortage of skills and competition in the private sector.
- **Programme 8: Health Facilities Management** recorded the highest under spending of R205.076 million due to the late commencement of construction on Khayelitsha- and Mitchells Plain hospitals, as well as slower than anticipated construction at Caledon-, Riversdale-, Helderberg- and Eerste River hospitals. The Department has requested rollover of these funds in 2009/10.

The Department marginally contributed to the 'March spike' since the spending was 9.8 per cent of total expenditure. The main contributors to the March spike were Transfers and Subsidies, as well as payments for capital assets, which spiked at 11 per cent and 22.4 per cent of their respective total expenditure.

As disclosed in note 34 of the AFS irregular expenditure amounting to R4.293 million was incurred in the financial year under review, mainly relating to SCM procedures not complied with.

The Department collected R437.146 million in provincial own receipts of the R409.519 million adjusted budget for the 2008/09 financial year, resulting in an R27.627 million or 6.7 per cent over collection. This surplus was mainly driven by the Road Accident Fund (RAF) payments received, contributions by Universities, as well as improved debt collection strategies. Enhancement initiatives such as a new billing system and the Uniform Patient Fee Schedules (UPFS) to improve the efficiency of billing and the identification of new and old debt were introduced by the Department. The electronic transfer of data to debt collectors also improved the debt collection rates. The Department of Health also introduced a process of setting revenue targets for institutions, which will improve the collection of health service fees at the respective institutions.

The main appropriation for provincial own receipts for the 2008/09 financial year was R389.680 million which is R108.166 million or 21.7 per cent less than the actual collection of R497.846 million in the 2007/08 financial year.

Revised tariffs are recorded in a tariff register. The following tariff approvals were done in 2008/09 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:

- Amend the Orthotic Aid tariffs (Schedule 6) for full paying patients;
- Amend Radiation Oncology tariffs (Schedule 4) for full paying patients; and
- Amend Nuclear Medicine tariffs (Schedule 5) for full paying patients.

### **Conclusion**

The Department of Health generally operates on level 3 financial management capability rating.

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

An assessment of the financial management capability of the Department of Health based on the 2008/09 audit findings and IYM reporting revealed the following:

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

The AGSA reported that all clearing and suspense accounts related to salaries and wages were cleared at year-end where necessary.

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

### **Accounting of assets**

The AGSA reported in the management report that during the physical verification of assets from the asset register to the floor, it was observed that assets are generally shared between departments and are frequently moved between departments within Health. A formal process to record such movement has not been implemented. It is recommended that the Department of Health should implement a system whereby assets are tracked when moved between departments.

The AGSA also reported that it was noted that some assets, which were disposed of during the financial year, were not removed from the fixed asset register.

It is recommended that the Department implement policies and procedures to ensure that sufficient appropriate evidence is maintained for all assets disposed of. Furthermore, steps must be taken to ensure that all disposals are immediately removed from the asset register once approved for disposal.

The Department is operating close to a level 2 financial management capability rating.

### **Financial reconciliations**

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

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

### **Supporting documentation**

The AGSA reported that no significant difficulties were experienced during the audit concerning delays or the availability of requested information and in the monthly IYM report it was confirmed that supporting documents is available.

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

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

#### **Accruals**

The Department reported accrual expenditure amounting to R369.073 million in the 2008/09 annual financial statements of which R108.350 million relates to accruals of more than 30 days. It is recommended that control measures be instituted to ensure that all creditor payments are made within 30 days to ensure strict adherence to Treasury Regulation 8.2.3.

### **Commitments**

The Department disclosed capital commitments of R33.363 million (approved and contracted R32.094 million and approved but not yet contracted R1.269 million) in the 2008/09 annual financial statements submitted to the AGSA. This was subsequently revised to R1.107.952 million (approved and contracted R886.694 million and approved but not yet contracted R221.258 million) after the audit process, resulting in a material re-statement of R1.074.589 million. The Department must institute a process and control measures to ensure that the correct amount for commitments is included in the annual financial statements.

This assessment indicates that the Department is operating at a financial management capability rating of level 2.

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

The AGSA reported that Irregular expenditure totalling R4.293 million was incurred 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 not following proper procurement processes. It should be noted that the current year Irregular expenditure has substantially decreased when compared to the expenditure for the 2007/08 financial year of R40.693 million. It is recommended that incidences of irregular expenditure be investigated and preventative measures and controls implemented to curtail irregular expenditure.

The Department is moving close to a level 3 financial management capability rating.

### **Conclusion**

In conclusion, the Department of Health is operating at slightly above a financial management capability rating of level 2. To move towards a level 3 financial management capability the Department must reinforce the internal financial instructions rolled out as well as addressing the issues identified by the auditors.

### **PUBLIC ENTITY: Cape Medical Depot**

The Cape Medical Depot (CMD) 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 inventory.

### **Revenue**

The Auditor-General of South Africa (AGSA) identified that the actual sales figures did not agree with the recorded sales figures for the 2008/09 financial year. This led to an understatement of revenue to the tune of R25 million, which was subsequently corrected. It is recommended that management conduct ongoing supervision on the internal controls within the Depot. This is indicative of a level 2 financial management capability rating.

### **Accounting of Inventory**

During the inventory test count at year end, the AGSA revealed several differences between what was counted and subsequently recorded. This was also the case in the 2006/07 and 2007/08 financial years. 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.

### **Supporting Documentation**

The AGSA reported that due to improper filing systems implemented at CMD and non-compliance with Treasury Regulation 17.2 supporting documentation was not readily available for auditing purposes. This concern had been raised by the Auditor-General since the 2005/06 financial year and discussed with regards to what steps are being taken by CMD during the meetings with the Provincial Treasury.

This is indicative of a financial management capability rating of level 2. It is recommended that CMD implement a proper filing system to ensure that supporting documentation is easily accessible and Treasury Regulation 17.2 is complied with.

### **Accounting treatment of transactions**

The CMD does not have a proper accounting system in place to identify and record transactions according to the accrual basis of accounting. This could lead to transactions being accounted for in the incorrect financial year, resulting in the overstatement of the present year's expenditure. This is indicative of a financial management capability level 2. It is recommended that CMD 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.

### **Non-compliance with legislation**

The AGSA reported that invoices were, contrary to Treasury Regulation 8.2.3 were not settled by CMD within 30 days of receipt of the invoice. This concern has been raised in the Management Reports for the 2005/06, 2007/08 and the 2008/09 financial years. This concern has been raised during the meetings with CMD and the steps to reduce the noncompliance monitored.

It is recommended that the CMD institute measures to ensure that all creditor payments are made within 30 days to ensure strict adherence to the Treasury Regulation 8.2.3, to move towards a financial management capability rating of level 3. It also recommended that the Depot implement a process to ensure that the payment section receives proof of delivery documentation within a reasonable time to enable them to make payments to suppliers within the prescribed time frame.

## **Conclusion**

CMD has made progress in terms of moving from a level 2 to 3 financial management capability rating. The acquisition of an accrual based accounting system should be urgently monitored by management. 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 Depot.

## **3.6.3 Corporate Governance**

### **3.6.3.1 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)**

#### **Strategic Risk Assessment**

A strategic risk assessment was not conducted for the Department, risk response strategies were developed and it was found that the organisation structure supports the processes developed.

#### **Internal Environment**

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

### **Operational Risk Assessment**

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

### **Overall Assessment**

For the period under review as at 31 March 2009, based on the above information, the department achieved a financial management capability 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 financial management capability rating at the next level (level 2), the department needs to implement the following:

### **Strategic Risk Assessment**

- Strategic risks identified.
- Risk response strategies developed and relevant processes developed.
- Organisational structure supports developed process.

### **Internal Environment**

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

### **Operational Risk Assessment**

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

### **2007/08 and 2008/09 Comparison**

For the 2008/09 review, it is evident that the Department has made slight improvement as compared to the 2007/08 review.

### 3.6.1.2 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, the 2008/09 Auditor-General's report for the department and the public entity as well as the Department's feedback on the 2009 MTEC 1 report.

#### Analysis of the CFO structure - Human Resources Capacity

In the Finance Component of the Department the vacancy rate is currently at 15 per cent which is way above the national norm of 5 per cent. However, the Department has indicated that this is due to certain positions within the CFOs component not being filled due to a lack of funds.

The Department has indicated that it has implemented performance agreements at all levels.

Career development plans have been developed for 100 per cent of the staff members in the Finance Section. Hundred per cent of the staff in the CFO structure have finance related qualifications or are studying towards obtaining related qualifications. All staff members within the finance unit are attending structured training programmes.

#### Tabling of Annual reports

The Department must report monthly on expenditure and revenue, quarterly on performance and annually the Department must table Annual Reports as prescribed by the PFMA. Compliance with these requirements is reflected in table below.

**Table 68: Compliance with annual, quarterly and monthly reporting requirement**

| Institution         | Date annual report received by Provincial Treasury | Annual report tabled at the Provincial Legislature | Quarterly performance against strategic plan | Monthly reporting |
|---------------------|--|--|--|-------------------|
| <b>Departments:</b> |  |  |  |                   |
| Health              | 30 August 2009                                     | 30 September 2009                                  | X  | X                 |

The Department submitted the Annual Report to Provincial Treasury on 30 August 2009 and the Annual Report was successfully tabled.

## Auditor-General's report of the 2008/09 financial year

### Analysis of the Auditor-General's Report

The Department received an unqualified audit opinion with other matters for the year 2008/09. The Department received the same audit opinion for the 2007/08 financial year.

**Table 69: Summary of Comparison between the 2007/08 and 2008/09 Audit Reports**

| Key finding   | 2007/08 | 2008/09 | Status       |
|---|---------|---------|--------------|
| Material corrections made to the financial statements submitted for audit   | X       | X       | Unchanged    |
| Significant deficiencies in the design and implementation of internal control in respect of Financial and risk management                                       |         | X       | deteriorated |
| Prior years Audit findings have not been substantially addressed.   | X       | X       | Unchanged    |
| 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       | X       | Unchanged    |
| Irregular Expenditure   | X       | X       | Unchanged    |
| Unauthorised Expenditure  | X       | X       | Unchanged    |
| Material under spending on the budget   |         | X       | deteriorated |

### TRADING ENTITY: Cape Medical Depot

The Cape Medical Depot under the ownership and control of the Department received an unqualified audit opinion with other matters.

The following issues were highlighted in the Cape Medical Depot:

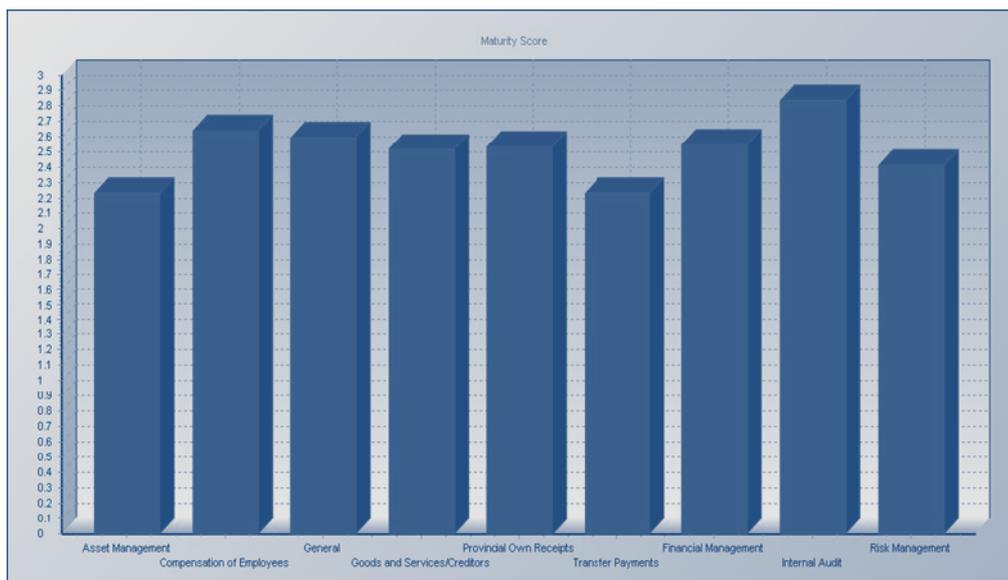
- Irregular and fruitless and wasteful expenditure.
- Restatement of corresponding figures.
- Payments due to creditors not settled within the prescribed 30 days.
- Material corrections made to the financial statements submitted for audit.
- Key officials were not available throughout the audit process.

**Overall Assessment**

**Financial Maturity Capability Model Report - Breakdown per Category**

**Provincial Government - Western Cape Health**

**Figure 6: Financial Maturity Capability Model Report**



**Conclusion/recommendation**

Based on the information given in the table above (i.e. Comparing the 2007/08 to 2008/09 Audit findings), there is an indication that this Department has not resolved certain issues that were highlighted by the Auditor-General for the 2007/08 financial year and of greater concern is the status of the issues that reflect a deterioration in the 2008/09 financial year.

Based on the graph above Department of Health is financial management capability rated a level 2.5 with the rating moving towards level 3.

**3.6.4 Cash Management**

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

The evaluation was based on the activities of the 2008/09 financial year and the findings were as follows:

**Table 70: Assessment of cash management**

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

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

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

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

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

The Department obtained a financial management capability rating of level 3 (nominal compliance). The Annual projections in respect of income and expenditure were received on 27 February 2009.

**Table 71: Deviation between monthly projections and actual expenses**

|                          | Project | Actual  | %   | Rating |
|--------------------------|---------|---------|-----|--------|
| <b>Original Forecast</b> |         |         |     |        |
| APRIL'08                 | 620 870 | 514 932 | 17  | 2      |
| MAY'08                   | 687 179 | 691 044 | (1) | 4      |
| JUNE'08                  | 656 293 | 701 633 | (7) | 2      |
| JULY'08                  | 797 362 | 865 618 | (9) | 2      |
| AUG'08                   | 698 251 | 722 363 | (3) | 4      |
| SEP'08                   | 700 742 | 714 568 | (2) | 4      |
| OCT'08                   | 751 442 | 797 504 | (6) | 2      |
| NOV'08                   | 767 548 | 786 640 | (2) | 4      |
| DEC'08                   | 783 236 | 715 383 | 9   | 2      |

|   | Project          | Actual           | %          | Rating   |
|---|------------------|------------------|------------|----------|
| JAN'09  | 683 674          | 777 322          | (14)       | 2        |
| FEB'09  | 754 351          | 686 440          | 9          | 2        |
| MRC'09  | 741 025          | 668 526          | 10         | 2        |
| <b>Sub-Total</b>                                  | <b>8 641 973</b> | <b>8 641 973</b> |            | <b>3</b> |
| <i>Revised Forecast (after adjustment budget)</i> |                  |                  |            |          |
| MRC'09  | 228 832          | 228 832          |            |          |
| Adjustment  |                  |                  |            |          |
| <b>Total</b>                                      | <b>8 870 805</b> | <b>8 870 805</b> | <b>100</b> |          |

The Department achieved a financial management capability rating of level 3 (nominal compliance). PT adopted a new policy as from June 2009 to assist departments to align their expenditure to their actual cash receipts on a daily and monthly basis.

#### Monthly Own Revenue Payover

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

#### Repayment of Surplus funds

The Department obtained a financial management capability rating of level 2 (partial compliance). Surplus funds were paid to the PRF on 14 July 2009.

#### Submission of monthly Bank Reconciliations

Monthly bank reconciliations were submitted within 15 days after month end. The Department is rated at a level 4 financial management capability (full compliance).

#### Beneficiary Payments (Direct Transfers)

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

**Table 72: Beneficiary Payments**

| Payments | Beneficiary Payments | %    |
|----------|----------------------|------|
| 695 352  | 604                  | 0.09 |

### **3.6.5 Supply Chain Management**

The Department of Health has been rated against the capability model for SCM in terms of the following:

- Adequate SCM policy is in place. The Department also gives effect to policy directives in respect of a gift's policy, petty cash procedural manual and a fraud prevention policy to provide for control measures and institutional memory.
- The filing system for data and records appears satisfactory and 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.
- Constituted Evaluation and Adjudication Bid Committees are in place however the specification committee is constituted on a commodity need basis.
- A redesigned Accounting Officer's system was implemented and rolled out in November 2006. Current updates in prescripts and legislation needs to be however incorporated. The Department however, issues these updates in the form of internal circulars.
- The Department has implemented a checklist to monitor and assess the status of adherence to the guiding legislation and policies.
- At the head office level the post establishment for Supply Chain Management adequately addresses Supply Chain functionality. However, the head office lacks the capacity to enable an adequate oversight role at the institutional level.
- SCM Delegations are in place.
- Although in most instances transactions are adequately processed and controlled, checks and balances on the processing of transactions is lacking.
- Errors in the capturing of data and unauthorised omission of data in the evaluation phases of bids allows for questionable data.
- Organisation meets statutory and regulatory obligations. However, in certain instances reporting to the Provincial Treasury in the required time is still lacking.
- Training is identified by the Department and addressed either in-house or by way of outsourcing.
- Cost effective management of risk is being addressed but continuous monitoring and maintenance thereof requires attention.
- The management of SCM practice and procedures are considered effective and efficient however, maintenance will always be a challenge due to staff turnover.
- There are no standard operating procedural manuals however, in the case of petty cash the utilisation of petty cash has been issued as a Finance Instruction. It is apparent that the cross functional capability of SCM officials allows for the continuous functionality of supply chain management.
- In most cases the Department solicits the advice and guidance of experts in the acquired commodity thereby ensuring the best value for money.

- The acquisition of the commodity is based on the outcome of the demand management phase which provides the Department with a fair understanding of the quality and cost of a commodity.
- Although the Department established the need for continuous improvement and learning the implementation, extent and roll - out is still being assessed and addressed.

### **Rating**

The Department maintains a financial management capability rating level 3 and the institutions maintains a level 2 rating for SCM.

### **Conclusion/recommendation**

Steps that need to be taken to move the Department to the next level are as follows:

- Strategically consider value for money, for all procurement without infringing quality, utilising historical data and the outcomes of relevant market analysis.
- Enhance the monitoring of SCM within the entire Department of Health to encourage informed decisions relating to the status of SCM across the board.
- Excel and maintain the criteria at levels 1, 2, 3, 4.
- Assist in elevating the institutions to higher level of capability.

### **3.6.6 Moveable Asset Management**

The reporting on the National Treasury's Broad Implementation plan for assets in the first quarter (1 April - 30 June) of the Financial year 2008/09 revealed 75 per cent compliancy to Planning, Acquisition, Operation and maintenance and Disposal and 100 per cent compliancy to the Asset Register and Accounting requirements, this is duplicated in the reporting for the fourth quarter (1 January - 31 March) of 2008/09.

The expiry date for compliancy to National Treasury Broad Implementation plan was 31 March 2008. The reason for the Department not being fully compliant in the 2008/09 financial year was as a result of the following areas being postponed/outstanding:

- Acquisition plans;
- 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.

It is evident from the information above that the Department did not meet the deadline in terms of the National Treasury's Broad Implementation plan. There was

no improvement in the 2008/09 financial year to facilitate this implementation. And, furthermore the Department is facing challenges in terms of drafting the relevant plans.

It must be noted though, that irrespective of the above information the Department is 90 per cent compliant to the National Treasury's Broad Implementation plan which is significantly higher than 90 per cent of the departments within the Provincial Government of the Western Cape.

The Auditor-General's (AG) Management Report for the 2008/09 financial year, alluded to following findings:

- Assets could not be physically verified resulting in overstatement of assets.
- Assets were not bar coded resulting in unidentifiable assets which could lead to possible theft.
- Disposed assets were still reflecting on the asset register resulting in overstated assets and the non-planning or procurement of future assets.
- Lack of control over the movement of assets resulting in assets being undetected should it be stolen or lost.
- Asset Register is incomplete. Assets that were selected from the floor could not be traced on the asset register. This leads to understated assets and allows for lack of controls.
- Assets were incorrectly classified resulting in unidentifiable assets and could lead to possible theft.
- Incorrect asset descriptions on the asset register resulting in unidentifiable assets and could lead to possible theft.
- Assets are not bar coded resulting in unidentifiable assets and could lead to possible theft.
- Bar codes attached to incorrect assets resulting in unidentifiable and control over assets.
- Irregular reconciliation between BAS and LOGIS allows for assets to be incorrectly stated.

### **Rating**

For the 2008/09 Financial Year the Department is rated at a level 2 which is the developmental level in terms of the financial management capability model for Moveable Asset Management. It must be noted that this rating is based on the information provided to the Provincial Treasury by the Department in terms of the reporting requirements (Project dashboard and Risk Log) of the National Treasury's Broad Implementation Plan. It must be further noted that a verification assessment in terms of assets is planned for the 2009/10 financial year.

**Conclusion/recommendation**

- Fast tracking the postponed/outstanding requirements of the National Treasury's Broad Implementation Plan for Asset Management.
- Address the AGSA findings.

**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.

The evaluation was based on the activities of the 2008/09 financial year and the findings were as follows:

**Table 73: Basic Accounting System (BAS)**

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

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

**Table 74: Skilled and capacitated system users**

| Number of officials nominated | Number of officials attended | Number of officials cancelled | Number of officials qualified for a certificate (70% pass rate) | Number of officials not qualifying for a certificate |
|-------------------------------|------------------------------|-------------------------------|---|--|
| 264                           | 148                          | 116                           | 111   | 37   |

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

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

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

### Month end closure

The Department maintained a financial management capability rating of level 2 (partial compliance) as their books were not closed on a monthly basis in accordance with the predetermined dates by National Treasury. Significant improvement was noted however as the Department managed to close their books on their own accord for the latter half of the financial year.

### Year closure

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

### System Controller Functions

Based on the following criteria the System Controller function maintained a financial management capability rating of level 3 (nominal compliance):

- Logging of calls to the Provincial Helpdesk.
- Maintenance of Security Profiles.
- Reinstating 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 maintained a financial management capability rating of level 4 (full compliance) as their interfaces were monitored and reported on a daily basis.

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

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

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

**Table 76: Skilled and capacitated system users**

| Number of officials nominated | Number of officials attended | Number of officials cancelled | Number of officials qualified for a certificate (70% pass rate) | Number of officials not qualifying for a certificate |
|-------------------------------|------------------------------|-------------------------------|---|--|
| 272                           | 180                          | 92                            | 146   | 24   |

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

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

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

#### **System Controller Functions**

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

#### **Establishment Management**

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

#### **PERSAL/BAS reconciliation**

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

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

As not all information is captured on the system, the Department achieved a financial management capability rating of 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 maintained a financial management capability rating of level 3 (nominal compliance) as the leave audit is updated on at least an annual basis.

**Table 77: Logistical Information System (LOGIS)**

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

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

**Table 78: Skilled and capacitated system users**

| Number of officials nominated | Number of officials attended | Number of officials cancelled | Number of officials qualified for a certificate (70% pass rate) | Number of officials not qualifying for a certificate |
|-------------------------------|------------------------------|-------------------------------|---|--|
| 396                           | 277                          | 119                           | 236   | 41   |

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

#### **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 2008/09 financial year was 6 days, the performance of the department is therefore rated as partial compliance.

#### **Stock Management**

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

### Financial Controls

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

The BAS/PERSAL reconciliation is done on a monthly basis. According to the Purchase to Payment Report, the Department does not comply with the 30 days invoice payments as stipulated in Treasury Circular 15 of 2008.

### System Control functions

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

**Table 79: Management Information System (Vulindlela)**

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

**Table 80: Usage of the Management Information System (Vulindlela)**

| Number of registered users | Number of registered users using the system on a regular basis | Number of registered users not using the system on a regular basis | Percentage active users |
|----------------------------|--|--|-------------------------|
| 349                        | 157  | 192  | 45%                     |

The Department obtained a financial management capability rating of level 2 (partial compliance) due to the fact that only 45 per cent of registered users utilise the system on a regular basis.

### Conclusion/recommendation

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

## **3.7 Department of Social Development**

### **3.7.1 Performance Management**

#### **3.7.1.1 Non-financial information**

The analysis of departmental performance that follows 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); level 2 development level (proper internal control framework); level 3 (focus 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).

In past financial years, the emphasis has been on formulating clear measurable objectives and setting realistic and measurable performance indicators and targets. For the period under review, this assessment will comment on the applicability and validity of those measurable objectives and performance indicators. The aim is to ensure that the departmental APP, when read together with the AR and QPRs clearly reflect stated performance expectations; performance accomplishments; demonstrated capacity to learn, adapt and improve; and whether the information obtained and communicated is fair and reliable.

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 a level 4 financial management capability. The 2008/09 AR, the 2008/09 and 2009/10 APPs as well as the final 2008/09 QPR have been used in the assessment.

#### **Annual Report 2008/09**

All the performance measures defined in the 2008/09 APP are reported on in the 2008/09 Annual Report. However, the Department reported on additional performance measures in the 2008/09 Annual Report that were not reflected in the 2008/09 APP.

The process of formulating specific performance measures and targets and their alignment to actual outputs still pose major challenges to the Department. For example, Sub-programme 2.8: HIV and Aids indicated the intention to reach the priority areas and also the number of districts. The target was expressed as to facilitate 3 capacity building workshops with funded organisations. The actual output, however, is a description of when the workshops were held as well as what were discussed at districts and facilities. The actual output also indicated that 4 capacity building workshops were held with funded organisations in the rural

areas, thereby exceeding the target without any reasons for the deviation on the planned 3 workshops.

The unit of measuring the output is not always the same. When the performance measure indicates a quantity the target should reflect a number and not the period of reporting, which is time bound.

The Department has been able to achieve most of its planned targets or partially met the targets set for the 2008/09 financial year.

The Department did not strictly follow the prescribed format of the AR Guideline for General and Performance information. The guideline prescribes that departments describe the purpose of the programme, the measurable objective(s) relating to the programme, the delivery objectives and indicators relating to the programme. Information on the delivery achievements relating to the programme with a description of all deviations from the estimated targets should also be included. Not all the deviations of the actual achievements on the set targets were explained.

When comparing the final QPR with the AR, adjustments have been made to the progress made in the fourth quarter to reflect the final year- end outputs in the AR.

#### **APP 2009/10**

The 2009/10 APP for the Department of Social Development complies with the national programme structure prescribed for the Social Development sector.

The Department did not include performance measures on the Administration programme. All performance measures are linked to strategic objectives. 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 2009/10 financial year on the provincial as well as the sector specific performance measures. The Department also set annual targets for the 2009 Medium Term Expenditure Framework (MTEF) period 2009/10 – 2011/12. The Department defined measurable objectives logically and consistent with the strategic objectives of the Department and focuses on only key measurable objectives and performance measures to ensure effectiveness in the 2009/10 financial year.

#### **Conclusion/recommendation**

An examination of the 2008/09 APP and fourth quarter QPR, the 2008/09 AR and the 2009/10 APP revealed that the Department is, according to the performance management framework, almost operating at a level 3 auditable organisation. The 2008/09 AR included the entire spectrum of sector specific as well as the provincial specific performance indicators as per the 2008/09 APP, which is a major improvement on the 2007/08 AR. Although the Department reported on all the performance indicators in the AR, not all deviations from the targets were quantified and reasons were not given for all deviations.

Sector specific as well as provincial specific performance measures are reflected in the 2009/10 APP and targets were set for the 2009 MTEF. Current year targets were also estimated per quarter in the 2009/10 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 for major variances between targets and actual out performance. The Department should also ensure that the units of the performance indicators, targets and actual outputs are the same.

To reach a financial management capability rating of level 4, which measures how resources are used, the Department needs to explain all deviations from annual targets and provide remedial steps for non-performance in the AR. Challenges and responses on actual outputs per quarter must be relevant/consistent with performance and realistic and should be reflected upon in the reports for future quarters.

The Department should institutionalise processes for dealing with non financial/performance information, highlighting the collection methodology, systems, verification and audit processes. 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 outputs. 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 SP, APP and Budget.

### **3.7.1.2 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 2008/09 financial year of R1.088 billion was tabled in the Provincial Parliament on the 4 March 2007.
- The Department makes an concerted effort to submit its IYM report by the 15<sup>th</sup> day after the end of a reporting month as stipulated in section 40(4)(c) of the Public Finance Management Act, 1999 (Act 1 of 1999), but have been experiencing problems to meet the submission date. A similar trend was observed in the previous financial year.
- It is deemed necessary that the Department improves on expenditure forecasts to make it more accurate and realistic. Currently, forecasts in a prior quarter differ significantly from actual expenditure. The table below details spending information for 2007/08 that further alludes to the above.

**Table 81: Quarterly Analysis on expenditure projections**

| R'000          | April         | May           | June          | July           | Aug            | Sept           | Oct            | Nov            | Dec            | Jan            | Feb            | Mar           | Total            |
|----------------|---------------|---------------|---------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|---------------|------------------|
| First Quarter  | <b>83 009</b> | <b>64 249</b> | <b>81 351</b> | <b>106 409</b> | <b>109 259</b> | <b>102 716</b> | <b>102 535</b> | <b>94 889</b>  | <b>89 346</b>  | <b>86 742</b>  | <b>93 656</b>  | <b>73 904</b> | <b>1 088 065</b> |
| %              | 7.63%         | 5.90%         | 7.48%         | 9.78%          | 10.04%         | 9.44%          | 9.42%          | 8.72%          | 8.21%          | 7.97%          | 8.61%          | 6.79%         | <b>124.28%</b>   |
| Second Quarter | <b>83 009</b> | <b>64 249</b> | <b>81 351</b> | <b>89 563</b>  | <b>53 572</b>  | <b>145 080</b> | <b>102 786</b> | <b>128 599</b> | <b>101 715</b> | <b>100 978</b> | <b>100 630</b> | <b>46 889</b> | <b>1 098 421</b> |
| %              | 7.56%         | 5.85%         | 7.41%         | 8.15%          | 4.88%          | 13.21%         | 9.36%          | 11.71%         | 9.26%          | 9.19%          | 9.16%          | 4.27%         | <b>122.70%</b>   |
| Third Quarter  | <b>83 009</b> | <b>64 249</b> | <b>81 351</b> | <b>89 563</b>  | <b>53 565</b>  | <b>145 080</b> | <b>82 534</b>  | <b>208 727</b> | <b>102 128</b> | <b>123 950</b> | <b>120 270</b> | <b>79 370</b> | <b>1 233 796</b> |
| %              | 6.73%         | 5.21%         | 6.59%         | 7.26%          | 4.34%          | 11.76%         | 6.69%          | 16.92%         | 8.28%          | 10.05%         | 9.75%          | 6.43%         | <b>136.85%</b>   |
| Fourth Quarter | <b>83 009</b> | <b>64 249</b> | <b>81 351</b> | <b>89 563</b>  | <b>53 565</b>  | <b>145 080</b> | <b>82 534</b>  | <b>208 727</b> | <b>102 128</b> | <b>98 213</b>  | <b>111 079</b> | <b>95 747</b> | <b>1 215 245</b> |
| %              | 6.83%         | 5.29%         | 6.69%         | 7.37%          | 4.41%          | 11.94%         | 6.79%          | 17.18%         | 8.40%          | 8.08%          | 9.14%          | 7.88%         | <b>134.82%</b>   |

The Department effected no virements at the end of the 2008/09 financial year; however, the Department did affect shifts within programmes amounting to R1.245 million or 1 per cent of Adjusted Budget of R1.215 billion. The shifts were affected from savings on Compensation of Employees to off-set over spending on Goods and Services and transfers to Non-profit institutions. In 2007/08 no virements were effected by the end of the 2007/08 financial year, but the Department did effect shifts within programmes amounting to R5.117 million or 0.57 per cent of the Adjusted Budget of R901.564 million.

The Auditor-General's Report and management letter are silent on whether all transfer payments are backed by section 38 agreements, therefore it is assumed that the Department complied and instituted the necessary monitoring mechanisms.

The original budget allocation for the 2008/09 financial year was R1.088 billion. During the 2008/09 Adjustment Estimate, the Department's budget was augmented by R145.731 million or 13.4 per cent to R1.234 billion. The Department received R124.462 million as payment for the province's share of the damages awarded to the plaintiff in the 3D-ID judgment, in terms of section 25 of the PFMA. Amount received included R12.900 million for expenditure incurred with regard to Internally Displaced People management, R5.369 million towards Improvement of Condition of Services (ICS) and R3.000 million from the Department of Local Government and Housing in also in aid of expenditure incurred for Internally Displaced People management.

The Department's budget is deemed to be credible, as its actual expenditure was R1.215 billion or 98.5 per cent of the adjusted appropriation of R1.234 billion, compared to 99.98 per cent of the adjusted appropriation spent in the previous financial year. The Department has requested the rollover of funds amounting to R18.551 million, R16.451 million due to the delay in implementing the Occupation Specific Dispensation (OSD) for social work professionals and R2.100 million needed as a retainer fee for the building of a substance abuse centre. No request was made for rollover for unspent funds from the 2007/08 adjusted budget.

The Department affected no virements during 2008/09.

The Department submitted its Adjustment Budget on time and it was comprehensive as outlined in terms of section 31 of the PFMA.

The table below gives the quarterly actual expenditure of 2008/09.

**Table 82: Social Development Expenditure per programme for 2008/09**

| Programme                  | Q1             | Q2             | Q3             | Jan           | Feb            | Mar           | Q4             | Total            | Main Appropriation | Adjusted Budget  | Total (over)/ under Adjusted Budget |
|----------------------------|----------------|----------------|----------------|---------------|----------------|---------------|----------------|------------------|--------------------|------------------|-------------------------------------|
| Administration             | 33 504         | 42 502         | 164 226        | 14 651        | 13 131         | 17 052        | 44 834         | 285 066          | 153 836            | 286 088          | 1 022                               |
| Social welfare services    | 181 397        | 222 730        | 209 635        | 72 556        | 91 372         | 73 105        | 237 033        | 850 795          | 857 233            | 867 608          | 16 813                              |
| Development and research   | 13 708         | 22 976         | 19 528         | 11 006        | 6 576          | 5 590         | 23 172         | 79 384           | 76 996             | 80 100           | 716                                 |
| <b>Total</b>               | <b>228 609</b> | <b>288 208</b> | <b>393 389</b> | <b>98 213</b> | <b>111 079</b> | <b>95 747</b> | <b>305 039</b> | <b>1 215 245</b> | <b>1 088 065</b>   | <b>1 233 796</b> | <b>-18 551</b>                      |
| % spent of adjusted budget | 18.53%         | 23.36%         | 31.88%         | 7.96%         | 9.00%          | 7.76%         | 24.72%         | 98.50%           | 88.19%             | 100.00%          | -1.50%                              |

The majority of under spending is within Programme 2: Social Welfare Services, constituting 1.3 per cent of the under spending. The under spending is due to the delay in implementing the OSD for social work professionals which had to be resolved at a National level. No fiscal dumping occurred during the latter months of the fiscal year as the percentage spent in January, February and March 2009 remains consistent. Under spending was kept to a minimum in the 2007/08 financial year.

The Department collected R2.516 million or 898.6 per cent of the R280 000 provincial own receipt Adjusted Budget for 2008/09. This over collection of R2.236 million is mainly due to financial transactions in Assets and Liabilities of R2.018 million pertaining to the recovery of Departmental debt as well as recovery of previous years' expenditure. Revenue estimates appear not credible. The Department had excessive over collection of its forecast over the period under review. The over collection has largely resided in debt not being properly accounted for. The Department must attempt to allocate a budget for Department Debt collected based on a previous year's debt collected less the percentage of debt deemed to be unrecoverable, in order for the revenue budget to be more credible.

The Department over collected on its 2007/08 provincial own receipt budget of R27.491 million by R1.050 million or 3.8 per cent. Similarly, this was mainly due to Financial transactions in assets and liabilities amounting to R824 000.

At the end of the 2008/09 financial year the Department reflected only 3 possible misclassifications as per the Standard Classification of Accounts (SCOA) amounting to R146 000.

### Conclusion

The Department of Social Development generally operates on level 3 financial management capability rating.

### 3.7.2 Compliance with accounting policies and standards

An assessment of the financial management capability of the Department was undertaken based on 2008/09 audit findings and monthly IYM reporting, that revealed the following:

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

The Department's monthly reporting to PT confirmed that follow-up of balances are undertaken consistently.

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

### **Accounting of assets**

The AGSA reported the following shortcomings during visits at the various district offices:

- Assets could not be physically verified for existence.
- Assets were incorrectly described in the asset register.
- Bar-coded assets do not match the barcode of the asset register.
- An asset could not be verified as it had been stolen and not removed from the asset register.
- Asset register is incomplete.
- Assets are not bar-coded.
- Duplication of assets on the asset register.
- Assets incorrectly captured on the system.

The above shortcomings are indicative of deterioration to a level 2 financial management capability rating when compared to the previous assessment.

### **Financial reconciliations**

The Department managed to submit the BAS/PERSAL and BAS/LOGIS reconciliations 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**

Payments to suppliers made more than 30 days after receipt of invoice and the inconsistent classification of expenditure in terms of the SCoA on BAS has not been addressed through management interventions.

The Department is therefore operating at a level 2 financial management capability rating when compared to the previous assessment.

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

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

### **Management of lease liabilities**

The Department managed to compile a finance lease register which assisted them to properly disclose their finance leases in the 2008/09 AFS. The Department is therefore maintaining a level 3 financial management capability rating.

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

The Department reported that there are control measures in place for the reporting and management of thefts and losses. The Department is therefore maintaining a level 3 financial management capability rating.

### **Management of contingent liabilities**

The long outstanding 3D-ID court case against the department was finalised during the 2008/09 financial year. The Department continues to perform at a level 3 financial management capability rating when compared to the previous assessment.

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

It was noted that monthly compliance reporting to Provincial Treasury took place according to prescribed timelines. Financial reports were continued to be provided to the Accounting Officer on unresolved items and the Chief Financial Officer continued to follow up these transactions on a monthly basis. A level 3 financial management capability rating is thus maintained.

### **Conclusion/recommendation**

To move towards a level 3 financial management capability rating, the Department needs to improve controls over assets, allocation of expenditure and that all invoices are paid within 30 days of receipt of the invoices, as required by Treasury Regulation 8.2.3.

## **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 conducted for the department, risk response strategies were developed and it was found that the organisation structure does not support the processes developed.

#### **Internal environment**

A risk management philosophy has been developed for the department 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 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 2, as the department met all the set criteria and norms and standards for level 2. In order to achieve this level the department must still submit certain verifying documentation in order for them to achieve level 2 and be assessed on a level 3.

### **3.7.3.2 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 2008/09 Auditor-General's report for the department.

## Analysis of Normative Measures Quarterly Report

### CFO Structure

The vacancy rate for the CFO unit for the quarter ending 30 June 2009 was 21 per cent and the Department's average length of vacancy is five months. Percentage of staff that have studied or currently studying towards a finance qualification has been consistently reported to be 13 per cent for the last four quarters, up to 30 June 2009. According to the National norm this should at least be 90 per cent. In response to this issue the Department stated that IPFA would be approached to provide training as an intervention to this challenge. A reduction in the vacancy rate is also evident.

### Annual Quarterly and Monthly Reports

The Department must report monthly on expenditure and revenue; quarterly on performance; and annually they have to table Annual Reports, as prescribed, in the Legislature. Compliance with these requirements is reflected in table below:

**Table 83: Compliance with annual, quarterly and monthly reporting requirement**

| Institution         | Date annual report received by Provincial Treasury | Annual report tabled at the Provincial Legislature | Quarterly performance against strategic plan |
|---------------------|--|--|--|
| <b>Departments:</b> |  |  |  |
| Social Development  | 28/08/09   | 30/09/09   | ✓  |

### Analysis

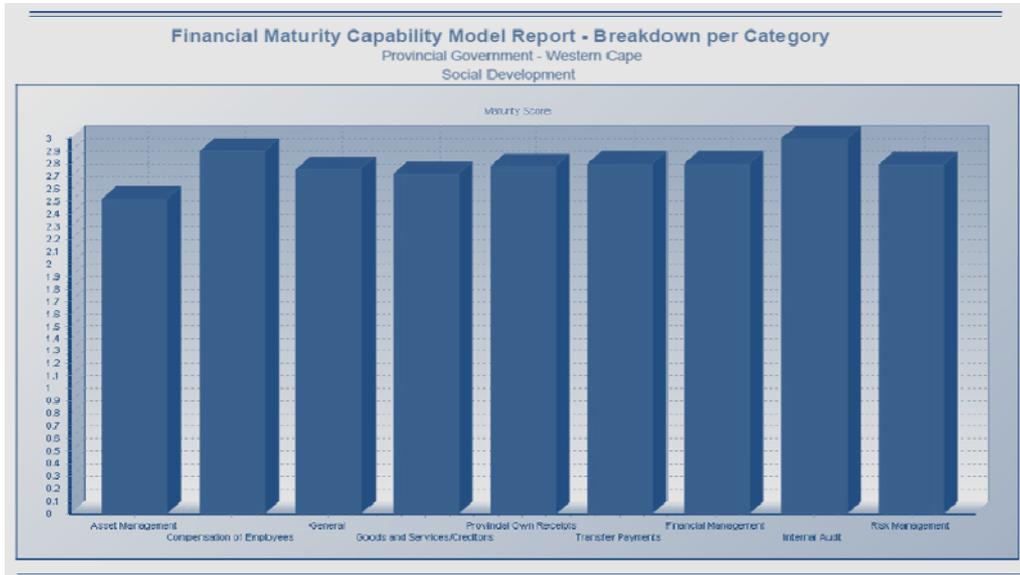
The Department has successfully tabled their 2008/09 Annual Report within the prescribed timeframes.

### Auditor-General report 2008/09

The Auditor-General expressed an unqualified opinion, with Other Matters for the 2008/09 financial year. This was as result of under spending of the budget. In comparison with the Auditor-General's report 2007/08, the Auditor-General expressed an unqualified opinion, with Other Matters due to contingent liabilities.

**Overall Assessment**

**Figure 7: Financial Maturity Capability Model Report**



In terms of an assessment done by consultants from the European Union in conjunction with National Treasury, which was conducted in March 2009, the Department’s financial management maturity was rated close to a level 3 in virtually all the categories.

Taking the above into account the Department has made some important strides in order to move towards achieving a financial management capability level 3.

**3.7.4 Cash Management**

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

The evaluation was based on the activities of the 2008/09 financial year and the findings were as follows:

**Table 84: Assessment of cash management**

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

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

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

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

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

The Department obtained a financial management capability rating of level 3 (nominal compliance). The Annual projections in respect of income and expenditure were received on 27 February 2009.

**Table 85: Deviation between monthly projections and actual expenses**

|                          | Project | Actual  | %     | Rating |
|--------------------------|---------|---------|-------|--------|
| <b>Original Forecast</b> |         |         |       |        |
| APRIL'08                 | 78 572  | 96 220  | (22)  | 2      |
| MAY'08                   | 83 655  | 57 321  | 31    | 2      |
| JUNE'08                  | 85 844  | 72 765  | 15    | 2      |
| JULY'08                  | 98 358  | 99 876  | (2)   | 4      |
| AUG'08                   | 96 583  | 50 048  | 48    | 2      |
| SEP'08                   | 95 680  | 140 039 | (46)  | 2      |
| OCT'08                   | 100 776 | 105 039 | (4)   | 3      |
| NOV'08                   | 92 912  | 209 913 | (126) | 2      |
| DEC'08                   | 89 296  | 93 359  | (5)   | 3      |

|   | <b>Project</b>   | <b>Actual</b>    | <b>%</b>   | <b>Rating</b> |
|---|------------------|------------------|------------|---------------|
| JAN'09  | 93 043           | 98 604           | (6)        | 2             |
| FEB'09  | 90 373           | 99 620           | (10)       | 2             |
| MRC'09  | 82 973           | (34 739)         | 142        | 2             |
| <b>Sub-Total</b>                                  | <b>1 088 065</b> | <b>1 088 065</b> |            | <b>2</b>      |
| <i>Revised Forecast (after adjustment budget)</i> |                  |                  |            |               |
| MRC'09  |                  |                  |            |               |
| Adjustment  | 145 731          | 145 731          |            |               |
| <b>Total</b>                                      | <b>1 233 796</b> | <b>1 233 796</b> | <b>100</b> |               |

The Department achieved a financial management capability rating of level 2 (partial compliance). PT adapted a new policy as from June 2009 to assist the departments to align their expenditure to their actual cash receipts on a daily and monthly basis.

#### **Monthly Own Revenue pay over**

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

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

The Department obtained a financial management capability rating of level 4 (full compliance). Surplus funds were paid to the PRF on 8 May 2009.

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

The Department was financial management capability rated at level 4 (full compliance). The monthly bank reconciliations were submitted within 15 days after month end.

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

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

**Table 86: Beneficiary Payments**

| <b>Payments</b> | <b>Beneficiary Payments</b> | <b>%</b> |
|-----------------|-----------------------------|----------|
| 48 100          | 388                         | 0.81     |

### **3.7.5 Supply Chain Management**

When assessing the Department against the capability model for SCM, cognisance needs to be taken of the following:

The Department's SCM unit is vested under its CFO which has a reporting line to a Supply Chain Manager. It has managed to implement SCM and maintain a level of compliance to some of the basic SCM framework.

As stipulated in section 38(1)(a)(iii) of the PFMA, the Accounting Officers must ensure that the Department has a procurement and provisioning system that is fair, equitable, transparent, competitive and cost effective. To adhere to this requirement, the department developed an Accounting Officer's System (AO System) which guides them on how they should perform their procurement and provisioning activities. The Department has not, since the implementation of SCM reviewed its AO system, which in its current state ought to be amended in order to be aligned with current legislation. However the Department has indicated that it is in a process of reviewing its current AO system.

The SCM structure of the Department appears to cater for all the SCM requirements. However it has been indicated by the SCM manager that the current structure is not adequate to meet the demands of the Department.

Although the demand management section exists within SCM unit, its effectiveness is questionable. Planning, market research and linking the budget to the need are some of the most crucial procurement processes that are required in respect of demand management, which the department does not adhere to. If the department does not plan or conduct market research, the Department predisposes itself to the risk of being misled by the service providers as well as allowing itself to be bound to a contract that has not given effect to cost effectiveness and value for money considerations.

There was a high level of deviation from normal procurement procedures in the Department. Requisitions and orders were processed after the service has been rendered. Cost estimates are used as benchmarks when awarding bids. The justifications for such deviations are not adequate and cannot be defended in a court of law. The EPSi is not properly utilised in the department, regional offices do not utilise the EPSi although it is a requirement that the EPSi must be utilised in all procurement with a value between R10 000.00 and R200 000.00 as stipulated in the paragraph 16 A 2.1.3 of the Provincial Treasury Instructions issued on 29 April 2008. These issues reflect lack of standardisation of procurement processes in the department.

It is required that the Department report to the Provincial Treasury on a monthly basis in respect of its procurement statistics with regards to bids it awards. The has a tendency of not reporting timeously, for instance procurement statistics for September 2008 to December 2008 were only reported in March 2009.

When assessing the statistics report extracted from the Sourcelink system for the period 1 April 2008 to 29 February 2009, it has been noted that out of the 33 enquiries put on the system only 16 were completed (12 enquires did not have quotations and

only 4 were adjudicated). This implies that 52 per cent of the enquiries put on the system were not accounted for. This has a negative impact on the credibility of procurement data.

The Department does not have an in-house SCM monitoring and evaluation section for monitoring and evaluating the performance of the SCM. The function of monitoring and evaluating of SCM is performed by the Provincial Treasury, Internal Audit and the Auditor-General.

At the time of the assessment, it was established that the department has only established one bid committee (the bid adjudication committee). However the department has indicated that the three committees have been established and formally appointed by the Accounting Officer. It was further indicated that the bid committee members received formal training on bid committees on February 2009.

The Department maintains its procurement records in a fairly user - friendly manner. However improvement is recommended on the manner in which bid registers are handled.

### **Rating**

The Department maintains a financial management capability rating of level 2. It should be noted that a full SCM compliance and value for money assessment was performed in 2008/09 which enabled PT to give a true reflection of the capability level of the Department.

### **Recommendation and Comparison to the 2007/08 financial year**

In order for the Department to move to the next level (3) of financial capability, it needs to take cognisance of the following:

- Ensure that the Delegations and the AO Systems are reviewed whenever there are changes in legislation and policy.
- Ensure compliance and control in respect of SCM and limit deviations. In the event where deviations become necessary, the department must ensure that compliance to legislative, regulatory and policy frameworks is maintained.
- Evaluate the current SCM structure in terms of the SCM requirements.
- Ensure that SCM operations are monitored and controlled to ensure that deviations from normal procurement procedures are limited.
- Ensure that procurement statistics are reported timeously as required by the Provincial Treasury.
- Improvement on utilisation of the EPSi to ensure credibility of procurement data and compliance with the PTIs.
- Provide workshops or training on SCM to the line functions to ensure that the department meets the statutory and legislative obligations.

### **3.7.6 Moveable Asset Management**

The reporting on the National Treasury's Broad Implementation plan for assets in the first quarter (1 April - 30 June) of the Financial year 2008/09 revealed 63 per cent compliancy to Planning, Acquisition, Operation and maintenance and Disposal and 100 per cent compliancy to the Asset Register and Accounting requirements. In the fourth quarter (1 January - 31 March) the Department reported 75 per cent compliancy to Planning, Acquisition, Operation and maintenance and Disposal and maintains the Asset Register and Accounting requirement percentage.

The expiry date for compliancy to National Treasury Broad Implementation plan was 31 March 2008. The reason for the department not being fully compliant at the end of the 2008/09 financial year was as a result of the following areas being postponed/outstanding:

- Elements of best practice strategy criteria in terms of Planning;
- Analysis of alternatives and Developing of an acquisition plan in terms of Acquisition;
- Operation and Maintenance plans; and
- Replacement strategy and Disposal plans in terms of Disposal.

It is evident from the information above that although the Department did not meet the deadline in terms of the National Treasury's Broad Implementation plan there was, an improvement to facilitate implementation. The Department has achieved an overall 88 per cent compliancy rate to the National Treasury's Broad Implementation plan which is regarded as significant.

The Auditor-General's (AG) Management Report for the 2008/09 financial year alluded to following findings:

- Assets could not be physically verified;
- Bar codes could not be verified for stolen assets which still appeared on the asset register;
- Obsolete assets to the value of R34 555.04 were not removed from the asset register;
- Asset Register is incomplete: Assets were selected from the floor but could not be traced on the asset register, assets were incorrectly described in the asset register;
- Duplication of assets on the asset registers; and
- Assets incorrectly captured on the system.

## Rating

For the 2008/09 financial year the Department is rated at a level 2 which is the developmental level in terms of the financial management capability model for Moveable Asset Management. It must be noted that this rating is based on the information provided to the Provincial Treasury by the Department in terms of the reporting requirements (Project dashboard and Risk Log) of the National Treasury's Broad Implementation Plan. It must be further noted that a verification assessment in terms of assets is planned for the 2009/10 financial year.

## Recommendations

- Fast tracking the postponed/outstanding requirements of the National Treasury's Broad Implementation Plan for Asset Management.
- Addressing AGSA Findings.

### 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.

The evaluation was based on the activities of the 2008/09 financial year and the findings were as follows:

**Table 87: Basic Accounting System (BAS)**

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

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

**Table 88: Skilled and capacitated system users**

| Number of officials nominated | Number of officials attended | Number of officials cancelled | Number of officials qualified for a certificate (70% pass rate) | Number of officials not qualifying for a certificate |
|-------------------------------|------------------------------|-------------------------------|---|--|
| 91                            | 43                           | 48                            | 33  | 10   |

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

Provincial Treasury has identified the training gap of all system users and are providing training in accordance with their profiles.

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

#### **Month end closure**

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

#### **Year closure**

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

#### **System Controller Functions**

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

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

#### **Monitor applicable interfaces**

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

**Table 89: Personnel and Salary Administration System (PERSAL)**

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

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

**Table 90: Skilled and capacitated system users**

| Number of officials nominated | Number of officials attended | Number of officials cancelled | Number of officials qualified for a certificate (70% pass rate) | Number of officials not qualifying for a certificate |
|-------------------------------|------------------------------|-------------------------------|---|--|
| 72                            | 41                           | 31                            | 28  | 13   |

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

Provincial Treasury has identified the training gap of all system users and is providing training in accordance with their profiles.

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

### **System Controller Functions**

The Department achieved a financial management capability rating 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.

### **PERSAL/BAS reconciliation**

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

### Adhere to Minimum Information Requirements

The Department is making use of the tool provided by Provincial Treasury thus achieve a financial management capability rating of level 3 (nominal 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.

**Table 91: Logistical Information System (LOGIS)**

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

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

**Table 92: Skilled and capacitated system users**

| Number of officials nominated | Number of officials attended | Number of officials cancelled | Number of officials qualified for a certificate (70% pass rate) | Number of officials not qualifying for a certificate |
|-------------------------------|------------------------------|-------------------------------|---|--|
| 110                           | 70                           | 40                            | 49  | 21   |

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

Provincial Treasury has identified the training gap of all system users and are providing training to users in accordance with their profiles.

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

### Days per issue (service standard)

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 2008/09 financial year was 6 days, the performance of the department is therefore below standard.

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

### Stock Management

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

### Financial Controls

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

**The BAS/LOGIS reconciliation is done on a monthly basis.**

### System Control functions

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

**Table 93: Assessment of cash management**

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

**Table 94: Usage of the Assessment of Cash Management**

| Number of registered users | Number of registered users using the system on a regular basis | Number of registered users not using the system on a regular basis | Percentage active users |
|----------------------------|--|--|-------------------------|
| 83                         | 63   | 20   | 75.90%                  |

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

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

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

### **3.8.1 Performance Management**

#### **3.8.1.1 Non-financial information**

##### **Annual Report 2008/09**

The analysis of departmental performance that follows 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); level 2 development level (proper internal control framework); level 3 (focus 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).

In past financial years, the emphasis has been on formulating clear measurable objectives and setting realistic and measurable performance indicators and targets. For the period under review, this assessment will comment on the applicability and validity of those measurable objectives and performance indicators. The aim is to ensure that the departmental APP, when read together with the AR and QPR clearly reflect stated performance expectations; performance accomplishments; demonstrated capacity to learn, adapt and improve; and whether the information obtained and communicated is fair and reliable.

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 a level 4 financial management capability. The 2008/09 AR, the 2008/09 and 2009/10 APPs as well as the final 2008/09 QPR have been used in the assessment.

##### **AR 2008/09 and APP 2008/09**

In the 2008/09 AR, the Department reported on all national non-financial performance measures and as well as provincial specific performance measures in accordance with those performance measures specified in the Department's 2008/09 APP. In addition, the targets set in the APP are consistent and reported against in the AR.

In the 2008/09 AR, the Department, (Programme 2 and Programme 3) Housing and Local Government respectively, complied in supplying reasons for variances between the target and actual output. Where deviations from annual targets in the 2008/09 APP in terms of performance outputs have occurred, the Department provides brief comments that attempt to explain over or under performance of targets. 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 also lacking.

Upon consideration of the Departmental objectives within the context of the current economic situation, it is evident that environmental conditions within which the Department operates have changed, resulting in demands for efficiency and encouraging a focus on being more specific in term of performance expectations.

Although the Department has improved the 2008/09 APP compared to previous financial years, issues with respect to clarity of strategic and measurable objectives and setting of realistic performance measures and targets are ongoing and currently being addressed.

#### **APP 2009/10**

Generally, the programme structure of the 2009/10 APP conforms to the national programme structure prescribed for the Local Government and Housing Sector with the exception of a sub-programme for Traditional Institutional Development, which does not form part of Western Cape programme structure of the Department due to non-applicability.

In the 2009/10 APP, The Department did not include performance indicators for the Administration programme. A standard set of these indicators are still currently being developed in co-operation with Provincial Treasury.

Programme 2: Housing and Programme 3: Local Government, the Department listed strategic objectives linked to a key measurable objective that is in turn linked to performance measures or indicators. The Department has identified a number of areas of concern regarding strategic objectives and performance measures listed in the 2009/10 APP. These areas of concern include the identification of duplicate performance indicators within the APP, re-examination of blank or 0 targets in the APP, addressing of redundant performance measures in the APP, redefinition of broadly phrased or unclear strategic objectives and performance measures and the prevention of capturing of incorrect information in the AR. The areas of concern once addressed should improve overall financial management capability of the Department with regards to performance information.

To streamline and facilitate improvement of non-financial performance information when planning for the 2010/11 APP, no key measurable objective has been prescribed by National in their Guideline for APPs and SPs resulting in performance measures being directly linked to strategic objectives going forward.

## **Recommendations/Conclusions**

A comparison between the 2008/09 4th quarter QPR and the 2008/09 AR identified discrepancies in terms of certain actual performance measure targets reported in the AR that were not consistent with correlating targets reported in terms of the QPR. These discrepancies were communicated to the Department for investigation and correction.

Analysis of the above-mentioned sources of performance management information and the financial capability framework suggest that the Department is operating close to a level 3 auditable organisation. In order to achieve level 3 capability which measures compliance and control, the Department needs to embark on a thorough revision and redefinition of strategic objectives and related performance measures in the APP to identify instances where performance indicators are not SMART (Specific, Measurable, Achievable, Relevant and Time-bound) and are not representative of all outputs to be delivered by the various sub-programmes under each programme.

It is further recommended that the Department take cognisance of the identified areas of concern discussed under the 2009/10 APP section above as well as instances of vast over- or under-performance with respect to achievement of targets such that future strategic objectives and performance measures set are SMART.

In terms of the AR, although the Department does provide brief comments for deviations from performance targets, the Department should state in more comprehensive detail the context for major variances between targets and actual output performance as per the AR Guideline provided on general and performance information by the Provincial Treasury. Furthermore remedies for below target performance and corrective measures should also be included.

The Department should institutionalise processes for dealing with non financial/performance information, highlighting the collection methodology, systems, verification and audit processes. 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 outputs. The move beyond compliance involves expanding the focus beyond the relation between inputs and outputs to 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 strong linkages between the SP, APPs and Budget.

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

The Department submitted the IYM reports on revenue and expenditure on a monthly basis to the Provincial Treasury on or before the 15th day after the end of a reporting month in terms of section 40(4)(c) of the PFMA.

The Department ensured that the IYM reports reflected the actual expenditure and revenue, which could be reconciled with the BAS/Vulindlela reports. The Department's forecasting changed in comparison with the cash flow projections that was submitted in February 2008. The reason for this was a decision to accelerate

housing delivery and spend the housing grant by December 2008 until February 2009 instead of March 2009, which was achieved. However, the forecasting versus the expenditure on the rest of the expenditure items varied on a month-to-month basis and therefore the Department will have to improve on its forecasting.

The Department was requested to correct 59 items amounting to R714 142 for incorrect classifications in terms of the Standard Chart of Accounts as per ERF tool, which were corrected during the 2008/09 financial year-end with journals.

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 as a result of funds shifted between the various subsidy instruments to bring it in line with what can be achieved considering the focus of accelerated housing delivery.

The Department shifted an amount of R4.500 million to other votes in the 2008 Adjustment Estimate, R0.500 million to Vote 1: Department of the Premier, R1 million to Vote: 4 Department of Community Safety and R3 million to Vote 7: Social Development in respect of a donation received from the Development Bank of South Africa for the management of Internally Displaced People.

All the virements affected by the Department at the end of the financial year was within the norm of 8 per cent of the adjusted budget. The Department did obtain the necessary virement approvals for it to be effected.

The Department submitted its Adjustments Budget on time and it was comprehensive in terms of section 31 of the PFMA. An additional R45.816 million, received via the National Conditional Grant: Integrated Housing and Human Settlement Development in respect of an inflationary adjustment to the Housing grant was included in the Adjustments Budget.

Audit testing revealed that some invoices were not paid within 30 days from receipt as required in terms of section 38(1)(f) of the PFMA and Treasury Regulation 8.2.3. This shortcoming was highlighted in the AGSAs reports for 2006/07 and 2007/08. With effect from 1 September 2008 to minimise the risk of re-occurrence of this non-compliance, contracts or agreements will be amended that claims will only be settled within 30 days upon certification of completion on the percentage of work performed by contractors and not within 30 days from receipt of an invoice, account statements from suppliers will be obtained regularly to reconcile all invoices received in order to determine any outstanding invoices and in order to obtain it as soon as possible.

There were no specific SCOPA resolutions for the Department for the past three years.

Transfer payments were in accordance with S38(j) of the Public Finance Management Act.

**Table 95: Conditional Grant Expenditure 2008/09**

| R'000  | Apr 08 | May 08 | Jun 08 | Jul 08 | Aug 08  | Sep 08  | Oct 08 | Nov 08  | Dec 08  | Jan 09 | Feb 09  | Mar 09  |
|--|--------|--------|--------|--------|---------|---------|--------|---------|---------|--------|---------|---------|
| Payment Schedule including roll over funds               | 48 020 | 59 020 | 65 020 | 59 020 | 95 020  | 110 020 | 86 020 | 185 000 | 200 000 | 66 063 | 176 000 | 156 659 |
| Business Plan Payment Schedule excluding roll over funds | 60 000 | 75 000 | 90 000 | 95 000 | 105 000 | 110 000 | #####  | 120 000 | 135 000 | 35 000 | 120 000 | 143 984 |
| Expenditure by Province including roll over funds        | 16 200 | 49 493 | 92 494 | 85 605 | 103 881 | 127 905 | #####  | 171 164 | 217 220 | 70 788 | 145 919 | 118 581 |

The National Conditional Grants spending was not spent as per the initial payment schedule and business plans as per Table 95 above.

The under spending of 0.01 per cent or R0.179 million is way below the 2 per cent under spending norm.

There was no request by the Department for rollover to 2009/10 financial year.

The Department did not experience its usual 'March Spike' due to accelerated housing delivery and earlier spending of the housing grant by December 2008 until February 2009 instead of March 2009, was achieved.

The Department collected R80.845 million in provincial own receipts. This recovery was R7.345 million or 9.99 per cent more than the adjusted budget of R73.500 million. This over collection was mainly due to over collection on Interest, dividends and rent on land for aggressive follow up of interest accrued on trust accounts at Accounts Administrators and on financial transactions in assets and liabilities for the implementation of the Enhanced Extended Discount Benefit Scheme (EEDBS). The Main Budget estimation for provincial own receipts for the 2009/10 financial year is R70 million, which is R10.845 million less than the actual collection of R80.845 million in the 2008/09 financial year.

Taking the above factors into account, it can be deduced that the Department had a credible budget.

The Department of Local Government and Housing generally operates on level 3 and is moving towards a level 4 financial management capability rating.

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

An assessment of the financial management capability of the Department was undertaken based on the 2008/09 audit findings and monthly IYM reporting, that revealed the following:

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

The Department is maintaining financial management capability rating of level 3 with no audit findings in this regard.

The Department should ensure that the current internal controls are enhanced to ensure the timeous monthly reconciliation of suspense accounts in order to improve this level.

### **Accounting of assets**

The AGSA reported in the management report that during the audit of the asset register assets was identified in the asset register that had no serial numbers for verification of the assets. Therefore the existence of these assets could not be verified.

It is recommended that the assets should be bar-coded and the serial numbers added to the asset register to comply with the Departmental safeguarding policy on moveable assets in order to move towards a financial management capability level 3.

### **Financial reconciliations**

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

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

### **Supporting documentation**

The AGSA reported that no significant difficulties were experienced during the audit on the availability of requested information.

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

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

The Department reported accrual expenditure amounting to R69 010 000 in the 2008/09 annual financial statements, of which R13 795 000 relates to accruals paid after 30 days.

It is recommended that the Department should ensure that payments are settled within 30 days in accordance with Treasury Regulation 8.2.3 and manage their department's expenditure within the constraints of the budget in order to move towards a financial management capability rating of level 3.

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

The AGSA reported that the Department will investigate whether any fruitless and wasteful expenditure was incurred in the payments made to complete previous blocked housing projects.

It is recommended that the Department of Local Government and Housing investigates the fraud cases identified by the SIU to determine the correct value of debtors based on supporting documentation that must be accounted for in the books

of account of the Department. This will assist the Department to move towards a financial management capability rating of level 3.

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

The Department managed to submit signed IYM reports on time. In this regard a level 3 financial management capability rating is attained.

#### **Conclusion/recommendation**

In conclusion, the Department of Local Government and Housing is operating at a financial management capability level 3 rating.

#### **PUBLIC ENTITY: Western Cape Housing Development Fund**

The Western Cape Housing Development Fund (WCHDF) was established in terms of section 13 of the Western Cape Housing Development Act, Act 6 of 1999, and currently consists of the assets that previously belonged to the Housing Development Board. The Department of Local Government and Housing administer the WCHDF. For the 2008/09 financial year, the WCHDF received a Disclaimer from the Auditor-General of South Africa (AGSA), compared to the 2007/08 financial year where a qualified audit opinion was received.

The Fund will be 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.

#### **Accounting of Assets**

The AGSA raised several queries in regards to prior year errors which have not been fully corrected in the 2008/09 financial year. Non-current Assets have been undervalued and not all the properties listed could be linked to appropriate source documents to identify ownership. These concerns were also raised in the 2004/05 to 2008/09 management reports issued by the Auditor-General.

This is indicative of a level 2 financial management capability. It is recommended that, in order to achieve a level 3 financial management capability, the WCHDF ensures that all property legally owned by the entity be reflected in the Property balance in the AFS.

#### **Accounting of Debtors**

A sample tested identified properties removed from the National Debtor System (NDS) at a cost not equal to the basic cost as per the prior year's property register. This is indicative of a level 2 financial management capability. It is recommended that the WCHDF perform an analysis of the adjustment per property number and that any errors be rectified on the NDS, in order to achieve a level 3 financial management capability rating.

### **Supporting documents**

The WCHDF was unable to provide sufficient and appropriate audit evidence to establish the validity and accuracy of properties to a net value of R132 million included on the property listing. It is recommended that the entity take the necessary action to ensure that each property file contains documentation of the original acquired cost, any additional improvements to the property, supporting documents as well as the municipal value of the property, in order to achieve a level 3 financial management capability rating.

### **Conclusion**

Closer interaction with Provincial Treasury is required whilst accounting concerns must immediately be brought to the attention of the parent department as well as the Provincial Treasury. All efforts to adhere to the action plan for the proposed closure should be closely monitored by management.

## **3.8.3 Corporate Governance**

### **3.8.3.1 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 conducted for the Department, risk response strategies were developed and it was found that the organisation structure supports the processes developed.

#### **Internal Environment**

A risk management philosophy has been developed for the Department and a risk appetite of the Department has also been defined.

### **Operational Risk Assessment**

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

### **Overall Assessment**

For the period under review as at 31 March 2009, based on the above information, the Department achieved a financial management capability rating of level 1, as the Department has not met all the set Criteria and Norms and Standards. In order to achieve a rating at the next level (level 2), the Department needs to implement the following:

### **Operational Risk Assessment**

All existing controls identified and documented (by means of process and control maps).

All control gaps identified and action plans developed.

### **2007/08 and 2008/09 Comparison**

For the 2008/09 review, it is evident that the Department has made significant improvement when compared to the 2007/08 review.

### **3.8.3.2 Normative Financial Management**

#### **Compliance**

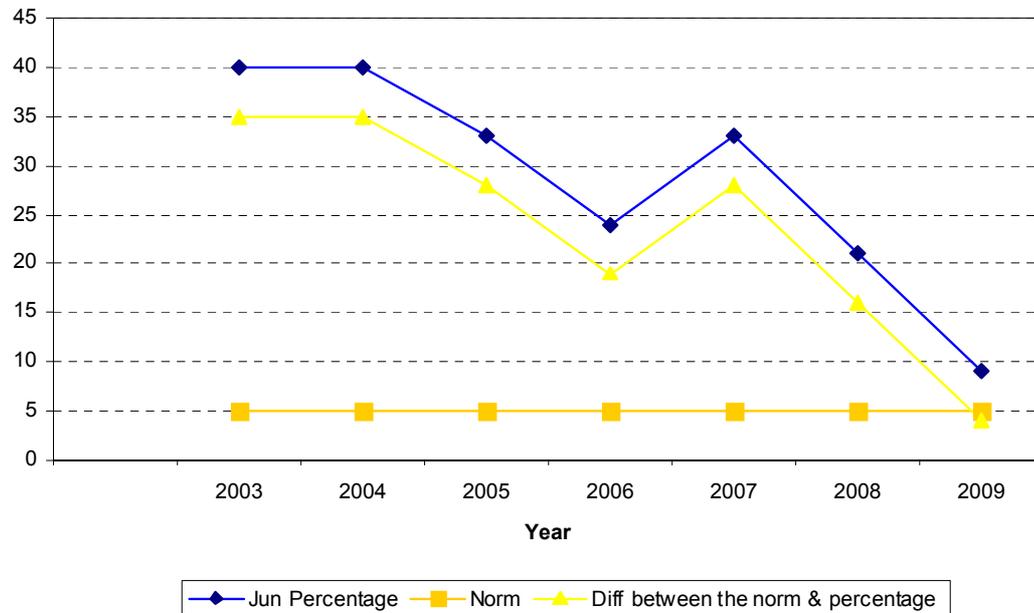
The findings discussed in this section provide a review of the PFMA implementation and financial management improvement of the department in line with the provincial strategy of attaining a level 4 financial management capability rating.

The source documents used were the Normative Measures Quarterly Report for departments and the 2008/09 Auditor-General's report for the department and the public entity as well as the Departments feedback on the 2009 MTEC 1 report.

## Analysis of the Normative Quarterly Questionnaire

### Analysis of the CFO structure - Human Resources Capacity

Figure 8: Vacancy Rate – 7 year Trend Line



In the Finance Component of the Department, the vacancy rate is currently at 9 per cent. 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. The figure above clearly depicts a downward year on year trend from 2007 to 2009.

The Department has indicated that it has implemented performance agreements at all levels and career development plans have been developed for the total staff compliment.

However, the average length the Department takes to fill a post is 6 months, which is way above the prescribed national norm of 3 months.

### Issues of Governance

In August 2008 the Ministry for Local Government and Housing was split into two Ministries resulting in two portfolios i.e. Ministry of Housing and the Ministry of Local Government.

It is important to note that the position of the Head of Department is vacant and is currently being filled by an official in an Acting capacity.

## Auditor-General's report of the 2008/09 financial year

### Analysis of the Auditor-General's Report

The Department received an unqualified audit opinion with other matters for the year 2008/09. The Department received the same audit opinion for 2007/08 financial year hence for the 2008/09 financial year the status remains unchanged.

Below is a summary of comparison between the 2007/08 and 2008/09 Audit Reports.

**Table 96: Summary of Comparison between the 2007/08 and 2008/09 Audit Reports**

| Key finding   | 2007/08 | 2008/09 | Status       |
|---|---------|---------|--------------|
| Invoices not paid within 30 days from receipt   | X       |         | Improved     |
| Material corrections made to the financial statements submitted for audit.  | -       | X       | deteriorated |
| No adequate control processes and procedures designed and implemented to ensure the accuracy and completeness of reported performance information | X       | X       | unchanged    |

### The Western Cape Housing and Development Fund

The Housing Development Fund under the ownership and control of the Department moved from a qualified audit opinion in 2007/08 financial year to a disclaimer in 2008/09. The disclaimer of opinion was in respect of Property. There is a lack of appropriate accounting records of initial transaction which transferred various properties to the present owners. The Auditor-General also reported that in respect of properties for which rights and ownership has been established, the latest Municipal valuations were not updated as at 31 March 2009 on the financial statements.

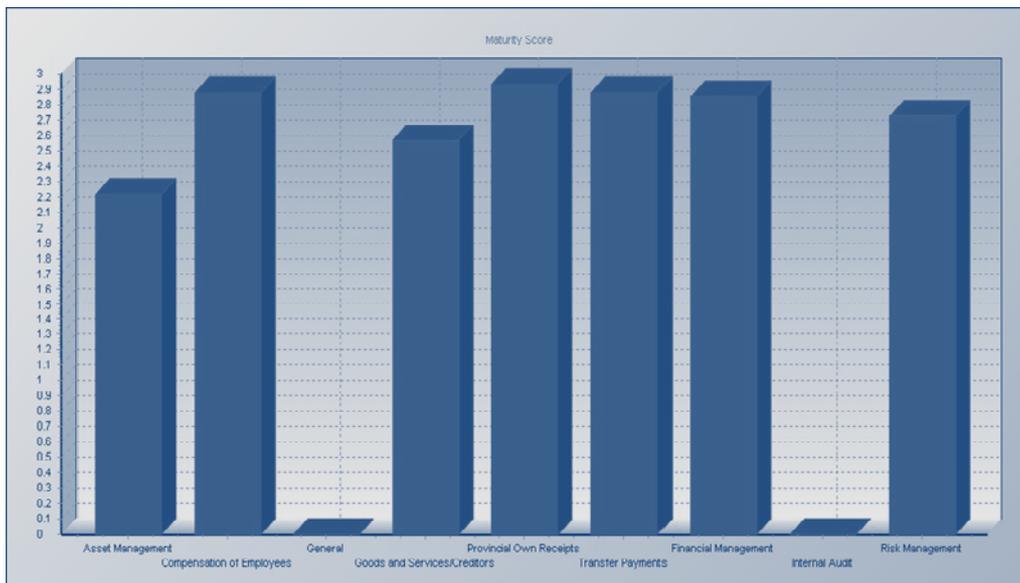
The following issues were also highlighted in the Audit report:

- Material corrections made to the financial statements submitted for audit.
- The information on the systems was not appropriate to facilitate the preparation of the financial statements.
- Prior year audit findings have not been substantially addressed.
- SCOPA/ Oversight resolutions have not been substantially implemented.

### Overall Assessment

- Financial Maturity Capability Model Report - Breakdown per Category.
- Provincial Government - Western Cape Local government Housing.

**Figure 9: Financial Maturity Capability Model Report**



Based on the above analysis and the information supplied to Provincial Treasury, the status in the Department remains unchanged leaning towards level 3 and the Department has not made significant improvements to move to a level 3 financial management capability rating.

### 3.8.4 Cash Management

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

The evaluation was based on the activities of the 2008/09 financial year and the findings were as follows:

**Table 97: Assessment of cash management**

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

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

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

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

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

The Department obtained a financial management capability rating of level 3 (nominal compliance). The Annual projections in respect of income and expenditure were received on 27 February 2009.

**Table 98: Deviation between monthly projections and actual expenses**

|   | <b>Project</b>   | <b>Actual</b>    | <b>%</b>   | <b>Rating</b> |
|---|------------------|------------------|------------|---------------|
| <b>Original Forecast</b>                          |                  |                  |            |               |
| APRIL'08  | 78 891           | 61 883           | 22         | 2             |
| MAY'08  | 93 791           | 38 432           | 59         | 2             |
| JUNE'08   | 109 491          | 85 062           | 22         | 2             |
| JULY'08   | 119 341          | 152 284          | (28)       | 2             |
| AUG'08  | 124 697          | 127 033          | (2)        | 4             |
| SEP'08  | 129 747          | 123 520          | 5          | 3             |
| OCT'08  | 141 647          | 157 602          | (11)       | 2             |
| NOV'08  | 141 097          | 132 134          | 6          | 2             |
| DEC'08  | 153 697          | 221 852          | (44)       | 2             |
| JAN'09  | 54 647           | 165 074          | (202)      | 2             |
| FEB'09  | 139 897          | 176 132          | (26)       | 2             |
| MRC'09  | 164 098          | 10 033           | 94         | 2             |
| Sub-Total   | 1 451 041        | 1 451 041        |            | 2             |
| <b>Revised Forecast (after adjustment budget)</b> |                  |                  |            |               |
| MRC'09  |                  |                  |            |               |
| Adjustment  | 164 773          | 164 773          |            |               |
| <b>Total</b>                                      | <b>1 615 814</b> | <b>1 615 814</b> | <b>100</b> |               |

The Department achieved a financial management capability rating of level 2 (partial compliance). PT adapted a new policy as from June 2009 to assist the departments to align their expenditure to their actual cash receipts on a daily and monthly basis.

**Monthly Own Revenue Payover**

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

**Repayment of Surplus funds**

The Department obtained a financial management capability rating of level 4 (full compliance). Surplus funds were paid to the PRF on 12 May 2009.

**Submission of monthly Bank Reconciliations**

The Department was financial management capability rated at level 4 (full compliance). The monthly bank reconciliations were submitted within 15 days after month end.

**Beneficiary Payments (Direct Transfers)**

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

**Table 99: Beneficiary Payments**

| Payments | Beneficiary Payments | %    |
|----------|----------------------|------|
| 22 876   | 760                  | 3.32 |

**3.8.5 Supply Chain Management**

When rating the Department of Local Government and Housing against the capability model for SCM, the following are evident:

- Adequate SCM policies are in place. However, application and adherence to the requirements of policies appear to be challenging for the SCM officials due to the limited capacity.
- The filing system for data and records appears satisfactory.
- Constituted Specification, Evaluation and Adjudication Bid Committees are in place.
- A redesigned Accounting Officer System and accompanying delegations was implemented and rolled out in May 2008.
- Monitoring and assessing the adherence to the guiding legislation and policies is lacking.

- The post establishment for SCM does not adequately address supply chain functionality. However, the Department lacks the capacity to enable adequate oversight role to their line functionaries.
- Although it appears that relevant checks and balances are in place the SCM processes are inaccurately applied.
- In certain instances the Department fails to report to the Provincial Treasury when required/prescribed.
- Training needs has been identified by the Department. However, although regular SCM awareness sessions are held, the department requires formal training to adequately address the lack of skill and knowledge within SCM.
- Cost effective management of risk is being addressed but continuous monitoring and maintenance thereof requires attention.
- Deviations from SCM process needs to be minimised.
- There are no standard operating procedural manuals in place therefore the continuous functionality of supply chain management will always be challenged by staff turnover and absenteeism.

#### **Rating and Comparison to the 2007/08 financial year**

The Department maintains a financial management capability rating of level 2 for SCM. It should be noted that a full SCM compliance and value for money assessment was performed in 2008/09 which enabled PT to verify its assessment.

#### **Conclusion/Recommendation**

Steps to take the department to the next level:

- Strategically consider value for money, for all procurement without infringing quality, utilising historical data and the outcomes of relevant market analysis.
- Ensure that preferences are allocated for all bids to encourage credible statistics.
- Adhere to all reporting requirements.
- Ensure basic SCM functions are complied with.
- Enhance the monitoring of SCM within the entire Department of Local Government and Housing to encourage informed decisions relating to the status of SCM across the board.
- Capacitate SCM staff with the required skill and knowledge.

### **3.8.6 Moveable Asset Management**

Compliance to the National Treasury's Broad Implementation Plan (BIP) was due on 31 March 2008. The Department has indicated that in terms of BIP they are 95 per cent compliant with regards to Asset Management Plan, Acquisition Plan, Operation and Maintenance Plan and Disposal Plan, and 100 per cent compliant to the requirements for the Asset Register and Accounting.

The Department has indicated the following outstanding issues:

- Developing of an acquisition plan.
- Operation & maintenance plans.
- Tracking of assets: transfers, loans, off-site repairs.

The Department has indicated the following mitigation steps with regards to their outstanding requirements:

- Correct valuation of assets.
- Usage of correct valuation methodology.
- The unique number will be used to identify the asset.
- The Department has given effect to plans to complete the requirements before the end of the financial year.

The critical issues raised by AG were as follows:

- Valuation of assets on surplus list, it was noted that 60 assets had been valued at R1.00. However, according to AG these items were found to be in good condition and some have not been utilised yet, therefore these assets should be reflected at cost/fair value not at R1.00, Subsequently the assets were understated by an amount of R96 127.66.
- 84 assets amounting to R929 063 were identified in the asset register that had no serial number for verification of assets. Therefore the existence of these assets could not be verified.
- 3 852 minor assets amounting to R1 285 630.76 were also identified in the asset register that had no serial number for verification. Therefore the existence could not be confirmed.
- Also duplicated serial numbers for major assets were identified, a sample of 53 assets to the amount of R5 363 070.73 were identified in the AR that has duplicate serial numbers, which indicates that there is not sufficient control and monitoring over the assets.

## Rating

On consideration of all the above, the Department is rated at a level 2 level in terms of the financial management capability model for Moveable Asset Management. It must be noted that this rating is based on the information provided to the Provincial Treasury by the Department in terms of the reporting requirements (Project dashboard and Risk Log) of the National Treasury's Broad Implementation Plan. It must be further noted that a full verification assessment in terms of assets is taking place in the 2009/10 financial year.

## Recommendation

The Department must fast track the requirements of the National Treasury's Broad Implementation Plan for Asset Management.

### 3.8.7 Supporting and Interlinked Financial Systems

#### Month end closure

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

The evaluation was based on the activities of the 2008/09 financial year and the findings were as follows:

**Table 100: Basic Accounting System (BAS)**

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

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

**Table 101: Skilled and capacitated system users**

| Number of officials nominated | Number of officials attended | Number of officials cancelled | Number of officials qualified for a certificate (70% pass rate) | Number of officials not qualifying for a certificate |
|-------------------------------|------------------------------|-------------------------------|---|--|
| 43                            | 21                           | 22                            | 17  | 4  |

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

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

The Department however needs to commit themselves in getting users trained even though crisis situations exist in the Department.

#### **Month end closure**

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

#### **Year closure**

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

#### **System Controller Functions**

Based on the following criteria the System Controller function was financial management capability rated as level 2 (partial compliance):

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

#### **Monitor applicable interfaces**

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

**Table 102: Personnel and Salary Administration System (PERSAL)**

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

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

**Table 103: Skilled and capacitated system users**

| Number of officials nominated | Number of officials attended | Number of officials cancelled | Number of officials qualified for a certificate (70% pass rate) | Number of officials not qualifying for a certificate |
|-------------------------------|------------------------------|-------------------------------|---|--|
| 22                            | 17                           | 5                             | 12  | 5  |

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

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

The Department however needs to commit themselves in getting users trained even though crisis situations exist in the Department.

### **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.

### **PERSAL/BAS reconciliation**

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

### Adhere to Minimum Information Requirements

As not all information is captured on the system, the Department achieved a financial management capability rating of 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.

**Table 104: Logistical Information System (LOGIS)**

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

The Department achieved an overall rating of 2 (partial compliance).

**Table 105: Skilled and capacitated system users**

| Number of officials nominated | Number of officials attended | Number of officials cancelled | Number of officials qualified for a certificate (70% pass rate) | Number of officials not qualifying for a certificate |
|-------------------------------|------------------------------|-------------------------------|---|--|
| 30                            | 15                           | 15                            | 15  | 0  |

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

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

The Department however needs to commit themselves in getting users trained even though crisis situations exist in the Department.

### 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 2008/09 financial year was 11 days, the performance of the department is therefore below standard.

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

### **Stock Management**

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

### **Financial Controls**

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

The BAS/LOGIS reconciliation is done on a monthly basis. According to the Purchase to Payment Report the Department complies with the 30 days invoice payments as stipulated in Treasury Circular 15 of 2008.

### **System Control functions**

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

The Department needs to ensure that their payment reconciliation is attended to from time to time, as there is currently a number of transactions which are lying on both their resubmission queue as well as their payment reconciliation which should have been cleared.

The Department should log calls with Provincial Treasury regarding transactions that they are unable to resolve.

**Table 106: Management Information System (Vulindlela)**

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

**Table 107: Usage of the Management Information System (Vulindlela)**

| <b>Number of registered users</b> | <b>Number of registered users using the system on a regular basis</b> | <b>Number of registered users not using the system on a regular basis</b> | <b>Percentage active users</b> |
|-----------------------------------|---|---|--------------------------------|
| 25                                | 15  | 10  | 60%                            |

The Department obtained a financial management capability rating of level 2 (partial compliance) due to the fact that only 60 per cent of registered users utilise the system on a regular basis.

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

## 3.9 Department of Environmental Affairs and Development Planning

### 3.9.1 Performance Management

#### 3.9.1.1 Non-financial information

The analysis of departmental performance that follows 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); level 2 development level (proper internal control framework); level 3 (focus 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).

In past financial years, the emphasis has been on formulating clear measurable objectives and setting realistic and measurable performance indicators and targets. For the period under review, this assessment will comment on the applicability and validity of those measurable objectives and performance indicators. The aim is to ensure that the departmental APP, when read together with the AR and QPRs clearly reflect stated performance expectations; performance accomplishments; demonstrated capacity to learn, adapt and improve; and whether the information obtained and communicated is fair and reliable.

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 a level 4 financial management capability. The 2008/09 AR, the 2008/09 and 2009/10 APPs as well as the final 2008/09 QPR have been used in the assessment.

#### **Annual Report 2008/09**

One of the dilemmas of drafting a 2008/09 APP with the targets for the year not individually numbered – makes effective performance reporting challenging. This rationale is similarly applicable to performance reporting in the AR. To illustrate the latter point, the following is noted:

- Sub-programme 2.1: Inter-governmental co-ordination, Spatial and Development Planning as documented in the AR – identifies the target "*conduct awareness interventions as required*" under the performance measure 'amount transferred to Biosphere Reserve Committees' (p20).

- However in the APP the latter target is slotted under the performance measure ‘number of capacity building workshops conducted’ with particular reference to the WC Provincial Spatial Development Framework (pg 18).
- A correction which would needed to be made in the AR, is that the target “conduct awareness interventions as required” should be placed under the correct performance measure, namely “number of capacity building workshops” (as reflected in the 2008/09 APP).

Further evidence of the need for a sound performance measure as well as related target numbering system, is evidenced in the AR with specific reference to Sub-programme 4.1: Impact Management under the target “respond to 70 per cent of requests by Regulatory Authorities and other external stakeholders for environmental information” (pg 29).

- The response that ‘there are no pending requests’ is identified as wrongly placed (this should have been correctly positioned regarding requests for land use regulation and planning information and not under requests for environmental information).

In addition to the above, what is reflected in the AR is that targeted performance relating to specific targets as set in the APP may not necessarily be accurately reported against. For example:

- Under Sub-programme 2.1: Inter-governmental co-ordination, spatial and development planning the target is specifically identified to ‘promulgate and implement approved Biosphere Reserve Act’. What is reported in the AR pertains to the ‘Draft Biosphere Reserve Bill compiled’.
- With reference to the credibility of the response in the AR in relation to targeted vs actual performance, the target is specified as the “conduct of Climate Change Education in 109 schools” (under Sub-programme 2.3: Information Management Services). The response indicates in terms of the latter target is reflected in the AR as follows: “42 teachers were trained”.
- It is identified that in the AR the unit of measurement between the target performance and the actual performance does not correspond. (If the unit of measurement indicated the number of teachers undergoing climate change education, the actual response would have been legitimate).

A basic point is that the manner in which performance targets get set in the APP is a critical aspect that has a bearing on performance reporting in the AR.

- With reference to the target set (Sub-programme 2.1: Inter-governmental co-ordination, spatial and development planning) – it is stipulated as the “review all Integrated Development Plans for environmental content and compliance with the WC Provincial Spatial Development Framework”.
- The response relates that “no requests were received to review Integrated Development Plans”. Based on this response in the AR it is argued that either the manner in which the target is drafted needs to be changed (in lieu of specific request received or strategically identified number reviewed per annum), this in

order to legitimate the response which highlights that no requests from municipalities were received.

In terms of performance with regard to Sub-programme 4.1: Impact Management and with specific reference to performance target “Finalise and promulgate Western Cape Planning and Development Amendment Act” the information contained in the AR is assessed within the ambit of the capability model criteria from a consistency perspective; and substantiated as follows:

- In terms of the above mentioned target, the relevant response in the AR highlights that “A land Use Planning Act has been refined in conjunction with Provincial Legal Services. A proposed draft Land Use Planning Act is available” (pg 29).
- Within the AR, the need is highlighted to have orientated and informed the reader that the Western Cape Planning and Development Act (WCPDA) had been renamed the Western Cape Land Use Planning Act/LUPA<sup>1</sup>. If this orientation is not stipulated, the AR reflects a target performance measure which speaks to the finalisation and promulgation of the WCPDA, whilst the actual performance reflects progress with regard to the refinement of the proposed LUPA.

One inconsistency relates to the appropriateness of the APP/AR target relating to in relation to Sub-programme 4.1: Impact Management, namely the “Average duration of Environmental Impact Assessment (EIA) processes for applications finalised: Average duration of authorised applications is two months” (pg 32 of the AR). It is unclear whether the actual response in the APP in essence clarifies (corrects) the target performance set identified as follows: The average duration of an environmental application from the date of submission of the application form to the date of issue of the environmental authorisation was found to be 15 months for environmental applications managed during the 2008/09 financial year”. This particular deviation – or as such clarification of the target may possibly reflect a unit measure inconsistency (authorisations vs entire process timeframes).

### **APP 2009/10**

The APP does meet statutory and regulatory requirements and it basically complies with the uniform programme structure as defined nationally. The sector specific performance measures had been identified for 2009/10 and the collectively defined set of performance measures had undergone refinement within the 2009/10 financial year.

<sup>1</sup>. It is acknowledged that in the narrative discussion in the AR - under the heading Law Reform (pg 13) mention is made of the progress to date in the development of the Land Use Planning Act (LUPA). What is not reflected to the reader with reference to this particular performance measure (on pg 30 of the AR) is that the “Western Cape Planning and Development Act/ WCPDA has been renamed the Western Cape Land Use Planning Act/ LUPA. The performance measure as alluded to above, namely “Finalised draft Regulations to be approved into the Planning and Development Amendment Act”, needs to reflect LUPA.

The measurable objectives are defined logically and consistent with the defined strategic objectives. However, it is recommended that in the instances where the Department translates the target as a percentage, the use of baseline numbers is to be provided. This would ensure better alignment with the AR.

### **Conclusion/recommendation**

In general, all the performance measures defined in the 2008/09 APP are reported on in the 2008/09 AR. As a rule, the Department identified deviations from annual targets and indicated the relevant reasons for the related performance. Furthermore the AR reflects a basic consistency between the unit of measurement used in the targets and the actual outcomes, despite the minor deviations as discussed above.

With regard to the management of non-financial information, the Department basically operates close to a level 3 capability level. The further refinement and clarification regarding a concise/accurate explanation of deviations from planned targets, is identified as an area of focus in order to improve the Department's capability level. Also with regard to accurate reporting against set targets, the Department needs to be ensure this is correctly reflected.

The Department should institutionalise processes for dealing with non financial/performance information, highlighting the collection methodology, systems, verification and audit processes. 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 outputs. 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 SP, APP and Budget.

#### **3.9.1.2 Performance management assessed based on financial information)**

From a public finance perspective, the following has been noted regarding the performance of the Department of Environmental Affairs and Development Planning:

The Department has an approved revenue and expenditure budget and submits its 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 2008/09 IYM reports reflected the actual expenditure and revenue, and reconciled with the BAS/VULINDLELA reports. However, forecast was not realistic because on a month to month basis forecasts in a prior quarter differ substantially from actual expenditure and therefore the Department will have to improve on its projections. This can be viewed in the table below, where the actual expenditure and projections are compared on a quarterly basis. Projections (unshaded) seem to increase on a monthly basis, while actual expenditure (shaded) is lower than projected expenditure.

**Table 108: Quarterly analysis on projections: 2008/09**

| R'000          | Apr    | May    | Jun    | Jul    | Aug    | Sep    | Oct    | Nov    | Dec    | Jan    | Feb    | Mar    | Total          |
|----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|----------------|
| First Quarter  | 17 217 | 16 659 | 16 385 | 18 865 | 19 898 | 21 424 | 20 217 | 19 482 | 19 843 | 9 079  | 8 988  | 10 760 | <b>198 817</b> |
| %              | 8.66%  | 8.38%  | 8.24%  | 9.49%  | 10.01% | 10.78% | 10.17% | 9.80%  | 9.98%  | 4.57%  | 4.52%  | 5.41%  | <b>100.00%</b> |
| Second Quarter | 17 217 | 16 659 | 16 385 | 16 999 | 17 348 | 18 655 | 21 496 | 23 141 | 22 757 | 11 049 | 10 382 | 10 039 | <b>202,127</b> |
| %              | 8.52%  | 8.24%  | 8.11%  | 8.26%  | 8.58%  | 9.23%  | 10.63% | 11.45% | 11.26% | 5.47%  | 5.14%  | 4.97%  | <b>100%</b>    |
| Third Quarter  | 17 217 | 16 659 | 16 385 | 16 999 | 17 348 | 18 655 | 18 400 | 18 221 | 17 615 | 19 579 | 13 082 | 14 971 | <b>205 131</b> |
| %              | 8.39%  | 8.12%  | 7.99%  | 8.29%  | 8.46%  | 9.09%  | 8.97%  | 8.88%  | 8.59%  | 9.54%  | 6.38%  | 7.30%  | <b>100.00%</b> |
| Fourth Quarter | 17 217 | 16 659 | 16 385 | 16 999 | 17 348 | 18 655 | 18 400 | 18 221 | 17 615 | 13 846 | 12 157 | 21 082 | <b>204 584</b> |
| %              | 8.42%  | 8.14%  | 8.01%  | 8.31%  | 8.48%  | 9.12%  | 8.99%  | 8.91%  | 8.61%  | 6.77%  | 5.94%  | 10.30% | <b>100.00%</b> |

*Shaded: Actuals*

*Unshaded: Projections*

The Department's original budget allocation for the 2008/09 financial year amounted to R198.817 million, which was increased by R6.314 million or 3.18 per cent to R205.131 million in the Adjustment Estimate. Provision was made for the shortfall on ICS (Improvement of Condition of Services) and for the establishment of the Development Facilitation Unit (Built Environment Support programme). R1.260 million, i.e. 0.61 per cent, of the adjusted budget was to accommodate shifts between programmes of the Vote, while R6.450 million was as a result of shifts within programmes, i.e. 3.14 per cent of the adjusted budget. Despite the fact that shifts within a programme and between programmes amounted to 3.88 per cent (national norm is 2 per cent) of the adjusted budget, the Department's budget is considered credible based on the following; of the R6.450 million an amount of R2.510 million was shifted to the Western Cape Nature Conservation Board (WCNCB) for fire damages and other related costs which were not anticipated earlier in the financial year. Thus, with the exclusion of the R2.510 million, shifts of 3.88 per cent is reduced to 1.92 per cent of the adjusted budget.

The Department effected virements which amounted to R2.776 million in the 2008/09 financial year, which represents 1.35 per cent of the adjusted budget. A saving of R266 000 was shifted from goods and services, and compensation of employees to compensate for the over expenditure on goods and services. Furthermore, the transfer payment to WCNCB was increased by means of a virement with R2.510 million as the funding was insufficient due to severe fire damages in the Cederberg region.

It should be noted that the Department obtained the necessary virement approvals for all virements to be effected.

The Department submitted its Adjustments Budget on time and it was comprehensive in terms of section 31 of the PFMA.

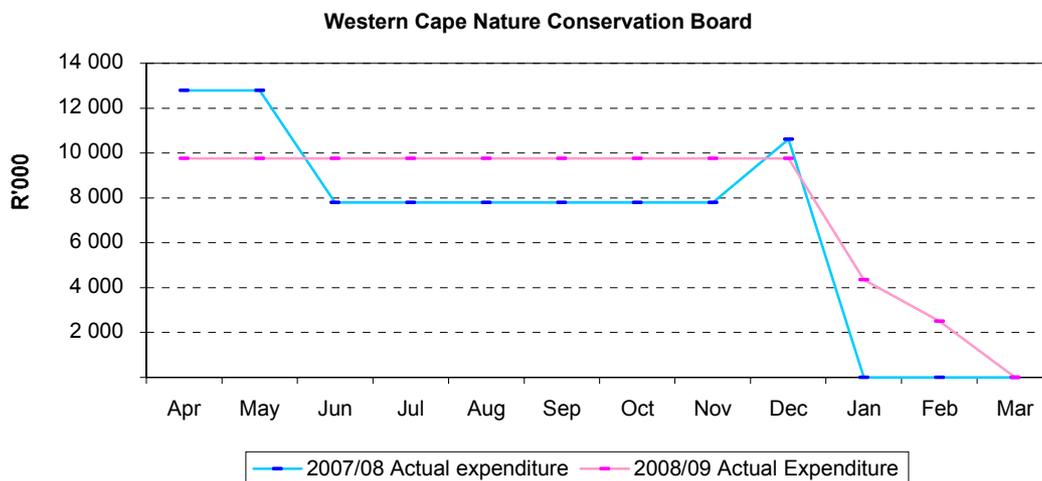
As at the 31 March 2009, total actual spending amounted to R204.584 million or 99.70 cent of the adjusted budget. The Department thus realised under expenditure of R547 000 or 0.30 per cent of the adjusted budget. This reflects that Departmental spending outcome for the financial year was within the 2 per cent under spending norm. The under spending of R547 000 is due to savings on earmarked allocations,

which were specifically and exclusively appropriated for the Development Facilitation Unit and Climate Change Management. No funds were requested for rollover to the 2009/10 financial year. Also, there was no irregular or unauthorised expenditure within the vote.

According to the audited annual financial statement for the 2008/09 financial year payments amounting to R99 000 (5.52 per cent of total accruals) were made after 30 days. In comparison to the previous financial year, payments made after 30 days amounted to R66 000 (15.22 per cent of total accruals). Additionally, the Department could sufficiently justify for payments effected after 30 days in 2008/09.

The figure below provides the actual expenditure for the period ended 31 March 2009 on transfer and subsidies to the Western Cape Nature Conservation Board (CapeNature).

**Figure 10: Comparison of Transfers to CapeNature - 2007/08 and 2008/09**



The figure indicates how actual transfers vary from month to month, mainly due to the fact that payments to CapeNature are made in terms of an agreed payment schedule. Transfer payments to the amount of R87.788 million were budgeted for and made to CapeNature during 2008/09. This was augmented by R4.360 million for the school twining project and to accommodate for the higher than budgeted salary adjustments and other inflationary costs in the 2008 Adjustment Estimate, bringing the total to R92.148 million. Also, as previously mentioned, a virement between programmes was applied to compensate for unforeseeable fire damages and related costs, which further increased the transfer payments to CapeNature to R94.658 million.

The Department ensured that all transfer payments were backed by section 38 of the PFMA and instituted the necessary monitoring mechanisms.

No fiscal dumping was brought to the attention of Provincial Treasury, and no unauthorised or irregular expenditure was reported for the 2008/09 financial year.

Revenue is mainly in respect of fines, boat-launching site fees, commission on insurance, fees in terms of the Access to Information Act and charges for maps and posters. The revenue budget of R126 000 was exceeded by R614 000. This was mainly (R425 000) due to revenue in respect of environmental fines for the rectification of unlawful commencement or continuation of certain activities (National Environmental Management Act, 1998 (Act 107 of 1998) (NEMA) as amended, section 24G. An application was put forth to retain 2008/09 revenue over collection.

The Department did not revise any tariffs in the 2008/09 financial year as required in terms of Treasury Regulations 7.3.1.

The Department had a slight March ‘spike’ in 2008/09, where actual expenditure increased from R12.157 million or 5.93 per cent in February 2009 to R21.082 million or 10.28 per cent of its adjusted budget of R205.131 million in March 2009. This can largely be attributed to expenditure on goods and services which increased from R3.050 million in February 2009 to R18.843 million in March 2009, with the bulk spent on consultants (solar water heater project) and contractors for video conferencing, once off payments made to SITA, purchase of computer consumables, expenditure on advertising: recruitment budget, as a large number of posts were advertised, and subsistence and travelling allowance.

Electronic verification of reported expenditure and revenue against Vulindlela downloads were done monthly. For the 2008/09 financial year 11 expenditure items were incorrectly classified amounting to R24 290. This was corrected by means of journal entries.

## **Conclusion**

The Department of Environmental Affairs and Development Planning generally operated on level 3 and is moving towards a level 4 financial management capability rating.

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

An assessment of the financial management capability of the department was undertaken based on 2008/09 audit findings and monthly IYM reporting, that revealed the following:

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

In the monthly IYM reporting, control and suspense accounts are reconciled on monthly basis, and in this regard the Department is therefore maintaining a level 3 financial management capability rating compared to the previous assessment.

#### **Accounting of assets**

The AGSA reported during the 2008/09 audit process that assets with a cost of R49 481 could not be accounted for during the physical verification process.

The Department therefore 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 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**

No audit findings were raised in this regard for the period under review.

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

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

The disclosure of Departmental State Guarantees reflects effective 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**

The Department reported on a monthly basis that a lease register is maintained and this continue to perform at a level 3 financial management capability when compared to the previous assessment.

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

The Department reported that there are control measures in place for the reporting and management of thefts and losses. For the period under review no audit findings were raised in this regard.

The Department is therefore maintaining a level 3 financial management capability rating since its last assessment.

#### **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 rating, the Department needs to improve controls over the verification of assets against the asset register.

## **3.9.3 Corporate Governance**

### **3.9.3.1 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 conducted for the Department, risk response strategies were developed and it was found that the organisation structure supports the processes developed.

#### **Internal Environment**

A risk management philosophy has been developed for the Department and a risk appetite of the Department has also been defined.

#### **Operational Risk Assessment**

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

#### **Overall Assessment**

For the period under review as at 31 March 2009, based on the above information, the department 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 2. In order to achieve a rating at the next level (level 3), the department needs to implement the following:

### **Internal Environment**

- Risk appetite defined.

### **Operational Risk Assessment**

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

### **2007/08 and 2008/09 Comparison**

For the 2008/09 review, it is evident that the department has made improvement as compared to the 2007/08 review.

#### **3.9.3.2 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 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**

The vacancy rate in the Department's CFO structure has increased from 4 per cent as reported in the 2008 Financial Governance Review and Outlook to 15 per cent currently and the average length of vacancies is 6 months. As a result of this regression it is recommended that the Department look at the critical nature of the vacant posts and to what extent this will impact on the Department's financial management.

The Department has implemented performance agreements at all levels and career plans have been developed for the total staff compliment. All the staff has finance related qualifications and is attending structured training programmes.

###### **Policies and procedures**

The Department reported that all financial departmental policies and procedures are documented and approved, except for the policy and procedure manual as required by section 38(1)(d) of the PFMA & TR10.1.2 to ensure the effective management of

assets. The Department has however indicated that processes are in place and the policy is still in the developmental stage.

### **Annual Quarterly and Monthly Reports**

The Department and public entity under its control must report monthly on expenditure and revenue; quarterly on performance; and annually they have to table Annual Reports, as prescribed, in the Legislature. Compliance with these requirements is reflected in table below:

**Table 109: Compliance with annual, quarterly and monthly reporting requirement**

| Institution                                      | Date annual report received by Provincial Treasury | Annual report tabled at the Provincial Legislature | Quarterly performance against strategic plan |
|--|--|--|--|
| <b>Departments:</b>                              |  |  |  |
| Environmental Affairs and Developmental Planning | 31/08/09   | 30/09/09   | X  |
| <b>Public Entity:</b>                            |  |  |  |
| Cape Nature Conservation                         | 31/08/09   | 30/09/09   | X  |

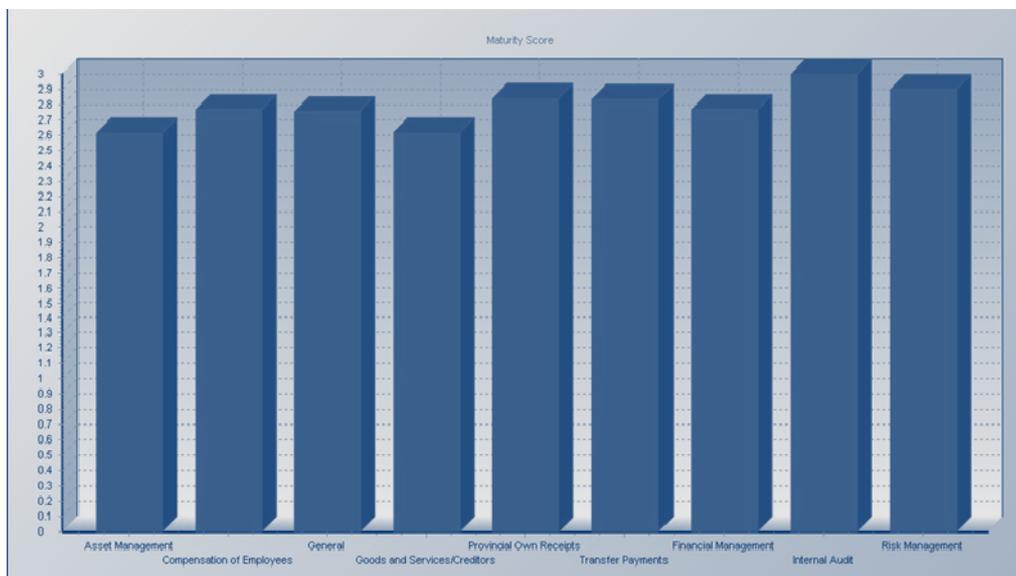
### **Analysis**

The Department has successfully tabled their 2008/09 Annual Reports as well as that of its public entity, within the prescribed timeframes.

### **Auditor-General's report on the 2008/09 financial year**

The Department received an unqualified audit opinion, with other matters in the 2008/09 as well as the 2007/08 financial year. Hence, the Department has sustained its financial management maturity capability.

However, the statement made by the Auditor-General that the Department experienced difficulties in producing financial statements for audit purposes that were free from errors and omissions, although not material in all instances is of great concern. It is recommended that the Department institute proper controls and procedures and also liaise with the Provincial Treasury's accounting services unit, as a repeat of the above situation could lead to the Department's financial statements being qualified in future.

**Figure 11: Financial Management Capability Model**

In terms of an assessment done by consultants from the European Union in conjunction with National Treasury, which was conducted in March 2009, the Department's financial management maturity was rated close to a level 3 in virtually all the categories as depicted in the above figure. Asset Management and Goods and Services were the categories in which the Department scored the lowest maturity scores. However, judged against the assessment done by the Provincial Treasury in the 2008 Financial Governance Review & Outlook in which the Department received a maturity rating of a level 2, the Department has made definite progress.

### **Western Cape Nature Conservation Board**

Western Cape Nature Conservation received an unqualified audit opinion for the 2008/09 financial year, compared to 2007/08 financial year when the Entity was qualified. This represents a vast improvement in the Entity's financial management.

The development and implementation of a fraud prevention plan to address the risks identified in the Entity's risk assessment, is the only shortcoming identified in the Checklist submitted to the Provincial Treasury for the period ending 30 June 2009.

### **Overall assessment**

Based on the assessment, the Department is rated at a level 3 financial management capability.

### 3.9.4 Cash Management

#### Staff skilled and capacitated in 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.

The evaluation was based on the activities of the 2008/09 financial year and the findings were as follows:

**Table 110: Assessment of cash management**

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

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

#### Skilled and capacitated system users

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

#### Submission of Annual Provincial Cashflow Projections

The Department obtained a financial management capability rating of level 3 (nominal compliance). The Annual projections in respect of income and expenditure were received on 27 February 2009.

**Table 111: Deviation between monthly projections and actual expenses**

|   | <b>Project</b> | <b>Actual</b>  | <b>%</b>   | <b>Rating</b> |
|---|----------------|----------------|------------|---------------|
| <b>Original Forecast</b>                          |                |                |            |               |
| APRIL'08  | 16 765         | 21 498         | (28)       | 2             |
| MAY'08  | 17 171         | 12 361         | 28         | 2             |
| JUNE'08   | 19 350         | 15 318         | 21         | 2             |
| JULY'08   | 19 576         | 18 049         | 8          | 2             |
| AUG'08  | 19 123         | 17 671         | 8          | 2             |
| SEP'08  | 20 397         | 17 289         | 15         | 2             |
| OCT'08  | 19 123         | 19 445         | (2)        | 4             |
| NOV'08  | 19 083         | 18 078         | 5          | 3             |
| DEC'08  | 18 351         | 18 314         | 0          | 4             |
| JAN'09  | 9 681          | 12 871         | (33)       | 2             |
| FEB'09  | 9 670          | 12 194         | (26)       | 2             |
| MRC'09  | 10 527         | 15 729         | (49)       | 2             |
| <b>Sub-Total</b>                                  | <b>198 817</b> | <b>198 817</b> |            | <b>2</b>      |
| <b>Revised Forecast (after adjustment budget)</b> |                |                |            |               |
| MRC'09<br>Adjustment                              | 6 314          | 6 314          |            |               |
| <b>Total</b>                                      | <b>205 131</b> | <b>205 131</b> | <b>100</b> |               |

The Department achieved a financial management capability rating of level 2 (partial compliance). PT adapted a new policy as from June 2009 to assist the departments to align their expenditure to their actual cash receipts on a daily and monthly basis.

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

The Department obtained an average rating of 4 (full compliance). PT reminded the department to submit detail before 3rd last working day of each month to enable the department to achieve the level of full compliance.

#### **Repayment of Surplus Funds**

The Department obtained a financial management capability rating of level 4 (full compliance). Surplus funds were paid to the PRF on 26 May 2009.

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

The Department was financial management capability rated at a level 4 (full compliance). The monthly bank reconciliations were submitted within 15 days after month end.

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

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

**Table 112: Beneficiary Payments**

| Payments | Beneficiary Payments | %    |
|----------|----------------------|------|
| 7 816    | 232                  | 2.97 |

### **3.9.5 Supply Chain Management**

Measuring the Department against the financial management capability model for SCM, the following must be noted:

The SCM structure is constituted of a 5 staff complement responsible for provisioning and procurement of goods or services and it is deemed to be inadequate to give effect to the SCM unit's goals and objectives. Although the Department's institutional capacity may be considered to be smaller than other departments, the structure needs to at least cater for the Demand, Acquisition, Logistics, Disposal and Contract management to ensure consistency in the implementation of SCM within the department.

The Accounting Officer's System (AOS) and its accompanying delegations have not been updated since 2004. However the department has indicated that it is in the process of reviewing its AOS. It must be noted that the department needs to fast track the process failure to do so will impact on SCM improvement and the department moving to the next level of capability. It will also contribute to non-compliance to SCM legislation as the current accounting officer's system not aligned to the current legislative and policy frameworks.

The Department has constituted a bid adjudication committee with four members. The specifications and evaluation committees are constituted as the need arises. The Department has instead appointed ten secundi.

Monitoring and assessing the adherence to the guiding legislation and policies is lacking within the Department.

The Department is mostly procuring consultancy or professional services. Therefore skills and knowledge of SCM in respect of the requirements for this environment is required, to ensure that procurement processes are not only compliant to the regulatory framework but that it is also conducted in a fair, equitable, competitive, and transparent and is economically viable. Continuous training and capacitating of the SCM unit should be maintained.

The procurement statistics submitted by the department is inaccurate, due to the fact that the departmental threshold value for bids commences at R50 000 which bids are

not reported to the Provincial Treasury. Similarly, bids procured via the limited bidding process are also not reported.

The Department's utilisation of a R50 000 threshold value for bids despite the fact that the provincial threshold has been lifted to a threshold value of R200 000 is concerning. Whilst it is not necessarily incorrect to institute a threshold value lower than that of the provincial limit, it must be noted that the department is predisposing itself to an unnecessarily burdensome administrative process as well as impacting on value for money considerations in respect of advertising etc. that is associated with a formal bidding process that may be dealt with more efficiently and cost effectively through a quotation process. It must be noted further that the productivity level of the SCM unit may also be seriously encumbered by this additional administrative burden.

The Department's record keeping is satisfactory and should be maintained to ensure proper monitoring and data credibility.

The areas of deficiencies highlighted in the Department's SCM compliance assessment are as follows but not limited to:

- Non-utilisation of the EPSi where appropriate.
- Deviations from normal procurement process not being sufficiently motivated.
- Lack of SCM knowledge and expertise to guide line functionaries on SCM procedures and processes.
- Roles and responsibilities not being executed as per the delegations framework.
- Outdated Accounting Officer's System and accompanying Delegations utilised to perform SCM activities which predispose the department to a high risk of non-compliance to SCM legislative framework.
- SCM structure does speak to all aspects of SCM functionality.

### **Rating and Comparison to the 2007/08 financial year**

The Department maintains a financial management capability rating of level 2 for SCM. It should be noted that a full SCM compliance and value for money assessment was performed in 2008/09 which enabled PT to verify its rating.

### **Conclusion/Recommendation**

- Review the AO System to align it to the current SCM legislation framework.
- Refine the current structure to be able to give effect to all aspects of Supply Chain Management.
- Develop effective control mechanisms to monitor the Supply Chain Management performance and maintaining its sustainability.
- Give effect to effective and efficient committee systems.
- Maintain continuous Supply Chain Management training and skills development initiatives for the current and new Supply Chain Management appointments.

- Ensure consistent and comparable Supply Chain Management reporting.
- Maintenance of credible Supply Chain Management data.

### **3.9.6 Moveable Asset Management**

Resulting from the reporting on the National Treasury's Broad Implementation plan the Department has indicated that in terms of Planning, Acquisition, Operation, Maintenance and Disposal are 100 per cent non-compliant and their Asset Register requirements are 92 per cent compliant and Accounting requirements are 53 per cent compliant. As the due date for implementation was the 31 March 2008 the Department is seriously lagging behind in terms of compliance.

Although the Department has dedicated officials in terms asset management, their skills and knowledge focuses mostly on asset operations. Policies and procedures which form part of their responsibility are also lacking. The Department also has no visible control over its asset register as it is controlled by an independent service provider.

The Auditor-General has identified various shortcomings, listed below:

- Lack of internal controls over assets.
- Unsuitable storage facilities.
- Insufficient access controls over storeroom.

#### **Rating**

On consideration of all the above, the Department is rated at a level 1 in terms of the financial management capability model for Moveable Asset Management. It must be noted that this rating is based on the information provided to the Provincial Treasury by the Department in terms of the reporting requirements (Project dashboard and Risk Log) of the National Treasury's Broad Implementation Plan. It must be further noted that a full verification assessment in terms of assets is taking place in the 2009/10 financial year.

#### **Recommendation**

- Fast tracking the requirements of the National Treasury's Broad Implementation Plan for Asset Management and addressing simultaneously the accounting requirements for asset management.
- Implement adequate control over its asset register.
- Implement asset management training.
- Take cognisance of the Auditor-General's recommendations and give effect to corrective measure to address the identified shortcomings.

### 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.

The evaluation was based on the activities of the 2008/09 financial year and the findings were as follows:

**Table 113: Basic Accounting System (BAS)**

| Requirements                         | Standard Level 3           | Standard Level 4        | Rating   |
|--------------------------------------|----------------------------|-------------------------|----------|
| Skilled and capacitated system users | In accordance with profile | Various Modules         | 1        |
| Month-end closure                    | Own accord – due date      | Own accord – prior date | 3        |
| Year-end closure                     | Own accord – due date      | Own accord – prior date | 4        |
| System Controller Functions          | 80 – 90%                   | 91 – 100%               | 3        |
| Monitor Applicable Interfaces        | Weekly                     | Daily                   | 4        |
| <b>Average rating</b>                |                            |                         | <b>3</b> |

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

**Table 114: Skilled and capacitated system users**

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

The Department obtained a financial management capability rating of level 1 (non compliance), due to no officials attending BAS courses as well as no 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.

#### Month end closure

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

#### Year closure

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

### **System Controller Functions**

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

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

### **Monitor applicable interfaces**

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

**Table 115: Personnel and Salary Administration System (PERSAL)**

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

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

**Table 116: Skilled and capacitated system users**

| Number of officials nominated | Number of officials attended | Number of officials cancelled | Number of officials qualified for a certificate (70% pass rate) | Number of officials not qualifying for a certificate |
|-------------------------------|------------------------------|-------------------------------|---|--|
| 6                             | 5                            | 1                             | 5   | 0  |

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

### **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 rating of level 4 (full compliance) as the establishment is maintained on a monthly basis.

### **PERSAL/BAS reconciliation**

The Department compiled a monthly PERSAL/BAS reconciliation prior to the 20<sup>th</sup> of each month and therefore achieved a financial management capability rating of level 4 (full compliance).

### **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. Departments should start making verification of data compulsory starting with new appointments.

### **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.

**Table 117: Management Information System (Vulindlela)**

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

**Table 118: Usage of the Management Information System (Vulindlela)**

| Number of registered users | Number of registered users using the system on a regular basis | Number of registered users not using the system on a regular basis | Percentage active users |
|----------------------------|--|--|-------------------------|
| 23                         | 12   | 11   | 52%                     |

The Department obtained a financial management capability rating of level 2 (partial compliance) due to the fact that only 52 per cent of registered users utilise the system on a regular basis.

The Directorate Supporting and Interlinked Financial Systems will, in cooperation with the Chief Financial Officer, re-evaluate the need of the 11 registered users who do not use the system on a regular basis. In addition, discuss the further role out of Vulindlela within the department and address any further requirements they might have.

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

### **3.10.1 Performance Management**

#### **3.10.1.1 Non-financial information**

The analysis of departmental performance that follows 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); level 2 development level (proper internal control framework); level 3 (focus 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).

In past financial years, the emphasis has been on formulating clear measurable objectives and setting realistic and measurable performance indicators and targets. For the period under review, this assessment will comment on the applicability and validity of those measurable objectives and performance indicators. The aim is to ensure that the departmental APP, when read together with the AR and QPRs clearly reflect stated performance expectations; performance accomplishments; demonstrated capacity to learn, adapt and improve; and whether the information obtained and communicated is fair and reliable.

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 a level 4 financial management capability. The 2008/09 AR, the 2008/09 and 2009/10 APPs as well as the final 2008/09 QPR have been used in the assessment.

#### **Annual Report 2008/09**

All performance information included in the 2008/09 APP is included in the 2008/09 AR in line with the AR guideline for General and Performance Information. Also, with exception of three instances, the targets and units of measurement for all performance measures are consistent between the documents. The AR may thus be used in conjunction with the APP to assess the Department's performance over the indicated financial year.

Two of the inconsistencies were found in the Public Transport programme and relate to the targets for the number of new Board members appointed to the Provincial Operating Licensing Board and the reduction of vacant posts within the Regulation and Control Sub-programme. The former was noted at 10 Board members to be appointed whereas the AR records a target of 8. The latter inconsistency mentioned was recorded as 5 per cent in the APP but recorded as 5 in the AR.

The third inconsistency noted was the inclusion of a target for the number of youths (18-35) employed as part of the EPWP. This performance indicator was not included in the APP but is present in the AR. The Department has included a similar performance indicator in the 2009/10 APP.

All deviations from APP targets are clearly indicated in a separate column with the performance information in the AR. The deviations are reported as absolute numbers and as a percentage. A brief description of the reasons for the deviations from target is provided, as well as reasons for deviations from information included in the fourth QPR for 2008/09. In most cases, these descriptions provide sufficient information on the causes of the deviations from target. The descriptions do not however provide adequate information on explanations for under-performance or interventions which the Department has implemented or plans to implement to remedy under-performance.

The AR also includes a section on “specific challenges and responses” per sub-programme but this information tends to be at a high level and therefore vague in relation to specific performance measures. Information on issues requiring ongoing attention has also been included in the 2008/09 AR and highlights issues that extend into the following financial year. No information on current interventions, remedies or progress made on addressing the issues is however included. The lack of information in this regard thus makes it difficult to assess whether the Department is taking appropriate steps in addressing issues affecting its performance.

#### **APP 2009/10**

The APP conforms to the structure prescribed by the national government for provincial Transport and Public Works departments. Both strategic and measurable objectives, as well as performance measures are presented for each sub-programme. National government also prescribes a sector-specific quarterly performance reporting format and performance indicators. The Department submits this concise document in addition to a full quarterly performance report for assessment each quarter.

The Department has been consistent in clearly linking its strategic objectives to its measurable objectives and its measurable objectives to its defined performance measures. The tabular format used to represent this allows for ease of use in assessing the alignment of the strategic objectives to the relevant measurable objectives and performance measures. Some exceptions have however been noted. The two categories of exceptions identified are: appropriateness or clarity of the performance measure and the measurability of the performance measure.

An example of an exception noted on the appropriateness or clarity of the performance measure can be found in the Traffic Management sub-programme. The provision of accident report forms on request and the capture of accident report forms are listed as a measurable objective but the associated performance measure is only the “number of requests”. It is uncertain whether the target or reported performance relates to the number of requests received or the number of requests honoured. Some performance measures are not clearly defined and are not measurable. The formulation of various policies and strategy documents as

performance measures without clear explanations on the content of these policies and strategy documents in the APP makes for problematic verification of performance against targets set. Similar points were raised on the 2008/09 APP. Another matter raised in the previous APP is the use of percentages as performance targets without baseline figures. The current APP avoids the use of percentages in the 2009/10 APP with the only exception being that of the number of vacant posts in the Public Transport Regulation and Control sub-programme.

In the previous year's APP, several annual performance targets were omitted. The APP has since improved with the inclusion of annual targets for all performance measures in the 2009/10 APP. The Department has not however set quarterly targets for a large number of performance measures listed in the national QPR reporting format, with only 4 out of 45 performance measures recording quarterly performance targets for the first three quarters of 2008/09. The annual target is then listed as the fourth quarter target for the outstanding performance targets. While a number of performance measures, such as road construction, by their nature can only be measured annually, it nonetheless makes quarterly assessment of Departmental performance difficult. Performance targets that do lend themselves to quarterly targets but do not have quarterly targets include the Community-Based Programme performance targets and some Traffic Management performance targets. The Department was able to provide first quarter preliminary outputs on a number of performance measures that do not have quarterly targets.

Challenges are identified and responses are submitted by the Department with the QPRs where deviations from quarterly targets are found. The Department has made good progress in providing clear and concise information on these. Exceptions do however still exist where information provided is vague.

The Department uses a large number of performance measures to monitor its progress and delivery towards achieving its strategic objectives. Given the number of activities the Department is engaged in and the degree of complexity thereof, the number of performance measures seems appropriate.

### **Conclusion/recommendation**

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

To reach a level 4 capability, the Department needs to provide more comprehensive explanations for deviations from target and remedies thereto in the AR and QPRs.

It is further recommended that the Department institutionalise processes for dealing with non financial/performance information, highlighting the collection methodology, systems, verification and audit processes. 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 outputs. 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 SP, APP and Budget.

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

#### **Compliance with PFMA Section 40(4) reporting requirement**

The Department systematically submitted by the 15th of each month information on actual expenditure and revenue for that particular month, projections of anticipated expenditure and revenue collection for the rest of the financial year and, when necessary, indicated remedial steps to be taken to ensure projected expenditure and revenue remain within budget.

Electronic verification of reported expenditure and revenue against Vulindlela reports were done on a monthly basis, with exceptions brought to the attention of the CFO office for clearance in the forthcoming month(s).

#### **Quarterly quantitative performance**

Transport and Public Works had for the period ending March 2009, incurred total expenditure of R2.7 billion or 89.8 per cent against the adjusted budget amounting to R3.0 billion following a total net adjustments of R469.6 million (18 per cent) on the main budget of R2.6 billion.

When reviewing quarterly spending, the Department had for the fourth quarter paid out R873.0 million (31.5 per cent) of total expenditure amounting to R2.7 billion. Relatively, the Department had spent R408.4 million (14.7 per cent) of total expenditure during the first quarter, R604.8 million (21.8 per cent) during the second quarter and R879.8 million (31.8 per cent) during the third quarter.

Over the same period during 2007/08, the department had spent R2.3 billion (98.1 per cent) against an adjusted estimate of R2.3 billion. The Department had for the fourth quarter ending March 2008 spent R637.7 million (27.2 per cent) of total expenditure which then came to R2.3 billion.

Comparatively, Transport and Public Works spent R475.7 million (20.3 per cent) of total expenditure during the first quarter of 2007/08, R613.6 million (26.1 per cent) during the second quarter and R617.3 million (26.3 per cent) during the third quarter.

The Department has spent more during the fourth quarter of 2008/09 than the year before due to stepped up infrastructure spending as a result of the Transport Disaster Management Grant which was allocated to the department in the adjustments estimates 2008/09.

### **Misclassification of expenditure**

With the introduction of the toned Standard Chart of Accounts by the National Treasury on 1 April 2008, came challenges around erroneous expenditure allocations by departments and potential qualified Auditor-General reports.

In view of this, National Treasury through the development of an inconsistent classification combinations model and expanded Vulindlela responsibility download reports assisted department by identifying high-level inconsistent classification combinations during 2008.

Departments were monthly 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 suspected misclassified payment transaction from an initial unacceptable level of a manageable degree.

While the department has not rid itself entirely from misclassified expenditures, the situation is improving months after month.

### **Post Adjusted Estimates adjustments**

Post Adjusted Estimates adjustments are shifts and adjustments introduced by the department following book closure to offset all SCOA level 3 overspending with savings realised within the same main division of the vote.

The magnitude of post adjusted estimates adjustments had increased by R6.5 million (51.6 per cent) from R12.6 million affected during 2007/08 to R19.1 million during 2008/09.

The Department introduced more post adjusted estimate adjustments during 2008/09 than the year before which questions the credibility of the 2008/09 adjusted budget.

### **National 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.

Expenditure on this grant comprised 50.5 per cent of aggregate conditional grants expenditure for 2008/09. During both 2008/09 and 2007/08 the department disbursed its full IGP allocation which comprised R296.6 million during 2007/08 and R299.0 million during 2008/09.

The Department displayed sound capacity to expend its 2008/09 IGP allocation and obviated a roll-over of unspent funds.

### **Devolution of Property Rates Grant**

The grants is transferred to Provinces to enable Transport and Public Works to be accountable for the payment of provincial property rates.

Expenditure on this grant represented 24.8 per cent of total grant expenditure during 2008/09.

Spending during 2008/09 amounted to R147.0 million (99.9 per cent) and was R33 000 below the total available grant provision of R147.1 million.

### **Transport Disaster Management Grant**

The grant is transferred to the Province to relief the effects of severe floods in identified areas.

Expenditure on the above grant represents 24.5 per cent of total grants spent during 2008/09.

Spending on the Transport Disaster Management Grant for 2008/09 aggregated to R145.0 million (34.6 per cent) which was R273.6 million below the available provincial provision of R418.7 million.

This grant, which comprised R418.7 million, was allocated to the department during the 2008/09 adjustments estimates which meant the department had one financial quarter remaining in which to disburse this additional allocation. The Department spent 34.6 per cent till March 2009, while the balance was requested for roll-over.

### **Adjustments Budget 2008/09**

The Department promptly submitted its adjustments estimates schedules within Treasury timeframes and it was found to be thorough in terms of section 31 of the Public Finance Management Amendment Act, (as amended), 1999 (PFMA). It was aligned to the uniform adjustments estimates format based on National Treasury's guidelines.

### **2008/09 Budget shifts**

Transport and Public Works had for the period ending March 2009, reflected aggregate expenditure of R2.7 billion or 89.8 per cent against the Adjusted estimates amounting to R3.0 billion following a total net increase of R469.6 million (18 per cent) on the main budget of R2.6 billion.

The Department had for 2007/08 presented expenditure of R2.3 billion or 98.2 per cent (under spending of 1.8 per cent) against the adjusted budget of R2.3 billion following a total net increase of R181.4 million (8.2 per cent) on the main budget of R2.2 billion resulting in under spending of R43.7 million, eligible for roll over.

During 2008/09 the Department passed larger shifts in the annual adjustments estimates process of 2008/09 than the year before predominantly as a result of the substantial additional national allocation to support the flood effected areas of the Province.

### **"March spike" anomaly**

The "March spike" phenomenon refers to the case where the department annually makes more payments during the month of March compared to the months before causing a "spike" in the expenditure level to occur.

Due to seasonal nature of its peak activities, the Department is tantamount with increases in expenditure in the last financial quarter of each year. Contributing factors include the builders' holidays in December when activities shrink in the building industry until February.

Actual spending incurred during March 2009 equated to R385.5 million (13.9 per cent) of total expenditure for the 2008/09 financial year which totaled R2.7 billion.

During 2007/08 the Department realised March actual expenditure of R286.8 million (12.2 per cent) of total expenditure totalling R2.3 billion. This is R125.4 million or 30.4 per cent less than spending over the same period during the previous financial year.

The Department has retrogressed in curbing its "March spike" expenditure for 2008/09. A major contributing factor was the Transport Disaster Management Grant of R418.7 million, allocated to the department during the 2008/09 adjustments estimates, which the department was taxed to disseminate in the last financial quarter.

### **Revenue collection**

Provincial own receipts for 2008/09 aggregated to R968.2 million (110.1 per cent) against the adjusted budget amounting to R879.0 million which is a improvement of 1.3 per cent (R13.2 million) on the R955.0 million (112.4 per cent) collected against the 2007/08 revised revenue estimate of R849.0 million.

Revenue from motor vehicle license fees for 2008/09 totaled R865.1 million (108.2 per cent) against the revised estimate of R799.3 million which reflect a improvement of 8.9 per cent (R70.9 million) on the R794.1 million (102.3 per cent) collected against the 2007/08 revised of R776.1 million .

The Department's revenue collection performance improved year-on-year mainly as a result of improved revenue collection methods.

### **Conclusion/recommendation**

All in all, the Department has exhibited expenditure close to the 2 per cent under spending norm, all rollovers were within the provisions of the National Treasury Regulations, and no intentional fiscal dumping could be identified. The AG has not highlighted any unauthorised or irregular expenditure pertaining to the vote. All things considering, the Department is making rapid strides towards becoming a level 4 auditable public organisation in the near future.

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

An assessment of the financial management capability of the Department was undertaken based on the 2008/09 audit findings and monthly IYM reporting, that revealed the following:

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

In the monthly IYM it was reported that control and suspense accounts are reconciled on monthly basis, and in this regard the Department improved to a level 3 financial management capability rating compared to the previous assessment.

#### **Accounting of assets**

The Department indicated that they complied with the minimum requirements of an Asset Register in terms of the acquisition (assets register updated), identification, accountability, performance, disposal and accounting of assets and this resulted in the approved control over assets.

The Department improved to a level 3 financial management capability when compared to the previous assessment.

#### **Financial reconciliations**

The Department failed to submit their monthly BAS/LOGIS, PERSAL/BAS and Bank reconciliations as part of their IYM reports on or before the 15th of each month. This shortcoming was raised in the monthly FA Forum meetings, quarterly narrative IYM reports and bi-lateral meetings with the Department.

The above indicates that the Department continues to operate at a level 2 financial management capability rating when compared to the previous assessment.

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

Payments to suppliers made more than 30 days after receipt of invoice still remains a concern. The AGSA reported that expenditure pertaining goods and services (travel and subsistence, minor assets and inventory) were incorrectly classified.

This issue on incorrect classification of payments and payments made more than 30 days were addressed in the monthly FA Forum meetings, Annual Financial Statement workshops and bi-lateral meetings with the Department. Reports were downloaded, analysed and forwarded to the Department in order for them to respond on the findings.

The Department continues to perform at a level 2 financial management capability rating when compared to the previous assessment.

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

The disclosure of departmental State Guarantees was confirmed by the Department in the monthly IYM reporting and the Department continues to perform at a level 3 financial management capability rating when compared to the previous assessment.

### **Management of lease liabilities**

The Department has implemented and maintains an operating lease register and this information is disclosed on the audited annual financial statements, with no audit findings in this regard.

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

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

The Department reported that there are control measures in place for the reporting and management of thefts and losses with no audit findings for financial period under review.

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

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

The Department failed to submit signed IYM reports on time and also to include copies of their monthly BAS/PERSAL, BAS/LOGIS or Bank reconciliations certificates in the IYM reports.

In this regard a level 2 financial management capability rating is still attained compared to the previous assessment.

### **Conclusion/recommendation**

In order to improve compliance with accounting policies and standards towards a level 3 financial management capability rating, the Department needs to improve controls over financial reconciliations, expenditure and that all invoices are paid within 30 days of receipt of the invoices, as required by Treasury Regulation 8.2.3.

### **TRADING ENTITY: Government Motor Transport**

#### **Accounting of assets**

The AGSA report of GMT indicated that there are insufficient controls over assets to ensure sound financial reporting relating to the following:

- Incorrect calculation of carrying values of property, plant and equipment resulted in overstatement of PPE in the AFS;

- Debtors list related to outstanding claims do not agree with the Trade receivables per the AFS;
- Trade and receivables included claims for additional vehicles which were already claimed at year end; and
- Outstanding claims of debtors not settled were omitted from the debtors listing.

The entity is performing at a level 2 financial management capability rating, as was the case during the prior year's assessment.

### **Financial reconciliations**

Audit procedures on the accuracy and completeness of revenue carried out by the AGSA, determined that the amount of revenue as disclosed on the AFS does not agree with the total billed throughout the current financial year according to the Fleetman system.

During the audit of the trade receivables, it was determined that outstanding claims that were not settled, and not included in the current year listing.

The entity has maintained its performance at a level 2 financial management capability rating compared to the assessment of the previous year.

### **Supporting documentation**

The AGSA reported that no significant difficulties were experienced on the availability of requested information.

GMT remains at a level 3 financial management capability, when compared against the previous year's assessment.

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

During the evaluation of the audit procedures on accounts payable, it was determined that creditors invoices were double counted at year end. Paid creditors invoices were included in the outstanding creditors list.

Given the above, the entity is maintaining its performance at a level 2 financial management capability, in line with the previous year's assessment.

### **Accounting treatment of transactions**

The AGSA report that:

- Accounting treatment of audit fees is not in line with the prescribed accounting standard IAS 37, for reporting on prior year error.
- The accounting policy on PPE states that items of PPE with a cost price of less than R5 000 are written off over one year; however this accounting policy has not been applied consistently.

- The accounting treatment of the net proceeds on the sale of an asset was reported incorrectly and income and losses were misstated.
- Off-setting of private telephone revenue against actual telephone costs was performed in contradiction with IAS1.
- No disclosure note to the Cash flow statement for provisions, non-current assets held for sale and acquisition of property plant and equipment were raised.
- The processes and procedures with respect to Subsistence and Travel (S & T) identified that the Fleetman management did not have a proper register as agreed to in the approved processes and procedures.

The above shortcomings are indicative of a level 2 financial management capability and remains consistent from the previous year's assessment.

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

Since all levels of reporting are fully informed, GMT is maintaining its performance at a level 3 financial management capability rating achieved during the prior year's assessment.

### **Management controls**

The AGSA reported that GMT has shown a substantial improvement in financial management controls and reporting, but inefficiencies in the system of internal control of GMT led to several material misstatements of the financial statements submitted for audit. GMT should implement monitored controls to ensure sound financial management.

The entity maintained its performance rating of a level 2 financial management capability in this regard.

### **Conclusion/recommendation**

GMT is currently planning the development of an accrual based accounting system that is GAAP compliant, to be implemented in the 2010/11 financial year. In order to achieve a level 3 financial management capability GMT should improve on the above issues raised. This will also provide the foundation for implementing accrual accounting processes.

## **3.10.3 Corporate Governance**

### **3.10.3.1 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 a level 2 assessment.

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

#### **Strategic risk assessment**

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

#### **Internal environment**

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

#### **Operational Risk Assessment**

The risk event have been identified and assessed on an inherent level. Existing controls have been identified and documented 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, as the department 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 for level 2:

#### **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**

- Control gaps identified and action plans developed.

### **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, the 2008/09 Auditor-General's report for the department and the public entity as well as the Department's feedback on the 2009 MTEC 1 report.

#### **Analysis of the CFO structure - Human Resources Capacity**

The last report submitted to Provincial Treasury showed a 12 per cent vacancy rate in the CFO structure which is well above the national norm of 5 per cent.

The Chief Risk Officer post has been vacant for the past year. The Chief Risk Analyst Post and two Risk Analyst posts remain vacant. The ERM capacity (1 out of 5 posts) is not sufficient to meet the objective as stipulated in the PTI.

#### **Consequences**

- No operational risk assessments have been conducted over the past five years.
- The Department could not perform a residual risk assessment to identify shortcomings in the systems of internal control.
- From the AG report it was determined that actions are not taken to address risks to achieve financial reporting objectives.
- A risk awareness programme has not been adopted.

Corrective action must be taken to ensure that the Department complies with the following 2-year risk management cycle as stipulated in the Provincial Treasury Instructions. The Department should also ensure that the composition of the Fraud and Risk Management Committee is adequate (skills, expertise and necessary stature within the Department) to provide adequate oversight in terms of ERM.

The Department has indicated that it has implemented performance agreements at all levels.

The Department has indicated that only 32 per cent of the staff in the CFO component has finance related qualifications or is studying towards obtaining related qualifications. However, career development plans have been developed for 100 per cent of the staff members in the Finance Section and all staff members within the finance unit are attending structured training programmes.

### Tabling of Annual reports

The Department must report monthly on expenditure and revenue, quarterly on performance and annually the Department must table Annual reports as prescribed by the PFMA. Compliance with these requirements is reflected in table below.

**Table 119: Compliance with annual, quarterly and monthly reporting requirement**

| Institution                | Date annual report received by Provincial Treasury | Annual report tabled at the Provincial Legislature | Quarterly performance against strategic plan | Monthly reporting |
|----------------------------|--|--|--|-------------------|
| <b>Departments:</b>        |  |  |  |                   |
| Transport and Public Works | 30 August 2009                                     | 30 September 2009                                  | X  | X                 |

The Department submitted the Annual Report to Provincial Treasury on 30 August 2009 and the annual report was successfully tabled.

### Auditor-General's report of the 2008/09 financial year

#### Analysis of the Auditor-General's Report

The Department of Transport and Public Works received a qualified audit opinion for the financial period 2008/09. This was in respect of receivables for departmental revenue for properties controlled and leased by it, an issue which was highlighted in the previous Audit report. The Auditor-General also highlighted the following for the 2008/09 financial year:

- Irregular Expenditure.
- Material under spending of the budget.
- Restatement of corresponding figures.

Some of the Governance issues, amongst others, highlighted by the Auditor-General, include the following:

- Difficulties experienced during audit due to delays and unavailability of requested information;
- Financial statements were subjected to material amendments resulting from the audit;
- Failure by the Department to submit the AR prior to the tabling of the auditor's report;
- Significant deficiencies with the design and implementation of internal control in respect of compliance with applicable laws and regulations;
- Failure by the Department to substantially address prior year audit findings; and
- Failure by the Department to substantially implement prior year SCOPA resolutions.

**Government Motor Transport**

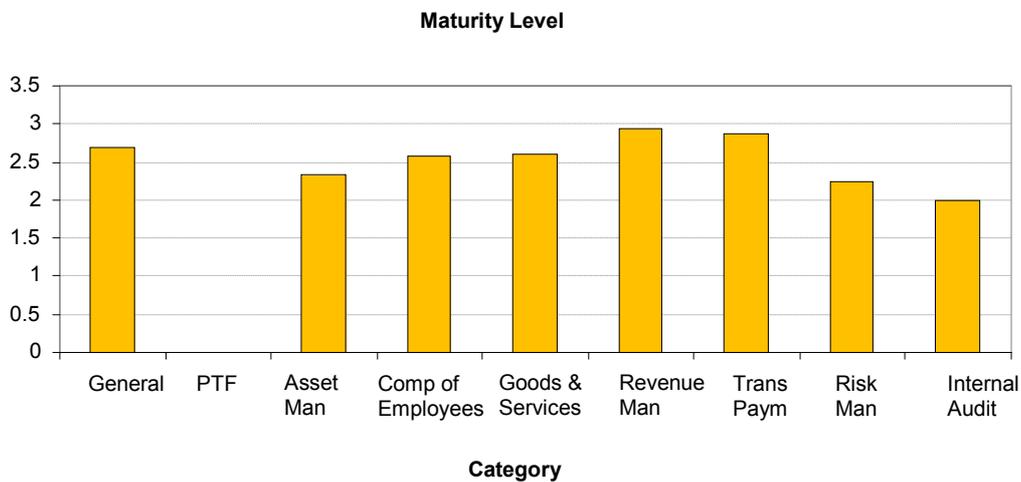
The Government Motor Transport under the ownership and control of the Department received an unqualified audit opinion with other matters. The following issues were highlighted in the GMT report:

- Restatement of corresponding figures due to errors discovered in the financial statements;
- Material inconsistencies in other information included in the annual financial statements;
- Failure to substantially address prior year audit findings;
- Material corrections made to the financial statements submitted for audit; and
- Lack of effective, efficient, transparent systems and internal controls in respect of performance management.

**Overall Assessment**

The indication is that the Department has not resolved certain issues that were highlighted by the Auditor-General for the 2007/08 financial year and of greater concern is the Department’s continued failure to manage debtors in respect of properties controlled and managed by it.

**Figure 12: Transport and Public Works Maturity Level**



Based on the figure above Department of Transport and Public Works is rated a level 2.33 financial management capability moving towards level 3 audible organisation.

**3.10.4 Cash Management**

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

The evaluation was based on the activities of the 2008/09 financial year and the findings were as follows:

**Table 120: Assessment of cash management**

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

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

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

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

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

The Department obtained a financial management capability rating of level 3 (nominal compliance). The Annual projections in respect of income and expenditure were received on 27 February 2009.

**Table 121: Deviation between monthly projections and actual expenses**

|                          | Project | Actual  | %    | Rating |
|--------------------------|---------|---------|------|--------|
| <b>Original Forecast</b> |         |         |      |        |
| APRIL'08                 | 142 094 | 70 533  | 50   | 2      |
| MAY'08                   | 183 256 | 63 520  | 65   | 2      |
| JUNE'08                  | 198 256 | 56 487  | 72   | 2      |
| JULY'08                  | 258 259 | 307 415 | (19) | 2      |
| AUG'08                   | 206 775 | 155 695 | 25   | 2      |
| SEP'08                   | 176 769 | 190 314 | (8)  | 2      |
| OCT'08                   | 256 681 | 232 136 | 10   | 2      |
| NOV'08                   | 214 499 | 260 219 | (21) | 2      |
| DEC'08                   | 361 021 | 373 282 | (3)  | 4      |
| JAN'09                   | 125 393 | 235 438 | (88) | 2      |

|   | Project          | Actual           | %          | Rating   |
|---|------------------|------------------|------------|----------|
| FEB'09  | 279 655          | 232 383          | 17         | 2        |
| MRC'09  | 207 858          | 433 094          | (108)      | 2        |
| <b>Sub-Total</b>                                  | <b>2 610 516</b> | <b>2 610 516</b> |            | <b>2</b> |
| <b>Revised Forecast (after adjustment budget)</b> |                  |                  |            |          |
| MRC'09  |                  |                  |            |          |
| Adjustment  | 469 645          | 469 645          |            |          |
| <b>Total</b>                                      | <b>3 080 161</b> | <b>3 080 161</b> | <b>100</b> |          |

The Department achieved a financial management capability rating of level 2 (partial compliance). PT adapted a new policy as from June 2009 to assist the departments to align their expenditure to their actual cash receipts on a daily and monthly basis.

#### Monthly Own Revenue Payover

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

#### Repayment of Surplus Funds

The Department obtained a financial management capability rating of level 4 (full compliance). Surplus funds were paid to the PRF on 27 May 2009.

#### Submission of monthly Bank Reconciliation

The Department was financial management capability rated a level 4 (full compliance). The monthly bank reconciliations were submitted within 15 days after month end.

#### Beneficiary Payments (Direct Transfers)

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

**Table 122: Beneficiary Payments**

| Payments | Beneficiary Payments | %    |
|----------|----------------------|------|
| 66 464   | 492                  | 0.74 |

### **3.10.5 Supply Chain Management**

In terms of the requirements of section S38(1)(a)(iii) of the PFMA, the Department has instituted an Accounting Officer's system but has not updated it since 2004. Accompanying delegations that were amended during 2006 together with the outdated AO system is not adequately aligned. The current situation may lead to control weaknesses between the application of the delegations and the policy strategy that the AO system intends to encapsulate. One such control weakness could be the abuse of the limited bidding process.

The AO system has recently been revised and the draft forwarded to stakeholders for comment. Accompanying delegations have been temporarily revised to address the critical areas where control weaknesses are a factor. However these delegations have not yet been implemented.

The Auditor-General has indicated in their 2008/09 management report that the Department's macro structure has recently been approved and that the micro structure development process, that will include a structural and functional model for Supply Chain Management as a whole, will commence in due course.

The Department has given effect to skills development training for officials involved with SCM. A skills development training plan addressing amongst others, Strategic Sourcing (partially), contract and project management, UNISA SCM 1 year courses and train-the-trainer projects have been implemented within SCM.

The Auditor-General has indicated in their 2008/09 management report that there appears to be abuse of the limited bidding process. It is reported that contracts to the value of R46 580 432.78 ( $\pm 2.10$  per cent of the total contracts issued for the year under review) were procured using this particular process.

For 2008/09 financial year, the Department failed to inform both the Provincial Treasury and the AG's office of all cases where goods and services procured via limited bids, above the value of R1 million, in terms of PTI 16A6.4.

The Department has a Compliance and Monitoring unit within the structure of the Directorate Supply Chain Management that is responsible for assessing control weaknesses, and to give effect to processes and procedures to minimise risk within the control environment for SCM, which include the following:

- The drafting of instructions and circulars;
- Reviewing of the Accounting Officer System to provide guidelines;
- Implementation of remedial plans (including the implementation of registers, on the job training, provide workshops to address critical issues); and
- Monitoring and evaluation by performing follow up assessments.

The Auditor-General has highlighted various cases of 'alleged' irregular expenditure within the Department. The Games Transportation System Services (GTSS) and Money Line 1355 trading as HB Air conditioning, amongst others, have been under scrutiny by the Provincial Treasury. These matters are still being investigated and will be addressed further with the Department on completion of the investigation.

Fruitless and wasteful expenditure has also been disclosed in the Accounting Officer's report where alleged fruitless and wasteful expenditure with regards to the Western Cape Nurses College, Valkenberg High Care Nurses Admission Unit and various schools have been incurred.

The Department needs to ensure that precautionary steps are taken to mitigate risks in respect of the limited bidding process and to ensure that all applications for limited bidding together with approval of awards thereof be presented to the Department's relevant bid committee. The current operational framework does not allow for the above process.

Demand management is not always applied effectively within the Department. Although a strategic sourcing component resides within the central SCM unit, it does not necessarily have an impact on the branches SCM units and may impact on service delivery and value for money opportunities.

Although the Department indicates in their AO system that the strategic sourcing methodology will be adopted, it does not give effect to demand management. It is recommended that this unit, together with certain line-functionaries be capacitated in respect of this methodology to give effect to the demand function

The Department's procurement spend on quotations totalled R54 166 419 for the 2008/09 financial year. R49 512 149 (91 per cent of total spend) was awarded to HDI companies. The Department awarded bids to the value of R1 544 440 786.19. Of this amount, R786 211 192 representing 49 per cent was awarded to HDI companies. A total of R255 687 700 was awarded to HDI companies that have women equity ownership. A total of R110 509 014 was awarded to companies that have 100 per cent women equity ownership. 7 Bids to the value of R39 636 105 was procured via the limited bidding route representing ± 2.5 per cent of the total procurement spend. It is noticed that only 5 per cent of quotations have been adjudicated on the EPSi for the 2008/09 financial year. It is recommended that this function be linked to an official's annual performance measures.

### **Rating and Comparison to the 2007/08 financial year**

The Department maintains a financial management capability rating of level 2 for SCM. Various assessments on SCM procedures were conducted by the Provincial Treasury within the 2008/09 financial year and it must be noted that unless a concerted effort and commitment is made by the Department, it will regress further in respect of SCM.

### **Conclusion/Recommendation**

In terms of the Department's assessment the following immediate areas would provide the right catalyst to move the Department to the next level:

- That the Department undertakes a full revision of the AO delegations so as to be aligned with the updated AO system and that there is also regular alignment to current regulatory and policy frameworks.

- The requirement of demand management procedures be stringently followed to enable the Department to spend more effectively in respect of its spend on Goods and services. This will curtail the incidence of limited bids and contract extensions.
- Adequate procurement planning and linking to the budget to avoid fruitless and wasteful expenditure patterns.
- Effective utilisation of the EPSi.
- Development and implementation of a Standard Operating Procedural Manual for SCM and asset management to enforce compliance and creating institutional memory.
- Enforcement of a better information management system, rigorous record keeping and maintenance of a proper audit trail.
- Enforcement of contractor management procedures and the introduction of breach clauses and penalties. Ensure criteria for a valid contract are met prior to signing on of the contractor.
- Ensure compliance to SCM policy and procedure. Implementation of an effective internal control mechanism that mitigates risk. Refer to NT Circular: Code of Conduct for Bid Adjudication Committees dated 24 March 2006.

### **3.10.6 Moveable Asset Management**

The reporting on the National Treasury's Broad Implementation plan for assets in the Financial year 2008/09 revealed 100 per cent non-compliance to Planning, Acquisition, Operation and maintenance and Disposal and 100 per cent non-compliance to the Accounting requirements and 62 per cent non-compliant to the Asset Register requirements.

The expiry date for compliance to National Treasury Broad Implementation plan was 31 March 2008. The reason for the department not being fully compliant at the end of the 2008/09 financial year was as a result of the following areas being postponed/outstanding:

- Asset Management Planning: Definition of asset, role of asset, non asset solution, asset life cycle, life-cycle costing, accountability and responsibility, elements of best strategy.
- Acquisition Plans: Analysis of alternatives, developing of an acquisition plan, receipt and acceptance of assets, establishing ownership and control.
- Operation and Maintenance Plans: Establishing performance indicators, Operation & maintenance plans, Monitoring condition and use, Maintenance scheduling, Tracking of assets: transfers, loans, off-site repairs, Safeguarding and protecting of assets, stock take and physical security.
- Disposal Plan: Identification of surplus, obsolete & under-performing assets, Replacement strategy, Evaluation of disposal alternatives, Write-off of damaged or missing assets, The Disposal Plan.

- Accounting: Criterion of control, Capitalisation threshold, Enhancements & upgrades, Portable, attractive assets.
- Valuation of assets: Recognition criteria, Valuation methodology.
- Depreciation of assets: Method, Useful life.
- Treatment of repairs & maintenance.
- Recording of assets on acquisition, transfer and disposal.
- Reconciliation of assets on AR with BAS.
- All minimum requirements for asset register are still outstanding.

It is evident from the information above that the Department did not meet the deadline in terms of the National Treasury's Broad Implementation plan. There was no improvement in the 2008/09 financial year to facilitate this implementation. The Department is facing challenges in terms of all aspects of asset management.

The AGSAs Management Report for the 2008/09 financial year alluded to following findings:

- Incorrect classification of minor assets.
- Assets that meet the definition of a biological asset are not disclosed.
- Assets on asset register could not be physically verified.
- Assets found on the floor could not be traced to the asset register.
- Recording of assets in asset register is incomplete.

### **Rating**

For the 2008/09 financial year the Department is rated at a level 1 which is the Start-up level in terms of the financial management capability model for Moveable Asset Management. It must be noted that this rating is based on the information provided to the Provincial Treasury by the Department in terms of the reporting requirements (Project dashboard and Risk Log) of the National Treasury's Broad Implementation Plan. It must be further noted that a verification assessment in terms of assets is planned for the 2009/10 financial year.

### **Recommendations**

- Fast tracking the postponed/outstanding requirements of the National Treasury's Broad Implementation Plan for Asset Management.
- Implement asset management training.
- Take cognisance of the Auditor-General's recommendations and give effect to corrective measure to address the identified shortcomings.
- Implement adequate control over its asset register.

### 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.

The evaluation was based on the activities of the 2008/09 financial year and the findings were as follows:

**Table 123: Basic Accounting System (BAS)**

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

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

**Table 124: Skilled and capacitated system users**

| Number of officials nominated | Number of officials attended | Number of officials cancelled | Number of officials qualified for a certificate (70% pass rate) | Number of officials not qualifying for a certificate |
|-------------------------------|------------------------------|-------------------------------|---|--|
| 20                            | 15                           | 5                             | 12  | 3  |

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

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

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

#### **Month end closure**

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

### Year closure

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

### System Controller Functions

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

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

### Monitor applicable interfaces

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

**Table 125: Personnel and Salary Administration System (PERSAL)**

| Requirements                               | Standard Level 3           | Standard Level 4   | Rating   |
|--|----------------------------|--------------------|----------|
| Skilled and capacitated system users       | In accordance with profile | Various Modules    | 2        |
| System Controller Functions                | 80 – 90%                   | 91 – 100%          | 3        |
| Establishment Management                   | Quarterly                  | Monthly            | 4        |
| PERSAL/BAS Reconciliation                  | Monthly by the 20th        | Prior to the 20th  | 1        |
| Adhere to Minimum Information Requirements | Annually                   | Continuous process | 2        |
| Leave Audit                                | Annually                   | Continuous process | 3        |
| <b>Average rating</b>                      |                            |                    | <b>3</b> |

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

**Table 126: Skilled and capacitated system users**

| Number of officials nominated | Number of officials attended | Number of officials cancelled | Number of officials qualified for a certificate (70% pass rate) | Number of officials not qualifying for a certificate |
|-------------------------------|------------------------------|-------------------------------|---|--|
| 33                            | 21                           | 12                            | 17  | 4  |

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

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

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

#### **System Controller Functions**

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

#### **Establishment Management**

The Department achieved a financial management capability rating of level 4 (full compliance) as the establishment is maintained on a monthly basis.

#### **PERSAL/BAS reconciliation**

The Department did not compile a monthly PERSAL/BAS reconciliation and therefore achieved a financial management rating level 1 (non compliance).

#### **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 of level 3 (nominal compliance) as the leave audit is updated on at least an annual basis.

**Table 127: Logistical Information System (LOGIS)**

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

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

**Table 128: Skilled and capacitated system users**

| Number of officials nominated | Number of officials attended | Number of officials cancelled | Number of officials qualified for a certificate (70% pass rate) | Number of officials not qualifying for a certificate |
|-------------------------------|------------------------------|-------------------------------|---|--|
| 10                            | 8                            | 2                             | 8   | 0  |

There was a decline in nominations, compared to the previous financial year. The Department obtained 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 to getting users trained.

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

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

The average days per issue during the 2008/09 financial year was 4 days, the performance of the department is therefore below standard.

#### **Stock Management**

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

#### **Financial Controls**

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

Provincial Treasury: Accounting indicated that the Department do compile the BAS/LOGIS Reconciliation, but failed to submit to Provincial Treasury. Departments need to certify that they do their monthly reconciliation by submitting a certificate as proof to Provincial Treasury: Accounting for each month.

### **System Control functions**

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

**Table 129: Management Information System (Vulindlela)**

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

**Table 130: Usage of the Management Information System (Vulindlela)**

| <b>Number of registered users</b> | <b>Number of registered users using the system on a regular basis</b> | <b>Number of registered users not using the system on a regular basis</b> | <b>Percentage active users</b> |
|-----------------------------------|---|---|--------------------------------|
| 45                                | 22  | 23  | 49%                            |

The Department obtained a financial management capability rating of level 2 (nominal compliance) due to the fact that only 49 per cent of registered users utilise the system on a regular basis.

The Directorate Supporting and Interlinked Financial Systems will, in cooperation with the Chief Financial Officer, re-evaluate the need of the 23 registered users who do not use the system on a regular basis. In addition, discuss the further role out of Vulindlela within the department and address any further requirements they might have.

## **3.11 Department of Agriculture**

### **3.11.1 Performance Management**

#### **3.11.1.1 Non-financial information**

The analysis of departmental performance that follows 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); level 2 development level (proper internal control framework); level 3 (focus 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).

In past financial years, the emphasis has been on formulating clear measurable objectives and setting realistic and measurable performance indicators and targets. For the period under review, this assessment will comment on the applicability and validity of those measurable objectives and performance indicators. The aim is to ensure that the departmental APP, when read together with the AR and QPR clearly reflect stated performance expectations; performance accomplishments; demonstrated capacity to learn, adapt and improve; and whether the information obtained and communicated is fair and reliable.

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 a level 4 financial management capability. The 2008/09 AR, the 2008/09 and 2009/10 APPs as well as the final 2008/09 QPR have been used in the assessment.

#### **Annual Report and the Annual Performance Plan 2008/09**

The technical assessment generally confirmed consistency between the Department's AR, the APP and the QPR of the Department for the financial years 2008/09. The consistency is in respect of the strategic and measurable objectives, the performance measure indicators and the actual targets that the department has set to achieve at the beginning of the financial year. These are largely set in way that would enable the monitoring of performance in the Department.

An example of a randomly picked strategic objective of implementing Land Care projects shows that the measurable objective is the improvement in the protection of natural resources through the implementation of Land Care projects and the performance measure indicator is the number of projects implemented while the performance target set is 60 projects per year.

The development of the strategic objectives has been done per sub-programme and a distinction has been made between the national transversal indicators and the Western Cape specific indicators. The sub-programme Farmer Support Services did not make a distinction between national transversal indicators and the Western Cape specific indicators in the APP but did that in the AR. However, the performance measure indicators and targets set in APP are consistent with those in the AR.

The Department achieved its objectives and targets set in the APP and these are accurately 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.

#### **Annual Performance Plan 2009/10**

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 measure indicators are linked to the strategic and measurable objectives in each programme and sub-programme. The corresponding targets are set for the year and in most instances for each quarter, where applicable. The majority of the targets are measurable in terms of numbers except for about two isolated instances in the sub-programmes Extension and Advisory Services and Structured Agricultural Training where the Department defined performance targets as 'implement'.

For the quarterly performance targets set, the Department reports on the progress made in achieving these targets, the reasons for deviations from the target (if any) and the remedial steps that would be undertaken to mitigate the challenges experienced. However, some of these challenges are not directly linked to the deviations from targets.

#### **Conclusions and recommendations**

Overall, the Department technically complied with the requirements of the APP and AR. The Department complies with almost all of the financial management capability level 3. For the purpose of facilitating the monitoring of the department's performance, it is recommended that the reasons for the deviations from the performance targets set be linked to each performance measure indicator that is not met in quarterly reporting even though this is not mandatory.

The Department's AR explains most deviations from targets and mention remedies for below and above target performance that the Department will take forward in the future and these challenges are relevant to actual outputs per quarter. Therefore, in Treasury's opinion the Department is showing some elements of the level 4 financial management capability.

The Department should institutionalise processes for dealing with non financial/performance information, highlighting the collection methodology, systems, verification and audit processes. 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 outputs. The move beyond compliance involves expanding the focus beyond the relation between inputs outputs to directing inputs and outputs closer toward the achievement of the desired outcomes and impact. A fine balance between the Department's core mandate and compliance requirements must be maintained. Going forward the Department, having entered into a new electoral cycle, should ensure strong linkages between the SP, APPs and Budget.

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

#### **Compliance with PFMA reporting requirement**

In terms of section 40(4) of the Public Finance Management Act No. 1 of 1999, the Department submitted by the 15th of each month, information on actual expenditure and revenue collected for that month, projections of anticipated expenditure and revenue collection for the remainder of the financial year. Material budget variances as well as remedial actions to remain within budget were included.

Actual expenditure and revenue collected was verified against Vulindlela reports on a monthly basis and material variances communicated to the CFO office for investigation.

#### **Annual spending outcome**

Agriculture had for the period ending March 2009, recorded aggregate expenditure of R355.6 million against the adjusted budget amounting to R376.6 million following a total net increase of R31.9 million (9.2 per cent) on the main budget of R344.7 million.

Agriculture spent 94.4 per cent of their 2008/09 adjusted budget by the end of the financial year, resulting in under spending of R20.9 million.

During 2007/08, the department had for the same period incurred aggregate expenditure of R325.6 million or 98.2 per cent against the adjusted budget amounting to R331.5 million following a increase of R41.3 million (14.2 per cent) on the main budget of R290.2 million.

The Department spent 98.2 per cent of their adjusted budget by the end of the financial year, resulting in under spending of R5.9 million, eligible for roll-over.

### **Quarterly spending performance**

With respect to quarterly spending, Agriculture had for the fourth quarter ending March 2009 spent R112.3 million (31.6 per cent) of total actual expenditure, which amounted to R355.6 million.

The Department spent R74.0 million (20.8 per cent) of the total actual expenditure during the first quarter, R88.5 million (24.9 per cent) during the second quarter and R80.7 million (22.7 per cent) during the third quarter.

During 2007/08, the Department had for the last quarter incurred expenditure of R117.5 million (36.1 per cent) of total actual expenditure amounting to R325.6 million.

Comparatively, the Department had consumed R56.1 million (17.2 per cent) of total payments during the first quarter, R62.9 million (19.3 per cent) during the second quarter and R88.9 million (27.3 per cent) during the third quarter.

The Department has improved its fourth quarter spending relative to that of 2007/08. In fact, it spent less during the last quarter of 2008/09 than the year before, alleviating the so-called "March spike" phenomenon.

### **Misclassification of expenditure**

The introduction of the toned Standard Chart of Accounts by the National Treasury on 1 April 2008, brought about challenges around erroneous expenditure allocations by the department.

That being so, National Treasury introduced an inconsistent classification combinations model and expanded the Vulindlela responsibility download reports to support department by identifying high-level inconsistent classification combinations during 2008.

With a view to correcting misallocated expenditures, departments were monthly requested to interrogate their financial data and to correct inconsistencies in the financial system by using the provided inconsistent classification combinations developed by National Treasury. Misclassified expenditures undermined actual reporting on the economic classification in the in-year monitoring and the infrastructure-reporting model.

Over a period of months the Department has managed to bring down their count of suspected misclassified payment transaction from a high level of a manageable degree.

While misclassified expenditures remains a challenge for the Department, the situation is improving with continued SCOA training identified as key success factor.

### **Post Adjusted Estimates adjustments**

Post Adjusted Estimates adjustments are shifts and adjustments introduced by the Department following book closure to offset all SCOA level 3 overspending with savings realised within the same main division of the vote.

The extent of post adjusted estimates adjustments had increased by R1.1 million (17.8 per cent) from R6.3 million effected in 2007/08 versus R7.5 million effected during.

The Department introduced slightly more post adjusted estimate adjustments during 2008/09 than the year before which challenges the credibility of the 2008/09 adjusted budget somewhat.

### **Adjustments estimates 2008/09**

The Department finalised its budget adjustments within Treasury timeframes. Inputs were inclusive in accordance with section 31 of the Public Finance Management Amendment Act, (as amended), 1999 (PFMA). Formats complied with the standardised adjusted estimates template as based on National Treasury's guidelines.

The Department passed adjustments of R31.9 million a 9.2 per cent increase on the 2008/09 main estimates of R344.7 million which predominantly comprised of approved roll-overs: R4.5 million (14.3 per cent); unforeseen and unavoidable expense: R9.0 million (28.1 per cent); supplementary national conditional grants allocation (CASPs): R6.1 million (19.1 per cent); increased own revenue collection: R9.3 million (29.3 per cent) and equitable share adjustment: R2.8 million (9.0 per cent).

During the previous financial year, Agriculture passed total adjustments of R41.3 million, a 14.2 per cent increase on the main budget of R290.2 million, which primarily comprised roll-overs: R12.6 million (30.6 per cent of total) and other shifts: R28.6 million (69.3 per cent).

The Department effected less budget adjustments during 2008/09 than the year before which suggest an improvement in the credibility of the main estimates compared to the year before.

### **"March Spike" anomaly**

The so-called "March Spike" phenomenon refers to the situation where expenditure during the month of March surge noticeably when, compared to prior months of that financial year.

The causes of the increased expenditure during March vary significantly across sectors. It can for the most part be ascribed to late procurement of goods and services (to avoid under expenditure), departmental claims and overdue invoices, major transfers to NGOs, and households to avoid surrendering unspent funds, late transfers received from adjustments estimates, delayed submission of invoices by supplier and potential unreliable projections against actual expenditure and operational plans.

During 2008/09, total expenditure during March 2009 totaled R55.8 million or 15.7 per cent of total expenditure for the financial year amounting to R355.6 million.

Spending for the same period during 2007/08 came to R48.8 million or 14.9 per cent of total actual expenditure for 2007/08 of R325.6 million.

The Department has slightly increased its March expenditure relative to the year before.

### **National Conditional Grant expenditure**

#### **Land Care Programme Grant: Poverty Relief and Infrastructure Development**

The grant is paid to Provinces to optimise productivity and sustainable use of natural resources to ensure greater productivity, food security and job creation.

During 2008/09 the department paid out the total Division of Revenue Act (DORA) provision of R3.4 million. Comparatively, during 2007/08, Agriculture expended R3.2 million or 98.5 per cent of the Division of Revenue Act allocation of R3.3 million.

#### **Comprehensive Agricultural Support Programme Grant (CASP)**

This grant is appropriated to Provinces to expand the provision of agricultural support services, and promote agricultural development among emerging farmers.

In 2008/09 the department disbursed that entire Division of Revenue Act (DORA) provision of R49.2 million. During the previous financial year, Agriculture transferred R33.3 million or 99.8 per cent of the Division of Revenue Act allocation totaling R33.4 million.

#### **Agriculture disaster management grant**

The Agriculture disaster management grant was introduced to the Province to assist with the rehabilitation of flood and drought affected areas.

During 2008/09 the department incurred expenditure of R5.6 million or 41.8 per cent against the total DORA provision of R13.5 million. Back in 2007/08, the Department spent R34.6 million or 88.3 per cent of the Gazetted Division of Revenue Act allocation totaling R39.2 million.

#### **Revenue collection**

Provincial own receipts at March 2009 aggregated to R25.5 million (106.8 per cent) against the revised own receipts estimate of R23.8 million which is an improvement of 16.1 per cent (R3.5 million) on the R21.9 million (146.8 per cent) collected against the 2007/08 revised revenue estimate of R14.9 million.

## **Conclusion/recommendation**

Overall, the department has spent within the 2 per cent under spending norm, all rollovers were within the provisions of the National Treasury Regulations, and no intentional fiscal dumping could be identified. Moreover the AG has not highlighted any unauthorised or irregular expenditure relating to the vote. On the whole and mindful of budget management findings, the Department is gaining ground towards a level four auditable public organisation in the near future.

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

An assessment of the financial management capability of the Department was undertaken based on audit findings and monthly In-Year Monitoring (IYM) reporting, that revealed the following:

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

In the monthly IYM it was reported that control and the reconciliations on suspense accounts were done on monthly basis and their control over debtors handed over to the State Attorney has also improved. In this regard the Department improved to a level 3 financial management capability rating compared to the previous assessment.

#### **Accounting of assets**

The AGSA reported that assets were captured incorrectly and authorised on LOGIS during the 2008/09 financial year.

During the execution of audit procedures on assets, the AG identified 7 journals out of 14 tested (50% error rate) allocated to the expenditure objectives contained insufficient documentation to support the corrections effected by the journals.

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

#### **Financial reconciliations**

The Department reported that reconciliations of BAS and PMG, BAS and LOGIS, as well as PERSAL and BAS are performed on a monthly basis.

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

#### **Supporting Documentation**

The AGSA identified that 34 out of 60 journals (56.7 per cent error rate) relating to travel and subsistence contained insufficient supporting documentation to support the validity of the journals passed.

The AGSA also identified that 27 out of 42 journals (64.3 per cent error rate) in respect of transfer payments contained insufficient supporting documentation to support the validity of the journals passed.

The Department continues to perform at a level 2 financial management capability rating when compared to the previous assessment.

#### **Expenditure - Payments and journals**

Payments to suppliers made more than 30 days after receipt of invoice still remains a concern. Quarterly reports from National Treasury (Systems) were analysed and forwarded to the Department to address reasons for non-compliance.

Provincial Treasury requested the Department to put sufficient controls in place in order to ensure compliance at monthly FA Forum and bi-lateral meetings.

The Department continues to perform at a level 2 financial management capability rating when compared to the previous assessment.

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

The disclosure of departmental State Guarantees reflects effective 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 IYM report that a lease register is maintained. The Department therefore continues to perform at a level 3 financial management capability rating when compared to the previous assessment.

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

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

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

It was noted that monthly compliance reporting to Provincial Treasury took place according to legislative requirements. Financial reports were provided to the Accounting Officer on unresolved items and the Chief Financial Officer continued to follow up these transactions on a monthly basis.

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

### **Conclusion/recommendation**

To fully comply with a level 3 financial management capability, the Department needs to improve controls over the accounting of assets, supporting documentation and payments to suppliers within 30 days after receipt of invoice.

### **PUBLIC ENTITY: Casidra (Pty) Ltd**

Casidra (PTY) Ltd provides services to enhance the quality of life of rural communities and is registered as a private company in 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).

### **Accounting treatment of transactions**

The external auditor reported that the Entity had incorrectly accounted for VAT on certain transactions which could result in interest and penalties being levied. This matter has been raised in previous reviews and has led to a level 2 financial management capability rating.

### **Expenditure – Receipts and payments**

Audit findings revealed several instances of non adherence to internal controls particularly at the project farms. Similar instances were reported in the 2007/08 financial year by the external auditor and in indicative of a level 2 financial management capability rating.

### **Conclusion/recommendation**

The Entities management controls are generally effective and efficient, which has lead to the unqualified audit report for 2008/09. It is recommended that the finance staff at the project farms are adequately trained and supervised by the Head Office, in order to achieve a level 3 financial management capability level. 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.

## **3.11.3 Corporate Governance**

### **3.11.3.1 Enterprise Risk Management Systems**

#### **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 developed and it was found that the organisation structure supports the processes developed.

### **Internal Environment**

A risk management philosophy has been developed for the Department and a risk appetite of the Department has also been defined.

### **Operational Risk Assessment**

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

### **Overall Assessment**

Based on the above information, the department achieved a rating of 2, as the Department 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:

### **Risk Assessment**

Risk is assessed on a residual risk basis.

### **Monitoring**

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

### **2007/08 and 2008/09 Comparison**

For the 2008/09 review, it is evident that the department has made significant improvement as compared to the 2007/08 review.

### **3.11.3.2 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, the 2008/09 Auditor-General's report for the Department and the public entity as well as the Department's feedback on the 2009 MTEC 1 report.

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

##### **The CFO structure: Human Resource Capacity**

The Department is commended for the significant strides it has made during the past financial year in reducing the vacancy rate in the CFO structure from 20 per cent in June 2008 to 0 per cent. However, the Department has indicated that due to the moratorium placed on appointments, the Department is unable to implement the new correct Organisational Development CFO structure.

The Department has indicated that 85 per cent of staff in the finance component has career developmental plans and 80 per cent are attending structured training programmes.

#### **Policies and procedures**

The Department fully complies with all policies and procedures prescribed by the PFMA and Treasury Regulations pertaining to financial management, except for the following:

The Department has not yet developed a comprehensive asset register in terms of section 38(1) of the PMFA and TR.10.1.2, however, cognisance is taken of the fact that the Department has a limited LOGIS system.

- A policy and procedure manual for the effective management of assets as well as a debt write-off policy has also yet to be finalised and implemented.

#### **Annual Quarterly and Monthly Reports**

The Department and public entity must report monthly on expenditure and revenue, quarterly on performance, and have to table Annual Reports annually, as prescribed, in the Legislature. Compliance with these requirements is reflected in the table below:

**Table 131: Compliance with annual, quarterly and monthly reporting requirement**

| Institution           | Date annual report received by Provincial Treasury | Annual report tabled at the Provincial Legislature | Quarterly performance against strategic plan |
|-----------------------|--|--|--|
| <b>Departments:</b>   |  |  |  |
| Agriculture           | 31/08/09   | 30/09/09   | X  |
| <b>Public Entity:</b> |  |  |  |
| CASIDRA               | 31/08/09   | 30/09/09   | X  |

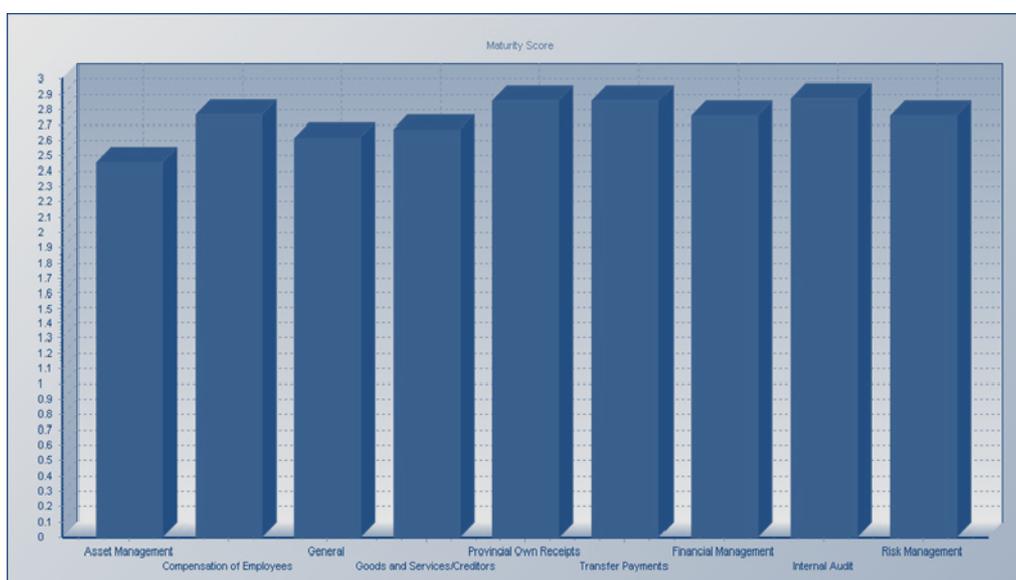
### Analysis

The Department has successfully tabled their 2008/09 Annual Reports as well as that of its public entity, within the prescribed timeframes.

### Auditor-General's report on the 2008/09 financial year

The Department received an unqualified audit opinion, with other matters in the 2008/09 as well as the 2007/08 financial year. Hence, the Department has sustained its financial management maturity capability.

**Figure 13: Financial Management Capability Model**



In terms of an assessment done by consultants from the European Union in conjunction with National Treasury, which was conducted in March 2009, the Department's financial management maturity was rated close to a level 3 in virtually all the categories. Asset Management is the category in which the Department scored the lowest maturity score, due to the function's organisational structure not sufficiently resourced and procedures not implemented. This is in line with this assessment as well as the assessment done by the Provincial Treasury in the 2008 Financial Governance Review & Outlook.

**CASIDRA (Pty) Ltd: Auditors report on the 2008/09 financial year**

CASIDRA received a clean report for the 2008/09 financial year, a situation which mirrors the previous financial year.

However, a number of shortcomings stemming from the entity's internal control procedures not being adhered to were identified in the 2008/09 Management Report. Failure to address these shortcomings could lead to it being taken up in the Auditor's report. Management should thus continuously make staff aware of all the risks attached to non-compliance of the entity's prescribed policies and procedures.

**Overall assessment**

Based on the assessment, the department has sustained close to a level 3 financial management maturity during the past financial year. The finalisation and implementation of the policies alluded to earlier in this report, would aid the Department significantly in achieving a level 3 audible organisation in the 2010/11 financial year.

**3.11.4 Cash Management**

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

The evaluation was based on the activities of the 2008/09 financial year and the findings were as follows:

**Table 132: Assessment of cash management**

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

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

### Skilled and capacitated system users

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

### Submission of Annual Provincial Cashflow Projections

The Department obtained a financial management capability rating of level 3 (nominal compliance). The Annual projections in respect of income and expenditure were received on 27 February 2009.

**Table 133: Deviation between monthly projections and actual expenses**

|   | Project<br>R'000 | Actual<br>R'000 | %          | Rating   |
|---|------------------|-----------------|------------|----------|
| <b>Original Forecast:</b>                         |                  |                 |            |          |
| APRIL'08  | 18 621           | 15 407          | 17         | 2        |
| MAY'08  | 27 388           | 20 755          | 24         | 2        |
| JUNE'08   | 39 893           | 30 290          | 24         | 2        |
| JULY'08   | 32 059           | 26 584          | 17         | 2        |
| AUG'08  | 26 961           | 29 306          | (9)        | 2        |
| SEP'08  | 31 443           | 33 527          | (7)        | 2        |
| OCT'08  | 29 976           | 31 881          | (6)        | 2        |
| NOV'08  | 29 587           | 22 002          | 26         | 2        |
| DEC'08  | 27 628           | 32 611          | (18)       | 2        |
| JAN'09  | 27 042           | 21 514          | 20         | 2        |
| FEB'09  | 29 178           | 31 683          | (9)        | 2        |
| MAR'09  | 24 928           | 49 144          | (97)       | 2        |
| <b>Sub-Total</b>                                  | <b>344 704</b>   | <b>344 704</b>  |            | <b>2</b> |
| <b>Revised Forecast (after adjustment budget)</b> |                  |                 |            |          |
| MAR'09<br>Adjustment                              | 31 940           | 31 940          |            |          |
| <b>Total</b>                                      | <b>376 644</b>   | <b>376 644</b>  | <b>100</b> |          |

The Department achieved a financial management capability rating of level 2 (partial compliance). The Provincial Treasury adapted a new policy as from June 2009 to assist the Departments to align their expenditure to their actual cash receipts on a daily and monthly basis.

**Monthly Own Revenue Payover**

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

**Repayment of Surplus funds**

The Department obtained a financial management capability rating of level 4 (full compliance). Surplus funds were paid to the PRF on 8 May 2009.

**Submission of monthly Bank Reconciliations**

The Department was financial management capability rated of level 4 (full compliance). The monthly bank reconciliations were submitted within 15 days after month end.

**Beneficiary Payments (Direct Transfers)**

The Department achieved a rating of 2 (partial compliance). The Provincial Treasury to encourage Department to make optimal use of the Province's financial systems to minimise the usage of Beneficiary Payments (Direct Bank Transfer).

**Table 134: Beneficiary Payments**

| Payments | Beneficiary payments | %    |
|----------|----------------------|------|
| 30 788   | 1 132                | 3.68 |

**3.11.5 Supply Chain Management**

When assessing the Department against the capability model for SCM, cognisance needs to be taken of the following:

The Department's SCM unit is vested under its CFO, which in turn has a reporting line to a Supply Chain Manager. It has managed to implement SCM and maintain a level of compliance to the basic SCM framework and issue policy to guide the procurement process within the Department.

The Accounting Officer's System (AOS) and the accompanying Delegations have recently been reviewed, in March 2008. This document details the processes to be followed by the SCM unit when procuring goods and services, it defines what is expected of SCM officials and what the department considers breaches of SCM practises and policies and how these breaches will be dealt with. The AOS has been aligned to regulatory and legislative framework.

The SCM unit has two vacant posts, however, regardless of these vacant posts; there is adequate segregation of duties. The officials within the unit attend SCM related

courses that could better equip them in performing their functions. They also receive in-house training.

The Department is reporting to the Provincial Treasury on a monthly basis on its procurement statistics with regards to bids it awards. It has been noted though that the Department has not complied with certain pieces of legislation and prescripts with regards to the following:

- Checking National Treasury's "List of Restricted Suppliers and Register for Tender Defaulters, prior to awarding a bid;
- Notifying SARS of all awarded bids; and
- Reporting to the Provincial Treasury as well as the Auditor-General all limited bids with a value of more than R1 000 000.00.

To remedy this situation, the Department needs to maintain a clear audit trail of all confirmations and reporting communicated to the various regulating bodies such as the Auditor-General or SARS for example.

When assessing the statistics report extracted from the EPSi for the period 1 April 2008 to 31 January 2009, it has been observed that of the 1 663 enquiries that the Department put out on the EPSi, 1 215 were completed. Hence 27 per cent of the enquiries put out on the system are unaccounted for and that procurement could have happened and is in essence not reported. It has been noted though that the Department is actively monitoring its statistics and trying to rectify areas where the reporting is not complete.

The Department does not have an in-house SCM monitoring and evaluation section for monitoring and evaluating the performance of SCM, however it has been observed that the Department does monitor certain aspects of their procurement processes e.g. their sourcing of quotations via EPSi. The function of monitoring and evaluation of SCM is being performed by the Provincial Treasury, Internal Audit and the Auditor-General. The Department scrutinises the reports generated by these said units and promptly rectifies or implements remedial actions. The extra effort in this regard by the Department is commendable.

The three bid committees have been established in the department and are consulted whenever procurement of a bidding nature is to be undertaken. Through engagements with the Department it was established that the Chairman of the bid adjudication committee as well as another member of the bid adjudication committee were also members of the bid specification committee. This is in contravention of Paragraph 16A2.3.4 of the Provincial Treasury Instructions. This was brought to the attention of the Department and the situation was promptly rectified by the Department.

The Department does maintain their records in a fairly user friendly manner which makes it easy to retrieve although there may be certain instances as indicated in the findings for certain limited bids in which this was not done. It also reports to the Provincial Treasury by the allocated due date and is actively involved in the various forums that are facilitated by the Treasury.

### **Rating and Comparison to the 2007/08 financial year**

The Department has shown a vast improvement when comparing the 2007/08 and 2008/09 financial years' assessments. The Department has significantly moved from a level 2 financial capability rating to a level 3.

### **Conclusion/Recommendation**

The level 4 of the financial capability model focus on the information management and how resources are utilised and managed, culminating in reliable financial information, whilst the level 3 focuses on compliance and control. Therefore in terms of the Department's assessment the following immediate areas would provide the right catalyst to move the department to the next level:

- Continuation of the added focus on maintaining a credible information management system; (this is inclusive of keeping a proper paper trail in respect of supporting documentation);
- Maintenance of the compliance and control in respect of SCM and limit deviation from process. In the event where deviations become necessary then ensure compliance to the legislative, regulatory and policy frameworks;
- Consistent training and skills development initiatives and the training of new appointments;
- Evaluation of the current SCM structure in terms of what the department requires especially in respect of risk mitigation and management thereof;
- Continue to review policy in terms of new legislation and regulatory requirements; and
- Ensuring that there is consistent and comparable SCM reporting.

### **3.11.6 Moveable Asset Management**

Resulting from the reporting on the implementation of the National Treasury's Broad Implementation Plan, the Department has not indicated its challenges with the Planning, Acquisition, Operation and maintenance, Disposal and Accounting requirements of the Dashboard. They have however indicated 62 per cent compliance in terms of the Asset Register Requirement. It is recommended that the Department fully report on the dashboard and risk log requirements.

Although the Department is working towards improving the asset management discipline, they are challenged with capacity and skilled officials. They have further indicated that their plans are work in progress and still in the review phase. It must be noted that the Department has developed a departmental specific asset management training manual to standardise the asset management procedures within the Department. Asset management training is then rolled out to the districts by the Head Office officials.

The Auditor-General has identified various shortcomings:

- Assets wrongly authorised for disposal on the system.
- Regularly monitoring assets to ensure timeous rectification of system errors.
- Insufficient supporting documentation to support the validity of the corrections effected by journals.

It must be noted that a concerted effort is made to improve asset management within the Department.

### **Rating**

On consideration of all the above, the Department is rated at a level 2 level in terms of the financial management capability model for Moveable Asset Management. It must be noted that this rating is based on the information provided to the Provincial Treasury by the Department in terms of the reporting requirements (Project dashboard and Risk Log) of the National Treasury's Broad Implementation Plan. It must be further noted that a full verification assessment in terms of assets is taking place in the 2009/10 financial year.

### **Recommendation**

- Fast tracking the requirements of the National Treasury's Broad Implementation Plan for Asset.
- Take cognisance of the Auditor-General's recommendations and implement corrective measures to address the identified shortcomings.

### **Conclusion/recommendation**

Information or recommended remedial steps, and if applicable the assistance or guidance that will be provided by PT towards assisting the department/entity towards achieving the next or higher level of financial management capability.

### **3.11.7 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.

The evaluation was based on the activities of the 2008/09 financial year and the findings were as follows:

**Table 135: Basic Accounting System (BAS)**

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

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

**Table 136: Skilled and capacitated system users**

| Number of officials nominated | Number of officials attended | Number of officials cancelled | Number of officials qualified for a certificate (70% pass rate) | Number of officials not qualifying for a certificate |
|-------------------------------|------------------------------|-------------------------------|---|--|
| 23                            | 14                           | 9                             | 11  | 3  |

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

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

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

### **Month end closure**

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

### **Year closure**

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

### **System Controller Functions**

Based on the following criteria the System Controller function maintained a financial management capability rating of level 3 (nominal compliance):

- Logging of calls to the Provincial Helpdesk.
- Maintenance of Security Profiles.
- Reinstating 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 maintained a financial management capability rating of level 4 (full compliance) as their interfaces were monitored and reported on a daily basis.

**Table 137: Personnel and Salary Administration System (PERSAL)**

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

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

**Table 138: Skilled and capacitated system users**

| Number of officials nominated | Number of officials attended | Number of officials cancelled | Number of officials qualified for a certificate (70% pass rate) | Number of officials not qualifying for a certificate |
|-------------------------------|------------------------------|-------------------------------|---|--|
| 23                            | 15                           | 8                             | 14  | 1  |

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

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

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

### **System Controller Functions**

The Department maintained a financial management capability rating of level 3 (nominal compliance) for the execution of its system control functions. It can be mentioned that this post had a change of incumbent in this financial year.

### **Establishment Management**

The Department maintained a financial management capability rating of level 3 (nominal compliance) as the establishment is maintained on at least a quarterly basis. The Department needs to maintain the total of approved posts on PERSAL.

### **PERSAL/BAS reconciliation**

The Department compiled a monthly PERSAL/BAS reconciliation by the 20th of each month and therefore maintained a rating of 3 (nominal compliance)

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

As not all information is captured on the system, the department maintained 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. Department to ensure that with the new appointments all information requested on the system be captured.

### **Leave Audit**

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

**Table 139: Logistical Information System (LOGIS)**

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

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

**Table 140: Skilled and capacitated system users**

| Number of officials nominated | Number of officials attended | Number of officials cancelled | Number of officials qualified for a certificate (70% pass rate) | Number of officials not qualifying for a certificate |
|-------------------------------|------------------------------|-------------------------------|---|--|
| 13                            | 8                            | 5                             | 7   | 1  |

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

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

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

The average days per issue during the 2008/09 financial year was 29 days, the performance of the department is therefore below standard.

One of the main contributing factors for this rating could be that the Cost Centre Managers are not situated within the immediate vicinity of the store.

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

#### **Stock Management**

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

#### **Financial Controls**

The Department maintained a financial management capability rating of level 2 (partial compliance) as financial controls are not executed on at least a monthly basis.

According to the Purchase to Payment Report for the period 2008.04.01 to 2009.03.31, the number of days for payments exceeds the required number, which is 30 days.

Departments are required to capture the "Source Document Receipt Date" on BAS or the external source system. This must be the date when the invoice was first received by the department as acknowledged by means of a registry stamp or in writing if received directly by an official in the department. The authoriser of payments must ensure that this date is correctly entered on the system before authorising the payment.

#### **System Control functions**

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

**Table 141: Management Information System (Vulindlela)**

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

**Table 142: Usage of the Management Information System (Vulindlela)**

| Number of registered users | Number of registered users using the system on a regular basis | Number of registered users not using the system on a regular basis | Percentage active users |
|----------------------------|--|--|-------------------------|
| 23                         | 15   | 8  | 65%                     |

The Department obtained a financial management capability rating of level 2 (partial compliance) due to the fact that only 65 per cent of registered users utilise the system on a regular basis.

#### **Conclusion/recommendation**

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

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

### **3.12.1 Performance Management**

#### **3.12.1.1 Non-financial information**

The analysis of departmental performance that follows 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); level 2 development level (proper internal control framework); level 3 (focus 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).

In past financial years, the emphasis has been on formulating clear measurable objectives and setting realistic and measurable performance indicators and targets. For the period under review, this assessment will comment on the applicability and validity of those measurable objectives and performance indicators. The aim is to ensure that the departmental APP, when read together with the AR and QPRs clearly reflect stated performance expectations; performance accomplishments; demonstrated capacity to learn, adapt and improve; and whether the information obtained and communicated is fair and reliable.

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 a level 4 financial management capability. The 2008/09 AR, the 2008/09 and 2009/10 APPs as well as the final 2008/09 QPR have been used in the assessment.

#### **Annual Report 2008/09**

The Annual Report Guideline for General and Performance information for the year ended 31 March 2009 requires that the programme performance of provincial departments must be in accordance with their strategic and performance plans as tabled in the legislature.

The layout of the tables in the 2008/09 AR makes it difficult for the reader to distinguish between measurable objectives and performance measures. Information related to the measurable objective and performance measures are both captured under the heading measurable objective. The targets related to the performance measures are captured under the heading performance measures/service delivery indicators.

Not all the performance information included in the 2008/09 APP is reported in the 2008/09 AR. For example, there is an inconsistency in the performance measure linked to the measurable objective “establishment of a Design and Manufacturing Precinct to be rolled out over three phases incorporating all facets on the Design industry. The 1<sup>st</sup> phase relates to the setup of a manufacturing hub”. The 2008/09 APP links this measurable objective to the performance measure “number of BEE companies mentored through CTFC” with an annual target of 20. In contrast the AR makes reference to the performance measure “Development of a business case study” with an annual target of 1. This inconsistency makes it impossible to measure the performance of the Department against the identified measurable objective and performance measure. Alternatively, it is possible that the Department, in the APP, incorrectly assigned the performance measure “number of BEE companies mentored through CTFC” in the APP, and corrected for this error in the AR.

Other performance measures not included relate to monitoring and evaluation, for example “number of facilitated impact evaluation projects” and “number of departmental monitoring reports”.

Lastly, the Department has also not included the performance measures linked to the hosting of the Cape Tourism Showcase in the AR.

The Department has not reported progress on all the performance measures in the AR. With regards to the sub-programme Office of the HOD, the Department has not provided any information in terms of actual performance, leaving this column blank. Furthermore, no information is provided in the columns “regarding reasons for major variance” and “remedial action/comments”.

In a few instances the Department has used a performance measure for which it is unable to quantify at the time of reporting as the relevant data was not yet available. When selecting appropriate performance measures the Department should ensure that it is able to report progress on that performance measure within the reporting time period.

In general, the Department has provided adequate reasons for major variances in actual performance against target. Although the Department has in most instances provided reasons for major variance in the achievement in targets as well as remedial action, there are a few instances where no explanation is provided. For example, the Department has provided no reason for not meeting its target for “number of members of auto benchmarking club”.

### **APP 2009/10**

The APP conforms to the generic structure prescribed by the National Treasury. Strategic goals, strategic objectives, measurable objectives and performance measures have been articulated for each sub-programme.

The following inconsistencies were identified when comparing the sector-specific performance measures to that contained within the Department's 2009/10 APP.

The Department has not included the following sector-specific performance measures:

- "Number of consumer rights interventions conducted".
- "Number of liquor license applications processed".

In other instances the Department has used slightly different wording to that specified by the sector. These performance measures are:

- "Number of BBBEE workshops conducted" (Sector Specific) versus "number of BBBEE workshops held" (APP).
- "Number of complaints resolved" (Sector Specific) versus "number of complaints attended to" (APP).

In addition to annual reporting, national government also prescribes a sector-specific quarterly performance reporting template and performance indicators. The Department has provided quarterly targets for each of its performance measures.

The Department uses a large number of performance measures to monitor its progress and delivery towards achieving its strategic objectives. The majority of the performance measures contained in the APP are provincial specific performance measures. This enables the Department to monitor progress on provincial initiatives. The context within which the Department operates, specifically in terms of its role as facilitator, makes it difficult for the Department to monitor its direct contribution to for example, job creation and economic growth. As such the current performance measures used by the Department are more suited to measuring inputs, processes and to a limited extent outputs. There are very few performance indicators which measure outcomes.

### **Conclusion/Recommendation**

In conclusion, the Department is operating in the region of a competency level 3. There are however instances where the Department has not reported performance on performance measures contained in the APP. 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 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 measures and its strategic goals and in particular to limit the number of performance measures which measure inputs and processes.

The Department should institutionalise processes for dealing with non financial/performance information, highlighting the collection methodology, systems, verification and audit processes. 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 outputs. 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 SP, APP and Budget.

### 3.12.1.2 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 2008/09 financial year of R219,244 million was tabled in the Provincial Parliament on the 4 March 2008.

During 2008/09 the Department submitted electronic versions of its IYM report by the 15<sup>th</sup> day after the end of a reporting month as stipulated in section 40(4)(c) of the Public Finance Management Act, 1999 (Act 1 of 1999). The submission date is not always met with regard to the signed hardcopy by the accounting officer.

The Department needs to improve on expenditure forecasting, as forecasts in a prior quarter differ from actual expenditure. Forecasts often exceed actual expenditure by an average of 20 per cent a month. The table below details spending information for 2008/09 further alluding to the above. A similar trend was found in the 2007/08 financial year as well.

**Table 143: Quarterly Analysis on expenditure projections**

| R'000     | April | May   | Jun    | Jul    | Aug    | Sep    | Oct    | Nov    | Dec    | Jan    | Feb    | March  | Total          |
|-----------|-------|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|----------------|
| Quarter 1 | 6 127 | 8 933 | 33 767 | 22 306 | 14 958 | 30 728 | 17 143 | 15 727 | 24 756 | 15 052 | 22 125 | 7 622  | <b>219 244</b> |
| %         | 2.79% | 4.07% | 15.40% | 10.17% | 6.82%  | 14.02% | 7.82%  | 7.17%  | 11.29% | 6.87%  | 10.09% | 3.48%  | <b>100.00%</b> |
| Quarter 2 | 6 127 | 8 933 | 33 767 | 14 501 | 13 066 | 24 661 | 20 339 | 29 075 | 21 729 | 17 554 | 20 643 | 12 763 | <b>223 158</b> |
| %         | 2.75% | 4.00% | 15.13% | 6.50%  | 5.86%  | 11.05% | 9.11%  | 13.03% | 9.74%  | 7.87%  | 9.25%  | 5.72%  | <b>100.00%</b> |
| Quarter 3 | 6 127 | 8 933 | 33 767 | 14 501 | 13 065 | 24 662 | 10 007 | 27 610 | 38 220 | 19 431 | 23 051 | 12 158 | <b>231 532</b> |
| %         | 2.65% | 3.86% | 14.58% | 6.26%  | 5.64%  | 10.65% | 4.32%  | 11.92% | 16.51% | 8.39%  | 9.96%  | 5.25%  | <b>100.00%</b> |
| Quarter 4 | 6 127 | 8 933 | 33 767 | 14 501 | 13 065 | 24 662 | 10 007 | 27 610 | 38 221 | 11 186 | 11 559 | 30 283 | <b>229 921</b> |
| %         | 2.66% | 3.89% | 14.69% | 6.31%  | 5.68%  | 10.73% | 4.35%  | 12.01% | 16.62% | 4.87%  | 5.03%  | 13.17% | <b>100.00%</b> |

*\*Actual shaded & Projections not shaded*

The Department approved one virement in the 2008/09 financial year amounting to R142 586 or 0.06 per cent of the R231.532 million adjusted estimate. The virement was from Programme 5: Economic Planning to Programme 1: Administration. The amount shifted is substantially less than the R2.629 million which was shifted between programmes in the previous financial year. This constituted 1.3 per cent of the R205.386 million adjusted budget. Most of the virements effected in 2007/08 came from Programme 2: Integrated economic development services, sub-programme: Enterprise Development to Programme 1: Administration.

The Department also effected shifts within programmes amounting to R8.477 million or 3.7 per cent of the Adjusted Budget at the end of the 2008/09 financial year. The shifts effected were due to savings in Compensation of Employees as well as Goods and Services and used to offset over expenditure on Transfers to Departmental Agencies and Accounts and Non-profit institutions. Approximately 50 per cent of the shifts occurred in Programme 3: Trade and Industry Development that has the mandate to stimulate economic growth through industry development, trade and investment promotion.

The original budget allocation for the 2008/09 financial year was R219.244 million. During the 2008/09 Adjustment Estimate Budget the Department's budget was supplemented by R12.288 million or 5.6 per cent to R231.532 million. The amount included R924 000 received from National government for Improvement of Conditions of Services to accommodate higher than expected salary and related increases, R10.000 million for the rollout of Work for 100 000 related projects to address sustainable and economically efficient job creation. Revenue retention amounting to R1.364 million, included R814 000 from Cape Town Film Studio interest in 2007/08 and R550 000 accumulated surpluses from Cape Town Film Studio interest in 2006/07. In the previous financial year the Departments budget was reduced by R8.766 million due to the under collection of revenue specifically on Liquor license fees.

During the Adjustment Estimate the Department shifted funds between programmes amounting to R14.115 million and shifts within programmes amounted to R16.174 million. In the previous financial year the Department shifted no funds between programmes and shifts within programmes amounted to R13.470 million.

The Department's budget characterised that of a credible one as its actual expenditure was R229.921 million or 99.3 per cent of the adjusted appropriation of R231.532 million. The Department has not requested any funds to be rolled over from the 2008/09 financial year where in the previous financial year the Department requested rollover to the amount of R1.174 million of unspent funds for the 2007/08 financial year. However, there exists room for improvement in allocating sub programme budgets to SCOA items. The Department allocates to a majority of funding to one item in the original budget and then reallocates to various items in the adjustment estimate. Allocation to items should reflect planned activities in the main budget as accurate as possible.

The Department submitted its Adjustment Budget on time and it was comprehensive as outlined in terms of section 31 of the PFMA.

The table below gives the quarterly actual expenditure of 2008/09.

**Table 144: Economic Development and Tourism Expenditure per programme for 2007/08**

| <b>Programme</b>                   | <b>Q1</b>     | <b>Q2</b>     | <b>Q3</b>     | <b>Jan</b>    | <b>Feb</b>    | <b>Mar</b>    | <b>Q4</b>     | <b>Total</b>   | <b>Main Appropriation</b> | <b>Adjusted Budget</b> | <b>Total (over)/ under Available funds</b> |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|---------------------------|------------------------|--|
| Administration                     | 6 264         | 6 832         | 6 199         | 2 120         | 1 877         | 3 668         | 7 665         | 34 625         | 24 495                    | 26 818                 | 1  |
| Integrated Economic Development    | 20 423        | 3 994         | 10 279        | 1 018         | 1 851         | 5 238         | 8 107         | 50 910         | 56 950                    | 43 358                 | 555  |
| Trade and Sector Development       | 7 106         | 25 539        | 31 100        | 5 867         | 4 736         | 12 701        | 23 304        | 110 353        | 70 009                    | 87 274                 | 225  |
| Business Regulation and Governance | 2 748         | 3 736         | 3 896         | 899           | 1 071         | 2 937         | 4 907         | 20 194         | 15 891                    | 15 522                 | 235  |
| Economic Planning                  | 887           | 1 109         | 1 502         | 427           | 422           | 1 497         | 2 346         | 8 190          | 5 454                     | 6 539                  | 552  |
| Tourism, Arts and Entertainment    | 11 399        | 11 018        | 22 862        | 855           | 1 602         | 4 242         | 6 699         | 58 677         | 46 445                    | 52 021                 | 43   |
| <b>Total</b>                       | <b>48 827</b> | <b>52 228</b> | <b>75 838</b> | <b>11 186</b> | <b>11 559</b> | <b>30 283</b> | <b>53 028</b> | <b>282 949</b> | <b>219 244</b>            | <b>231 532</b>         | <b>1 611</b>                               |
| % spent of adjusted budget         | 21.1%         | 22.6%         | 32.8%         | 4.8%          | 5.0%          | 13.1%         | 22.9%         | 122.2%         | 94.7%                     | 100.0%                 | 0.7%                                       |

As seen by the above table, under spending occurred in most of the programmes, specifically Programmes 2: Integrated Economic Development Services and Programme 5: Economic Planning at 1.3 per cent and 9.4 per cent respectively. Overall, under spending was kept to a minimum of 0.7 per cent.

When considering per quarter spending, the Department had for the fourth quarter ending March 2009 spent R53.028 million compared to R48.827 million in the first quarter, R52.228 million in the second quarter and R75.838 million in the third quarter. Spending in March increased to 13.1 per cent from 5.0 per cent in February due to Transfers taking place in tranches, usually quarterly. Also contributing was increased spending on Goods and Services (36.3 per cent of March expenditure). Projected expenditure for the month was forecasted at 5.3 per cent. Thus, spending by the Department in March can be characterised as a March spike.

At the end of the 2008/09 financial year the Department reflected 8 possible misclassifications as per the Standard Classification of Accounts (SCOA) amounting to R16.941 million.

The Department recorded no irregular expenditure according to the 2008/09 audited Annual Financial Statements.

The Department needs to improve on revenue forecasts for Provincial own receipts, as forecasts project the majority of the revenue to be collected in the months of October and November, where actual collection occurs in January.

**Table 145: Quarterly Analysis on Provincial own Receipts projections**

| R'000            | Apr   | May   | Jun   | Jul   | Aug   | Sep   | Oct    | Nov    | Dec   | Jan    | Feb    | Mar    | Total          |
|------------------|-------|-------|-------|-------|-------|-------|--------|--------|-------|--------|--------|--------|----------------|
| <b>Quarter 1</b> | 35    | 35    | 208   | 65    | 65    | 64    | 1 932  | 1 225  | 194   | 923    | 23     | 11     | <b>4 780</b>   |
| %                | 0.73% | 0.73% | 4.35% | 1.36% | 1.36% | 1.34% | 40.42% | 25.63% | 4.06% | 19.31% | 0.48%  | 0.23%  | <b>100.00%</b> |
| <b>Quarter 2</b> | 35    | 35    | 208   | 166   | 84    | 112   | 1 847  | 1 210  | 179   | 864    | 11     | 10     | <b>4 761</b>   |
| %                | 0.74% | 0.74% | 4.37% | 3.49% | 1.76% | 2.35% | 38.79% | 25.41% | 3.76% | 18.15% | 0.23%  | 0.21%  | <b>100.00%</b> |
| <b>Quarter 3</b> | 35    | 35    | 208   | 166   | 85    | 112   | 762    | 171    | 75    | 1 519  | 1 636  | 594    | <b>5 398</b>   |
| %                | 0.65% | 0.65% | 3.85% | 3.08% | 1.57% | 2.07% | 14.12% | 3.17%  | 1.39% | 28.14% | 30.31% | 11.00% | <b>100.00%</b> |
| <b>Quarter 4</b> | 35    | 35    | 208   | 166   | 85    | 112   | 762    | 171    | 75    | 3,651  | 60     | 585    | <b>5 945</b>   |
| %                | 0.59% | 0.59% | 3.50% | 2.79% | 1.43% | 1.88% | 12.82% | 2.88%  | 1.26% | 61.41% | 1.01%  | 9.84%  | <b>100.00%</b> |

*\*Actual shaded & Projections not shaded*

The Department collected R5.945 million or 124.6 per cent of the R4.770 million adjusted budget. The over collection of R1.175 million was due to Liquor license fees of R344 000, Sales of goods and services other than capital assets of R127 000, Interest, dividends and rent on land of R11 000 and Financial transactions in assets and liabilities of R693 000, which includes the R550 000 cash surplus received from Wesgro.

The Department collected R10.548 million or 160.8 per cent of the R6.559 million adjusted Budget for 2007/08. This over collection of R3.989 million is mainly due to financial transactions in assets and liabilities of R5.587 million from recovery of debt that was written-off.

### **Conclusion**

The Department of Economic Development generally operates on level 3 financial management capability rating.

### **3.12.2 Compliance with accounting assessment policies and standards**

An assessment of the financial management capability of the Department was based on 2008/09 Auditor-General of South Africa (AGSA) audit findings and IYM monthly reporting, that revealed the following:

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

The Department reported monthly that suspense, control and disallowance accounts are regularly followed-up and cleared within a reasonable period of time.

The Department is maintaining its performance at a level 3 financial management capability level.

#### **Accounting of assets**

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

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

#### **Financial reconciliations**

Monthly reconciliations of control and suspense accounts were performed timely which made it possible for the Department to close their books successfully on a monthly basis. Exceptions were corrected and reconciled/accounted within the following month.

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

#### **Supporting documentation**

The Department reported that transactions are readily identifiable and supported by authentic and verifiable source documentation, enabling the Department to follow-up and clear balances within a reasonable period of time.

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

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

In the monthly IYM report the Department indicated that all inter-departmental balances and debts are recorded and reconciled on a monthly as well as receivables and payables confirmed within reasonable time and paid within the prescribed agreed period.

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

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

The Department reported that proper procedures and controls are in place for the identification and reporting of unauthorised, fruitless and wasteful and irregular expenditure in terms of the PFMA.

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

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

The Department has reported that employee files were updated with employee details and administered procedures and guidelines to ensure accurate reporting on guarantees.

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

### **Management of lease liabilities**

The Department reported that a lease operating register as well as a lease agreement register has been implemented and updated on a monthly basis and those procedures and guidelines are in place to ensure accurate reporting on lease liabilities

This is indicative of a level 3 financial management capability rating.

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

Monthly compliance reporting to Provincial Treasury took place in accordance with legislative requirements. The Department indicated that financial reports were provided to the Accounting Officer about uncleared items and followed up on a monthly basis by the Chief Financial Officer.

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

### **Conclusion/recommendation**

In conclusion, the Department maintains a level 3 financial management capability level however due to ineffective internal financial reporting controls which resulted into a material misstatement could have led to a qualification of the financial statements if the department had not adjusted their statements during the audit. It is therefore recommended that the department improve on the effectiveness of internal controls in order to prevent material misstatements in the financial statements.

### **PUBLIC ENTITY: Western Cape Liquor Board**

To determine at what level (level 1 – 4) of financial management capability the public entity is functioning at, in terms of the following areas:

#### **Accounting of assets**

Asset management controls and accounting requirements are in place. The entity maintains its performance at a level 3 financial management capability rating achieved during the prior year's assessment.

#### **Financial reconciliations**

WC Liquor Board remained unable to accurately and completely account for the revenue and receivables raised through the liquor licenses fees collected by SARS. The entity is unable to identify the debtors that settle their debt in respect of liquor licenses fees at financial year end. The entity is maintaining its performance at a level 2 financial management capability assessment.

### **Supporting documentation**

The Liquor Board reported that it has an efficient system of maintaining source documents for audit purposes and this was substantiated during the 2008/09 audit.

The entity is maintaining its performance at a level 3 financial management capability rating achieved during the prior year's assessment.

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

The entity reported that all payments and journals have been correctly classified and this was verified during the audit. Compared to the assessment of the previous year, the entity has maintained its performance of a level 3 financial management capability rating.

### **Accounting treatment of transactions**

The AGSA reported internal control deficiencies and weaknesses within the Liquor Board's accounting processes resulting in misstatements contained in the AFS submitted for audit. In this regard the entity has continued to operate at a level 2 financial management capability when compared to the previous year's assessment.

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

Since all levels of reporting are fully informed, Liquor Board is maintaining its performance at a level 3 financial management capability rating achieved during the prior year's assessment.

### **Management controls**

The AGSA reported several internal control deficiencies, which resulted in material misstatements of the financial statements submitted for audit. With regards to management control issues, the entity continues to operate at a level 2 financial management capability.

### **Conclusion/recommendation**

A new proposed legislation has been introduced once again, namely the Western Cape Liquor Bill, 2008. The entity is confident that the financial management capability will improve once the Western Cape Liquor Bill is promulgated, enabling the WC Liquor Board to accumulate its own revenue. The amended Western Cape Liquor Bill was put up for public comments in October 2009.

To overcome the internal control deficiencies and weaknesses of revenue management, the LB should investigate and propose methods of identifying various revenue sources. This should include the creation of a separate bank account wherein all liquor licence revenue should flow into.

**PUBLIC ENTITY: Western Cape Investment and Trade Promotion Agency (WESGRO)**

To determine at which level (level 1 – 4) of financial management capability the public entity is operating at, in terms of the following assessment areas:

**Accounting of assets**

The audit report of Wesgro revealed a lack of controls over the accounting of and reporting on assets in relation to:

- The residual values and useful lives of items of PPE were not reviewed annually which resulted in PPE and accumulated surplus being understated.
- Adjustments to PPE values were made which were inappropriate, resulting in an understated profit and loss on disposal account being overstated.
- Certain items of PPE on the fixed asset register had negative values.

The entity's performance remains at a level 2 financial management capability compared to the prior year's assessment.

**Financial reconciliations**

Monthly reconciliations of control accounts are performed timeously. The entity is performing at a level 3 financial management capability rating compared to the previous assessment.

**Supporting documentation**

The Auditor-General reported that no significant difficulties were experienced on the availability of requested information during the audit process.

Wesgro achieved a level 3 financial management capability; weighed against the previous year's assessment.

**Expenditure – Payments and journals**

The AGSA reported that for travel expenditure only 1 quote was obtained, which is not in line with Wesgro's travel policy, prescribing that two written quotes must be obtained for car hire expenditure.

The entity is performing at a level 2 financial management capability rating, as in the previous year's assessment.

### **Accounting treatment of transactions**

The AGSA reported that:

- Accounting policies were omitted for Foreign currency translation, Leasing and interest income, and taxes (state exemptions);
- The disclosure and accounting policy was omitted for defined pension contribution plan;
- No disclosure was made for PPE movement for 2007/08 and comparatives for provisions were not provided; and
- Valuation of available for sale investment in Cape Town Film Studios and related put option not in line with IAS 36.

The entity is maintaining its performance at a level 2 financial management capability rating, since the previous assessment.

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

Wesgro is continuing its performance of a level 3 financial management capability for monthly reporting of financial information. All levels of reporting are fully informed.

### **Management controls**

The AGSA report of the Annual Financial Statements of Wesgro revealed inefficiencies in the system of internal control which led to a number of amendments in order to comply with the South African Statements of Generally Accepted Accounting Practice (SA GAAP) and International Financial Reporting Standards (IFRS).

The Auditor-General also reported that certain performance information measures were not complete, measurable, consistent, accurate, and verifiable and time bound as was reported in the 2007/08 financial year.

Wesgro is currently performing at a level 2 financial management capability, given the above management control concerns.

### **Conclusion/recommendation**

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 experience by the entity in order to improve its financial management capacity rating from a level 2 to a level 3.

### **PUBLIC ENTITY: Destination Marketing Organisation**

The Destination Marketing Organisation is a public entity that is resorts under the control of the Department of Economic Development and Tourism.

The entity has obtained unqualified audit reports since 2006/07. However, there are some issues, based on the 2008/09 Auditor-General of South Africa (AGSA) audit findings that require further attention, as indicated below.

### **Management Controls**

The AGSA reported on revenue and receivables that have been outstanding for more than 3 months and commented that it is unlikely that the entity would recover the outstanding amount of R798 131 payable by THETA.

The AGSA reported that it seems that THETA is insolvent and also suggested that the entire amount be written off as irrecoverable debts, as the entity had made numerous fruitless attempts to recover the amount due from THETA.

Management should perform an appropriate credit worthiness of any individual/organisation before services are rendered and Legal actions should be considered to collect material long outstanding debts, if the internal recovery process failed.

This is an indication that the entity is performing at a level 2 financial management capability rating.

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

The AGSA reported that an amount of R144 798.65 payable to SARS was still outstanding and was not accrued for in the financial statements at 31 March 2009.

The amount includes R2 287.94 for penalties and R45 786.52 for interest. The interest and penalties portion is fruitless and wasteful expenditure, as the expenditure could have been avoided had reasonable measures been implemented to ensure punctual payment.

It is recommended that the entity correspond with SARS to resolve the outstanding penalties and interest payable and if possible ask for the waiving of penalties and interests.

This is an indication that the entity is performing at a level 2 financial management capability rating.

### **Accounting of assets**

The AGSA reported on the incompleteness of the asset register and non-capitalisation of cell phones. The asset register did not include the assets to the value of R192 000.00.

The AGSA also reported that the entity entered into cellphone contracts on behalf of its employees with a cellular network service provider and for mandatory costs for a 24 month contract. Users are provided an opportunity to upgrade their cellphones and the entity will pay the monthly service charges. These cellphones are insured

with an insurance company for R469 290.00, yet they were not included in the assets register as a finance lease asset.

The entity performs monthly and annual reconciliations between the asset register and the assets included in the insurance policy document to ensure that the insured assets do exist.

This is an indication that the entity could improve its performance to level 3 financial management capability rating should the above items be addressed.

### **Management of debtors**

The AGSA reported that the entity incurred interest payable of R10 120.59 pertaining to late payments made after the 30 days.

It is recommended that the entity develop monitoring tools to ensure that all invoices are paid within 30 days from the invoices date in order to avoid non-compliance with the Treasury Regulation 8.2.3.

This is an indication that the entity is performing at a level 2 financial management capability rating.

### **Conclusion/recommendation**

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

## **3.12.3 Corporate Governance**

### **3.12.3.1 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)**

**Strategic risk assessment**

A strategic risk assessment was conducted for the department, risk response strategies were developed and it was found that the organisational structure does support the processes developed.

**Internal environment**

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

**Operational Risk Assessment**

The risk events have been identified and assessed on an inherent level. It is clear that the existing controls have been identified and documented by means of process and control mapping.

**Overall assessment**

Based on the above information, the department 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 must implement the following set of Criteria and Norms and Standards for level 3:

**Internal Environment**

- Risk appetite defined.

**Operational Risk Assessment**

- Control gaps identified and action plans developed.

**3.12.3.2 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.

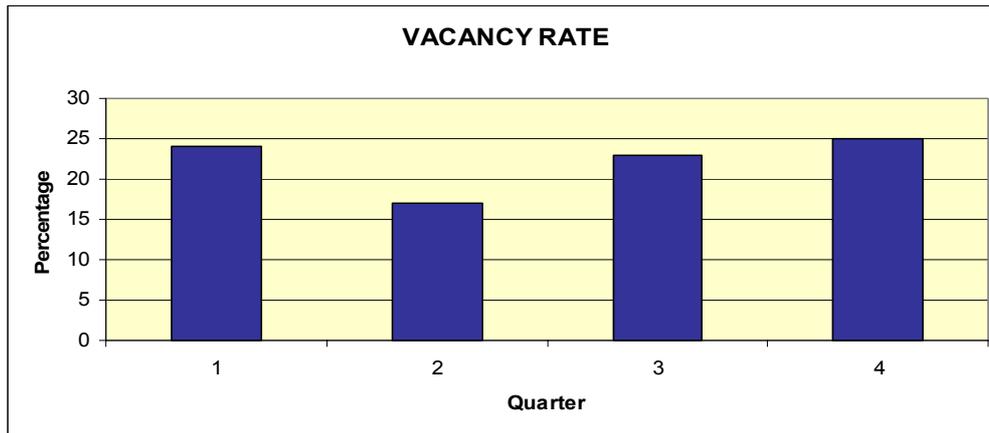
The source documents used were the Normative Measures Quarterly Report for departments and the PFMA Compliance Checklist for Public Entities for the quarter ending June 2009 and the 2008/09 Auditor-General's report for the department and the public entity.

## Analysis of Normative Measures Quarterly Report

### The CFO structure Human Resources Capacity

The vacancy rate in the CFO structure for the financial year 2008/09 is depicted below:

**Figure 14: Vacancy Rate**



During the first quarter in 2009/10 only 1 post was filled. Due to the Modernisation process, a moratorium has been placed on the filling of all Finance related posts and no temporary/contract staff has been appointed in these posts. A grave concern is that 9 of the 11 posts are on a supervisory level. All the positions in the Sub-Directorate Public Entity Oversight is vacant. As the parent department responsible for performing an oversight role over public entities, it is crucial that at least one post be filled on a contract basis.

In comparison with the FGR&O 2008 findings the status remains unchanged except for the vacancy rate which increased.

### Annual Quarterly and Monthly Reports

The Department and public entities must report monthly on expenditure and revenue; quarterly on performance; and annually they have to table Annual Reports, as prescribed, in the Legislature. Compliance with these requirements is reflected in table below:

**Table 146: Compliance with annual, quarterly and monthly reporting requirement**

| Institution                      | Date annual report received by Provincial Treasury | Annual report tabled at the Provincial Legislature | Quarterly performance against strategic plan |
|----------------------------------|--|--|--|
| <b>Departments:</b>              |  |  |  |
| Economic Development and Tourism | 31/08/09   | 29/09/09   |  |
| <b>Public Entity:</b>            |  |  |  |
| DMO, t/a CTRU                    | 31/08/09   | 30/09/09   |  |
| WESGRO                           | 31/08/09   | 30/09/09   |  |
| WC Liquor Board                  | N/A  |  |  |

### Analysis

The Department has successfully tabled their 2008/09 Annual Report as well as that of its public entities, within the prescribed timeframes.

### Auditor-General report 2008/09

The Auditor-General expressed an unqualified opinion, with Other Matters for the 2008/09 financial year. This was as result of tax revenue of R4 844 000 included in departmental revenue which relates to income from the Liquor Board.

In comparison with the Auditor-General's report 2007/08, the Auditor-General expressed an unqualified opinion, without Other Matters, however, the department was unable to accurately account for revenue and receivables raised in respect of the liquor license income. Consequently the department's status on financial management remains unchanged.

Liquor Board received a qualified audit opinion for the 2008/09 financial year. This was due to the Board's inability to account for funds received in respect of the liquor licenses due to it being collected by the South African Revenue Service (SARS). In comparison to the 2007/08 financial year, the status remains unchanged except for the improvement in provision for bad debts.

### Cape Town Routes Unlimited

The public entity received an unqualified audit opinion, with Other Matters for the 2008/09 financial year.

In comparison to the 2007/08 financial year, the status on financial management shows an improvement due to the following issues being resolved:

- Irregular expenditure.
- Payment of an arbitration award.

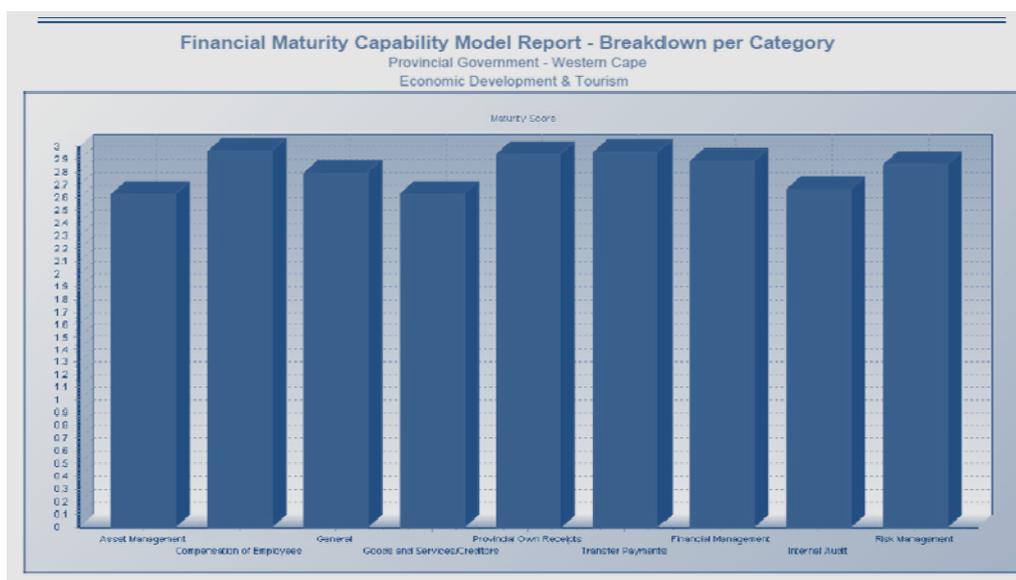
### Western Cape Investment and Trade Promotion Agency

The public entity received an unqualified audit opinion, with Other Matters for the 2008/09 financial year as a result of matters raised in respect of governance.

In comparison to the 2007/08 financial year, the status on financial management remains unchanged.

### Overall Assessment

Figure 15: Financial Management Capability Model



In terms of an assessment done by consultants from the European Union in conjunction with National Treasury, which was conducted in March 2009, the department's financial management maturity was rated close to a level 3 in virtually all the categories.

Taking the above into account the department has made some important strides in order to achieve a level 3 financial management capability.

### 3.12.4 Cash Management

This section deals with the implementation and management of sound 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 2008/09 financial year and the findings were as follows:

**Table 147: Assessment of cash management**

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

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

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

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

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

The Department obtained a financial management capability rating of level 3 (nominal compliance). The Annual projections in respect of income and expenditure were received on 27 February 2009.

**Table 148: Deviation between monthly projections and actual expenses**

|   | Project        | Actual         | %          | Rating   |
|---|----------------|----------------|------------|----------|
| <b>Original Forecast</b>                          |                |                |            |          |
| APRIL'08  | 13 337         | 7 442          | 44         | 2        |
| MAY'08  | 37 695         | 6 590          | 83         | 2        |
| JUNE'08   | 13 245         | 24 316         | (84)       | 2        |
| JULY'08   | 16 185         | 25 274         | (56)       | 2        |
| AUG'08  | 21 502         | 12 665         | 41         | 2        |
| SEP'08  | 21 741         | 21 616         | 1          | 4        |
| OCT'08  | 17 597         | 10 554         | 40         | 2        |
| NOV'08  | 17 887         | 22 553         | (26)       | 2        |
| DEC'08  | 18 961         | 25 641         | (35)       | 2        |
| JAN'09  | 14 963         | 28 817         | (93)       | 2        |
| FEB'09  | 15 010         | 13 371         | 11         | 2        |
| MRC'09  | 11 121         | 20 405         | (83)       | 2        |
| <b>Sub-Total</b>                                  | <b>219 244</b> | <b>219 244</b> |            | <b>2</b> |
| <b>Revised Forecast (after adjustment budget)</b> |                |                |            |          |
| MRC'09 Adjustment                                 | 12 288         | 12 288         |            |          |
| <b>Total</b>                                      | <b>231 532</b> | <b>231 532</b> | <b>100</b> |          |

The Department achieved a financial management capability rating of level 2 (partial compliance). PT adapted a new policy as from June 2009 to assist the departments to align their expenditure to their actual cash receipts on a daily and monthly basis.

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

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

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

The Department obtained a financial management capability rating of level 4 (full compliance). Surplus funds were paid to the PRF on 25 May 2009.

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

The Department was financial management capability rated at level 4 (full compliance). The monthly bank reconciliations were submitted within 15 days after month end.

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

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

**Table 149: Beneficiary Payments**

| <b>Payments</b> | <b>Beneficiary Payments</b> | <b>%</b> |
|-----------------|-----------------------------|----------|
| 8 104           | 104                         | 1.28     |

### **3.12.5 Supply Chain Management**

When assessing the Department against the SCM financial capability model, the assessment team took into consideration the SCM compliance assessment information together with the AGs report and procurement statistical information reported to Provincial Treasury by the Department, to which the following must be noted:

At the time of assessing the Department it was indicated that a draft AO system was up for review and finalisation. However, the Department has to date been utilising its Accounting Officer's system and delegations which was last reviewed in 2004. This authenticates a high rate of non-compliance to prescribed legislation as there has been an influx of legislation and policy issued since 2004. It is imperative that all

specific information pertaining to the department's core functions is included in the AO system.

Adequate segregation of duties is visible within the unit. A skills audit programme has been devised and courses have been attended regularly. The officials within the unit attend SCM related courses that could better equip them in performing their functions. In-house training has also been provided whereby officials are actively involved in presenting pieces of legislation to their colleagues.

It is imperative that a bid evaluation committee be correctly constituted and that the officials performing these duties are not part of the departmental bid adjudication committee.

It is imperative that a gifts register be implemented in the Department. A policy document must also be drafted to eliminate any risk associated with the receiving of gifts.

When bids are passed over or cancelled, it is vital that decisions therefore are well motivated and documented. The Department must always have justifiable reasons so as to be defended in a court of law and also for audit purposes.

It has been noted though that the Department has not complied with certain pieces of legislation and prescripts with regards to the following:

- Checking National Treasury's "List of Restricted Suppliers and Register for Tender Defaulters, prior to awarding a bid;
- Notifying SARS of all awarded bids; and
- Reporting to the Provincial Treasury as well as the Auditor-General all limited bids exceeding the value of R1 000 000.00.

It was noted with concern that nearly 60 per cent of bids invited over the past financial year took the form of limited bidding. 33 per cent of bids over the same period were cancelled which indicates a lack of demand planning. The cancellation of bids results in a time consuming exercise, one which also has a bearing on value for money.

Record keeping within the unit is maintained in a user friendly manner. The retrieval of documentation and the way information is filed made it a pleasure to review information.

The Department maintains an adequate reporting status in terms of SCM information that needs to be forwarded to the Provincial Treasury. However not all quotations are adjudicated on EPSi.

### **Rating and Comparison to the 2007/08 financial year**

The Department was rated on a level 3 in 2007/08 in terms of the financial capability for SCM. A full SCM compliance assessment was performed in 2008/09 and the Department has been rated at a level 2. This must not be construed as the department having regressed, but is due to the fact a more detailed and rigorous assessment of

the Department was conducted in the 2008/09 financial year thereby enabling the better reflection on the capability assessment of the Department in the 2008/09 financial year.

### **Conclusion/Recommendation**

Steps to take the department to the next level:

- Formalise the draft AO system and accompanying delegations as the department has been operating on an outdated AO system.
- Ensure compliance and control in respect of SCM and limit deviations (limited bids).
- Proper planning of the procurement of goods and services must be instituted so as to avoid the cancellation of bids.
- Care must be taken to ensure compliance and control in respect of SCM i.e. awarding price increase without substantiation, concluding contracts without contractual obligations to name but a few examples.

Proper utilisation of the EPSi to ensure credibility of procurement data.

### **3.12.6 Moveable Asset Management**

Compliance to the National Treasury's Broad Implementation Plan (BIP) was due on 31 March 2008. The Department has indicated that in terms of the BIP they are 96 per cent compliant with regards to the Asset Management Plan, Acquisition Plan, Operation and Maintenance Plan and Disposal Plan. The Department is fully (100 per cent) compliant in terms of the Asset Register and Accounting.

The Department has indicated the following outstanding issues:

- Life-cycle costing;
- Establishing performance indicators; and
- Write-off of damaged or missing assets.

The Department has indicated that they will require assistance from Provincial Treasury to enable them to fast track the outstanding issues.

No findings were raised by Auditor-General in respect of this Department.

### **Rating**

On consideration of all the above, the Department is rated at a level 2 level in terms of the financial management capability model for Moveable Asset Management. It must be noted that this rating is based on the information provided to the Provincial Treasury by the Department in terms of the reporting requirements (Project dashboard and Risk Log) of the National Treasury's Broad Implementation Plan. It

must be further noted that a full verification assessment in terms of assets is taking place in the 2009/10 financial year.

### Recommendations

Fast tracking the requirements of the National Treasury's Broad Implementation Plan for Asset Management.

### 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.

The evaluation was based on the activities of the 2008/09 financial year and the findings were as follows:

**Table 150: Basic Accounting System (BAS)**

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

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

**Table 151: Skilled and capacitated system users**

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

There was a decline in nominations as compared to the previous financial year. The Department maintained a financial management capability rating of level 2 (partial compliance), due to 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.

**Month end closure**

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

**Year closure**

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

**System Controller Functions**

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

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

**Monitor applicable interfaces**

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

**Table 152: Personnel and Salary Administration System (PERSAL)**

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

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

**Table 153: Skilled and capacitated system users**

| Number of officials nominated | Number of officials attended | Number of officials cancelled | Number of officials qualified for a certificate (70% pass rate) | Number of officials not qualifying for a certificate |
|-------------------------------|------------------------------|-------------------------------|---|--|
| 20                            | 13                           | 7                             | 8   | 5  |

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

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

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

#### **System Controller Functions**

The Department achieved a financial management 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.

#### **PERSAL/BAS reconciliation**

The Department did not compile a monthly PERSAL/BAS reconciliation and therefore achieved a financial management capability rating of level 3 (nominal compliance)

#### **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 of level 3 (nominal compliance) as the leave audit is updated on at least an annual basis.

**Table 154: Management Information System (Vulindlela)**

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

**Table 155: Usage of the Management Information System (Vulindlela)**

| Number of registered users | Number of registered users using the system on a regular basis | Number of registered users not using the system on a regular basis | Percentage active users |
|----------------------------|--|--|-------------------------|
| 13                         | 9  | 4  | 69%                     |

The Department obtained a financial management capability rating of level 2 (nominal compliance) due to the fact that only 69 per cent of registered users utilise the system on a regular basis.

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

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

### **3.13.1 Performance Management**

#### **3.13.1.1 Non-financial information**

The analysis of departmental performance that follows 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); level 2 development level (proper internal control framework); level 3 (focus 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).

In past financial years, the emphasis has been on formulating clear measurable objectives and setting realistic and measurable performance indicators and targets. For the period under review, this assessment will comment on the applicability and validity of those measurable objectives and performance indicators. The aim is to ensure that the departmental APP, when read together with the AR and QPRs clearly reflect stated performance expectations; performance accomplishments; demonstrated capacity to learn, adapt and improve; and whether the information obtained and communicated is fair and reliable.

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 a level 4 financial management capability. The 2008/09 AR, the 2008/09 and 2009/10 APPs as well as the final 2008/09 QPR have been used in the assessment.

#### **Annual Report 2008/09**

The AR Guideline for General and Performance information for the year ended 31 March 2009 requires that the programme performance of provincial departments must be in accordance with their strategic and performance plans as tabled in the legislature.

When comparing the performance information in the AR with the APP, not all the performance measures defined in the 2008/09 APP are reported on in the 2008/09 AR. It must also be noted that the Department of Cultural Affairs and Sport did not include the sector specific performance measures in the 2008/09 APP and AR and some of the outputs in the APP were indicated as Performance Measures in the AR.

In general, there is consistency between the unit of measurement used for the targets and the actual outputs, except for the "6 meetings" of the provincial language forum

to assist with the implementation of the language policy. This target was reported against the output for “the implementation of a language policy”. Except for the latter example and some inconsistencies identified, the AR can be used to assess the actual performance of the Department in terms of the performance targets defined in the APP.

The AR Guideline for General and Performance information also requires from departments to provide a summary of the significant achievements of each sub-programme within the Programme for the 2008/09 financial year, focusing on the achievement of targets. In the event of targets not being achieved, departments must provide reasons for major variances between target and actual output. Similarly, a narrative should be provided for targets that were exceeded detailing the factors that enabled the above performance. This section must also briefly provide a synopsis on how the achievement of targets has contributed towards achieving the Department’s outcomes, and which will invariably impact on the strategic priorities of government.

The Department did not strictly follow the prescribed format of the Annual Report Guideline for General and Performance information. The guideline prescribes that departments describe the purpose of the programme, the measurable objective(s) relating to the programme, the delivery objectives and indicators relating to the programme. Information on the delivery achievements relating to the programme with a description of all deviations from the estimated targets should also be included. It has been noted that there is a lack of consistency in the format used between the programmes. Some programmes provided very good descriptions of the objectives and indicators, but without any definite descriptions on the deviations of the achievements.

When comparing the QPR with the AR not all actual outputs were reflected in the AR as per the final 2008/09 QPR. For example the fourth quarter QPR of the Department indicated that the Goedgedacht sport facility was completed, but the AR indicates that no facilities were completed. Another example is the “number of participants in outreach programmes per museum”. The QPR indicated 15 participants in the first 6 months and no data was available for the last 6 months of the 2008/09 financial year. The output reported is not in line with the ARs actual output of “an average of 3 programmes per museum reaching 31 170 people”. The Department reported quarterly on the “number of local governments that implemented a language policy”, while the AR indicates “not applicable”. The Department should ensure that the information reflected in the final fourth quarter QPR is in line with the information reflected in the AR.

### **APP 2009/10**

The Departmental APP for 2009/10 complies with the uniform sector specific programme structure prescribed by National Treasury. The Departmental APP also includes all the sector specific as well as the provincial specific performance measures for the 2009/10 financial year, which is an improvement on the content of the 2008/09 APP. Annual targets were indicated for the 2009/10 financial year as well as for 2010/11 and 2011/12. Targets for the 2009/10 financial year were also estimated per quarter. Most of the performance measures are measurable, however, it does not always relate to the strategic objectives of the Department. The Department should

please ensure that all strategic objectives relate to the core mandate of the Department. The Department did not include any measurable objectives, outputs or performance indicators for Programme 1: Administration.

According to the Department of Education, “foundation phase learners” refer to grades 1 to 3 learners and not Grade R as indicated by the Department. It is therefore recommended that the Department ensures the correct use of terminology in the APP. The Department of Education also does not refer to Intermediate phase educators in their publications as referred to in this Department’s APP.

Duplication of performance measures between the sector specific, provincial specific and Conditional Grant performance indicators should be limited. 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. Systems should also be developed to ensure credible reporting as well as to provide evidence of outputs.

Since the previous financial year, the reduction in the number of measurable objectives and performance measures, to focus on the key areas of performance, remains a challenge. Addressing this challenge will improve the effectiveness and efficiency of performance management in the Department.

### **Conclusion/recommendation**

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

The inclusion of deviations from the annual targets set for a specific financial year as well as reasons for the deviations from the target in the AR is of great importance to start moving towards the next level of capability.

The introduction of sector specific performance measures have been negotiated nationally and prescribed by National Treasury. Although these sector specific performance measures have been included in the 2009/10 APP, reporting on these performance measures remains a challenge to the Department.

The Department should institutionalise processes for dealing with non financial/performance information, highlighting the collection methodology, systems, verification and audit processes. 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 outputs. 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 SP, APP and Budget.

**3.13.1.2 Performance management assessed based on financial information**

Public Finance notes the following regarding the financial performance of the Department of Cultural Affairs and Sport:

- The Department had an approved expenditure and revenue budget for the 2008/09 financial year.
- The Department submits an electronic copy of its IYM report by the 15th day after the end of a reporting month as stipulated in section 40(4)(c) of the PFMA, and the Department has shown slight improvement on submitting the copy signed by the Accounting Officer on time.
- Expenditure reported in the Final March 2009 IYM report differs from the AFS and the department is in the process of consultation as to how to rectifying the matter.
- Actual expenditure and revenue corresponds to the BAS and Vulindlela reports drawn on Responsibility level, but differs from Vulindlela reports drawn on Programme level. In cases where differences occurred on Responsibility level, the Department could provide satisfactory answers. It is the opinion that the Department can eliminate some of these differences by drawing reports after the closure of BAS each month, and further by aligning the information captured in Objective 5 (Programme) with the information captured on Responsibility level.
- The Department can improve on their projections, as actual expenditure differs from forecasts in a prior quarter. Projections increases on a monthly basis, as actual expenditure in some cases appear to be extremely lower than the projected expenditure. The table below further alludes to this and provides a quarterly comparison of 2008/09 actual expenditure.

**Table 156: Projected vs Actual Expenditure**

| R'000          | April  | May    | June   | July    | Aug    | Sept   | Oct    | Nov    | Dec    | Jan    | Feb    | Mar    | Total          |
|----------------|--------|--------|--------|---------|--------|--------|--------|--------|--------|--------|--------|--------|----------------|
| First Quarter  | 11 220 | 16 523 | 14 470 | 260 396 | 27 305 | 28 863 | 29 473 | 19 797 | 17 403 | 25 034 | 26 804 | 20 452 | <b>497 740</b> |
| %              | 2.25%  | 3.32%  | 2.91%  | 52.32%  | 5.49%  | 5.80%  | 5.92%  | 3.98%  | 3.50%  | 5.03%  | 5.39%  | 4.11%  | <b>100.00%</b> |
| Second Quarter | 11 220 | 16 523 | 14 470 | 235 731 | 17 255 | 17 373 | 55 131 | 23 998 | 23 578 | 28 063 | 29 393 | 25 005 | <b>497 740</b> |
| %              | 2.25%  | 3.32%  | 2.91%  | 47.36%  | 3.47%  | 3.49%  | 11.08% | 4.82%  | 4.74%  | 5.64%  | 5.91%  | 5.02%  | <b>100.00%</b> |
| Third Quarter  | 11 220 | 16 523 | 14 470 | 235 731 | 17 255 | 17 373 | 29 449 | 30 072 | 22 138 | 51 700 | 29 374 | 26 898 | <b>502 203</b> |
| %              | 2.23%  | 3.29%  | 2.88%  | 46.94%  | 3.44%  | 3.46%  | 5.86%  | 5.99%  | 4.41%  | 10.29% | 5.85%  | 5.36%  | <b>100.00%</b> |
| Fourth Quarter | 11 220 | 16 523 | 14 468 | 235 732 | 17 255 | 17 374 | 29 450 | 30 071 | 22 137 | 21 533 | 36 184 | 48 023 | <b>499 970</b> |
| %              | 2.24%  | 3.30%  | 2.89%  | 47.15%  | 3.45%  | 3.48%  | 5.89%  | 6.01%  | 4.43%  | 4.31%  | 7.24%  | 9.61%  | <b>100.00%</b> |

The pre-adjusted budget in 2008/09 for the Department was R497.740 million. During the Adjustment Estimate the allocation was increased by R4.463 million to R502.203 million. The Department has spent R499.970 million or 99.56 per cent of its post-adjusted allocation. This outcome seems to translate a credible budget for the Department.

The Department effected virements to the amount of R4.463 million. This represents 0.89 per cent of the adjusted appropriation for the 2008/09 financial year.

The Department complies with DORA prescripts and spending of national earmarked and conditional funds are as per business plans and payment schedules. For the 2008/09 financial year the department managed two conditional grants namely the Community Library Services Grant and Mass Sport and Recreation Participation Programme (MSRPP) Grant.

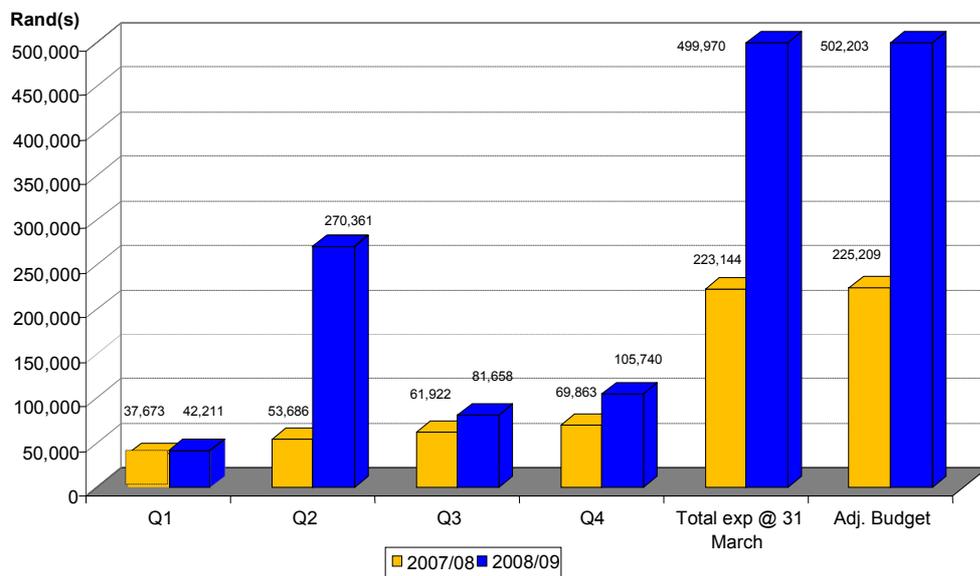
Community library services grant for 2008/09 financial year received the full allocation of R31.434 million. Actual expenditure as at the end of March 2009 amounted to R31.288 million or 99.53 per cent of the allocation received by the Department. The underspending of R146 000 is a result of the withholding of transfers to the Kannaland Municipality due to their non-compliance in terms of the PFMA. Rollover requests for the amount were submitted to National Treasury.

For 2008/09 financial year, the Department received the full allocation of R27.446 million for the MSRPP grant. This grant is made up of the initial allocation of R27.168 million plus the rollover of R278 000. Actual expenditure as at the end of March 2009 amounted to R27.401 million or 99.83 per cent of the total allocation received by the Department. The underspending amounts to R45 000 and it was surrendered to National Revenue Fund.

The Department submitted its Adjustments Budget on time and it was comprehensive in terms of section 31 of the PFMA.

The illustration below gives a quarterly comparison of the actual expenditure for the 2007/08 and 2008/09 financial years.

**Figure 16: Actual expenditure: 2007/08 and 2008/09**



Actual expenditure at the end of the fourth quarter amounts to R499.970 million or 99.56 per cent of the adjusted budget of R502.203 million in the 2008/09 financial year.

The Department reflects an under spending of R2.223 million or 0.44 per cent in 2008/09. This outcome is within the 2 per cent under spending norm for Departments.

The bulk of the under spending in 2008/09 relates to slow spending in Programme 4: Sport and Recreation (R1.951 million). The cause of the under expenditure within this programme was mainly due to slow spending on the Upgrading of the Philippi Stadium. A request in this regard, has been submitted to Provincial Treasury for the rollover of R1.629 million to 2008/09.

The budget for compensation of employees increased considerably year-on-year. The Department however accumulates savings, as the actual expenditure in most instances is less when compared to the projections on a monthly basis. The under spending on compensation of employees amounted to R6.612 million or 6.20 per cent of the adjusted budget in the 2008/09 financial year.

These savings were accumulated due to the non-filling of vacancies, which further translates to funds being shifted during the Adjustment Budget. Over the past four financial years the Department has been experiencing problems in the filling of vacancies.

The Department had a March 'spike' in 2008/09. Expenditure for the first 11 months averaged R41.086 million, while expenditure during the month of March 2009 amounts to R48.023 million or 9.56 per cent of its adjusted budget. This increased expenditure is mostly due to expenditure on Goods and services mainly under Programme 4: Sport and Recreation.

The Department of Cultural Affairs and Sport collected R1.758 million in provincial own receipts compared to the R545.000 adjusted budget for the 2008/09 financial year. This represents an over-collection of R1.213 million or 322.57 per cent on the adjusted budget. This over collection was mainly due to over-collections on fines, penalties and forfeits as well as an over-collection on financial transactions in assets and liabilities not budget for.

There was no application for approval from the department for the revision on tariffs in the 2008/09 financial year.

### **Conclusion/recommendation**

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

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

An assessment of the financial management capability of the Department was undertaken based on the 2008/09 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 monthly that suspense, control and disallowance accounts are regularly followed-up and cleared within a reasonable period of time.

The Department is maintaining a level 3 financial management capability rating when compared to the previous assessment.

### **Accounting of assets**

The Department indicated that it complied with the minimum requirements of an Asset Register in terms of the acquisition, identification, accountability, performance, disposal and accounting of assets.

The AGSA, to the contrary reported that proper control do not exist to ensure that assets are complete and accurately recorded on the asset register. Furthermore, the AGSA identified 60 assets that have been valued at R1, these assets were in very good condition and some have not been utilised. Assets should either be reflected at fair value or at cost.

The Department continues to perform at a level 2 financial management capability rating when compared to the previous assessment.

### **Financial reconciliations**

The Department failed to submit their monthly BAS/LOGIS reconciliations for both minor and major assets as part of their IYM report on or before the 15th of each month. This issue has been discussed with the CFO in bi-lateral meetings on numerous occasions and no remedial steps have been undertaken by the Department to-date.

The above indicates that the Department is operating at a level 2 financial management capability rating when compared to the previous assessment.

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

Payments to suppliers made more than 30 days after receipt of invoice still remains a concern. It is recommended that the Department monitors compliance in accordance with National Treasury regulation 8.2.3, stating that all payments due to creditors must be paid within 30 days of receipt of invoice unless determined otherwise, in order to move to a level 3 financial management capability.

### **Management of lease liabilities**

The Department has implemented and maintains an operating lease register and this information is disclosed on the audited annual financial statements, with no audit findings in this regard.

The Department continues to perform at a level 3 financial management capability.

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

The Department reported that there are control measures in place for the reporting and management of thefts and losses with no audit findings for financial period under review.

The Department is performing at a level 3 financial management capability; this indicator was not assessed previously.

### **Management of contingent liabilities**

The AGSA's report indicated that confirmations were not received for housing loan guarantees for the year under review.

The Department continues to perform at a level 2 financial management capability rating when compared to the previous assessment.

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

The Department managed to submit signed IYM reports on time. In this regard a level 3 financial management capability rating is attained.

### **Conclusion/recommendation**

In order to improve compliance with accounting policies and standards towards a level 3 financial management capability rating, the Department needs to improve controls over financial reconciliations, management of contingent liabilities, accounting for assets and ensure that suppliers are paid within 30 days of receipt of invoice.

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

The Western Cape Cultural Commission is a public entity that is resorts under the control of the Department of Cultural Affairs and Sport.

The entity had an unqualified audit opinion in 2008/09. However there are some issues, based on the 2008/09 Auditor-General of South Africa (THE AGSA) audit findings that requires further attention.

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

The AGSA reported that the income suspense account has been incorrectly recognised as revenue. The nature of the account balance is a liability because the possibilities exist that the money has to be reimbursed as the person who made the deposit and the reason is not verified.

It is recommended that the entity implement sufficient controls and mechanisms to effectively manage the clearing of all suspense account particularly for long outstanding transactions.

This is an indication that the entity is performing at a level 2 financial management capability rating.

### **Accounting of assets**

The AGSA reported that the assets had been disclosed in the assets register at a NIL rand value. The entity had fully depreciated the assets whilst the assets are still in use, therefore it has a residual value.

It is recommended that the entity assess the useful lives of the assets and adjust the assets register.

This is an indication that the entity is performing at a level 2 financial management capability rating.

### **Supporting documentation**

The AGSA reported that the supporting document for income received in advance does not indicate the rental period. As a result the income received in advance could be misstatement.

It is recommended that the entity record the dates for the camps on the invoice to ensure that the money is recorded in the correct accounting period.

This is an indication that the entity is performing at a level 2 financial management capability rating.

### **Management controls**

The AGSA reported that the entity does not have a formal written rental policy for the rental of Cultural facilities and the tariffs used are not approved. As a result the tariffs could be applied inconsistently and the revenue could be under stated.

It is recommended that the entity develop a formal rental policy for the Cultural facilities that stipulate the minimum deposit amount required, refund of deposits and a list of approved tariffs.

This is an indication that the entity is performing at a level 2 financial management capability rating.

### **Conclusion/recommendation**

The entity is performing its basic accounting functions according to prescripts and in general is maintaining a level 2 financial management capability rating. If the entity could address all the accounting issues raised the performance and the financial management capability rating could improve to a level 3 financial management capability rating in future.

**PUBLIC ENTITY: Western Cape Heritage**

The Heritage Western Cape is a public entity that is resorts under the control of the Department of Cultural Affairs and Sport.

The entity had an unqualified audit report since 2006/07. However, there are some issues, based on the 2008/09 AGSA audit findings, that require further attention as mentioned below.

**Management Control**

The AGSA reported that the entity did not develop an agreed framework of acceptable levels of materiality and significance of the MEC as prescribed in items of Treasury Regulation 28.3.1. Management should develop the framework.

The AGSA also reported that the sensitivity analysis was not disclosed in the notes to the financial statement as prescribed in items of International Financial Reporting Standards (IFRS) 7. This issue was also raised in the 2007/08 audit.

Management needs to develop control activities to mitigate risk pertaining to financial reporting in order to improve its performance to a level 3 financial management capability rating.

**Conclusion/recommendation**

The entity should address the above issues in order to fully perform at a level 3 financial capability rating. Management should undertake ongoing monitoring and supervision to ensure an assessment of the effectiveness of internal control over financial reporting.

**PUBLIC ENTITY: Western Cape Language Commission**

The Language Western Cape is a public entity that is resorts under the control of the Department of Cultural Affairs and Sport.

The entity had an unqualified audit opinion for 2008/09. However there are some issues, based on the 2008/09 Auditor-General of South Africa (AGSA) audit findings, that requires further attention, as indicated below.

**Management Control**

The AGSA reported that the sensitivity analysis was not disclosed in the notes to the financial statement as prescribed in items of International Financial Reporting Standards (IFRS) 7. This issue was also raised in the 2007/08 audit.

The AGSA also reported on non-compliance to GRAP 1, Presentation and disclosure, with special references to 1.95 and 1.124(b). The accounting authority did not complete the submission of AFS for auditing purposes to the external auditors in the proper format in accordance with the National Treasury Regulations.

Management needs to develop control activities to mitigate risk pertaining to financial reporting in order to perform at a level 3 financial management capability rating.

#### **Conclusion/recommendation**

The entity is performing its basic accounting functions according to prescripts and is performing at a level 3 financial management capability rating. Management should identify internal control deficiencies and communicate it timely in a manner to allow for corrective action to be taken.

### **3.13.3 Corporate Governance**

#### **3.13.3.1 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)**

#### **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 does support the processes developed.

#### **Internal environment**

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

#### **Operational Risk Assessment**

The risk events have been identified and assessed on an inherent level. It is clear that the existing controls have been identified and documented by means of process and control mapping.

### **Overall assessment**

Based on the above information, the Department achieved a financial management capability 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 have achieved all of the following set Criteria and Norms and Standards for level 2:

### **Internal Environment**

- Risk appetite defined.

### **Operational Risk Assessment**

- Control gaps identified and action plans developed.

### **3.13.3.2 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 2009 and the 2008/09 Auditor-General's report for the department and the public entity.

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

#### **CFO Structure**

For the quarter ended 30 June 2009, the vacancy rate in the CFO structure stood at 7 per cent. In comparison with last year, the department has made some strides in keeping the vacancy rate and the average length to fill a post closer to the National norm of 5 per cent and 3 months, respectively.

The Department's status remains unchanged at 100 per cent with regards to implementation of performance agreements and staff attending structured training. A slight deterioration from 100 to 90 per cent occurred in respect of staff with finance related qualification.

#### **Annual Quarterly and Monthly Reports**

The Department and public entities must report monthly on expenditure and revenue; quarterly on performance; and annually they have to table Annual Reports, as prescribed, in the Legislature. Compliance with these requirements is reflected in table below:

**Table 157: Compliance with annual, quarterly and monthly reporting requirement**

| Institution                | Date annual report received by Provincial Treasury | Annual report tabled at the Provincial Legislature | Quarterly performance against strategic plan |
|----------------------------|--|--|--|
| <b>Departments:</b>        |  |  |  |
| Cultural Affairs and Sport | 31/08/09   | 29/09/09   |  |
| <b>Public Entity:</b>      |  |  |  |
| Heritage WC                | 31/08/09   | 30/09/09   |  |
| WC Cultural Commission     | 31/08/09   | 30/09/09   |  |
| WC Language Committee      | 31/08/09   | 30/09/09   |  |

### Analysis

The Department has successfully tabled their 2008/09 Annual Report as well as that of its public entities, within the prescribed timeframes.

### Auditor-General Report 2008/09

The Auditor-General expressed an unqualified opinion, with Other Matters for the 2008/09 financial year. Although the same opinion was expressed for the 2007/08 financial year, there was an increase in the number of shortcoming/findings that were highlighted in the report.

### Heritage Western Cape, Western Cape Cultural Commission and Western Cape Language Committee

The 3 public entities received an unqualified audit opinion, with Other Matters for the 2008/09 financial year as a result of an error in the financial statement 2007/08 and non-compliance to applicable legislation.

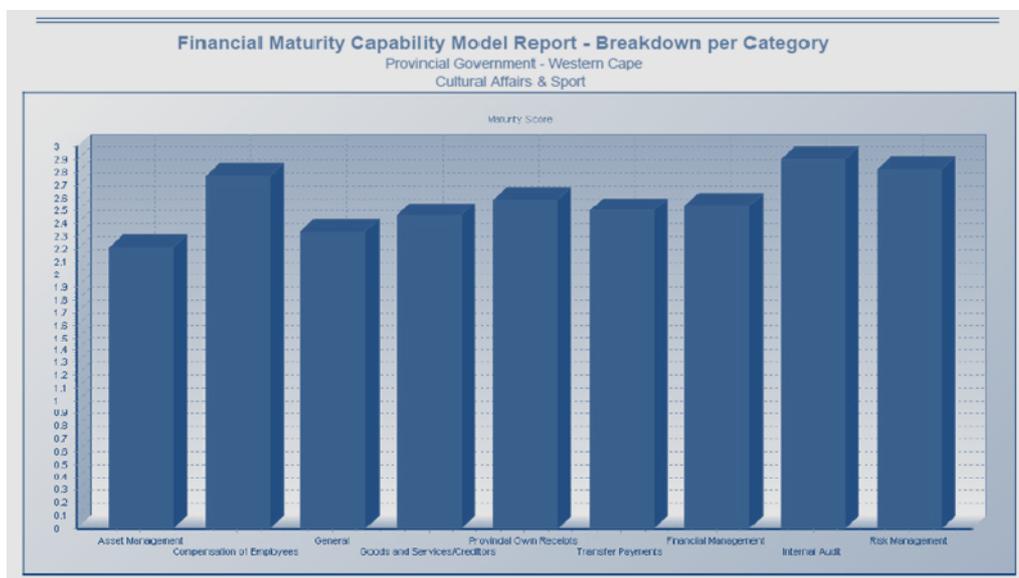
With regard to Heritage WC, in comparison to the 2007/08 financial year, the status on financial management shows a slight deterioration. Only matters of governance were raised for the financial year 2007/08.

With regard to WC Cultural Commission, in comparison to the 2007/08 financial year the status on financial management shows an improvement as the public entity received an adverse audit opinion.

With regard to WC Language Committee, in comparison to the 2007/08 financial year the status on financial management shows an improvement as the public entity received a qualified audit opinion.

## Overall Assessment

Figure 17: Financial Maturity Capability Model Report



In terms of an assessment done by consultants from the European Union in conjunction with National Treasury, which was conducted in March 2009, the Department's financial management maturity was rated between level 2 and level 3 in the categories. Taking the above into account the Department has made some strides in order to move towards achieving a financial management capability level 3.

### 3.13.4 Cash Management

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

The evaluation was based on the activities of the 2008/09 financial year and the findings were as follows:

**Table 158: Assessment of cash management**

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

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

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

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

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

The Department obtained a financial management capability rating of level 3 (nominal compliance). The Annual projections in respect of income and expenditure were received on 27 February 2009.

**Table 159: Deviation between monthly projections and actual expenses**

|                          | Project        | Actual         | %     | Rating   |
|--------------------------|----------------|----------------|-------|----------|
| <b>Original Forecast</b> |                |                |       |          |
| APRIL'08                 | 29 829         | 16 430         | 45    | 2        |
| MAY'08                   | 36 840         | 13 003         | 65    | 2        |
| JUNE'08                  | 40 442         | 13 365         | 67    | 2        |
| JULY'08                  | 51 244         | 232 085        | (353) | 2        |
| AUG'08                   | 45 105         | 20 531         | 54    | 2        |
| SEP'08                   | 46 663         | 16 771         | 64    | 2        |
| OCT'08                   | 47 073         | 30 696         | 35    | 2        |
| NOV'08                   | 37 397         | 24 916         | 33    | 2        |
| DEC'08                   | 35 003         | 26 469         | 24    | 2        |
| JAN'09                   | 42 634         | 18 449         | 57    | 2        |
| FEB'09                   | 47 204         | 33 402         | 29    | 2        |
| MRC'09                   | 38 306         | 51 623         | (35)  | 2        |
| <b>Sub-Total</b>         | <b>497 740</b> | <b>497 740</b> |       | <b>2</b> |

|   | Project        | Actual         | %          | Rating |
|---|----------------|----------------|------------|--------|
| <b>Revised Forecast (after adjustment budget)</b> |                |                |            |        |
| MRC'09  |                |                |            |        |
| Adjustment  | 4 463          | 4 463          |            |        |
| <b>Total</b>                                      | <b>502 203</b> | <b>502 203</b> | <b>100</b> |        |

The Department achieved a financial management capability rating of level 2 (partial compliance). PT adapted a new policy as from June 2009 to assist the departments to align their expenditure to their actual cash receipts on a daily and monthly basis.

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

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

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

The Department obtained a financial management capability rating of level 4 (full compliance). Surplus funds were paid to the PRF on 25 May 2009.

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

The Department was financial management capability rated level 4 (full compliance). The monthly bank reconciliations were submitted within 15 days after month end.

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

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

**Table 160: Beneficiary Payments**

| Payments | Beneficiary Payments | %    |
|----------|----------------------|------|
| 24 904   | 128                  | 0.51 |

### **3.13.5 Supply Chain Management**

When measuring the Department against the capability model for SCM the following must be noted:

The Department has been utilising an Accounting Officer' System and delegations, which was last reviewed in 2004. However the document has not been aligned to subsequent prescribed legislation and policy frameworks issued since 2005 which predisposes the Department to a high level of non-compliance.

The SCM structure of the SCM unit does not have adequate capacity to perform the SCM activities of the department; this poses a question in a manner in which the SCM procedure and processes are conducted as there is insufficient resource capacity to carry out the activities. This predisposes the department to a high level of risk in respect of corruption and fraudulent practices. Hence it would be a sound management decision to capacitate the unit as soon as possible to ensure financial accountability within the department.

There is poor record keeping within the unit as in most instances supporting documentation could not be provided when requested. The filing system is not user-friendly as the documents are filed per chief user's number and not according to the financial years. The Department needs to identify a new filing system that is user friendly and an information backup system that is effective to ensure that proper record keeping is maintained.

The Department maintains a poor reporting status in terms of SCM information that needs to be forwarded to the Provincial Treasury as the information is either not reported on time or not at all. This stems from procurement statistics of 2008/09 financial year that was forwarded to Provincial Treasury in March 2009.

The Department has only adjudicated two quotes, cancelled 28, completed 141, and 111 enquires not responded to out of 942 enquiries that went out on the EPSi. The remainder of 660 quotes is not accounted for and has also not been reported to the Provincial Treasury. This is concerning as this impact on the provincial status of SCM and credibility of provincial procurement statistics.

The Department has the bid adjudication and evaluation committee in place, however some of its members were not appointed in writing and the specification committee is appointed as and the service is required. The available appointment letters to the two committees are vague and do not indicate duties and the legislation that is applicable for such members.

### **Rating and Comparison to the 2007/08 financial year**

The Department has not made any progress when comparing the 2007/08 and 2008/09 financial years' assessment. The Department remains at a level 1 financial capability for SCM. A concerted effort and level of commitment is required for the Department to elevate itself to the next level of capability.

### **Conclusion/Recommendation**

In order for the Department to be able to progress to the next level the following needs to be taken cognisance of:

- Review and implementation of an Accounting Officer's System and delegations that is aligned it to the current SCM legislative and policy frameworks.
- Urgent capacitation of the SCM unit in respect of crucial vacancies as well as with competent officials.

- Refine the current structure to be able to give effect to all aspects of supply chain management.
- Establish and give effect to an effective and efficient bid committee system as well as proper appointment of its members.
- SCM Training for all SCM appointments and officials involved with SCM.

It must be noted that the above will only elevate the department to a level 2 and that the following aspects need to be noted and implemented for the Department to transit to a level 3 capability:

- Maintenance of credible SCM data and effective utilisation of the EPSi.
- Give effect to proper record keeping and maintain an adequate audit trail.
- Develop effective control mechanisms to monitor the SCM performance and maintaining its sustainability.
- Equip all officials involved with SCM by ensuring adequate skills development and capacitation in respect of SCM through a regularly maintained skills development plan.
- Giving effect to all aspects/areas of management of SCM.

### **3.13.6 Moveable Asset Management**

Compliance to the National Treasury's Broad Implementation Plan (BIP) was due 31 on March 2008. However, the Department has indicated that in terms of BIP they are 65 per cent compliant to the Asset Management Plan, Acquisition Plan, Operation and Maintenance Plan and Disposal Plan, and in terms of the Asset Register and Accounting they are at 100 per cent compliant.

The Department has indicated the following outstanding issues:

- Definition of assets;
- Elements of the best asset strategy;
- Developing of an acquisition plan;
- Monitoring condition and use;
- Maintenance scheduling;
- physical security, Replacement strategy;
- Evaluation of disposal alternatives; and
- The Disposal Plan.

The Department has appointed two officials i.e. Assistant Director and Administration Clerk for Asset Management to fast track the implementation of the outstanding issues.

The Directorate Moveable Asset Management provided training intervention for the two officials and also made available to the unit all reporting documents, formats and

circulars in order for the unit to be fully compliant with National Treasury's Broad Implemented Plans.

The Department has to draft a project plan in order to be on par with National Treasury's requirements with regards to Asset Management i.e. drafting an Asset Management Strategy, policies and procedure manual and other relevant requirements for asset management.

The following critical issues were raised by the Auditor-General:

- Major Assets register did not agree to the financial statements disclosure note, which resulted in the major assets to be understated.
- An overstatement of the current financial year's additions to tangible capital assets register.
- Certain Minor assets could not be traced to the asset register.
- Classification and non-inclusion of minor assets on the asset register.
- Inability to verify certain major assets.

### **Rating**

On consideration of all the above, the Department is rated at a level 1 level in terms of the financial management capability model for Moveable Asset Management. It must be noted that this rating is based on the information provided to the Provincial Treasury by the Department in terms of the reporting requirements (Project dashboard and Risk Log) of the National Treasury's Broad Implementation Plan. It must be further noted that a full verification assessment in terms of assets is taking place in the 2009/10 financial year.

### **Recommendation**

- Fast tracking the requirements of the National Treasury's Broad Implementation Plan for Asset Management and addressing simultaneously the Accounting requirements for asset management.
- Implement adequate control over its asset register.
- Implement asset management training and a skills development plan.
- Take cognisance of the Auditor-General's recommendations and give effect to corrective measure to address the identified shortcomings.

### **3.13.7 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.

## Background

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

## Review

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

**Table 161: Basic Accounting System (BAS)**

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

**Table 162: Personnel and Salary Administration System (PERSAL)**

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

**Table 163: Logistical Information System (LOGIS)**

| Requirements                         | Standard Level 3           | Standard Level 4   |
|--------------------------------------|----------------------------|--------------------|
| Skilled and capacitated system users | In accordance with profile | All Modules        |
| Days per issue (Service standard)    | 5 Days                     | 3 Days             |
| Stock Management                     | 15,61%                     | 6,19%              |
| Financial Controls                   | Monthly                    | Continuous process |
| System Control Functions             | 80 – 90%                   | 91 – 100%          |

**Table 164: Management Information System (Vulindlela)**

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

The evaluation was based on the activities of the 2008/09 financial year and the findings were as follows:

**Table 165: Basic Accounting System (BAS)**

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

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

**Table 166: Skilled and capacitated system users**

| Number of officials nominated | Number of officials attended | Number of officials cancelled | Number of officials qualified for a certificate (70% pass rate) | Number of officials not qualifying for a certificate |
|-------------------------------|------------------------------|-------------------------------|---|--|
| 8                             | 4                            | 4                             | 4   | 0  |

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. There was a decline in nominations compared to previous financial year.

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 even though crisis situations exist in the Department.

#### **Month end closure**

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

#### **Year closure**

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

### System Controller Functions

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

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

### Monitor applicable interfaces

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

**Table 167: Personnel and Salary Administration System (PERSAL)**

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

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

**Table 168: Skilled and capacitated system users**

| Number of officials nominated | Number of officials attended | Number of officials cancelled | Number of officials qualified for a certificate (70% pass rate) | Number of officials not qualifying for a certificate |
|-------------------------------|------------------------------|-------------------------------|---|--|
| 24                            | 16                           | 8                             | 13  | 3  |

The Department maintained a rating of 2 (partial compliance) due to the officials being nominated and not attending courses as well as not all officials being trained in accordance with their profiles.

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

The Department however needs to commit themselves in getting users trained even though crisis situations exist in the Department.

### **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.

### **PERSAL/BAS reconciliation**

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

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

As not all information is captured on the system, the department achieved a 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.

**Table 169: Logistical Information System (LOGIS)**

| <b>Requirements</b>                  | <b>Standard Level 3</b>    | <b>Standard Level 4</b> | <b>Rating</b> |
|--------------------------------------|----------------------------|-------------------------|---------------|
| Skilled and capacitated system users | In accordance with profile | All Modules             | 2             |
| Days per issue (Service standard)    | 5 Days                     | 3 Days                  | 3             |
| Stock Management                     | 15,61%                     | 6,19%                   | 3             |
| Financial Controls                   | Monthly                    | Continuous process      | 2             |
| System Control Functions             | 80 – 90%                   | 91 – 100%               | 2             |
| <b>Average rating</b>                |                            |                         | <b>2</b>      |

The Department showed an improvement in the days per issue, but still achieved an overall rating of 2 (partial compliance).

**Table 170: Skilled and capacitated system users**

| Number of officials nominated | Number of officials attended | Number of officials cancelled | Number of officials qualified for a certificate (70% pass rate) | Number of officials not qualifying for a certificate |
|-------------------------------|------------------------------|-------------------------------|---|--|
| 14                            | 5                            | 9                             | 4   | 1  |

The Department maintained a rating of 2 (partial compliance), mainly due to the current users not all having received training in accordance with their profiles as well as a high percentage of officials being nominated and not attending courses.

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

The Department however needs to commit themselves in getting users trained even though crisis situations exist in the Department.

#### **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 2008/09 financial year was 3 days, the performance of the department therefore achieve nominal compliance (level 3).

#### **Stock Management**

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

#### **Financial Controls**

The Department achieved a rating of level 2 (partial compliance) financial management capability as financial controls are not executed on at least a monthly basis.

The Department does not submit their BAS/LOGIS reconciliation on a monthly basis as required. According to the Purchase to Payment Report the Department complies with the 30 days invoice payments as stipulated in Treasury Circular 15 of 2008.

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

#### **System Control functions**

The Department achieved a rating of 2 (partial compliance) for the execution of its system control functions.

The Department needs to ensure that their payment reconciliation is attended to from time to time, as there is currently a number of transactions which are lying on both their resubmission queue as well as their payment reconciliation which should have been cleared.

The Department should log calls with Provincial Treasury regarding transactions that they are unable to resolve.

**Table 171: Management Information System (Vulindlela)**

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

**Table 172: Usage of the Management Information System (Vulindlela)**

| Number of registered users | Number of registered users using the system on a regular basis | Number of registered users not using the system on a regular basis | Percentage active users |
|----------------------------|--|--|-------------------------|
| 24                         | 9  | 15   | 37.5%                   |

The Department maintained a rating of 2 (partial compliance) due to the fact that only 37.5 per cent of registered users utilise the system on a regular basis.

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