

General report on provincial audit outcomes 2003-04



A U D I T O R - G E N E R A L

GENERAL REPORT

OF THE

AUDITOR-GENERAL

ON

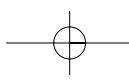
**PROVINCIAL AUDIT OUTCOMES FOR THE FINANCIAL YEAR ENDED
31 MARCH 2004**

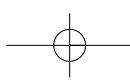
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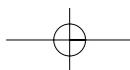
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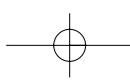




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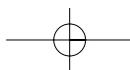
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GENERAL REPORT ON AUDIT OUTCOMES 2003-04

FOREWORD

This is the first separate report on the audit outcomes of provincial departments. Although a high-level summary of provincial audit outcomes was included in my *General report on audit outcomes* [RP 210/2004], the need for a more detailed report on provincial audit outcomes was identified during my interactions with our stakeholders.

As it is the first year that the report is being issued, I aim to give an overview of the audit outcomes of provincial departments for the 2003-04 financial year. The purpose of this report is to facilitate effective accountability, while also assisting the provincial departments to identify those aspects that work well and those that need additional attention in their internal accountability processes.

Although certain inconsistencies may appear to exist among audit findings between the different provinces, this should be regarded as a common occurrence because of judgement calls made by the different auditors. However, improving consistency is one of our key focus areas.

I trust that this report will meet the readers' expectations. Inputs to improve the content will be welcomed.

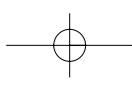
Executive summary

This report is divided into three key areas:

1. Analysis of provincial departments;
2. Analysis of financial information and audit findings; and
3. Analysis of performance.

Section 1 highlights the grouping of functions into votes. Within the structures and functions of provincial departments it was found that the votes were not standardised. The consequence of this is that similar functions are often mixed with other functions, and this made comparisons between provinces for benchmarking purposes difficult.

Section 2 analyses the financial information and audit findings. The provincial departments' key audit findings show that the challenges reported on can be correlated to some extent with those of national

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departments. As identified at national departments, asset management is a perennial issue that is not being effectively addressed. Basic policies and procedures and key documents (asset registers) are not in place. This lack of management frameworks constitutes a basic and serious financial management problem. Asset registers that are not updated merely indicate a lack of working practices and a lack of system or management policy. Adequate training and/or addressing the lack of capacity may solve some of these problems.

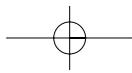
Personnel expenditure, which represents 47% of the total expenditure, is another key area of the findings, since the most frequently reported issue relates to leave. More than half of the audit reports on provincial departments analysed, have findings on personnel matters.

Unauthorised, irregular and fruitless and wasteful expenditure reported on amounted to 3,5% (R5,833 billion) of the total expenditure of R167,4 billion.

In section 3, the performance information review (not an audit) highlights fundamental deficiencies in the reporting on performance information in the annual reports. This includes poor linkage to budget commitments, lack of measurable objectives and lack of explanation of deviations from planned targets and outputs. Much work is required in the development of reporting on this area, if we are to achieve effective accountability around service delivery.

The expenditure on the key sectors of the provinces, namely Education, Health and Social Development, once again exceeded the budget of the national departments. The total number of qualified audit reports increased to 62% for 2003-04 (from 48% in 2002-03), meaning that accounting officers are far from meeting the full requirements of the Public Finance Management Act, 1999 (Act No.1 of 1999) (PFMA) and related legislation.

S A Fakie
Auditor-General





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SECTION 1: ANALYSIS OF PROVINCIAL DEPARTMENTS

In South Africa there is a total of 115 provincial departments. Of these 115 provincial departments, 111 provided annual reports that were analysed in this report. Only four provincial departments failed to submit their annual reports by 31 January 2005. These were:

- Contingency Reserve, North West, Vote 14
- Health, Eastern Cape, Vote 3
- Office of the Premier, Eastern Cape, Vote 1
- Legislation, Eastern Cape, Vote 2

At this stage there is no standardisation of the nature of departments in each province. The consequence of this is that similar functions such as transport and housing are often mixed with other functions and therefore comparison between provinces is difficult. Although there may be valid reasons for administrative purposes, this hinders comparisons for benchmarking purposes. Table 1 below indicates the functions that are most likely to be separate or combined with other functions to form votes.

Annexure 2 contains a list of votes per province and an attempt was made to group similar functions together.

From the performance information review (section 3.3) conducted on the three main sectors, namely Education, Health and Social Development, only Health was identified as a separate department in all nine provinces. Social Development was combined with Arts, Culture and Sport in the North West Province. Education was combined with Arts, Culture and Sport in KwaZulu-Natal.

The structure of a vote is such that it can be broken down into programmes. Each programme has a clear objective and is funded separately. In turn programmes are often subdivided into sub-programmes for ease of management. The sub-programmes can be seen as the units on which service delivery for a function is built.

Although departments may be combined with others, the programmes and sub-programmes for each function can be the same. For example, although transport may be combined with other departments in two provinces, the programmes and sub-programmes for transport are clearly identifiable. This will enable comparison of performance against service delivery objectives. However, it will not enable assessment of the audit report on transport only.

Performance measures identified in the National Budget Estimate of National Expenditure (ENE) relating to the specific sector (for example Social Development) were addressed in the annual report of the combined department on a programme level. Programmes of comparable departments are the same for all departments, however, differences can occur on a sub-programme level.



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Table 1: Grouping of functions into votes

Function	Provinces with separate votes	Provinces with combined votes	Comments
Agriculture	3	6	Separate votes in the Free State, Limpopo and Western Cape
Arts and Culture	–	9	Combined with other votes
Contingency Reserve	1	–	Only in North West
Economic Affairs	–	9	Combined with other votes
Education	8	1	Separate votes in eight provinces. In KwaZulu-Natal it is combined with Culture
Environment and Tourism	–	9	Combined with other votes
Gauteng Shared Service Centre	1	–	Only in Gauteng
Health	9	–	Separate votes
Housing	3	6	Separate votes in Gauteng, KwaZulu-Natal and the Western Cape
Land Affairs	–	2	Descriptions of votes differ. Only in the Eastern Cape and Mpumalanga
Legislature	7	–	Known as Parliament in KwaZulu-Natal and the Western Cape
Local Government and Trade Affairs	2	7	Separate votes in KwaZulu-Natal (Traditional and Local Government Affairs) and the Western Cape
Parliament	2	–	Only in KwaZulu-Natal and the Western Cape
Office of the Premier	8	–	Known as Provincial Administration in the Western Cape
Provincial Administration	1	–	Only in the Western Cape
Provincial Treasury	6	3	Descriptions of votes differ. Combined with other votes in Gauteng, Limpopo and Mpumalanga
Public Works	2	7	Separate votes in KwaZulu-Natal and Limpopo
Roads	–	6	Combined with other votes. No such votes for KwaZulu-Natal, Limpopo and the Western Cape
Royal Household	1	–	Only in KwaZulu-Natal



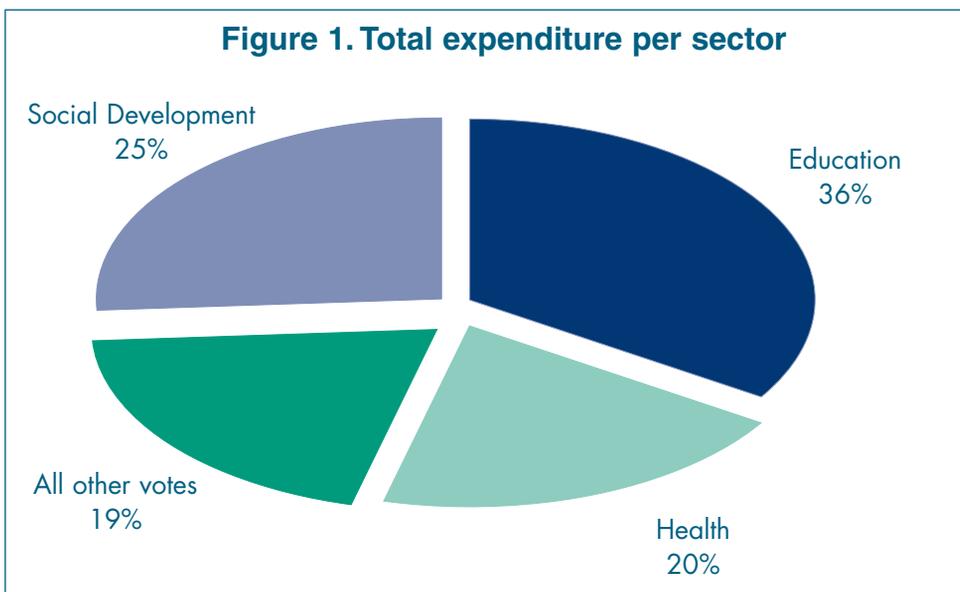
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Function	Provinces with separate votes	Provinces with combined votes	Comments
Safety and Liaison	9	–	Descriptions of votes differ. Not combined with other votes
Science and Technology	–	1	Only in the Free State
Social Development	8	1	Descriptions of votes differ Combined in North West
Sport and Recreation	–	8	Not in KwaZulu-Natal
Transport	4	5	Combined with other votes in the Free State, Gauteng, Mpumalanga, Northern Cape and Western Cape

SECTION 2: ANALYSIS OF FINANCIAL INFORMATION AND AUDIT FINDINGS

Three main sectors, namely Education, Health and Social Development were identified, which are consistently found in the nine provinces with only a few exceptions (annexure 3). This allows for further analysis and comparison of financial information and audit findings.

2.1 SECTORS





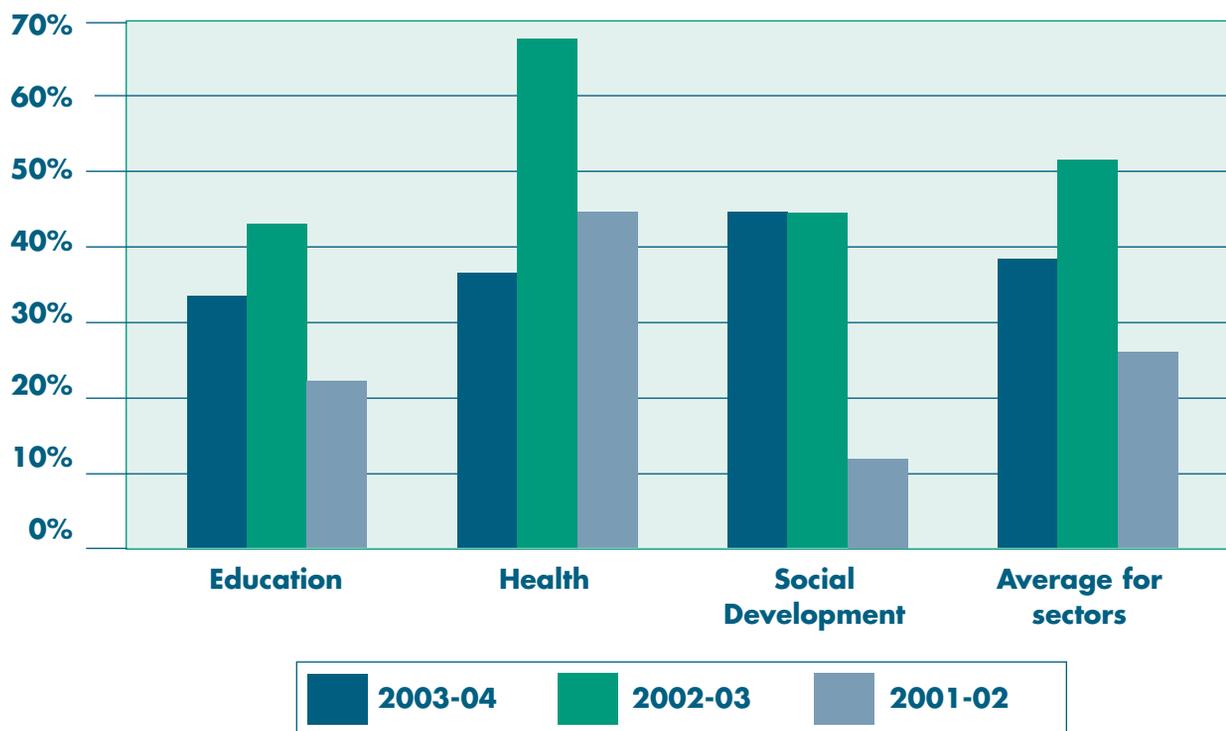
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As figure 1 shows, the three sectors spent approximately 81% (R135,5 billion) of the total provincial budget of R167,4 billion. This represents almost the same amount as for all the national votes, which combined to total R134 billion.

2.1.1 Audit opinions

Figure 2 depicts the unqualified audit opinions issued per sector over the past three years. The overall average of the three sectors is also shown. In all cases there has been a decrease in unqualified opinions for the past year. The most significant deterioration can be found in the Health sector where only three unqualified audit opinions were expressed in 2003-04, whereas by comparison in the 2002-03 reports six of the nine provincial Departments of Health had unqualified audit opinions. The number of unqualified audit opinions has decreased overall from 51% to 37% for all three sectors.

Figure 2. Number of unqualified audit reports by sector





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Table 2: Unqualified opinions with regard to the three main sectors for 2003-04

Province	Education	Health	Social Development
Eastern Cape	X	Information not available	✓
Free State	X	X	X
Gauteng	✓	X	✓
KwaZulu-Natal	X	✓	X
Limpopo	✓	✓	✓
Mpumalanga	X	✓	✓
North West	✓	X	X
Northern Cape	X	X	X
Western Cape	X	X	X

X *Qualified*

✓ *Unqualified*

In three provinces qualifications were expressed on all three sectors. These were:

- Free State
- Northern Cape
- Western Cape

Limpopo was the only province where none of the three sectors received a qualification.

2.2 PROVINCES

The table below provides an overview of provincial expenditure, as well as the number of votes and how many of these were qualified for the 2003-04 financial year.



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Table 3: Total expenditure per province

Province	Total expenditure 2003-04 R million	Total expenditure 2002-03 R million	% increase	Number of votes for 2003-04	Number of votes with qualified audit opinion for 2003-04
Eastern Cape	24 245,6	20 057,1	20,9	13	5
Free State	11 579,8	9 995,4	15,9	12	8
Gauteng	29 328,1	24 477,5	19,8	13	3
KwaZulu-Natal	34 139,0	28 979,5	17,8	14	4
Limpopo	21 691,7	18 822,7	15,2	12	1
Mpumalanga	11 539,9	9 743,0	18,4	12	1
North West	14 310,2	11 534,8	24,1	13	4
Northern Cape	4 201,4	3 721,6	12,9	12	7
Western Cape	16 366,9	14 543,0	12,5	14	3
Total	167 402,5	141 874,4	18,0	115	36

Total expenditure by all nine provinces increased from 2002-03 (R141,9 billion) to 2003-04 (R167,4 billion) by 18,0%.

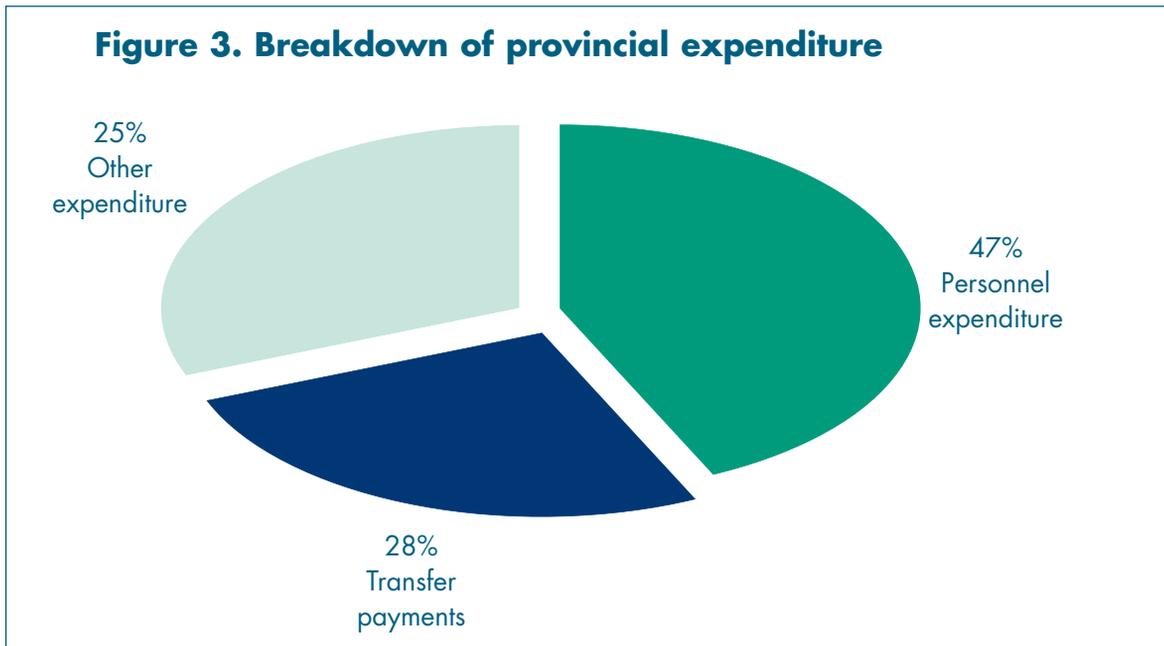
KwaZulu-Natal is the province that accounted for the biggest portion (20%) of total provincial expenditure. In comparison the Northern Cape only accounted for 2,5% of total expenditure. In two of the nine provinces, namely the Eastern Cape and North West, the percentage increase was more than 20%.

Thirty-one per cent (36 out of 115) of the departments had a qualified opinion in the 2003-04 financial year. Free State expressed the highest number of qualifications (8 of 12 departments) and the Northern Cape the second highest (7 of 12 departments).



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Figure 3. Breakdown of provincial expenditure



Personnel expenditure is the single largest area of expenditure, constituting 47% (R78,2 billion) of the total provincial expenditure, with transfer payments the second largest with 28% (R47,3 billion). Combined, personnel expenditure and transfer payments constitute a substantial part (75%) of the total provincial expenditure.

2.2.1 Audit opinion

Unmodified audit reports

In an unmodified audit report no audit qualification or emphasis of matter paragraph is included (refer to annexure 1, figure 2). Of the votes analysed, six received an unmodified ("clean") report, of which four were for departments in Gauteng.

Modified audit reports

An audit opinion is disclaimed where the auditors were not able to provide an opinion due to a lack of sufficient audit evidence (documentation). Seven cases were identified where a disclaimer was expressed. Four of the seven cases referred to Departments of Education. The lack of proper documentation indicates a serious management problem in this sector.

There were no instances where an adverse opinion was expressed.



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Twenty-nine audit reports (26%) were qualified and also had matters emphasised while the rest of the 68 departments (62%) had only matters emphasised.

2.2.2 Major issues contained in audit reports

The areas reported on in the provincial reports were similar to those identified in the national departments. The categories identified were:

- Asset management
- Personnel expenditure
- Internal control
- Transfer payments
- Unauthorised, irregular and fruitless and wasteful expenditure

2.2.2.1 Asset management

Asset management appeared to be the most commonly reported issue, as was the case in the audit findings of the national departments.

Table 4: Audit findings on asset management

Reported matters	Number of matters reported in audit reports ¹			
	Qualified	Emphasis of matter	Total	Number of provinces
Asset register not updated	5	34	39	9 ²
Lack of policy framework	1	9	10	7 ³
Asset register does not reconcile to annual financial statements	2	4	6	4 ⁴
Assets could not be physically verified	–	12	12	7 ⁵
No asset register	1	15	16	9 ⁶
No asset count performed	1	9	10	6 ⁷
No adequate control over assets (safeguarding and maintenance)	–	3	3	3 ⁸
Old and obsolete assets not disposed of timeously	–	3	3	3 ⁹
Assets not marked with unique numbers	–	14	14	8 ¹⁰
Total	10	103	113	

¹ There can be more than one issue raised on asset management per entity

² In the Free State, Gauteng and Mpumalanga qualified opinions were expressed

³ Not in North West and Gauteng. In the Free State a qualified opinion was expressed

⁴ In the Eastern Cape, Free State, Gauteng and KwaZulu-Natal. In the Eastern Cape and Free State qualified opinions were expressed

⁵ Not in Mpumalanga and the Northern Cape

⁶ In Mpumalanga a qualified opinion was expressed

⁷ Not in the Eastern Cape, Gauteng and Western Cape. In the Free State a qualified opinion was expressed

⁸ In KwaZulu-Natal, Limpopo and the Western Cape

⁹ In the Free State, KwaZulu-Natal and Northern Cape

¹⁰ Not in Gauteng



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One hundred and three asset management issues were reported under matters emphasised in the audit reports of 62 departments, while four departments had 10 qualification paragraphs (including the disclaimers). This indicates that the majority of the departments experienced significant problems regarding asset management.

Asset management issues are further analysed in table 4, where the most prominent problem areas are listed. These problem areas indicate two different levels of severity as the root cause of the finding is investigated. In ten instances there was no adequate asset management policy in place, which points to the lack of a management framework. This constitutes a more basic but serious financial management problem.

These areas include:

- Lack of policy framework
- No asset register
- Asset could not be physically verified
- No stocktaking performed

On the other hand, 39 cases reported that asset registers were not updated properly, which merely indicates a lack of working practices and not a lack of systems or management policy. Generally these problems may be solved by providing adequate training and/or addressing the lack of capacity.

Problem areas include the following:

- Asset register not updated, including asset numbers
- Asset register does not reconcile to annual financial statements
- Assets not marked with state ownership mark

2.2.2.2 Personnel expenditure

As is shown in figure 3, personnel expenditure constitutes a substantial part (47%) of the total provincial expenditure. Personnel expenditure had been qualified in the audit reports of nine departments and 165 matters were emphasised for 67 departments.



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Table 5: Audit findings on personnel expenditure

Reported matters	Number of matters reported in audit reports			
	Qualified	Emphasis of matter	Total	Number of provinces
Leave-related issues:				
• Leave entitlement not correctly disclosed	7	–	7	5 ¹¹
• Leave (capped, normal)	2	30	32	9 ¹²
• Leave gratuities	–	6	6	2 ¹³
Housing loan guarantees not authorised/documentation	3	14	17	7 ¹⁴
No prior authorisation	–	2	2	2 ¹⁵
Personnel files unavailable and insufficient documentation	1	24	25	8 ¹⁶
No reconciliation to PERSAL	1	9	10	5 ¹⁷
Private expenses not recovered	–	4	4	3 ¹⁸
Overtime	–	12	12	5 ¹⁹
PERSAL not updated with personnel details	–	8	8	4 ²⁰
Payroll reports not sufficient	–	19	19	6 ²¹
Inadequate control over advances	–	5	5	3 ²²
Incorrect disclosure of personnel expenditure	–	11	11	6 ²³
High percentage of vacancies	–	5	5	2 ²⁴
Existence of employees could not be verified	–	1	1	1 ²⁵
No proper procedures followed to appoint personnel	–	4	4	3 ²⁶
No adequate control over homeowner's allowances	–	4	4	3 ²⁷
No approved organogram	–	3	3	2 ²⁸
Guarantee liability understatement	–	4	4	2 ²⁹
Total	14	165	179	

¹¹ Not in Gauteng, KwaZulu-Natal and Limpopo¹² In the Free State and Western Cape qualified opinions were expressed¹³ In the Free State and Limpopo¹⁴ Not in Gauteng and North West. In the Eastern Cape, KwaZulu-Natal and Northern Cape qualified opinions were expressed¹⁵ Only in the Free State and Northern Cape¹⁶ Not in Gauteng. In the Eastern Cape a qualified opinion was expressed¹⁷ Not in Gauteng, KwaZulu-Natal, Mpumalanga and North West. In the Northern Cape

a qualified opinion was expressed

¹⁸ In the Eastern Cape, KwaZulu-Natal and Northern Cape¹⁹ In the Free State, Limpopo, Mpumalanga, Northern Cape and Western Cape²⁰ Only in the Western Cape, KwaZulu-Natal, Free State and Eastern Cape²¹ Not in Gauteng, KwaZulu-Natal and Mpumalanga²² In the Eastern Cape, Free State and Northern Cape²³ Not in the Western Cape, North West and Gauteng²⁴ In KwaZulu-Natal and Limpopo²⁵ In the Northern Cape²⁶ In KwaZulu-Natal, Mpumalanga and the Northern Cape²⁷ In KwaZulu-Natal, Limpopo and the Northern Cape²⁸ In KwaZulu-Natal and the Northern Cape²⁹ In the Free State and Limpopo



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Of all issues, leave was reported most frequently and also accounted for nine out of the 14 qualifications.

2.2.2.3 Internal audit / audit committees

No qualified opinions were expressed on the internal audit section, but 71 matters were emphasised. The problems identified were concentrated in certain provinces only.

Table 6: Audit findings on internal audit / audit committees

Reported matters	Number of matters reported in audit reports	
	Emphasis of matter	Number of provinces
Internal audit not functional for the year / part of the year	7	3 ³⁰
An effective and efficient internal audit function not ensured	17	6 ³¹
No internal audits performed	8	4 ³²
Audit reports not submitted to the Audit Committee	7	1 ³³
No reliance could be placed on internal audit	13	3 ³⁴
No Audit Committee appointed	5	2 ³⁵
Work not performed according to annual internal audit work plan	14	5 ³⁶
Total	71	

³⁰ In the Eastern Cape, Free State and Northern Cape

³¹ Not in the Eastern Cape, Gauteng and Western Cape

³² In the Eastern Cape, Free State, KwaZulu-Natal and Western Cape

³³ In the Eastern Cape

³⁴ In the Free State, Northern Cape and Western Cape

³⁵ In the Free State and Northern Cape

³⁶ Not in KwaZulu-Natal, Limpopo, Mpumalanga and North West



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It is clear from the above that the highest risk was that no effective and efficient internal audit function was ensured. This was reported in six of the nine provinces. Other risks included that work performed was not in accordance with an internal audit work plan (in 5 of the 9 provinces) and that no reliance could be placed on the internal audit (in 3 of the 9 provinces).

2.2.2.4 Transfer payments

As is shown in figure 3, transfer payments constituted 28% of the total provincial expenditure. Only in one department (Economic Affairs and Tourism in the Northern Cape) a qualified audit opinion was expressed with regard to transfer payments.

Key areas to consider when auditing transfer payments are outlined in the following legislation:

- all sections of the Division of Revenue Act, No. 7 of 2003 (DoRA)
- sections 38(1)(i) and 38(1)(j) and 38(1)(k) of the PFMA
- Treasury Regulations 8.4, 8.5 and 8.6
- Frameworks for Conditional Grants to Provinces³⁷ (for conditional grants in terms of DoRA)

Transferring and receiving entities need to ensure their compliance with the above.

Table 7: Audit findings on transfer payments

Reported matters	Number of matters reported in audit reports			
	Qualified	Emphasis of matter	Total	Number of provinces
No supporting documentation	–	5	5	4 ³⁸
Transfer was not approved	–	2	2	2 ³⁹
Payments calculated on outdated information – incorrect payment	–	5	5	2 ⁴⁰
Monitoring and controls were ineffective	–	3	3	2 ⁴¹
Money spent in excess of agreed funding	–	1	1	1 ⁴²
No proof of how money was utilised	–	7	7	5 ⁴³
Investment not disclosed in financial statements of controlled entity	1	–	1	1 ⁴⁴
Total	1	23	24	

³⁷As per Government Gazette, No. 24834 of 30 April 2003

³⁸In the Western Cape, Mpumalanga, Free State and Eastern Cape

³⁹In the Western Cape and Northern Cape

⁴⁰In the Free State and Western Cape

⁴¹In the Eastern Cape and KwaZulu-Natal

⁴²In Mpumalanga

⁴³In the Free State, Northern Cape, Western Cape, KwaZulu-Natal and North West

⁴⁴In the Northern Cape



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The qualified opinion was expressed on the fact that, through transfer payments, a majority interest was obtained in a manufacturing company and the investment was not disclosed in the controlled entity (Northern Cape).

From the above it is clear that the highest risks were the following: no proof of how money was utilised (7 issues), no supporting documentation (5 issues) and incorrect payments that were calculated on outdated information (5 issues).

2.2.2.5 Unauthorised, irregular and fruitless and wasteful expenditure

Chapter 1 of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (as amended by Act 29 of 1999) defines as follows:

"Unauthorised expenditure" means –

- (a) overspending of a vote or a main division within a vote
- (b) expenditure not in accordance with the purpose of a vote, or in the case of a main division, not in accordance with the purpose of the main division.

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

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of that Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

"Fruitless and wasteful expenditure" means expenditure, which was made in vain and would have been avoided had reasonable care been exercised.



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Table 8: Unauthorised, irregular and fruitless and wasteful expenditure by departments as reported for the 2003-04 financial year

Type of expenditure	R billion	Number of departments
Unauthorised	5,203	52
Irregular	0,566	22
Fruitless and wasteful	0,064	15
Total	5,833	89

Unauthorised, irregular and fruitless and wasteful expenditure was reported in all nine provinces, and in 89 of the 115 departments. R5,833 billion (3,5%) of the total expenditure (R167,4 billion) was reported as unauthorised, irregular or fruitless and wasteful expenditure. For national departments unauthorised, irregular and fruitless and wasteful expenditure amounted to R142,1 million, which represented 0,1% of total expenditure.

For more detail regarding the issues reported, refer to annexure 4.

SECTION 3: SPECIALISED AUDIT SERVICES 2003-04

This section of the report includes information on audits conducted over and above the regularity audits. These include the following:

- Special investigations
- Performance audits
- Integrated audits
- Performance information reviews

I intend placing more emphasis on performance audits in the future and have differentiated performance audits into three categories. The first two categories are part of an integrated audit whilst the third category is a specialised performance audit.

- Category 1: An assessment of economy and efficiency in the standard areas, such as personnel and asset management, that can be undertaken when conducting the regularity audit.
- Category 2: An integrated audit report that addresses more sophisticated aspects of a particular entity through a multidisciplinary team of performance and regularity auditors. This approach requires a fundamental understanding of a particular department or entity. The



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area of investigation will be based on particular concerns and issues at that entity.

- **Category 3:** A specialised performance audit that focuses on transversal themes that are applicable across several entities and provide a comprehensive review of a particular issue. This type of report is separately tabled and can be combined to provide benchmarking information. The selection and focus of this type of audit are based on, amongst others, national priorities and materiality.

It should be noted that the results of some of the special investigations and performance audits are reported to management only and are, therefore, not tabled in the provincial legislatures.

3.1 SPECIAL INVESTIGATIONS

3.1.1 Special investigations at provincial government departments

During the 2003-04 financial year the following special investigations conducted at provincial departments were reported to the relevant provincial legislature:

Table 9: Special investigation reports issued 2003-04

Report number	Cost (R)	Department	Focus Area	Key findings
PR 26/2004	1 010 000	Department of Transport, Roads and Public Works (Northern Cape)	The appointment of consultants	<ul style="list-style-type: none"> • Consultants for various projects were not appointed in accordance with the Tender Board Regulations • In various instances no agreements were entered into between the department and the consultants. Therefore, the correctness could not be verified and it could not be determined if both parties met their contractual obligations



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Table 9: Special investigation reports issued 2003-04 (continued)

Report number	Cost (R)	Department	Focus Area	Key findings
PR 26/2004	1 010 000	Department of Transport, Roads and Public Works (Northern Cape)	Subsistence and travelling expenditure of the Ministry of Transport, Roads and Public Works	<ul style="list-style-type: none"> In various cases it could not be determined if the trips undertaken by the member of the executive council (MEC) and his spouse were for official purposes According to invoices received, the department made payments to service providers for hotel rooms booked in the name of the MEC although the invoices indicated a "no show"

3.1.2 Management reports issued

The following management reports were issued during the 2003-04 financial year on special investigations conducted at provincial government departments.

Table 10: Management reports on special investigations – 2003-04

Department	Focus area
Department of Public Transport, Roads and Works (Gauteng)	The procurement of goods and services
Department of Local Government and Housing (Northern Cape)	Alleged irregularities pertaining to RDP houses



AUDITOR - GENERAL

3.2 PERFORMANCE AUDITS

3.2.1 Performance audits at provincial government departments

During the 2003-04 financial year the following performance audits conducted at provincial government departments were reported on to the relevant provincial legislature:

Table 11: Performance audit reports issued 2003-04

Report number	Cost (R)	Department	Focus area	Key findings
PR 39/2003	580 000	Department of Public Works (Limpopo)	Management of residential properties	<ul style="list-style-type: none"> Market-related rent of residential properties was not collected in accordance with the provincial guidelines. The department did not manage the collection of rent effectively, which resulted in long outstanding rent for public servants and for private tenants. In some instances rent was outstanding for periods of up to 29 months without the tenants being evicted. The rent payable by tenants was not adjusted to market-related rent. Staff members were not taxed on the fringe benefit of official accommodation.
	300 000	Department of Education (Limpopo)	Designated and non-designated employees who are directors / members of private companies / close corporations that supplied goods or rendered services to the administration Suppliers charged VAT, but were not registered	<ul style="list-style-type: none"> Staff did not declare their financial interest to the executing authority. Staff did not obtain the necessary permission from the executive authority to perform remunerative work outside their employment. Tenders were awarded while the relevant declarations of interest forms were not obtained beforehand. No controls were in place to ensure that all suppliers had a valid VAT registration number.



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Report number	Cost (R)	Department	Focus area	Key findings
PR 31/2004	R396 000	Department of Public Works, Roads and Transport (Mpumalanga)	Management of sick leave benefits	<ul style="list-style-type: none"> • The department did not have a policy in place for the proactive management of sick leave. • Departmental managers, personnel practitioners and PERSAL controllers had not been provided with relevant training on how to use PERSAL information to manage sick leave. • The department did not always capture sick leave forms within a prescribed 7-day period. • The Employee Assistance Programme did not address the well-being of the staff or reduce the levels of sick leave, since the department was still in the process of establishing policy to regulate it. • Some of the staff members exceeded the prescribed 36 days' sick leave allocation. • Applications for temporary disability leave were not always investigated and finalised within the prescribed 30-day period.
PR 32/2004	R325 000	Department of Education (Mpumalanga)	Training provided to various schools as well as the management of funds at these schools	<ul style="list-style-type: none"> • No formal training programme was developed by the appointed service provider. • Although the financial management training was provided to various schools, some of these schools still indicated that most of the participants that were trained had not been properly introduced to the financial management as presented. • After the above financial management training, some of the financial accounting systems such as bank reconciliation, debtors management systems and cash management systems had still not been developed/introduced or documented at these schools. • The principals and the members of the SGBs did not always ensure that competent persons were appointed as finance officers • Funds were not always spent on expenditures directly related to the benefit of the learners and some of the cheque payments had not been properly accounted for.



A U D I T O R - G E N E R A L

Report number	Cost (R)	Department	Focus area	Key findings
PR 33/2004	R495 000	Mpumalanga Provincial Administration (all departments)	Employees who are directors or members of private companies or close corporations that render services to the Mpumalanga Provincial Administration	<ul style="list-style-type: none"> • Government employees did not always declare their financial interests in private organisations as prescribed by the Public Service Regulations, 2001. • In some instances, the 90-day validity period of tenders expired, resulting in the re-advertising of tenders. This gave certain business entities of which government employees are directors or members the opportunity to improve their tenders on a continuous basis until they were awarded the tenders. • Some of the employees participated in the procurement and approval process when goods and services were purchased by the department from business entities of which they were directors. • The department did not always ensure that business entities were appointed at the lowest possible price. • Actual payments made to business entities of which government employees are directors or members were not always reconciled to the original amounts at which the tenders had been awarded. • Some of business entities of which government officials are directors or members used "trading as" names to tender for different tenders. • The department did not always ensure that information supplied by tenderers, such as business addresses, was correct. Some of the business addresses provided by tenderers did not exist.



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Report number	Cost (R)	Department	Focus area	Key findings
PR 165/2004	R897 000	Department of Health and Social Services (Mpumalanga)	Performance audit of the social grants administration process	<p>Social grants payments were not made according to the approved criteria, for example</p> <ul style="list-style-type: none"> • payments made to deceased persons after date of death and no follow-up had been done, • salaries according to PERSAL were more than the prescribed monthly household income. • Persons, whose income according to GEPP was more than the prescribed monthly household income, were awarded social grants. • Social grants were awarded to persons with computer generated ID numbers. • In some instances the child support grant continued to be paid to beneficiaries after the death of these children. • In some instances officials' user IDs were used for the approval of social grants while these officials were on leave or absent from work.
	R545 602	Department of Education (KwaZulu-Natal)	Performance audit of the management of sick leave	<p>A formal strategy to assist in the efficient and effective management of sick leave did not exist, which contributed to a significant number of weaknesses.</p>
	R421 698	Department of Education (KwaZulu-Natal)	Performance audit of capital expenditure relating to infrastructure	<ul style="list-style-type: none"> • Formal policies and procedures to facilitate proper human resource management were not always adhered to. • Projects were not always properly managed in terms of project management principles to ensure the successful completion thereof. This contributed to expenditure amounting to approximately R284 509 being regarded as fruitless and wasteful and R1 115 212 as irregular. • Procurement policies and regulations were not always adhered to. This contributed to significant additional costs and irregular expenditure amounting to approximately R4 358 153 being incurred.



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Report number	Cost (R)	Department	Focus area	Key findings
	R500 897	Department of Health (KwaZulu-Natal)	Performance audit of the management of sick leave	The absence of a formal management strategy for the management of sick leave resulted in deficiencies and weaknesses.
	R583 708	Department of Health (KwaZulu-Natal)	Performance audit of the management of primary health care	<ul style="list-style-type: none"> • Infrastructure and maintenance not carried out. • Recruitment and retention of professional nurses. • Performance management.
	R472 103	Department of Housing (KwaZulu-Natal)	Performance audit: Follow-up performance audit of the management of project-linked housing projects	<ul style="list-style-type: none"> • Measures to ensure that projects were completed, for example monitoring, follow-up and the timeous resolving of problems, were inadequate. • The transfer of sites to beneficiaries to ensure tenure was not done timeously. • Adequate monitoring and regular inspections were not always carried out to ensure the successful completion of projects.
	R387 167	Department of Transport (KwaZulu-Natal)	Follow-up performance audit of the management of the construction and maintenance of roads	<ul style="list-style-type: none"> • Although significant progress had been made to achieve the optimal ratio of personnel expenditure as a percentage of total expenditure and the department was actively involved in obtaining additional funds, the problem of under-funding still existed. • The department is still in no position to adhere to the current plant replacement policy. • The measurement of and control over the utilisation of plant and productivity were still not always adequate.



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Report number	Cost (R)	Department	Focus area	Key findings
		Provincial Treasury (KwaZulu-Natal)	Performance audit of procurement	Certain findings included in regularity report.
	R331 985	Department of Social Welfare and Population Development	Performance audit of the management of sick leave	The absence of a formal management strategy for the management of sick leave contributed to internal control weaknesses.

3.2.2 Performance audits of the disclosure of financial interest

During the 2003-04 financial year pilot performance audits that focused on the disclosure of financial interest by members of the executive council, heads of departments and certain other employees of the Department of Education and the Department of Health and Welfare of the Limpopo Provincial Administration were performed. Twenty-two senior managers and approximately 2 800 other employees were identified who had not declared their financial interests in private companies and/or close corporations, as prescribed by the relevant regulations. Furthermore, 81 employees who were directors or members of private companies or close corporations that supplied goods and/or rendered services to the departments at which they were employed had not requested permission to perform remunerative work outside their employment at the department and did not disclose a conflict of interest.

3.2.3 Transversal performance audit of housing subsidies

A performance audit pertaining to housing subsidies is currently being conducted at all provincial Departments of Housing.

Upon conclusion of the performance audits at the provincial Departments of Housing, a report will be submitted to the national Department of Housing for their inputs before being tabled in Parliament.



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3.3 PERFORMANCE INFORMATION REVIEW – PROVINCIAL DEPARTMENTS 2003-04

3.3.1 Introduction

In the process of phasing in performance information audits, my office has conducted a desk review on performance information reported by provincial departments. It is important to take note of the fact that provincial strategic objectives that are reported on in the annual reports link to customised provincial strategic plans and not necessarily to the objectives set out in the Estimates of National Expenditure (ENE), which are applicable mainly to national departments. This performance information is contained in the section "programme performance" in the departments' annual reports for 2003-04. Performance information relates to the service delivery of a function, for example, in terms of education, this may be the number of spaces provided in the public primary school phase. The auditing of performance information will therefore enable an assessment of the entity's performance against predetermined objectives. The annual financial statements and performance information combined thus provide a more complete picture of the entity.

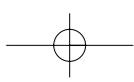
The majority of departments reviewed did not succeed in the alignment of the performance information objectives set in the ENE with the programme performance information in the annual report. In the evaluation of the set criteria for the review, a mixture of positive and negative results was revealed. Some positive findings identified were that most of the departments did group together their sub-programmes to contribute to a single measurable objective and that performance information was presented in a straightforward and meaningful way.

Continual improvement is, however, an integral part of any process and the departments will always be challenged to improve on performance reporting.

The review was conducted on a sample of three sectors for all nine provinces. The following sectors were subjected to this review:

- Education
- Health
- Social Development

The performance information in the annual reports was evaluated against certain criteria. The selection of these criteria was based on and supported by the requirements of financial legislation, regulations and guidelines for



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the preparation of budgets and annual reports for the year ended 31 March 2004.

The criteria for the review were formulated as follows:

- The performance information (specifically the measurable objectives and the measures/indicators) reflected in the annual report should agree with the performance information in the ENE for 2003-04.
- Measurable objectives should be formulated to adhere to the SMART principle, namely to be:
 1. Specific
 2. Measurable
 3. Attainable
 4. Relevant
 5. Timebound

Note – during the review only the principles of specific, measurable and timebound were evaluated.

- Sub-programmes should be grouped together so that their outputs contribute to a single measurable objective for the programme.
- The performance information should be presented in a way that is straightforward and meaningful and should not be fragmented in the annual report or difficult to follow.
- Actual performance should be indicated for each measure/indicator and reasons for differences should be explained.

3.3.2 Review results

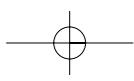
The outcomes of the review results on each of the above-mentioned criteria for the three sectors reviewed are presented below.

Criterion 1: The performance information (specifically the measurable objectives and the measures/indicators) reflected in the annual report should agree with the performance information in the ENE for 2003-04.

One of the criteria of good reporting on performance information is consistency. The criterion of consistency⁴⁵ is defined as follows:

"Performance measures should be consistent from one reporting period to the next, and the information should be prepared on the same basis in order to compare and assess performance adequately."

⁴⁵Guide for the preparation of annual reports, national and provincial departments, for the year ended 31 March 2004, National Treasury

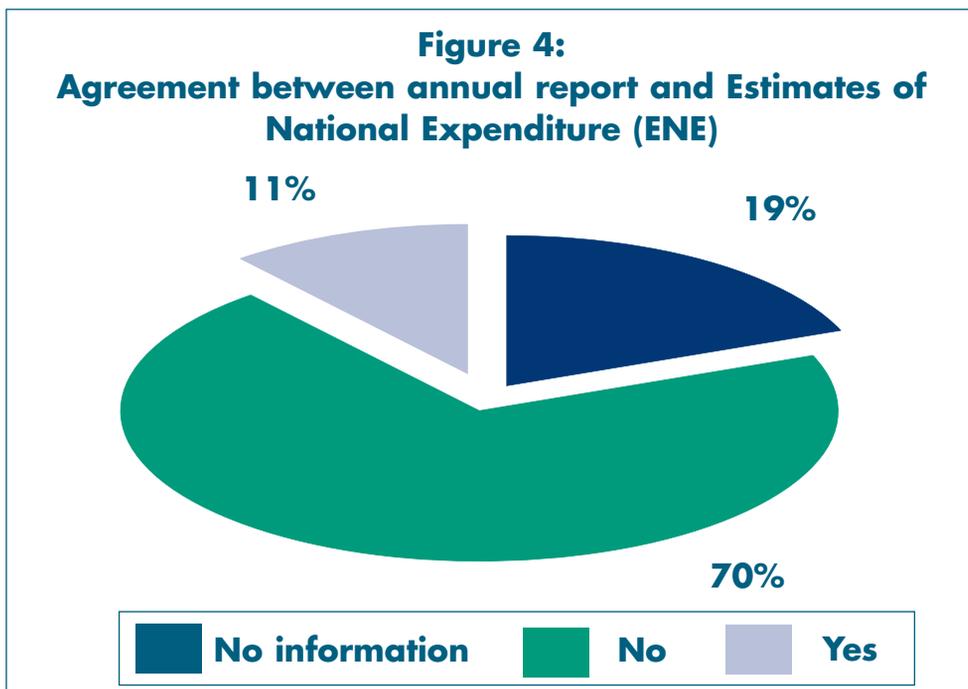




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The ENE represents what the department is funded for and therefore the annual report should reflect this.

The perspective of the three sectors in the nine provinces is illustrated in figure 4.



In 11% (3 out of 27) of the departments it was possible to link performance information with the information required by the ENE.

These three departments were:

- Education, Gauteng
- Education, North West
- Social Development, Free State

For the majority of departments (19 departments) analysed the performance information could not be linked with the information required by the ENE.

No link could be established between the ENE and annual reports of the departments, as the information required by the ENE on a programme and sub-programme level was not reported in the annual report. In some cases additional information was reported in the annual reports, which was not required by the ENE.

Based on the 24 votes where there was no alignment between the annual report and the ENE, it can be concluded that the basis of funding and the reporting requirements in the public domain are not aligned, resulting in a lack of clear accountability.



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Criterion 2: Measurable objectives should be formulated to adhere to the SMART principle.

The following guidance is provided by the National Treasury in this regard:⁴⁶

- Measurable objectives are defined as specific, quantifiable outcomes that can be achieved within a foreseeable time.
- A measurable objective should be an observable action that describes what the programme will do.
- Measurable objectives serve as a roadmap for achieving the department's goals and define the actual impact on the public rather than focusing on the level of effort that is expended.
- Objectives could be measured by means of setting the expected outcomes, programme outputs, indicators (measures) and targets of the institution's programmes.

For analysis of the above criteria, one sub-programme has been selected for each sector.

- Education – Programme 2: Public Ordinary School Education (Primary)
- Health – Programme 2: District Health Services (HIV/Aids)
- Social Development – Programme 2: Social Assistance

Table 12: Aim of the programme as defined in the annual report

Sector	KwaZulu-Natal	Limpopo	Mpumalanga	Northern Cape
Education	To provide specific public primary ordinary schools with resources required for grades 1 to 7	To provide specific public primary ordinary schools with resources required for grades 1 to 7	To provide specific public primary ordinary schools with resources required for grades 1 to 7	Provides for the provision of educators, learners' support materials and other resources and services to all public primary schools
Health	To provide community-based services through the primary health care approach with the key focus being the implementation of a high-quality, compassionate, accessible, seamless and comprehensive health care service for the community	No aim stipulated in the annual report	To provide a comprehensive level 1 service to the community through the District Health System (DHS) which includes district hospitals, community health centres, clinics and mobile units up to household level	To render primary health care services (Act 63 of 1977) and coroner services
Social Development	To provide and administer the payment of social assistance grants to qualifying beneficiaries	To provide accessible, transparent and comprehensive social security services	To provide a social safety net to citizens, who qualify in terms of the Social Assistance Act, Act 59 of 1992 as amended	To provide for the disbursement and administration of social assistance grants in terms of the Social Assistance Act of 1992

⁴⁶Treasury Guidelines on the Medium Term Expenditure Framework: Preparing MTEC submissions, National Treasury, 2003



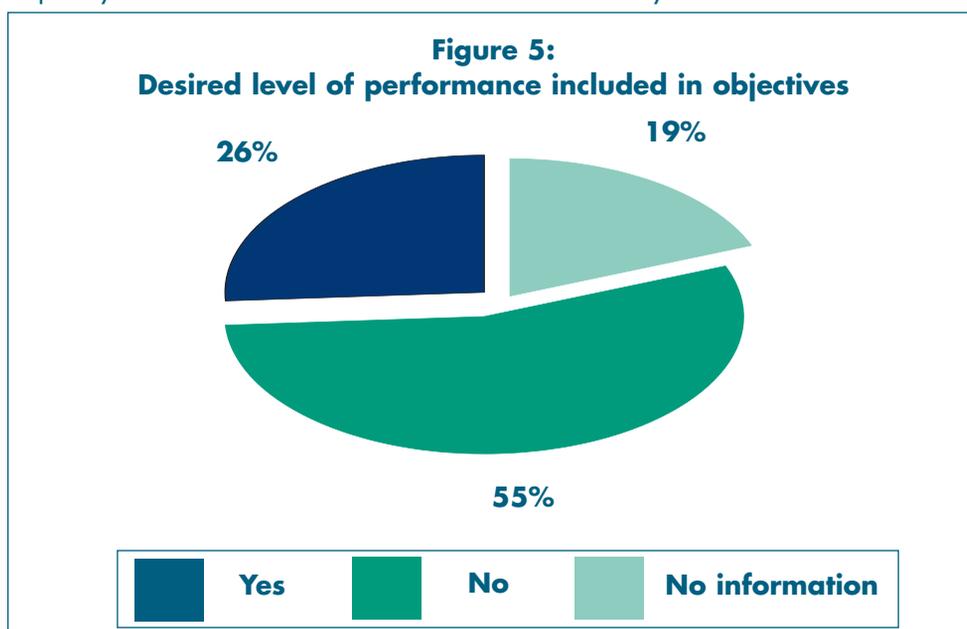
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Although priorities per programme may differ, the specific aim per programme should be consistent among provinces to ensure alignment with national goals.

As can be seen from the table above, there is no consistency among the four selected provinces in the formulation of a specific aim per programme.

The perspective of the three sectors in the nine provinces is illustrated in figure 5.

Setting the desired level of performance is essential to ensure that the relevant agents of service delivery are held accountable. Issues such as capacity and resources can be assessed in this way.



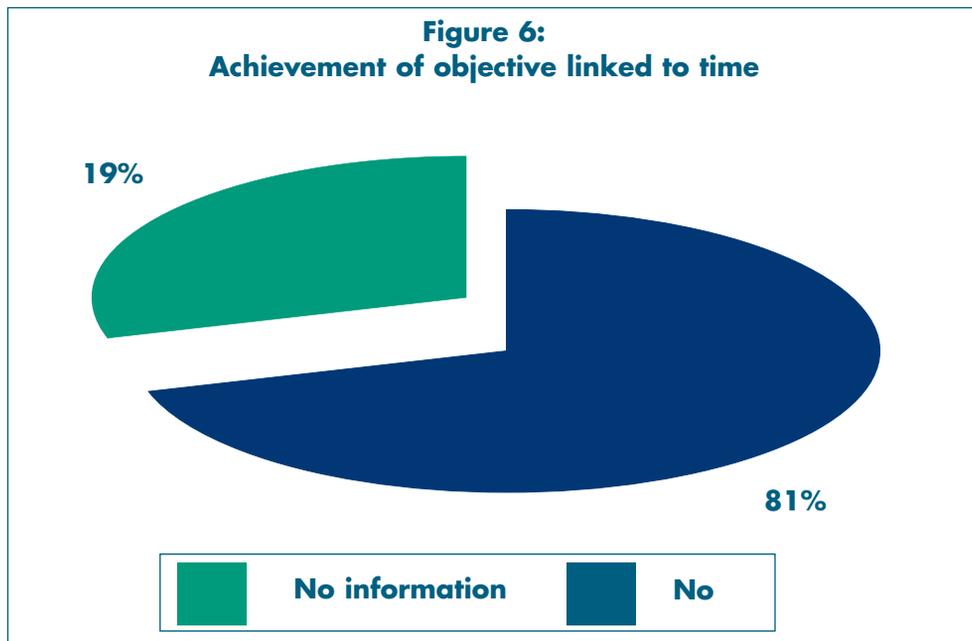
For the performance to be measurable, the ENE stipulates performance measures. The measurable objective, as defined in the ENE, states the funding basis on which the department should report in the annual report.

Figure 5 shows that the majority of departments did not report on all performance measures stipulated in the ENE. Only 26% (7 out of 27) of the departments did report on all performance measures. These departments were:

- Education, Gauteng
- Education, KwaZulu-Natal
- Health, Limpopo
- Social Development, Free State
- Social Development, Gauteng
- Social Development, Mpumalanga
- Social Development, Northern Cape



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Setting time frames and linking these to the objectives is an important aspect in ensuring effective accountability. As indicated in figure 6, no cases were identified where the measurable objective could be linked to a set time frame. This provides another obstacle in the accountability process, as it does not set any type of challenge for the responsible official.

Criterion 3: Sub-programmes should be grouped together so that their outputs contribute to a single measurable objective for the programme.

According to the National Treasury guidance, when reviewing the measurable objectives, departments should also consider the following as a way of ensuring alignment with the programme's purpose and structure:⁴⁷

- Sub-programmes should be grouped together so that their outputs contribute to a single measurable objective for the programme.
- Too many sub-programmes included under a single programme very often complicate the formulation of a common objective.
- The right balance is desired between the number of programmes and sub-programmes, which will achieve the department's mandate in the most efficient and effective manner.
- Consideration of certain programmes to be downscaled and shifted under another programme.

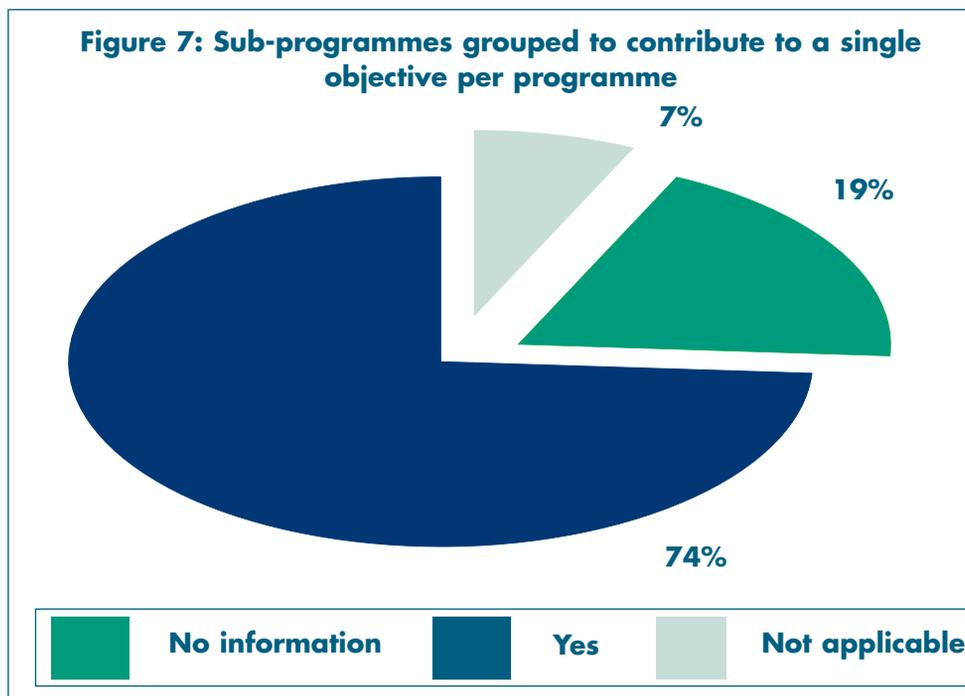
⁴⁷ Treasury Guidelines on the Medium Term Expenditure Framework: Preparing MTEC submissions, National Treasury 2003



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For analysis of the above criterion the same sub-programmes as in criterion 2 have been selected for each sector.

The perspective of the three sectors in the nine provinces is illustrated in figure 7.



This area was encouraging as figure 7 shows that 74% of the departments tested, did group sub-programmes together to adequately provide a "bigger picture". Sub-programmes relate to different aspects set within the aim of a programme in the department. Grouped together they provide a "bigger picture" of the objective that the programme needs to obtain.

In two of the 27 votes analysed no sub-programmes were identified, namely:

- Social Development, Gauteng
- Social Development, North West

Criterion 4: The performance information should be presented in a way that is straightforward and meaningful and should not be fragmented in the annual report or difficult to follow.

Another criterion for good reporting on performance information is that it should be understandable. This criterion is defined as follows:

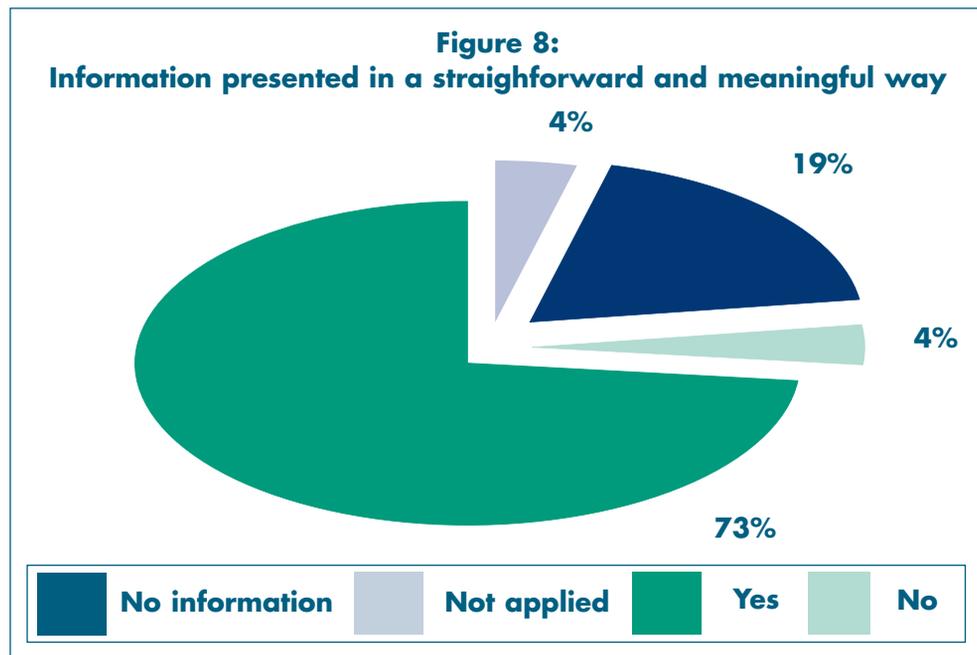


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"The readers for whom the report is intended should be able to clearly understand the contents of the report, which can be achieved by using terminology and reasoning that is comprehensible to any lay reader – especially when technical matters are discussed."

For analysis of the above criterion the same sub-programmes as in criterion 2 have been selected for each sector.

The perspective of the three sectors in the nine provinces is illustrated in figure 8.



Overall, information was represented in a straightforward and meaningful way. In 73% of the departments analysed, information was presented in a table format showing actual delivery compared to budgeted delivery. There is, however, room for improvement. Achievement was not discussed, as differences between set targets and actual delivery were not explained.

Only in one case was the information stated in the annual report insufficient.



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Criterion 5: Actual performance should be indicated for each measure/indicator and reasons for any differences should be explained.

Another useful criterion for good reporting on performance information, is the analysis of information⁴⁸. This criterion is explained as follows:

"It is important to show that any significant variances have been analysed. The reasons for variances should be examined, analysed and explained. Periodic programme evaluations are therefore important to assess the relationship between anticipated outputs and actual achievements."

For analysis of the above criterion the same sub-programmes as in criterion 2 have been selected for each sector.

The perspective of the three sectors in the nine provinces is illustrated in figure 9.

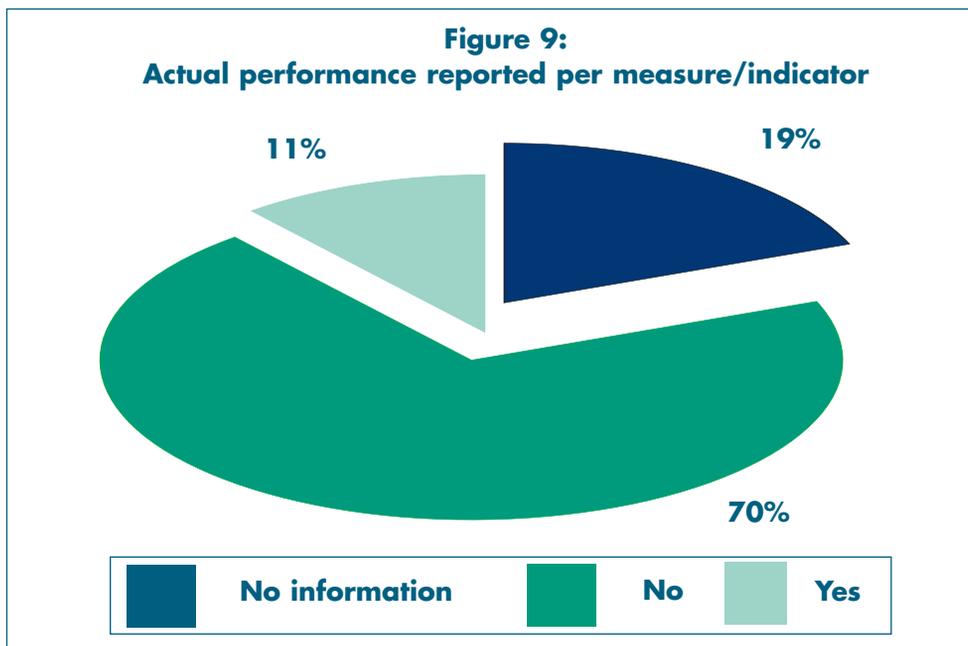
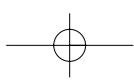


Figure 9 shows that the majority of departments analysed did not report on differences between the targets set by the ENE and actual performance. Only 11% (3 out of 27) of the departments did report on the difference between set targets and actual performance. These departments were:

- Health, Limpopo
- Social Development, Free State
- Social Development, North West

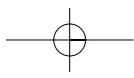
⁴⁸ Guide for the preparation of annual reports, national and provincial departments, for the year ended 31 March, National Treasury

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3.3.3 Recommendations

With reference to the phasing-in approach and strategy of my office regarding the review of performance information, the following recommendations can serve as a guide to improve the reporting on performance:

- The basis of funding and the reporting requirements in the public domain are not aligned, resulting in a lack of clear accountability. Guidance on performance reporting should be consolidated, revisited and issued for consistent implementation.
- There are clear challenges in adhering to the SMART principle. A framework supported by training initiatives should be compiled to ensure consistency of performance reporting within and among departments.
- Problems and difficulties experienced by departments when formulating, implementing, monitoring and reporting on performance should be monitored and corrective action should be taken in a proactive manner.
- Guidelines and training on performance reporting should be provided to governance and oversight bodies so as to ensure better understanding and reviewing of performance information.





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ANNEXURE 1: EXPLANATION OF THE REGULARITY AUDITING PROCESS

Auditing standards

To facilitate compliance with auditing standards the Auditor-General has developed a customised audit approach that is in line with the requirements of the South African Auditing Standards (SAAS), issued by the Public Accountants' and Auditors' Board, which are based on internationally developed standards. These standards include a public sector perspective. The approach is also harmonised with the standards issued by the International Organisation of Supreme Audit Institutions.

The Auditor-General also has a constitutional mandate to audit financial management.

Essentially SAAS govern the standards and provide guidance on the format and contents of an audit report. Although largely applicable to financial statements, they can be adapted to assess other financial information. The key advantage of these standards is that they provide a standard framework for the expression of a written opinion on the entities' financial statements.

Public sector perspectives

In addition to the standard application of SAAS, their application in the public sector includes additional guidance on public sector requirements with the result that reference is made in the paragraph on the "scope of the audit" to the legislation and directives that have given rise to the audit mandate. This also allows for an outline to be given of the nature, content and form of the auditor's report. Compliance auditing specifications (i.e. compliance with relevant rules and regulations) are only included in SAAS in so far as the presentation in the financial statements subjected to audit would be affected. Another dimension the public sector audit may reflect, is the realm of performance. The report may thus assess aspects such as compliance with rules and procedures, internal controls, value for money, wastage of resources or other matters in the public interest.

The audit information on public sector entities is intended for legislators, government departments, other investors and the general public. Reports on public sector audits conducted by the Auditor-General are mandated by law to become public documents.



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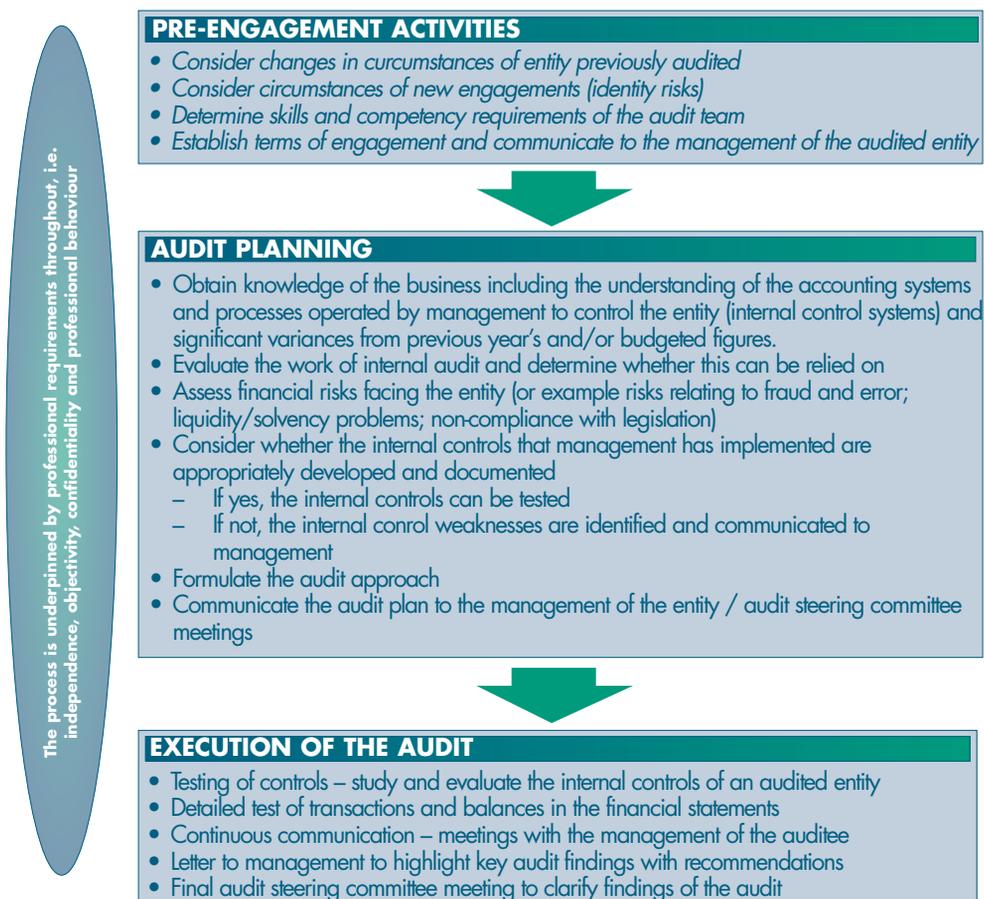
Quality review and assurance

Another benefit of the application of SAAS is the system for the assurance of the quality of the audit, applied throughout the audit process. The auditor needs to be satisfied as to the reliability of the information being used, upon which an audit opinion will be based. The level of assurance is usually determined by risks involved, the procedures that the auditor uses and the results obtained.

The quality of the audit is tested against the adherence to SAAS by an internal appraisal or quality assurance process, applicable until the report is delivered to the auditee and the public. In addition, the Practice Review Department of the Public Accountants' and Auditors' Board performs an independent quality review on audits conducted.

Figure 1 below provides an overall view of the audit process applied by the office, which will result in an audit opinion.

Figure 1 – Steps in the audit process





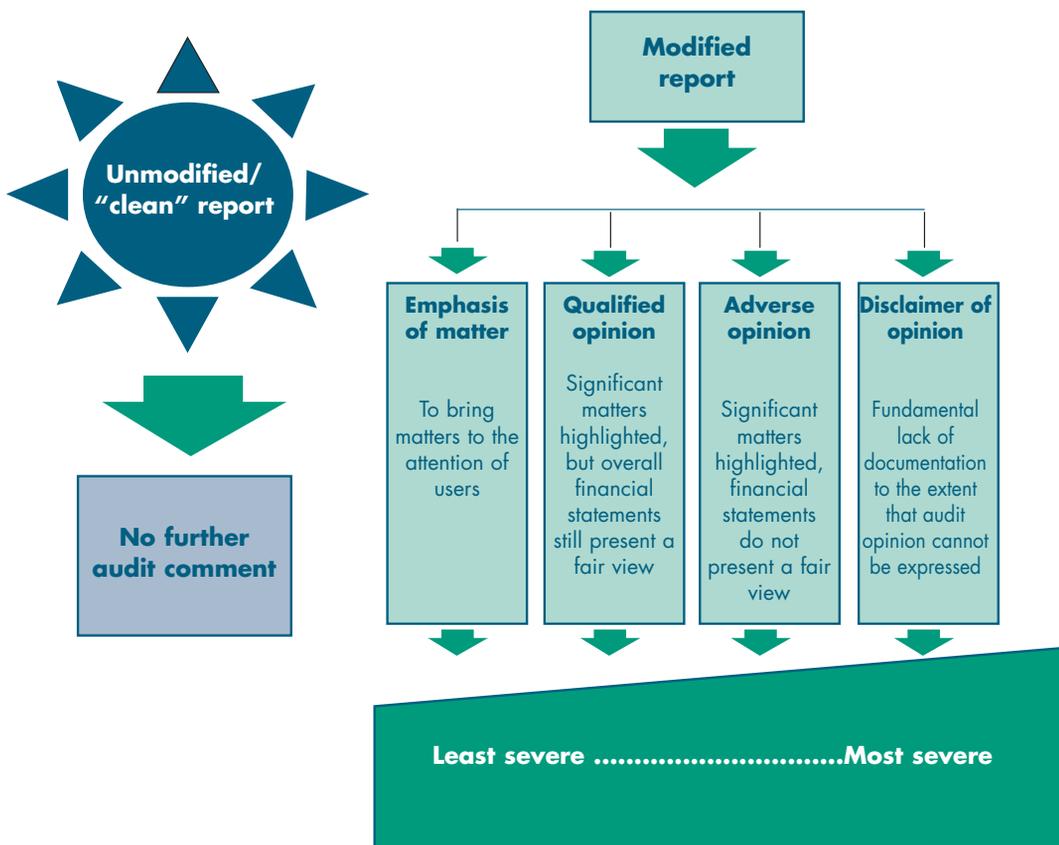
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The output of an audit is simply the expression of an opinion on the financial statements of an entity. It should therefore not be taken as an assessment of the financial health of an organisation. Although the audit opinion is not expressed on the entity's compliance with laws and regulations, any deviations from laws and regulations relating to financial matters will be considered and could result in a modified audit report. Other statutory reporting requirements could also in accordance with SAAS result in a modification by means of emphasis of matter. Figure 2 below shows the different kinds of audit opinions in increasing order of severity.

Effectively, two types of audit reports are issued, namely (a) a "clean" report and (b) a report that is not "clean". An audit report gives an audit opinion on the financial statements of an auditee. When the report is not "clean", one of four possible audit opinions is issued. As illustrated in table 1 above, these range from emphasis of matter, which is the least severe, to a disclaimer of opinion, which is the most severe.

Figure 2 - Explanation of audit opinions





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ANNEXURE 2: LIST OF PROVINCIAL DEPARTMENTS

(Excludes provincial public entities and trading accounts)

2.1 LIST OF PROVINCIAL DEPARTMENTS AS AT 31 MARCH 2004

Province	Vote number	Department	
Eastern Cape	1	Office of the Premier	
	2	Provincial Legislature	
	3	Health	
	4	Social Development	
	5	Roads and Public Works	
	6	Education	
	7	Housing, Local Government and Trade Affairs	
	8	Agriculture and Land Affairs	
	9	Economic Affairs, Environment and Tourism	
	10	Transport	
	12	Provincial Treasury	
	14	Sport, Recreation, Arts and Culture	
	15	Safety and Liaison	
	Free State	1	Office of the Premier
		2	Provincial Legislature
3		Tourism, Environmental and Economic Affairs	
4		Provincial Treasury	
5		Health	
6		Education	
7		Social Development	
8		Local Government and Housing	
9		Public Works, Roads and Transport	
10		Public Safety, Security and Liaison	
11		Agriculture	
12		Sport, Arts, Culture, Science and Technology	
Gauteng	1	Office of the Premier	
	2	Provincial Legislature	
	3	Finance and Economic Affairs	
	4	Health	
	5	Education	
	6	Social Services and Population Development	
	7	Housing	
	8	Development Planning and Local Government	
	9	Public Transport, Roads and Works	
	10	Safety and Liaison	
	11	Agriculture, Conservation and Environment	
	12	Sport, Recreation, Arts and Culture	
	13	Gauteng Shared Service Centre	



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Province	Vote number	Department	
KwaZulu-Natal	1	Office of the Premier	
	2	Provincial Parliament	
	3	Agriculture and Environmental Affairs	
	4	Economic Development and Tourism	
	5	Education and Culture	
	6	Provincial Treasury	
	7	Health	
	8	Housing	
	9	Safety and Security	
	10	Royal Household	
	11	Traditional and Local Government Affairs	
	12	Transport	
	13	Social Welfare and Population Development	
	14	Works	
Limpopo	1	Office of the Premier	
	3	Education	
	4	Agriculture	
	7	Health	
	8	Transport	
	9	Public Works	
	10	Safety and Liaison	
	12	Welfare	
	15	Provincial Legislature	
	19	Housing and Local Government	
	20	Finance, Economic Affairs and Tourism	
21	Sport, Arts and Culture		
Mpumalanga	1	Office of the Premier	
	2	Finance and Economic Affairs	
	4	Local Government, Traffic Control and Safety	
	5	Agriculture, Conservation and Environment	
	7	Education	
	8	Public Works, Roads and Transport	
	9	Safety and Security	
	10	Social Services, Population and Development	
	11	Health	
	12	Housing and Land Administration	
	13	Provincial Legislature	
	14	Sport, Recreation, Arts and Culture	
	North West	1	Office of the Premier
		2	Provincial Legislature
3		Health	
5		Safety and Liaison	
6		Economic Development and Tourism	
7		Finance	



A U D I T O R - G E N E R A L

Province	Vote number	Department
	8	Education
	9	Housing and Development Local Government
	10	Transport
	11	Roads and Public Works
	12	Social Service, Arts, Culture and Sport
	13	Agriculture, Conservation and Environment
	14	Contingency Reserve
Northern Cape	1	Office of the Premier
	2	Provincial Legislature
	3	Safety and Liaison
	4	Education
	5	Transport, Roads and Works
	6	Economic Affairs and Tourism
	7	Sport, Arts and Culture
	8	Finance
	9	Housing and Local Government
	10	Health
	11	Social Services and Population Development
	12	Agriculture, Conservation and Environmental
Western Cape	1	Provincial Administration
	2	Parliament
	3	Treasury
	4	Community Safety
	5	Education
	6	Health
	7	Social Services and Poverty Alleviation
	8	Housing
	9	Environmental Affairs and Development Planning
	10	Transport and Public Works
	11	Agriculture
	12	Local Government
	13	Economic Development and Tourism
	14	Cultural Affairs and Sport



AUDITOR - GENERAL

2.2 SIMILAR GROUPINGS OF PROVINCIAL DEPARTMENTS

2.2.1 Standard departments

Province	Vote number	Department
Free State	11	Agriculture
Limpopo	4	Agriculture
Western Cape	11	Agriculture
Western Cape	4	Community Safety
Eastern Cape	15	Safety and Liaison
Free State	10	Public Safety, Security and Liaison
Gauteng	10	Safety and Liaison
Limpopo	10	Safety and Liaison
Northern Cape	3	Safety and Liaison
North West	5	Safety and Liaison
KwaZulu-Natal	9	Safety and Security
Mpumalanga	9	Safety and Security
Eastern Cape	6	Education
Free State	6	Education
Gauteng	5	Education
Limpopo	3	Education
Mpumalanga	7	Education
Northern Cape	4	Education
North West	8	Education
Western Cape	5	Education
Northern Cape	8	Finance
North West	7	Finance
KwaZulu-Natal	6	Treasury
Western Cape	3	Treasury
Eastern Cape	3	Health
Free State	5	Health
Gauteng	4	Health
KwaZulu-Natal	7	Health
Limpopo	7	Health
Mpumalanga	11	Health
Northern Cape	10	Health
North West	3	Health
Western Cape	6	Health
Gauteng	7	Housing
KwaZulu-Natal	8	Housing
Western Cape	8	Housing
Eastern Cape	2	Legislature
Free State	2	Legislature
Gauteng	2	Legislature



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Province	Vote number	Department
Limpopo	15	Legislature
Mpumalanga	13	Legislature
Northern Cape	2	Legislature
North West	2	Legislature
Western Cape	12	Local Government
KwaZulu-Natal	2	Parliament
Western Cape	2	Parliament
Eastern Cape	1	Premier
Free State	1	Premier
Gauteng	1	Premier
KwaZulu-Natal	1	Premier
Limpopo	1	Premier
Mpumalanga	1	Premier
Northern Cape	1	Premier
North West	1	Premier
Western Cape	1	Provincial Administration
Eastern Cape	12	Provincial Treasury
Free State	4	Provincial Treasury
Limpopo	9	Public Works
Free State	7	Social Development
Eastern Cape	4	Social Development
Eastern Cape	10	Transport
KwaZulu-Natal	12	Transport
Limpopo	8	Transport
North West	10	Transport
Limpopo	12	Welfare
KwaZulu-Natal	14	Works

2.2.2 Similar groupings

Province	Vote number	Department
KwaZulu-Natal	3	Agriculture and Environmental Affairs
Gauteng	11	Agriculture, Conservation and Environment
Mpumalanga	5	Agriculture, Conservation and Environment
Northern Cape	12	Agriculture, Conservation and Environment
North West	13	Agriculture, Conservation and Environment
Western Cape	14	Cultural Affairs and Sport
North West	9	Housing and Development Local Government
Free State	8	Local Government and Housing
Limpopo	19	Housing and Local Government
Northern Cape	9	Housing and Local Government



A U D I T O R - G E N E R A L

Province	Vote number	Department
Mpumalanga	8	Public Works, Roads and Transport
Eastern Cape	5	Roads and Public Works
North West	11	Roads and Public Works
Free State	9	Roads, Public Works and Transport
Gauteng	6	Social Services and Population Development
Northern Cape	11	Social Services and Population Development
KwaZulu-Natal	13	Social Welfare and Population Development
Limpopo	21	Sport, Arts and Culture
Northern Cape	7	Sport, Arts and Culture
Eastern Cape	14	Sport, Recreation, Arts and Culture
Gauteng	12	Sport, Recreation, Arts and Culture
Mpumalanga	14	Sport, Recreation, Arts and Culture
Western Cape	10	Transport and Public Works
Gauteng	9	Public Transport, Roads and Works
Northern Cape	5	Transport, Roads and Works

2.2.3 Totally different groupings

Province	Vote number	Department
Eastern Cape	8	Agriculture and Land Affairs
Gauteng	8	Development Planning and Local Government
Eastern Cape	9	Economic Affairs, Environment and Tourism
Free State	3	Environmental and Economic Affairs
Northern Cape	6	Economic Affairs and Tourism
KwaZulu-Natal	4	Economic Development and Tourism
North West	6	Economic Development and Tourism
Western Cape	13	Economic Development and Tourism
KwaZulu-Natal	5	Education and Culture
Western Cape	9	Environment Affairs and Development Planning
Gauteng	3	Finance and Economic Affairs
Mpumalanga	2	Finance and Economic Affairs
Limpopo	20	Finance, Economic Affairs and Tourism
Mpumalanga	12	Housing and Land Administration
Eastern Cape	7	Housing, Local Government and Trade Affairs
Mpumalanga	4	Local Government, Traffic Control and Safety
North West	12	Social Services, Arts, Culture and Sport
Mpumalanga	10	Social Services, Population and Development
Western Cape	7	Social Services, Poverty Alleviation
Free State	12	Sport, Arts and Culture, Science and Technology
KwaZulu-Natal	11	Traditional and Local Government Affairs



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2.2.4 Unique departments

Province	Vote number	Department
North West	14	Contingency Reserve
Gauteng	13	Gauteng Shared Service Centre
KwaZulu-Natal	10	Royal Household

ANNEXURE 3: LIST OF DEPARTMENTS FOR MAIN SECTORS

3.1 PROVINCIAL VOTES FOR SECTORS

Province	Vote number	Department
Eastern Cape	6	Education
Free State	6	Education
Gauteng	5	Education
Limpopo	3	Education
Mpumalanga	7	Education
North West	8	Education
Northern Cape	4	Education
Western Cape	5	Education
KwaZulu-Natal	5	Education and Culture
Eastern Cape	3	Health
Free State	5	Health
Gauteng	4	Health
KwaZulu-Natal	7	Health
Limpopo	7	Health
Mpumalanga	11	Health
North West	3	Health
Northern Cape	10	Health
Western Cape	6	Health
North West	12	Social Services, Arts, Culture and Sport
Mpumalanga	10	Social Services, Population and Development
Western Cape	7	Social Services, Poverty Alleviation
Eastern Cape	4	Social Development
Free State	7	Social Development
Gauteng	6	Social Services and Population Development
Northern Cape	11	Social Services and Population Development
KwaZulu-Natal	13	Social Welfare and Population Development
Limpopo	12	Welfare



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ANNEXURE 4: UNAUTHORISED, IRREGULAR AND FRUITLESS AND WASTEFUL EXPENDITURE

As part of the roles and responsibilities of a public accounts committee, as stipulated in the National Treasury Guideline for Legislative Oversight through Annual Reports, the Committee's responsibilities include:

- "(iv) The interrogation and evaluation of instances of over-expenditure (relative to appropriations), and other instances of unauthorised expenditures and the authorisation or non-authorisation of these expenditures for purposes of drawing up the Finance Bill, or initiating processes to recover the funds;
- (v) The interrogation of instances relating to irregular and fruitless and wasteful expenditure."

4.1 UNAUTHORISED EXPENDITURE

In the case of KwaZulu-Natal, the Provincial Public Accounts Committee has dealt with the 2003-04 reports and where finalised, resolutions adopted by the legislature are included after the description.

Province	Vote		Description	R'000																		
Eastern Cape	4	Social Development	According to the appropriation statement the expenditure incurred in respect of transfer payments exceeded the budget by R629 485 000. This is considered to be unauthorised expenditure as defined in section 1 of the PFMA and has been disclosed as such in note 12.2 to the financial statements of the department.	R629 485																		
Eastern Cape	5	Roads and Public Works	<p>According to the appropriation statement that is included in the annual financial statements, budgets of the following programmes were exceeded, resulting in unauthorised expenditure of R90,1 million:</p> <table border="1"> <thead> <tr> <th>No.</th> <th>Description</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>Administration</td> <td>R18 352 000</td> </tr> <tr> <td>2</td> <td>Buildings</td> <td>R30 252 000</td> </tr> <tr> <td>5</td> <td>Risk Management</td> <td>R 5 435 000</td> </tr> <tr> <td>6</td> <td>Property Management</td> <td>R36 081 000</td> </tr> <tr> <td colspan="2">Total</td> <td>R90 120 000</td> </tr> </tbody> </table> <p>This is considered to be unauthorised expenditure in terms of section 1 of the PFMA and has been disclosed as such in note 12 to the annual financial statements.</p>	No.	Description	Amount	1	Administration	R18 352 000	2	Buildings	R30 252 000	5	Risk Management	R 5 435 000	6	Property Management	R36 081 000	Total		R90 120 000	R90 120
No.	Description	Amount																				
1	Administration	R18 352 000																				
2	Buildings	R30 252 000																				
5	Risk Management	R 5 435 000																				
6	Property Management	R36 081 000																				
Total		R90 120 000																				



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Province	Vote		Description	R'000																					
Eastern Cape	6	Education	<p>According to the appropriation statement of the annual financial statements, budgets of the following programmes were exceeded, resulting in unauthorised expenditure of R289 183 000:</p> <table border="0"> <thead> <tr> <th>No.</th> <th>Description</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>Administration</td> <td>R21 252 000</td> </tr> <tr> <td>2</td> <td>Public Ordinary School Education</td> <td>R243 792 000</td> </tr> <tr> <td>3</td> <td>Independent School Subsidies</td> <td>R1 909 000</td> </tr> <tr> <td>4</td> <td>Public Special Schools</td> <td>R4 006 000</td> </tr> <tr> <td>5</td> <td>Adult Basic Education and Training</td> <td>R18 124 000</td> </tr> <tr> <td colspan="2">Total</td> <td>R289 183 000</td> </tr> </tbody> </table> <p>Of this unauthorised expenditure, only R278 946 000 is disclosed in note 13 to the annual financial statements. Unauthorised expenditure is thus understated by R10 237 000 in the annual financial statements.</p>	No.	Description	Amount	1	Administration	R21 252 000	2	Public Ordinary School Education	R243 792 000	3	Independent School Subsidies	R1 909 000	4	Public Special Schools	R4 006 000	5	Adult Basic Education and Training	R18 124 000	Total		R289 183 000	R289 183
No.	Description	Amount																							
1	Administration	R21 252 000																							
2	Public Ordinary School Education	R243 792 000																							
3	Independent School Subsidies	R1 909 000																							
4	Public Special Schools	R4 006 000																							
5	Adult Basic Education and Training	R18 124 000																							
Total		R289 183 000																							
Eastern Cape	8	Agriculture and Land Affairs	<p>According to the appropriation statement the expenditure incurred in respect of transfer payments exceeded the budget by R33 071 000. This is considered to be unauthorised expenditure as defined in section 1 of the PFMA and has been disclosed as such in the financial statements of the department.</p>	R33 071																					
Eastern Cape	9	Economic Affairs, Environment and Tourism	<p>According to the appropriation statement, budgets of the following programmes were exceeded, resulting in unauthorised expenditure of R654 000:</p> <table border="0"> <thead> <tr> <th>No.</th> <th>Description</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>Administration</td> <td>R272 000</td> </tr> <tr> <td>2</td> <td>Policy, planning, research and information systems</td> <td>R382 000</td> </tr> <tr> <td colspan="2">Total</td> <td>R654 000</td> </tr> </tbody> </table> <p>This unauthorised expenditure is disclosed in note 10 to the annual financial statements.</p>	No.	Description	Amount	1	Administration	R272 000	2	Policy, planning, research and information systems	R382 000	Total		R654 000	R654									
No.	Description	Amount																							
1	Administration	R272 000																							
2	Policy, planning, research and information systems	R382 000																							
Total		R654 000																							
Eastern Cape	10	Transport	<p>According to SCOPA resolution dated 21 November 2003 the committee was satisfied that an amount of R1 676 000, being unauthorised expenditure, was incurred legitimately and in the public interest whereas the financial statements reflect an amount of R8 701 000 as unauthorised. There is a difference of R7 025 000, which has not been resolved.</p>	R7 025																					



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Province	Vote		Description	R'000																					
Eastern Cape	14	Sport, Recreation, Arts and Culture	Although the total budget has not been exceeded, the department exceeded its budget on the programmes Financial Management and Administration and District Development and Coordination by R2 874 000 and R1 256 000 million respectively. The said overexpenditure represents unauthorised expenditure as contemplated by section 34 of the PFMA.	R4 130																					
Free State	3	Tourism, Environmental and Economic Affairs	A special investigation was conducted to determine if there was any substance to allegations concerning financial misconduct and irregular, unauthorised and wasteful expenditure. As the department was still in the process of dealing with and finalising the special investigation report during the audit, the effect on the financial statements could not yet be determined.																						
Free State	7	Social Development	With reference to note 11 to the financial statements, unauthorised expenditure amounted to R97 936 594 for the 2003-04 financial year.	R97 937																					
Free State	11	Agriculture	Overspending of R28 000 on a programme within the vote of the department was not disclosed as unauthorised expenditure. Financial statements were corrected and submitted by the department on 25 October 2004.	R28																					
Gauteng	3	Finance	The current expenditure under Programme 5: Blue IQ was exceeded by R14 282 000.	R14 282																					
Gauteng	4	Health	The following programmes (main divisions) of the vote exceeded the budgeted amounts, resulting in unauthorised expenditure: <table border="1"> <thead> <tr> <th>No.</th> <th>Programme</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>Health Administration</td> <td>R1 999,77</td> </tr> <tr> <td>5</td> <td>Central Hospital Services</td> <td>R143 025 772,68</td> </tr> <tr> <td>8</td> <td>Health Facilities Management</td> <td>R25 138 485,60</td> </tr> <tr> <td colspan="2">Total</td> <td>R168 166 258</td> </tr> </tbody> </table>	No.	Programme	Amount	1	Health Administration	R1 999,77	5	Central Hospital Services	R143 025 772,68	8	Health Facilities Management	R25 138 485,60	Total		R168 166 258	R168 166						
No.	Programme	Amount																							
1	Health Administration	R1 999,77																							
5	Central Hospital Services	R143 025 772,68																							
8	Health Facilities Management	R25 138 485,60																							
Total		R168 166 258																							
Gauteng	5	Education	The following programmes (main divisions) of the vote exceeded the budgeted amounts, resulting in unauthorised expenditure: <table border="1"> <thead> <tr> <th>No.</th> <th>Programme</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>Management and Presentation</td> <td>R 8 065 675</td> </tr> <tr> <td>2</td> <td>Public School Education</td> <td>R437 656 263</td> </tr> <tr> <td>3</td> <td>Independent School Education</td> <td>R 7 372 223</td> </tr> <tr> <td>6</td> <td>Adult Basic Education</td> <td>R 37 700</td> </tr> <tr> <td>8</td> <td>Auxiliary and Associated Services</td> <td>R 19 071 562</td> </tr> <tr> <td colspan="2">Total</td> <td>R472 203 423</td> </tr> </tbody> </table> <p>Included in the above are amounts of R408 815 191 and R48 843 164 in respect of compensation of employees and transfer payments, respectively.</p>	No.	Programme	Amount	1	Management and Presentation	R 8 065 675	2	Public School Education	R437 656 263	3	Independent School Education	R 7 372 223	6	Adult Basic Education	R 37 700	8	Auxiliary and Associated Services	R 19 071 562	Total		R472 203 423	R472 203
No.	Programme	Amount																							
1	Management and Presentation	R 8 065 675																							
2	Public School Education	R437 656 263																							
3	Independent School Education	R 7 372 223																							
6	Adult Basic Education	R 37 700																							
8	Auxiliary and Associated Services	R 19 071 562																							
Total		R472 203 423																							



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Province	Vote		Description	R'000																					
Gauteng	8	DPLG	Current expenditure under Programme 5: Effective Business Processes was exceeded by R920 000	R920																					
Gauteng	9	Transport	The budgets of the following programmes were exceeded: <table> <thead> <tr> <th>No.</th> <th>Programme</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>2</td> <td>Strategic Planning</td> <td>R 272 000</td> </tr> <tr> <td>3</td> <td>Transport Infrastructure (current)</td> <td>R11 555 000</td> </tr> <tr> <td>5</td> <td>Maintenance and CBPWP (current)</td> <td>R164 803 000</td> </tr> <tr> <td colspan="2">Total</td> <td>R176 630 000</td> </tr> </tbody> </table>	No.	Programme	Amount	2	Strategic Planning	R 272 000	3	Transport Infrastructure (current)	R11 555 000	5	Maintenance and CBPWP (current)	R164 803 000	Total		R176 630 000	R176 630						
No.	Programme	Amount																							
2	Strategic Planning	R 272 000																							
3	Transport Infrastructure (current)	R11 555 000																							
5	Maintenance and CBPWP (current)	R164 803 000																							
Total		R176 630 000																							
Gauteng	11	Agriculture	The budgets of the following programmes were exceeded: <table> <thead> <tr> <th>No.</th> <th>Programme</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>2</td> <td>Agriculture</td> <td>R159 000</td> </tr> <tr> <td>5</td> <td>Conservation</td> <td>R531 000</td> </tr> <tr> <td>7</td> <td>Waste and Pollution Abatement</td> <td>R3 000</td> </tr> <tr> <td>8</td> <td>World Heritage Site</td> <td>R55 000</td> </tr> <tr> <td>13</td> <td>Communications and Awareness</td> <td>R299 000</td> </tr> <tr> <td colspan="2">Total</td> <td>R1 047 000</td> </tr> </tbody> </table>	No.	Programme	Amount	2	Agriculture	R159 000	5	Conservation	R531 000	7	Waste and Pollution Abatement	R3 000	8	World Heritage Site	R55 000	13	Communications and Awareness	R299 000	Total		R1 047 000	R1 047
No.	Programme	Amount																							
2	Agriculture	R159 000																							
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8	World Heritage Site	R55 000																							
13	Communications and Awareness	R299 000																							
Total		R1 047 000																							
Gauteng	12	Sport	The budgets of the following programmes were exceeded: <table> <thead> <tr> <th>No.</th> <th>Programme</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>Management Support</td> <td>R1 504 000</td> </tr> <tr> <td>2</td> <td>Facilities Development</td> <td>R18 000</td> </tr> <tr> <td>5</td> <td>Library and Information Services</td> <td>R189 000</td> </tr> <tr> <td>7</td> <td>Financial management</td> <td>R781 000</td> </tr> <tr> <td>8</td> <td>Youth Development</td> <td>R102 000</td> </tr> <tr> <td colspan="2">Total</td> <td>R2 594 000</td> </tr> </tbody> </table>	No.	Programme	Amount	1	Management Support	R1 504 000	2	Facilities Development	R18 000	5	Library and Information Services	R189 000	7	Financial management	R781 000	8	Youth Development	R102 000	Total		R2 594 000	R2 594
No.	Programme	Amount																							
1	Management Support	R1 504 000																							
2	Facilities Development	R18 000																							
5	Library and Information Services	R189 000																							
7	Financial management	R781 000																							
8	Youth Development	R102 000																							
Total		R2 594 000																							
Gauteng	13	Gauteng Shared Service Centre	The following programmes (main divisions) of the vote exceeded the budgeted amounts, resulting in unauthorised expenditure: <table> <thead> <tr> <th>No.</th> <th>Programme</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>Internal Audit Services</td> <td>R 276 000</td> </tr> <tr> <td>3</td> <td>Procurement Services</td> <td>R 356 000</td> </tr> <tr> <td>4</td> <td>Financial Services</td> <td>R 4 066 000</td> </tr> <tr> <td>5</td> <td>Technological Services</td> <td>R24 508 000</td> </tr> <tr> <td colspan="2">Total</td> <td>R29 206 000</td> </tr> </tbody> </table>	No.	Programme	Amount	1	Internal Audit Services	R 276 000	3	Procurement Services	R 356 000	4	Financial Services	R 4 066 000	5	Technological Services	R24 508 000	Total		R29 206 000	R29 206			
No.	Programme	Amount																							
1	Internal Audit Services	R 276 000																							
3	Procurement Services	R 356 000																							
4	Financial Services	R 4 066 000																							
5	Technological Services	R24 508 000																							
Total		R29 206 000																							



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Province	Vote		Description	R'000
KwaZulu-Natal	3	Agriculture and Environmental Affairs	<p>The total actual expenditure of programme 1 exceeded the budgeted expenditure by R1 159 000. The overspending was due to the department authorising the write-off of losses without incurring savings to fund the write-off. This unauthorised expenditure has not been reflected in the income statement, balance sheet or notes to the financial statements.</p> <p><u>Department of Agriculture and Environmental Affairs (Vote 3) – Resolution 11/2004: Unauthorised expenditure</u></p> <p>Noting: Item 4.2 of the report of the Auditor-General, which states that the total actual expenditure of programme 1 exceeded the budgeted expenditure by R1 159 000, and that this unauthorised expenditure was not reflected in the income statement, balance sheet or notes to the financial statements;</p> <p>The House resolves:</p> <p>1. That the Accounting Officer of the Department of Agriculture report to the Public Accounts Committee by 30 November 2004 on:</p> <p>(a) the write-off of losses amounting to R2 255 000 to Programme 1 (Administration) and the resultant overspending of that programme by R1 159 000; and</p> <p>(b) the reasons for the unauthorised expenditure not appearing on the income statement, balance sheet or notes to the financial statement.</p>	R1 159
KwaZulu-Natal	3	Agriculture and Environmental Affairs	<p><u>Unauthorised expenditure 2000-01 and 2001-02</u></p> <p>An amount of R518 720 included in the balance of R4,5 million reflected as unauthorised and fruitless and wasteful expenditure in the balance sheet relates to unauthorised expenditure for the financial year 2000-01, which was approved by the Standing Committee on Public Accounts in May 2003 (revised resolution 25/2003).</p> <p>Furthermore, Provincial Public Accounts Committee resolution 23/2003 states that the approval of the unauthorised expenditure is subject to an affidavit being submitted to the Committee with a South African Police Service Commissioner of Oaths stamp.</p> <p>The department did not follow up the prior years' unauthorised expenditure of R518 720 (2000-01) and R3 604 000 (2001-02).</p> <p>No resolution.</p>	R4 123



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Province	Vote		Description	R'000
KwaZulu-Natal	4	Economic Development and Tourism	<p>The amount of R219 929 which originated in the 1999-2000 financial year, pertaining to a fraudulent cheque cashed, is still reflected as unauthorised, fruitless and wasteful expenditure (Current assets) in the balance sheet at 31 March 2004.</p> <p><u>Department of Economic Development (Vote 4) – Resolution 25/2004 – Unauthorised expenditure of R219 929 for 1999-2000</u></p> <p>Noting: Resolution 72/2003 of the Public Accounts Committee, item 4.2 of the report of the Auditor-General and the responses of the department on this item;</p> <p>The House resolves:</p> <ol style="list-style-type: none"> 1. That the Accounting Officer of the Department of Economic Development report to the Public Accounts Committee by 30 November 2004 on the latest position in the case of unauthorised expenditure of R219 929,00 for the 1999/2000 financial year, which arose due to a fraudulent cheque being issued. 2. That the findings of the investigation done into this matter by the Internal Audit Unit be submitted to the committee. 3. That the letter written in January 2004 from the Department of Economic Development to the Public Accounts Committee on this matter be copied to the committee and the Auditor-General. 4. That the Accounting Officers of the Department of Economic Development and the Provincial Treasury work together to resolve this long outstanding matter and supply a joint report by 31 January 2005. 	R220
KwaZulu-Natal	5	Education	<p>As disclosed in note 13.2, unauthorised expenditure of R102 408 000 was incurred in the year under review mainly due to overspending on programme 1, Administration and programme 2, Public Ordinary School Education.</p> <p><u>Department of Education (Vote 5) - Resolution 75/2004 – Unauthorised Expenditure</u></p> <p>Noting: Item 5.1 of the report of the Auditor-General and;</p> <p>The continuous overexpenditure under programme 2, which is attributed to substitute educators and further that this overexpenditure is as a result of the department not budgeting properly for the substitute educators;</p>	R102 408



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Province	Vote		Description	R'000
			<p>The House resolves:</p> <p>That the Acting Accounting Officer of the Department of Education report to the Public Accounts Committee by 15 January 2005 on what steps have been taken to prevent similar occurrences in future.</p>	
KwaZulu-Natal	6	Provincial Treasury	<p>The total unauthorised expenditure as recorded in note 11 to the financial statement amounts to R28 817 284,13. Of this expenditure, R10 084 310,21 relates to unauthorised expenditure incurred, prior to the 1995 financial period, by departments that are no longer in existence. The balance of R18 732 973,92 relates to interest paid in 1997-98 to the South African Revenue Service for the late payment of taxes.</p> <p>At 31 March 2004, this expenditure had not yet been approved.</p> <p>No resolution.</p>	R28 817
KwaZulu-Natal	7	Health	<p>As disclosed in note 13.2 to the financial statements, a total amount of R2 333 000 was overspent on programmes 2 and 4 (being overexpenditure of R644 000 on District Health Services and R1 669 000 on Provincial Hospital Services, respectively) during the year under review.</p> <p>No resolution.</p>	R2 333
KwaZulu-Natal	8	Housing	<p>The actual expenditure in respect of programmes 1 and 2 exceeded the budget by R2 316 000 and R3 265 000 respectively, resulting in unauthorised expenditure of R5 581 000, which is disclosed in the financial statements.</p> <p>No resolution.</p>	R5 581
KwaZulu-Natal	12	Transport	<p>The total actual expenditure of the department exceeded the total budgeted expenditure by R4 690 476,57. The overspending is due to the department authorising the write-off of losses without incurring savings to fund the write-offs. This is reported as unauthorised expenditure in note 12 to the financial statements.</p> <p>No resolution.</p>	R4 690
KwaZulu-Natal	13	Social Welfare and Population Development	<p>The unauthorised expenditure for the 2003-04 financial year amounts to R693 095 000 as disclosed in note 13 of the financial statements. This is mainly due to overspending on social assistance grants.</p> <p>No resolution.</p>	R693 095



A U D I T O R - G E N E R A L

Province	Vote		Description	R'000
Limpopo	9	Public Works	As disclosed in note 11 to the financial statements, the department exceeded the budget on Vote 9 by R2 589 000, resulting in unauthorised expenditure. This amount includes R885 000 FCS netting of balances for the previous financial year.	R2 589
Mpumalanga	1	Premier	As disclosed in note 11, the allocation/budget of programme 7 was exceeded by R1 614 000. Included in this figure is R605 000 by which the total vote had been exceeded.	R1 614
Mpumalanga	2	Finance and Economic Affairs	The following matters reported on in previous financial periods were still unresolved, due to the fact that the reports had not been considered by the Provincial Standing Committee on Public Accounts: <ul style="list-style-type: none"> An unsurrendered backlog surplus and unauthorised expenditure balance of R1 273 258 312 from the previous Newfin system, as disclosed in notes 11 and 17 to the current year's financial statements. Unauthorised expenditure amounting to R30 603 213 for the 2002-03 financial year, as disclosed in note 11. 	R1 278 258 R30 603
Mpumalanga	4	Local Government, Traffic Control and Traffic Safety	As reflected in note 12 to the financial statements, the department incurred unauthorised expenditure of R10 518 000 by exceeding the provisions of programmes 1 and 3. This led to the contravention of section 43(4)(c) of the PFMA, as the amount appropriated for capital expenditure was used to defray current expenditure.	R10 518
Mpumalanga	10	Social Services, Population and Development	Inadequate budgeting processes and monitoring resulted in the department exceeding its budget for programme 2 (Social Security) by R76 803 million. This is regarded as unauthorised expenditure, in terms of section 1 of the PFMA, and is disclosed in note 12 to the annual financial statements. Furthermore, the other programmes were underspent by R24 301 million, leaving the vote overspent by R52,5 million.	R76 803
North West	3	Health	Disclosed in note 11.1 to the financial statements was an amount of R142 690 000 relating to unauthorised expenditure in prior years that had not been resolved at year-end. This amount is the residual value of prior years' unauthorised expenditure after approval was granted during the current year for a R157 629 000 appropriation of unauthorised expenditure as disclosed in the appropriation statement and note 11.1.	R142 690



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Province	Vote		Description	R'000
North West	5	Safety and Liaison	Disclosed in note 9 to the financial statements was an amount of R510 000 relating to unauthorised expenditure in prior years that had not been resolved at year-end. This amount is the residual value of prior years' unauthorised expenditure after approval was granted during this year for a R1 009 000 appropriation of unauthorised expenditure as disclosed in the appropriation statement and note 9.	R510
North West	8	Education	<p>During the 1999 to 2002 financial years an amount of R52 428 000 was donated to the North West Development Trust, an independent trust not under the control of the department. This expenditure was, however, budgeted for and disclosed as capital expenditure: land and buildings in the income statements of those financial years. Notwithstanding the Provincial Public Accounts Committee's resolution tabled in the legislature (seventh report of 2003, resolution 11 paragraph 12), that the department regularise transfers to the trust during the 2003-04 financial year, this was not done. These payments were therefore not made in accordance with the purpose as budgeted for and were regarded as unauthorised expenditure for previous years as disclosed in note 11 to the financial statements.</p> <p>Also disclosed in note 11 to the financial statements was further unauthorised expenditure to the amount of R99 982 000 relating to previous financial years which had not been resolved at year-end, mainly due to additional motivation being requested by the provincial treasury in this regard.</p>	R52 428 R99 982
North West	9	Local Government and Housing	Approval for unauthorised expenditure in respect of prior years amounting to R2,2 million could not be obtained, as required in terms of section 34 of the Public Finance Management Act, 1999 (Act No. 1 of 1999)	R2 200
North West	12	Social Services, Art, Culture and Sport	As disclosed in note 10 to the financial statements, unauthorised expenditure of R236 million, relating to previous financial years, had not been resolved at year-end.	R236 000
North West	13	Agriculture, Conservation and Environment	Disclosed in note 11 to the financial statements were amounts of R9 265 000 relating to unauthorised expenditure in prior years and R68 000 relating to fruitless and wasteful expenditure in prior years that had not been resolved at year-end. The department failed to apply for approval from the provincial legislature to clear these amounts in the current financial year.	R9 265



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Province	Vote		Description	R'000
Northern Cape	1	Premier	The unauthorised expenditure in the annual financial statements is disclosed as R2 023 000. The accumulated unauthorised expenditure not yet approved increased from R17 432 000 to R19 968 000 as at 31 March 2004. In terms of section 34(2) of the PFMA this amount may become a charge against the funds allocated for the next or future financial years if the legislature does not approve the expenditure.	R2 023
Northern Cape	2	Legislature	Unauthorised expenditure incurred for the current year amounts to R4 524 million as disclosed in note 11 to the annual financial statements. Accumulated unauthorised expenditure amounts to R8 156 million and has not yet been approved. In terms of section 34(2) of the PFMA this amount may become a charge against the funds allocated for the next or future financial years if the legislature does not approve the expenditure.	R4 524
Northern Cape	3	Safety and Liaison	Although the department did not incur any unauthorised expenditure during the 2003-04 year, the accumulated unauthorised expenditure of R1 553 000 as disclosed in note 7 had not yet been approved at year-end.	R1 553
Northern Cape	4	Education	The unauthorised expenditure for the current year is disclosed as R80 000 in the annual financial statements. The accumulated unauthorised expenditure not yet approved increased from R53 841 000 to R53 921 000. In terms of section 34(2) of the PFMA this amount may become a charge against the funds allocated for the next or future financial years if the legislature does not approve the expenditure.	R80
Northern Cape	5	Transport, Roads and Works	No unauthorised expenditure was incurred for the current year. However, the accumulated unauthorised expenditure relating to prior years had not yet been approved, amounting to R3 849 000. In terms of section 34(2) of the PFMA this amount may become a charge against the funds allocated for the next or future financial years if the legislature does not approve the expenditure.	R3 849
Northern Cape	7	Sport, Arts and Culture	As disclosed in note 11, the department reported unauthorised expenditure of R3 213 000 in the 2003-04 financial year as a result of the overspending of funds in programmes 1 and 2. The accumulated unauthorised expenditure of R11 015 000 had not yet been approved at year-end. In terms of section 34(2) of the PFMA this amount could become a charge against the funds allocated for the next or future financial years if the legislature does not approve the expenditure.	R3 213



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Province	Vote		Description	R'000
Northern Cape	8	Finance	The accumulated unauthorised expenditure in the annual financial statements is disclosed as R1 567 000. In terms of section 34(2) of the PFMA this amount may become a charge against the funds allocated for the next or future financial years if the legislature does not approve the expenditure.	R1 567
Northern Cape	9	Housing and Local Government	The unauthorised expenditure in the annual financial statements is disclosed as R7 121 000 in note 12 to the financial statements. In terms of section 34(2) of the PFMA this amount may become a charge against the funds allocated for the next or future financial years if the legislature does not approve the expenditure. Note is taken that departments' unauthorised expenditure of prior years was approved by the legislature. This <i>per se</i> does not, however, imply that approval will be granted for the unauthorised expenditure of the Department of Housing and Local Government.	R7 121
Northern Cape	10	Health	Unauthorised expenditure for the year is disclosed in the annual financial statements as R141 599 000. The accumulated unauthorised expenditure not yet approved increased from R124 592 000 to R261 191 000. In terms of section 34(2) of the PFMA this amount may become a charge against the funds allocated for the next or future financial years if the legislature does not approve the expenditure.	R141 599
Northern Cape	11	Social Service and Population Development	The unauthorised expenditure in the annual financial statements is disclosed as R116 986 000. The accumulated unauthorised expenditure not yet approved increased from R341 549 000 to R458 535 000 as at 31 March 2004. In terms of section 34(2) of the PFMA this amount may become a charge against the funds allocated for the next or future financial years if the legislature does not approve the expenditure.	R116 986
Northern Cape	12	Agriculture, Conservation and Environment	Although the department did not incur any unauthorised expenditure during the 2003-04 financial year, the accumulated unauthorised expenditure of R13 954 000 as disclosed in note 12 had not yet been approved at year-end.	R13 954
Western Cape	5	Education	As a consequence of overexpenditure on programme 2 due to the unexpected increases in the numbers of learners, the WCED reflected an overexpenditure of R22,713 million of the total amount voted. In terms of section 34 of the PFMA this overexpenditure would constitute unauthorised expenditure.	R22 713



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Province	Vote		Description	R'000
Western Cape	6	Health	As reflected in the appropriation statement on page 13, the budgets of programmes 3, 4 and 5 were exceeded by R672 000, R278 000 and R19,6 million respectively (total R20,6 million). Due to the aforementioned expenditure, the standard item inventories were also exceeded by R36,3 million. Explanations regarding the unauthorised expenditure were included in paragraph 1.1 on page 2 of the department's management report.	R20 600 R36 300
Western Cape	6	Health	In the previous financial year unauthorised expenditure amounting to R24,1 million, representing overspending on programmes 3, 4 and 6, was not disallowed in the financial records of the department. A journal entry was processed in the current financial year to account for the related unauthorised expenditure, which is reflected in note 10 on page 29 of the financial statements.	R24 100

4.2 Irregular expenditure

Province	Vote		Description	R'000
Eastern Cape	4	Social Development	The department paid a service provider in March 2004 for services not yet completed. Cognisance is taken of the fact that the prepayment has been disclosed in the annual financial statements and that the service provider refunded the department with interest during April 2004. However, the prepayment of R6 363 448 is irregular expenditure as defined in section 1 of the PFMA.	R6 363
Eastern Cape	6	Education	Irregular expenditure of R56,7 million has been disclosed in note 27 to the annual financial statements. The following are details of this irregular expenditure: <ol style="list-style-type: none"> a. On 28 November 2003 the then acting accounting officer entered into a service level agreement with the Rapid Infrastructure Development Agency (Proprietary) Limited (RIDA). The Executive Manager: Technical and Planning of Coega Development Corporation (Proprietary) Limited (CDC) represented RIDA. According to the service level agreement this executive manager was authorised by the Board of RIDA. This Board consisted of the Head of the Eastern Cape Provincial Treasury and the Chief Executive Officer of CDC. In terms of clause C of the preamble to this agreement, both RIDA and CDC "are listed companies in terms of schedule 3 of the Public Finance Management Act, 1999 (Act No.1 of 1999)". Investigations during the audit 	R56 700



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Province	Vote		Description	R'000
			<p>revealed that both RIDA and CDC are not listed in schedule 3 of the PFMA, but are private companies that were established in terms of the Companies Act, 1973 (Act No.61 of 1973). Clause F of this preamble purports that RIDA is able to provide the support required for the execution of a development programme. RIDA does not have its own personnel or premises and also does not operate a bank account. RIDA is thus in effect a dormant company. On 23 January 2004 a transfer payment of R14 030 142 was made to the CDC for the renovation of the Botha Sigcau building in Umtata. This amount was paid into a bank account that CDC uses for RIDA. This payment of R14 030 142 was not made in terms of any appropriate enabling legislation. It is thus considered to be irregular expenditure and is reported as such.</p> <p>b. Section 43(4)(c) of the PFMA does not permit the utilisation of a saving in an amount appropriated for capital expenditure to defray current expenditure. Notwithstanding this prescript, the department applied a virement and reallocated R5 492 000 from capital to current expenditure, from the property management and buildings programmes to the administration programme.</p> <p>c. <i>Ex post facto</i> approval to pay consulting engineers for work done on a road from Lovers Twist to Sandile was not granted by the Provincial Tender Board due to inconsistencies in the department's submission. As a result the expenditure of R1 015 000 incurred on this contract is considered to be irregular.</p> <p>d. According to the appropriation statement of the annual financial statements, the budget for the standard item personnel was exceeded by R36 million. Treasury approval as required by Treasury Regulation 6.3.1 was not obtained before the budget was exceeded. This amount is therefore considered to be irregular expenditure.</p>	
Eastern Cape	8	Agriculture	<p>Irregular expenditure of R94 371 463 and R13 678 000 has been incurred by the department and disclosed in the annual financial statements at 31 March 2004. This expenditure relates to payments made to the Eastern Cape Rural Finance Corporation (UVIMBA) and the Industrial Development Corporation, respectively, during the financial year under review. These funds were transferred to the said institutions to administer the funds during the execution of specific projects as agreed upon per signed contracts. The transfer of funds was effected through the standard expenditure item professional and special services, which constitutes that, based on an internal legal opinion obtained, the payments are irregular as no appropriate legislation had been promulgated authorising the transfer of these funds.</p>	R108 049



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Province	Vote		Description	R'000
Eastern Cape	9	Economic Affairs Environment and Tourism	<p>Irregular expenditure of R103,3 million has been disclosed in note 24 to the annual financial statements. Details of this irregular expenditure are:</p> <p>a. Transfer payments of R99,1 million were made to the East London Industrial Development Zone during the year under review. These transfer payments were made for the purpose of financial industrial infrastructure. As appropriate legislation that enabled these transfer payments to take place had not been promulgated, these payments are regarded as irregular expenditure.</p> <p>b. In a memorandum dated 25 March 2004, the then Premier of the Eastern Cape instructed the department to pay an amount of R70 000 to the Eastern Cape Film Commission. The purpose of this grant was to contribute to the funds of the Eastern Cape Film Commission that were used to introduce investors to the Eastern Cape. As no legislation existed to enable the department to transfer these funds to the Eastern Cape Film Commission, this expenditure is regarded as irregular expenditure.</p> <p>c. Goods and services to the value of R540 714 were not procured in accordance with the procurement framework attached to Treasury Circular 8 of 2003 and this is considered to be irregular expenditure.</p> <p>d. Two payments of R3 065 000 and R500 000 were paid to the Wilderness Foundation and the National Botanical Institute, respectively, during March 2004 out of professional and special services. These payments were not made to a supplier for the rendering of professional or special services but rather to beneficiaries that would utilise these funds on a specific project. The nature of these payments was thus not that of professional and special services, but rather transfer payments. Procurement of professional and special services should be carried out in terms of the Tender Board Regulations (ST37). As these regulations were not complied with, both of these payments are considered to be irregular.</p>	R103 300
Free State	3	Tourism, Environmental and Economic Affairs	<p>During the audit irregular expenditure amounting to R24 147 733 as indicated below was identified that was not disclosed in the annual financial statements.</p> <p>a. Transactions to the value of R21 766 470 were not appropriately authorised. This was due to the following:</p> <ul style="list-style-type: none"> • Expenditure of R8 917 878 that was not approved by the accounting officer following withdrawal of the former accounting officer's delegations in this respect. 	R24 148



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Province	Vote		Description	R'000
			<ul style="list-style-type: none"> • Expenditure of R2 712 that resulted from non-compliance with the Treasury Regulations regarding entering into finance leases. • Transfer payments of R12 845 880 made without approval of the Treasury as required in terms of the Treasury Regulations. These transfer payments were recorded as professional and specialised services in programme 9. <p>b. Various appointments and promotions of officials were also not appropriately authorised by the executing authority. This was due to the former accounting officer approving these appointments and promotions without any delegation of authority from the executing authority. These appointments and promotions resulted in expenditure of R458 147 for the year. Furthermore during the year various other appointments and promotions were authorised by the MEC. Evidence that the MEC issued a written directive in terms of section 64(1) of the PFMA to the former accounting officer in this respect could not be submitted. As the implementation of the MEC's directive to other officials in the department was not authorised by the former accounting officer the salary expenditure that resulted from these appointments and promotions amounting to R348 037 for the financial year was also not authorised.</p> <p>c. It was noted that the total office furniture purchased from one firm, for which various orders were issued, amounted to R1 575 079 for the financial year. Tenders were not obtained for the purchases of this furniture. The quotations obtained for the purchases of this furniture were in the majority of instances obtained from companies outside the Free State. Certain directors of these companies that submitted the quotations were the same as those of the firm from which the furniture was purchased and also used the same registered postal address. Evidence that an assessment was done in respect of furniture needed for the financial year could also not be submitted.</p> <p>Evidence that particulars of the irregular expenditure were reported to treasury as required in terms of section 38(1)(h) of the PFMA could not be submitted for audit purposes.</p>	



A U D I T O R - G E N E R A L

Province	Vote		Description	R'000
Free State	3	Tourism, Environmental and Economic Affairs	<p>It was noted that a large portion of the Rustfontein Nature Reserve border was not fenced in. This resulted in local residents utilising the reserve for grazing purposes for their domestic livestock and, according to information, for the poaching of game. Several hundred heads of cattle and goats were noted in the reserve during the audit.</p> <p>As game counts at the reserve fluctuated materially during the financial year without any logical explanation, the extent of game losses due to poaching and possible grazing is uncertain. However, 13 Hartmann Zebra that were counted at the beginning of the financial year are no longer at the reserve.</p>	
Free State	3	Tourism, Environmental and Economic Affairs	A special investigation was conducted to determine if there was any substance to allegations concerning financial misconduct and irregular, unauthorised and wasteful expenditure. As the department was still in the process of dealing with and finalising the special investigation report during the audit, the effect on the financial statements could not yet be determined.	
Free State	5	Health	Irregular expenditure of R21 861 million was not reported to the provincial treasury as required by section 38(1)(g) of the PFMA.	R21 861
Free State	5	Health	<p>Due to management policies and procedures not being adequately followed the following irregular expenses were identified:</p> <ul style="list-style-type: none"> • A payment of R572 052 was made where the emergency delegated powers were exceeded and the necessary Preferential Procurement Policy Framework Act forms were not completed. This is a contravention of paragraph 8.2.2 of the Treasury Regulations issued in terms of the PFMA. • Payments totalling R2,124 million were made with regard to items that were not included in the relevant tender. This is a contravention of paragraph 17.1.1 of the Treasury Regulations issued in terms of the PFMA. • Due to incorrect allocations transfer payments were understated by R2,208 million, while thefts and losses were overstated by R1,829 million and professional and special services overstated by R379,407. As Treasury approval for these new transfers was not obtained as required by Treasury Regulation 6.3.1, the amount should be disclosed as irregular expenditure. <p>The aforementioned amounts that are considered to be irregular have not been disclosed as such in the annual financial statements</p>	R2 696



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Province	Vote		Description	R'000
Free State	6	Education	a. Equipment and stock Purchases totalling R1 154 835 were made on behalf of section 21 schools, without these amounts being deducted from the subsequent transfer payments made to these schools.	R1 155
			b. Transfer payments An amount of R1 562 584 was paid to a special school, whilst only R1 490 584 was allocated for this school and an amount of R265 588 was accounted as debt. Notice is taken that the department notified the school on 6 April 2004 that the amount overpaid would be deducted in four equal amounts from their quarterly payments in respect of the 2004-05 budget.	R1 563
Free State	7	Social Development	Our audit revealed that four officials were arrested in connection with registration of false applications for grants amounting to R90 199. In reply to an audit query, the department indicated that criminal charges against four officials had been laid and that the case had been postponed until 20 October 2004.	R90
Gauteng	4	Health	a. At one hospital, settlements of R10 000 and R5 000, respectively, were paid to relatives of patients for funeral costs. b. During the audit of expenditure at one hospital it was found that cellphone expenses were paid for an official that was suspended. Subsequently the official was dismissed, and the hospital failed to recover a laptop computer that was loaned to the official. Furthermore, the hospital is required to make payment for a vehicle loan in the name of this official, for which the hospital provided surety.	R15
KwaZulu-Natal	13	Social Welfare and Population Development	This office noted that an overpayment of R320 000 was made to Zululand Office Equipment during the 2002-03 financial year (paragraph 5.3.1 of my 2002-03 audit report refers). In Resolution number 104/2003, the PPAC resolved, amongst others, that legal action be taken against the supplier for recovery of the amount plus interest and disciplinary action, if any, be taken against the responsible employees. However, it was noted that no recoveries had been made and no disciplinary steps had been instituted. No resolution.	R320



A U D I T O R - G E N E R A L

Province	Vote		Description	R'000
KwaZulu-Natal	14	Works	<p>In May 2003, a decision was taken by the MEC for Works to relocate the Head Office of the department from Ulundi to Durban. The head of the department entered into an agreement to lease a building in Mayville, Durban, which was signed on 17 October 2003.</p> <p>The department was thus committed to a lease for 9 years and 11 months, which did not comply with the budgetary framework according to the Medium Term Expenditure Framework. Furthermore, no Central Procurement Committee approval was provided on request and such action is considered to be non-compliance with section 38(2) of the PFMA.</p> <p>The department had at the date of this report not taken up occupation of the building, despite paying rent and "operating expenditure" of R3 265 951 and R974 709, respectively, in advance for a year covering the period 9 January 2004 to 8 January 2005. A 5% discount was also shown on the invoice attached to the advance payment. Neither the payment in advance nor the discount given was in terms of the lease agreement. The payment was approved by the head of department on 10 March 2004, despite the General Manager of Strategic and Property Management raising pertinent concerns on 9 March 2004.</p> <p>In the circumstances alluded to above, the payment in advance, totalling R4 240 660, is deemed to be irregular and it is not properly disclosed in the annual financial statements.</p> <p>It was reported that four of the six floors of the building were still being occupied by other tenants and a formal agreement to facilitate the recovery of such rental could not be submitted to this office.</p> <p>The Works Portfolio Committee resolved on 18 June 2004 that a full internal departmental enquiry into the issue of the lease of the building in Mayville be conducted by the Member of the Executive Committee and the Treasury's Department of Internal Audit, and a report had to be submitted to the Public Works Portfolio Committee by no later than 18 August 2004.</p> <p>The accounting officer was suspended on full pay on 26 July 2004 and an acting accounting officer was appointed on a month-to-month basis from that date.</p>	R4 241



A U D I T O R - G E N E R A L

Province	Vote	Description	R'000
		<p><u>Department of Works (Vote 14) - Resolution 63/2004 – Irregular expenditure: Lease of building</u></p> <p>Noting: Item 3.2 of the report of the Auditor-General, which states that the previous accounting officer of the department entered into an agreement to lease a building in Mayville, Durban on 17 October 2003. This lease did not comply with the budgetary framework according to the Medium Term Expenditure Framework and no Central Procurement Committee approval was provided and;</p> <p>That this matter was still under investigation;</p> <p>The House resolves:</p> <ol style="list-style-type: none"> 1. That the acting accounting officer of the Department of Works gives a full report to the Public Accounts Committee on who signed the lease agreement for Highway House, as soon as the investigation has been completed. 2. That the acting accounting officer report by 31 January 2005 on progress if this matter has not yet been concluded. 	
		<p><u>Irregular expenditure relating to the 2004-05 financial year</u></p> <p>On 8 April 2004 the department entered into agreements to purchase two properties located at Ramsgate and Shelly Beach on the South Coast for R5,55 million and R5 million, respectively. The Department of Education and Culture initially negotiated the purchase apparently without informing the Department of Works. The transactions apparently had to be urgently signed by the accounting officer of Works. The Department of Education and Culture undertook to obtain the Central Procurement Committee's <i>ex post facto</i> approval.</p> <p>The accounting officer of Works did not obtain approval from the Central Procurement Committee prior to negotiating and signing the purchase agreements. On 5 May 2004 the Department of Works applied to Procurement Administration seeking approval, as the Department of Education and Culture had not obtained the approval from the Central Procurement Committee. Approval sought, included <i>inter alia</i>:</p> <ul style="list-style-type: none"> • Condonation of the action taken by the Department of Education and Culture in initially negotiating the purchase of the two properties contrary to normal tender procedure. 	R10 550



A U D I T O R - G E N E R A L

Province	Vote		Description	R'000
			<ul style="list-style-type: none"> • Condonation of the Department of Work's role in the waiving of the normal procurement procedure in negotiating and concluding the purchase of the two properties. • <i>Ex post facto</i> approval for the purchase of the two properties at a total cost of R10,55 million. <p>The Procurement Administration in their response, dated 11 June 2004, to the department's chief financial officer, stated, <i>inter alia</i>, that the Central Procurement Committee did not approve their submission, and noted with concern that the acquisition of these properties had been undertaken in an improper manner.</p> <p>It is understood that the properties are in the process of being transferred, and the total amount of R10,55 million together with related legal and transfer costs may be regarded as irregular, when paid in the current year.</p> <p>No resolution.</p>	
Limpopo	8	Transport	<p>R349 262 represents irregular expenditure made up out of the following:</p> <p>A total amount of R224 647 was paid to various bus owners for the transportation of people to a funeral for which no provision was made nor approval obtained from the Treasury. Housing guarantees amounting to R124 615 were not redeemed when employees resigned or terminated their services.</p>	R349
Limpopo	9	Public Works	<p>During the audit of the PMG account, it was discovered that the department's bank account was overdrawn by the amount of R68 811 184,94 at year-end.</p>	R68 811
Limpopo	10	Safety and Liaison	<p>Irregular expenditure amounting to R768 676 as disclosed in note 23 to the financial statements was incurred when personnel expenditure was exceeded during the year under review without obtaining treasury approval in accordance with paragraph 6.3.1 of the Treasury Regulations. The amount of irregular expenditure comprised:</p> <ul style="list-style-type: none"> • Appointment of managers amounting to R366 237 in terms of national directives; • Absorption of excess employees in terms of resolution 7 of the Public Service Centralised Bargaining Council amounting to R58 318; • Payment of medical expenses amounting to R232 039 regarding an injury on duty; and • Payment of cash awards that were introduced in the 2003-04 financial year amounting to R112 082. 	R769



AUDITOR - GENERAL

Province	Vote		Description	R'000
Limpopo	20	Finance and Economic Development	<p>a. Contrary to a directive by the Provincial Tender Board per NTP 8606 dated 30 January 2003, the department engaged the services of a supplier before signing a contract. The expenses incurred amounted to R999 920,22. In reply, the department indicated that a contract would be signed soon. When this report was issued, no further progress had been reported to this office.</p> <p>b. The department engaged different suppliers for the purchase of microcomputer equipment and software before signing agreements with suppliers as directed by the Provincial Tender Board per NTP 8594. The total amount of R6 409 033,80 from April 2003 to the end of October 2003 was paid in this matter. In responding to the query, it was indicated that the matter had been referred to the legal division for advice.</p>	R1 000 R6 409
Mpumalanga	8	Public Works, Roads and Transport	As disclosed in the income statement and notes 11 and 29 to the financial statements, the department incurred fruitless and irregular expenditure of R3 791 000 and R1 473 000, respectively. Furthermore, an amount of R1 682 000, being fruitless expenditure for prior years, is disclosed under note 11.4.	R1 473
North West	3	Health	As disclosed in note 26.1, prior years' irregular expenditure that had not yet been resolved amounted to R86 627 000.	R86 627
Northern Cape	2	Legislature	Payments amounting to R19 141 in respect of accommodation costs were paid in advance to a guesthouse owned by an employee of the Provincial Legislature. These payments were made in contravention to section 14(7) of the Code for the Financial Administration.	R19
Northern Cape	4	Education	<p>a. College of Education The department transferred R1 098 000 to an institution within the College of Education during the 2003-04 financial year and in addition paid the salaries of the officials and lecturers working at the college. It is not clear how the department monitors the spending of the transferred amounts as the college does not have effective and efficient financial management and internal control systems in place as required by section 38(1)(j) of the PFMA. The following were noted at the college:</p> <ul style="list-style-type: none"> • No cashbooks and petty cash register were written up • No financial statements were compiled • No external audit was performed • No asset register was maintained and various rooms did not have inventory lists 	R1 098



A U D I T O R - G E N E R A L

Province	Vote	Description	R'000
		<ul style="list-style-type: none"> • No formal debtor system was in place and the December 2003 student debtor figure of R143 927 could not be verified as correct • For the 2003 calendar year, only R209 540 (25%) was recovered of the R842 800 hostel fees income • According to the receipt book, R812 302 cash was received during the 2003 calendar year. R398 144 of these monies was not banked and remains unaccounted for to date. <p>b. Schools According to the department, R55 956 996 was transferred to schools in the 2003-04 financial year. It is not clear how the department monitors the spending of the transferred amounts, as the following were noted:</p> <ul style="list-style-type: none"> • Various schools did not submit their financial statements to the department. • Financial statements that were submitted do not disclose sufficient information to establish the spending of transferred monies. • Financial statements were not drawn up on a consistent accounting basis, as accrual basis, cash basis and a net figure basis are used. • Some schools had more than one bank account catering for the feeding scheme amongst other things. Instances were noted where these bank accounts were not taken up in the accounting records of the school, no cashbook was written up, no segregation of duties existed for expenditure approval and the accounts were not audited. • Seven instances were noted where the amount allocated to the school as per the school's financial statements differed from the departmental records. The difference totalled R322 631. • An instance was noted where the school did not transfer all the hostel money to the hostel's bank account. An amount of R34 375 was withheld. <p>c. Contracts The department contracted a new travel agent during the 2003-04 financial year without following the required tender process and no contract for this service could be provided. These expenses could be regarded as irregular. No contract with a security service provider could be produced.</p>	R55 957



A U D I T O R - G E N E R A L

Province	Vote		Description	R'000
Northern Cape	7	Sport, Arts and Culture	The total personnel expenditure was exceeded by R818 000. This amount was disclosed as irregular expenditure under disclosure note 26 to the annual financial statements. The previous years' irregular expenditure of R1 517 000 had not yet been condoned.	R818
Northern Cape	9	Housing and Local Government	The department entered into two contracts amounting to R864 000 with a previous employee. Evidence that the procurement process was concluded in terms of section 217 of the Constitution of the Republic of South Africa of 1996 could not be obtained. The department did not disclose the expenditure as irregular in the notes to the annual financial statements.	R864
Western Cape	8	Housing	The appointment of consultants during the previous financial year was not undertaken in terms of the normal tender process nor was approval obtained for deviation from the prescribed process. The accounting officer reported the matter to the Provincial Treasury and the Auditor-General but no evidence could be provided that the matter was reported to the National Treasury in terms of section 64(3) of the PFMA. Total irregular expenditure during the previous financial year amounted to approximately R247 000 and a further amount of approximately R443 000 was spent during the financial year under review. An application for <i>ex post facto</i> approval was submitted to the Provincial Tender Board who notified the department that it was not in a position to provide the necessary approval.	R247 R443

4.3 Fruitless and wasteful expenditure

Province	Vote		Description	R'000
Eastern Cape	5	Roads and Public Works	The department disclosed fruitless and wasteful expenditure of R5,2 million in note 12 of the annual financial statements. This fruitless and wasteful expenditure consisted of the following: <ol style="list-style-type: none"> a. The department purchased the Amatola Sun Hotel, which is located in Bisho, for R5,5 million. The deed of sale was entered into on 17 March 2003. During June 2004 this building was sold for R5,05 million. This building remained unoccupied from the date of purchase until the date of sale. During the period that it was unoccupied municipal service charges of R238 824 were incurred. Only after this building had been purchased did the department appoint consultants to conduct a feasibility study into the suitability of this building. Costs for this feasibility study amounted to R1,5 million. The resulting loss, which includes the cost of the feasibility study, amounts to R2,19 million and is considered to be fruitless and wasteful expenditure. 	R5 200



A U D I T O R - G E N E R A L

Province	Vote		Description	R'000
			<p>b. Salary payments amounting to R985 710 were made to eight officials after they had left the department and were no longer in its employ. None of these amounts have been recovered from these officials. These payments are considered to be fruitless expenditure, as the department received no benefit from the payment of these salaries.</p> <p>c. The Department of Education moved out of three rented buildings in Queenstown during July 2003. Leases only expired in March 2004 and these premises were unoccupied for the period August 2003 to March 2004. Rental from the date these premises were vacated until 31 March 2004 together with repair costs amounted to R2 million. As no benefit was received, these costs are regarded as fruitless and wasteful.</p>	
Eastern Cape	6	Education	<p>According to note 13 to the annual financial statements, fruitless and wasteful expenditure of R1 069 000 was incurred by the department. In addition to this disclosure further fruitless and wasteful expenditure of R280 003 was identified during the audit, which was not disclosed in the annual financial statements. This expenditure is mainly interest that was incurred due to the late payment of creditors and legal costs that could have been avoided had reasonable care been exercised.</p>	R1 349
Eastern Cape	12	Provincial Treasury	<p>On 22 July 1999, a service provider was awarded a tender to provide a financial management computer system, namely the Electronic Financial Information System (eFis), at a cost of R1 851 650 for the supply of the system together with an annual maintenance cost of R220 500. The eFis consists of three main modules, namely the Payment Approval and Monitoring System (PAMS), the Financial Analysis System (FAS), and the Budget Assist System.</p> <p>Failure to include a comprehensive user requirements specification phase, at the outset, resulted in numerous changes in the scope of the project.</p> <p>In November 2000, the project manager advised the service provider that the project might have to be cancelled if it was not stabilised and used effectively. The service provider responded by pointing out the progress that had been made and provided assurances that the system was stable. The Head Official of the Provincial Treasury set 15 January 2001 as the deadline for the staff of the Provincial Treasury to be using the system.</p>	R10 681



A U D I T O R - G E N E R A L

Province	Vote		Description	R'000
			<p>On 29 March 2001, the Provincial Tender Board granted approval for an extension of the contract for a further two-year period at an amount of R10 million, with an annual maintenance cost of R220 500. This approval, for phase II, included implementation of the eFis in all departments, districts and also certain hospitals and schools.</p> <p>Since the inception of the contract to its expiry on 31 March 2003, an amount of R10 166 812 had been expended on the project. Further expenditure on the project, totalling R514 572, occurred during the year under review. The eFis has to date still not been rolled out to the various provincial departments as originally intended and further did not interface with the Basic Accounting System (BAS) correctly during the year under review. The department utilised the PAMS module for approximately two months of the 2002-03 financial year. The requisitioning and ordering functionality of the PAMS module was utilised until 31 March 2004. The functionality was replaced with the Logistical Information System (LOGIS) with effect from 1 April 2004. The maintenance contract with the service provider has now been cancelled. The following modules and additional functionality, developed by the service provider, were not implemented during the 2003-04 financial year, namely the PAMS, Budget Assist and Financial Analysis System modules.</p> <p>There is no indication that eFis will be used in the foreseeable future and based on an internal legal opinion obtained, it is proposed that the entire R10 681 384 be regarded as fruitless and wasteful expenditure.</p> <p>Note 11 to the annual financial statements reflects the R10 681 384, which includes maintenance costs of R1 084 125 for 59 months, as fruitless and wasteful expenditure as prescribed by the Guideline for the Preparation of Annual Reports for the year ended 31 March 2004.</p>	
Free State	3	Tourism, Environmental and Economic Affairs	<p>As a result of the issues mentioned below unauthorised, fruitless and wasteful expenditure according to note 11 to the financial statements is understated by R612 599. Evidence that particulars of the unauthorised, fruitless and wasteful expenditure were reported to treasury as required in terms of section 38(1)(h) of the PFMA could also not be submitted.</p> <p>a. Fruitless and wasteful expenditure amounting to R455 418 was identified during the audit. This resulted, amongst others, from a lack of adequate internal controls to ensure that services for payments amounting to R435 626 were delivered in respect of the development of a marketing strategy for the department. It also resulted from policies and procedures that were not followed. This fruitless and wasteful expenditure was not disclosed in the financial statements.</p>	R613



A U D I T O R - G E N E R A L

Province	Vote		Description	R'000
			b. Various applications in the High Court regarding the alleged irregular dismissal by the former accounting officer and alleged reinstatement by the MEC of a senior official were made during the financial year. The former accounting officer appointed a private firm of attorneys to act on his behalf in these applications as the state attorneys were acting on behalf of the MEC. In all these applications judgement was awarded to the senior official and the former accounting officer was ordered by the High Court to pay the legal costs of the senior official. The department paid for all the legal costs of the former accounting officer. These costs, which amounted to R157 181 during the 2003-04 financial year and R62 041 to date for the 2004-05 financial year, are considered to be fruitless and wasteful expenditure. As the senior official's costs had not been taxed it was uncertain what these costs amounted to. This matter resulted from the fact that reasonable care was not exercised at all times to avoid fruitless and wasteful expenditure.	
Free State	3	Tourism, Environmental and Economic Affairs	A special investigation was conducted to determine if there was any substance to allegations concerning financial misconduct and irregular, unauthorised and wasteful expenditure. As the department was still in the process of dealing with and finalising the special report during the audit, the effect on the financial statements could not yet be determined.	
Free State	7	Social Development	With reference to paragraph 4.1.2 of the previous report, management controls for the performance of internal checks and procedures were inadequate to ensure that the amount of R41 485 was recorded and disclosed as fruitless expenditure in the financial year under review.	R41
Free State	10	Public Safety, Security and Liaison	An employee who retired on the grounds of ill health on 31 March 2001 was paid his full salary since 1 April 2001 to 31 December 2003. A total amount of R92 621 was paid to him without his rendering any service. This expenditure is regarded as fruitless.	R93
Free State	11	Agriculture	Fruitless and wasteful expenditure of R21 000 was incorrectly disclosed as unauthorised expenditure in note 11.2. This was rectified by the department in note 11.4 to the amended financial statements received on 25 October 2004.	R21



A U D I T O R - G E N E R A L

Province	Vote		Description	R'000
Gauteng	5	Education	<ul style="list-style-type: none"> Late payment of PAYE The South African Revenue Service levied interest and penalties of R13 019 297 for late payment and under-payment of pay-as-you-earn (PAYE). This related to an under-payment of PAYE amounting to R29 988 934 in November 2001. The interest and penalties were levied after year-end. Payment of school debts During the year under review, the department paid an amount of R22 751 130 for the settlement of outstanding water and electricity accounts owed by schools. It was, however, not possible to identify the portion relating to interest. 	R13 019 R22 751
KwaZulu-Natal	14	Works	<ul style="list-style-type: none"> Penalty interest Payments were effected late for electricity services covering the period April to December 2003 at Mayville, Mpumalanga, Umlazi and Amawele, resulting in penalty interest of R18 143,52 being incurred, which is regarded as fruitless and wasteful expenditure. Cellular phone expenses not recovered The department paid the cellular phone account of the erstwhile Member of the Executive Council for Works for the period after he had left, being May to October 2003, in the amount of R4 103,94. <p><u>Department of Works (Vote 14) - Resolution 64/2004 - Fruitless and wasteful expenditure</u></p> <p>Noting: Item 5.2 of the report of the Auditor-General;</p> <p>The House resolves:</p> <ol style="list-style-type: none"> That the Auditor-General investigate and report to the Public Accounts Committee on the allowances and benefits of the former MEC for Works, which were being paid by the Department of the Royal Household and Department of Works after the former MEC was no longer in office and the amount to be recovered. That the acting accounting officer of the Department of Works continue with the action taken to recover from the Provincial Legislature the cost of the cellphone allowance for the former MEC for Works, paid by the department after the former MEC was no longer in office. 	R18 R4



A U D I T O R - G E N E R A L

Province	Vote		Description	R'000
			<p>3. That the ministerial house in Ulundi currently being occupied by the former MEC be vacated and that the acting accounting officer of the Department of Works take the necessary steps to effect this and recover all monies due.</p> <ul style="list-style-type: none"> Irregular leave The head of the department announced that the department would be closed during the period 29 December 2003 to 2 January 2004. All the staff that had already submitted leave received a reversal of the four days' leave, in other words, no leave was deducted from any member for this period. This is in contravention of Chapter 1, part f (b) of the Public Service Regulations 2001, which states that the head of department shall record leave taken by an employee accurately and in full. <p>This resulted in an approximate cost to the department of R3 184 307.</p> <p>No resolution.</p>	R3 184
Limpopo	4	Agriculture	<p>Fruitless expenditure amounting to R152 703, which was not disclosed in note 10 to the financial statements, was identified during the audit and resulted from:</p> <ul style="list-style-type: none"> Interest charged on overdue accounts (R1 199); Payments made in respect of unserviceable telephone lines (R1 388); Payments made on telephone accounts where no service was rendered (R115 783); Payments made in respect of telephone lines not belonging to the department (R2 475); and Payments made in respect of unused telephone lines (R31 858). 	R153
Mpumalanga	8	Public Works, Roads and Transport	<p>As disclosed in the income statement and notes 11 and 29 to the financial statements, the department incurred fruitless and irregular expenditure of R3 791 000 and R1 473 000, respectively. Furthermore, an amount of R1 682 000, being fruitless expenditure for prior years, is disclosed under note 11.4.</p>	R5 473
North West	13	Agriculture, Conservation and Environment	<p>Disclosed in note 11 to the financial statements were amounts of R9 265 000 relating to unauthorised expenditure in prior years and R68 000 relating to fruitless and wasteful expenditure in prior years that had not been resolved at year-end. The department failed to apply for approval from the legislature to clear these amounts in the current financial year.</p>	R68



A U D I T O R - G E N E R A L

Province	Vote		Description	R'000
Northern Cape	5	Transport, Roads and Public Works	The monthly vehicle rental payments for November 2003 to February 2004 were not paid by the due date, resulting in additional cost amounting to R707 991 being paid, which is regarded as fruitless expenditure. No fruitless expenditure was disclosed in the annual financial statements.	R708
Northern Cape	7	Sport, Arts and Culture	Fruitless expenditure of R36 136 was not properly disclosed according to the National Treasury guidelines and the amount was not transferred from the income statement to the balance sheet. Included in this amount was R35 000 paid to a musical group to perform at a function. The group never performed because the function was cancelled after the Premier intervened. No proof could be obtained that the musicians were still committed to perform.	R36
Western Cape	10	Transport and Public Works	Included in the above-mentioned expenditure is an amount of R500 000 that was paid to a construction firm as a settlement amount in a claim for damages. This payment emanated from a tender that was recommended to a construction firm by the Departmental Tender Committee (DTC) and approved by the delegated official, whereafter the tender was re-evaluated by the DTC and recommended to a second tenderer. Although the delegated official approved the revised recommendation, it was subsequently determined that this approval was invalid, as the official did not have the authority to approve the revised recommendation. As a result an amount of R500 000 was paid to the second tenderer for damages claimed. The matter was also referred to the state law advisers who recommended that an investigation be held into the circumstances regarding the award of the tender to the second firm in contravention of the procurement prescripts, and that a disciplinary hearing be instituted to ascertain whether there was an intention to wilfully exceed powers. At the time of writing this report, the hearing had not yet been held.	R500