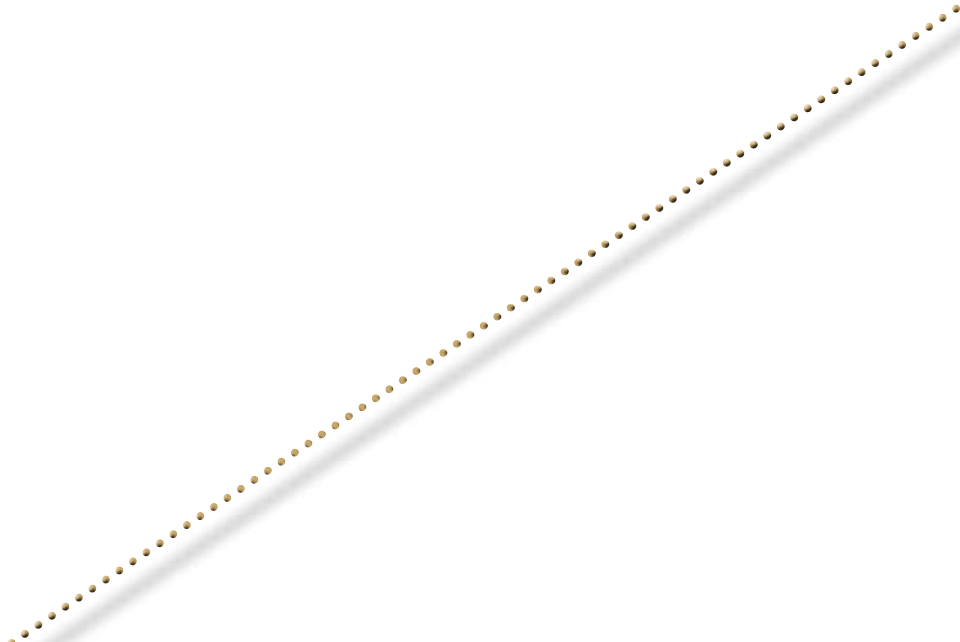






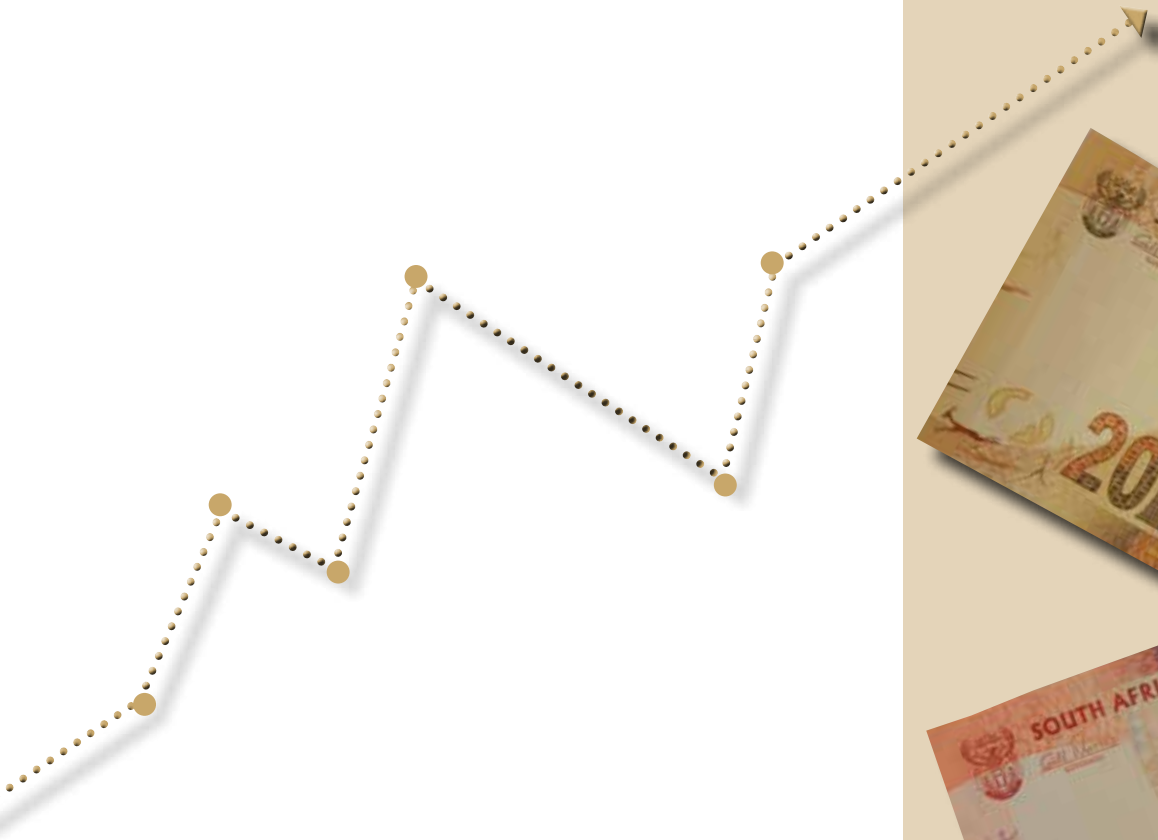
**PARLIAMENT**  
OF THE REPUBLIC OF SOUTH AFRICA





**FIVE YEAR  
EXPENDITURE REVIEW  
OF NATIONAL DEPARTMENTS**

2006/07 - 2010/11



PARLIAMENT OF THE REPUBLIC OF SOUTH AFRICA,  
Research Unit, Finance and Public Accounts Cluster

## **FIVE YEAR EXPENDITURE REVIEW OF NATIONAL DEPARTMENTS**

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**PARLIAMENT**  
OF THE REPUBLIC OF SOUTH AFRICA





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## EXECUTIVE SUMMARY

The report provides a five-year analysis of expenditure trends for all thirty eight national departments for the period 2007/08 to 2010/11 due to the fact that the expenditure information for that period was available. The Report also includes conditional grant expenditure trends for the period 2006/07 to 2010/11. The review period for conditional grants and financial and audit information was adjusted because the report for the 2011/12 financial year were not yet available at the time of writing. The majority of the national departments (i.e. 30 out of the 38) have successively under-spent their budget allocations over the five-year period. The national average expenditure for the five-year review period was 98.5 per cent.

Some departments perform worse than others in terms of expenditure performance. Over the five-year period, the Department of Communications and the Department of Public Works were two of the lowest spending departments, whereas Parliament and the Department of Transport were two of the highest spenders. In addition, some departments incurred over-expenditure. These include: The Presidency; Parliament; Home Affairs; Women, Children and People with Disabilities; Correctional Services; Independent Police Investigative Directorate; Transport and Water Affairs.

Under-expenditure by national departments is also pervasive with respect to conditional grants. Expenditure performance on conditional grants differs drastically among the various sector grants. Generally the expenditure performances of capital grants are relatively poorer than current grants. Over the period 2006/07 to 2010/11, the highest expenditure on conditional grants were the Comprehensive HIV and AIDS Grant and Human Settlements Development Grant at an average of 97.8 per cent and 97.2 per cent respectively. The lowest spending conditional grants over the period were the Hospital Revitalisation Grant at an average of 81.6 per cent and the Forensic Pathology Services Grant at 84.0 per cent.

The report further scrutinises departmental expenditure outcomes for the third quarter and fourth quarter expenditure of 18 selected departments over a three-year period (i.e. 2009/10 to 2011/12) to identify incidences of fiscal dumping. Fiscal dumping refers to the expenditure phenomenon also commonly referred to as the "March spike" whereby departments spend a greater proportion (i.e. between 40 to 50 per cent) of their allocated budget in the fourth and final quarter of the financial year. This drive to spend in the fourth quarter is usually to conceal under-spending in order to reflect better overall expenditure performance for the year. As a result, the funds are usually spent on non-priority items and on items that were not planned for. The findings of this report show that spending between the third and fourth quarter of fourteen of the thirty-eight national departments could be construed as fiscal dumping. The worst perpetrators of fiscal dumping include the Department of International Relations and Cooperation and the Department of Communications.

Lastly, the report provides a summary of audit outcomes for the period under review (2006/07 to 2010/11, as 2011/12 Annual Reports were not yet available). Audit Outcomes are important to consider as they inform Members of Committees about the financial position and financial management of the Department

and provide insight into the state of financial controls and risk management in the Department. Some national departments have progressively improved their audit opinions over the five year-period. For example, the Department of Home Affairs (i.e. disclaimer in 2006/07 and 2007/08, qualified in 2008/09 and 2009/10 and financially unqualified with findings in 2010/11); while other department's audit opinions have regressed; e.g. the Department of Public Works (i.e. qualified in 2006/07, financially unqualified with findings in 2007/08, qualified in 2008/09 and 2009/10 to a disclaimer in 2010/11). On the other hand, seven out of thirty-eight<sup>1</sup> national departments received successive financially unqualified audit opinions with no findings over the review period.

Most Departments reflect similar, recurring areas for qualifications in their Annual Reports. These are mainly related to non-reporting against predetermined objectives, non-compliance with laws and regulations, material misstatements in the annual financial statements, as well as internal control deficiencies in some or all three of the control areas, namely: leadership; financial and performance management; and governance.

The audit outcomes further highlight the huge losses to the fiscus over the review period due to the incurrance of unauthorised, irregular, fruitless and wasteful expenditure by national departments. Departments have, over the five-year period, incurred R5.9 billion in irregular expenditure, R3.8 billion in unauthorised expenditure and R350.9 million in fruitless and wasteful expenditure. The Departments of Defence and Military Veterans and Home Affairs are among the departments that have incurred the highest irregular and unauthorised expenditures over the period. Unauthorised, irregular, fruitless and wasteful expenditure should be regulated, and Parliament should monitor these departments closely. Portfolio Committees, in collaboration with the Committee on Public Accounts and the Appropriations Committees have a critical role in interrogating all instances of unauthorised, irregular, fruitless and wasteful expenditure. Portfolio Committees should ensure that the departments they oversee comply with the Standing Committee on Public Accounts (SCOPA) recommendations.

In conclusion, the five-year expenditure review report highlights the need for greater oversight by Parliamentary Committees over not only expenditure but all aspects of financial, budgetary and service delivery performance by national departments. Parliamentary Committees should consider both financial and non-financial information and link these in order to acquire a global picture of the overall performance of departments. This is even more important given the expanded role of Parliament to amend money bills, and the legislative requirement for Committees to compile annual Budget Review and Recommendation Reports for tabling in the House.

<sup>1</sup> These are: International Relations and Cooperation (2007/08 and 2008/09); Government Communication and Information System (2007/08-2008/09); National Treasury (2007/08-2008/09); Public Enterprises (All financial years except 2007/08); Environmental Affairs and Tourism (2007/08-2008/09) and Environmental Affairs (2010/11); Science and Technology (All financial years except 2009/10); and the former Department of Education (2006/07 and 2007/08).





## DEFINITION OF TERMS

**Accruals:** accounts on a balance sheet that represent liabilities and non-cash-based assets used in accrual-based accounting. These accounts include, among many others, accounts payable, accounts receivable, goodwill, future tax liability and interest expense.

**Adverse audit opinion:** the financial statements contain misstatements that are not confined to specific amounts or the misstatements represent a substantial portion of the financial statements.

**Audit evidence:** all of the information that was used by the Auditor in arriving at the conclusions on which the audit opinion is based. Audit evidence includes the information contained in the accounting records underlying the financial statements and other information.

**Clean audit outcomes:** the financial statements of the Department or public entity are free of material errors or omissions.

**Compliance:** when all activities, financial transactions and disclosed information are in accordance with the relevant laws, legislation, regulations and agreements.

**Conditional Grants:** grants that are allocated to supplement the funding of sub-national government service delivery mandates and to direct funding towards national priority service areas. The grants are allocated with conditions attached thereto that the recipient government sphere has to abide by.

**Disclaimer of audit opinion:** the department or entity provided insufficient evidence or documentation on which to form an audit opinion.

**Direct Charge against National Revenue Fund:** the amount spent on items of the statutes which do not require any parliamentary approval. These include Payments in terms of the following Acts: (1) Remuneration of Public Office Bearers Act (No. 20 of 1998) - covering the President's salary and the salaries of Members of Parliament;<sup>2</sup> (2) Remuneration and Allowances of Deputy Presidents, Ministers and Deputy Ministers Act (No 53 of 1994) - covering the salary of the Deputy President<sup>3</sup>; and (3) Judges' Remuneration and Conditions of Employment Act, 1989 (No 88 of 1989) - covering salaries and allowances of Judges and Judges seconded to governments of other countries.<sup>4</sup>

**Expenditure:** payment of cash or cash-equivalent for goods or services, or a charge against available funds in settlement of an obligation as evidenced by an invoice, receipt, voucher, or other such document.

<sup>2</sup> Sections 2(7) and 3(7)

<sup>3</sup> Section 4(a)

<sup>4</sup> Section 2

**Financially unqualified audit opinion:** the financial statements contain no material misstatement. Unless there is a clean audit outcome, findings have been raised on predetermined objectives and/or compliance with laws and regulations.

**Findings/Emphasis of matter(s):** without qualifying their opinion, the Office of the Auditor-General draws attention to certain matters, on which they do not express a qualified/adverse/disclaimer of opinion, but that they nevertheless need to highlight as they are critically important matters presented or disclosed in the financial statements. The Auditor may also modify the report by using an emphasis of matter(s) paragraph to report matters other than those affecting the financial statements, such as the material inconsistency of other information included in the Annual Report.

**Fiscal Dumping:** when money is not spent for its intended purpose, but on other item or services that ultimately yield no (or less) value for money.

**Fruitless and wasteful expenditure:** expenditure that was made in vain and could have been avoided had reasonable care been exercised.

**Function Shifts:** when a function is shifted to another Vote or institution in terms of legislation or following the realignment of responsibilities and mandates.

**Governance:** describes the role of persons entrusted with the supervision, control and direction of an entity. Those charged with governance are accountable for ensuring that the department or entity achieves its objectives, financial reporting, and performance reporting to interested parties. This includes management and the leadership of an organisation.

**Internal control:** the process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievements of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations<sup>5</sup>.

**In-year-monitoring:** monthly and quarterly budgetary oversight over the Executive is carried out throughout the financial year and budget cycle to ensure proper implementation of government policies.

**Irregular expenditure:** expenditure that was incurred without complying with applicable laws and regulations or action required to be taken prior to incurring the expenditure.

**March Spike:** when the majority of expenditure is executed during the fourth quarter or just before the end of a particular financial year.

**Material misstatement of fact:** found in additional or supplementary information when such information, not related to matters appearing in the audited financial statements, is incorrectly stated or presented.<sup>6</sup>

<sup>5</sup> International Federation of Accounts (IFAC) and International Auditing and Assurance Standards Board (IAASB) (2009)

<sup>6</sup> Auditor-General (2009)

**Materiality:** information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point.<sup>7</sup>

**Material loss:** section 42 (1) of the Public Audit Act (No. 25 of 2004) requires that the Auditor draw attention to or emphasise instances of any material losses through criminal conduct, as well as any material irregular expenditure, and any fruitless and wasteful expenditure that occurred during the financial year<sup>8</sup>.

**Misstatement:** a misstatement of the financial statements that can arise from fraud or error<sup>9</sup>.

**National Budget:** a financial document used to project future income and expenditure for the South African Government.

**Non-compliance:** refers to acts of omission or commission by the entity being audited, either intentional or unintentional.

**Opinion:** The Auditor's report contains a clear written expression of opinion on the financial statements as a whole. An unqualified opinion is expressed when the Auditor concludes that the financial statements provide a true and fair view (or are presented fairly, in all material respects) in accordance with the applicable financial reporting framework.<sup>10</sup>

**Pervasive:** is used to describe the effects on the financial statements of (possible) misstatements, which are undetected due to an inability to obtain sufficient appropriate audit evidence.

**Qualified audit opinion:** the financial statements contain material misstatements in specific amounts or there is insufficient evidence for the Auditor to conclude that specific amounts included in the financial statements are not materially overstated or understated.

**Reporting against predetermined objectives:** reporting by departments or entities on their actual service delivery achievements against their stated plans.

**Restatement of corresponding figures:** when corresponding figures for the prior year's balance sheet have been restated as a result of an error discovered during the current balance sheet in the financial statements of the department at, and for the year ended, (prior year's balance sheet date).

**Roll-overs:** unspent funds from the preceding financial year may be rolled-over when planned activities have not been completed by the end of that year but are almost close to completion, and commitments have been made with service providers.

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7 *Ibid*

8 Public Audit Act (No 25 of 2004)

9 *Ibid*

10 *Ibid*

**Savings:** unspent funds that the Department explicitly indicates it would not reallocate to fund other programmes. These are unspent funds that remain after the service has been delivered as opposed to under-spending.

**Schedule Five Grants:** specific purpose allocations to provinces aimed at addressing priority sectors such as health, education, and transport; amongst others.

**Shifting of funds:** utilisation of a savings or under-expenditure towards defrayment of increased expenditure within the main programme (division) of a Vote between different segments of the main division.

**Unauthorised expenditure:** expenditure that was in excess of the amount budgeted or allocated by government to the entity or that was incurred not in accordance with the purpose for which it was intended.

**Unavoidable unforeseeable expenditure:** expenditure that could not be anticipated at the time of the main budget process.

**Under-expenditure:** the portion of the budget that has not been spent at the end of a given period or as per projections. These are the funds that are left in the budget when the service is not yet rendered.

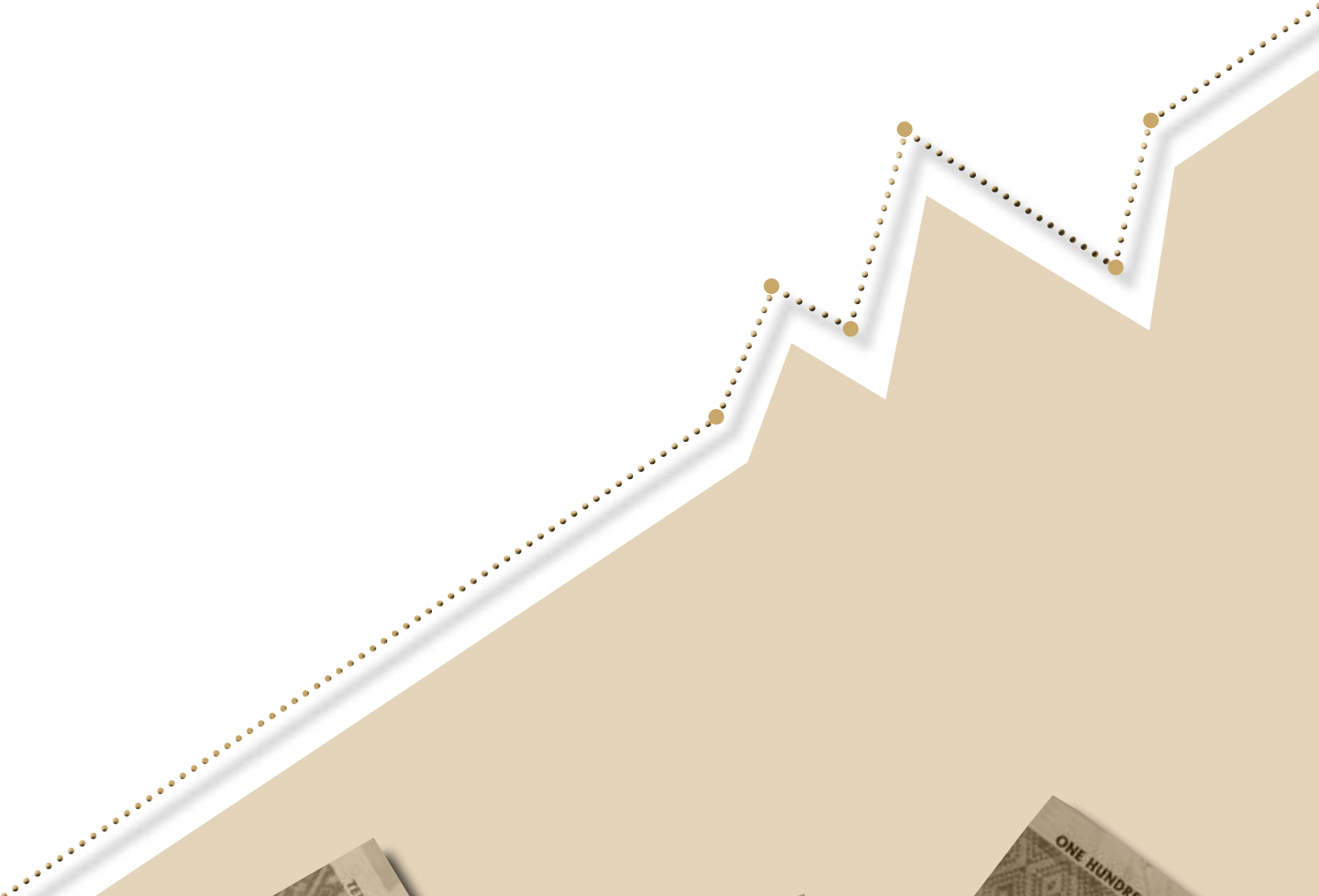
**Value-for-money:** a transaction, event, programme, project, part of project, process, etc. that promotes the economical acquisition and the efficient and effective use of resources.<sup>11</sup>

**Virements:** defrayment of savings or under-spent funds from amounts appropriated from one main division towards another main division within the same Vote.

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11 Auditor-General (2009)

# INTRODUCTION





## INTRODUCTION

Parliament has a constitutional responsibility to oversee all entities of State. Section 55 of the Constitution states that the National Assembly must provide for mechanisms:<sup>12</sup>

- a) To ensure that all organs of State are accountable to them; and
- b) To maintain oversight of:
  - i. The exercise of Executive Authority; and
  - ii. Organs of State.

In addition to the Constitution, the Public Finance Management Act (PFMA)<sup>13</sup> requires accounting officers to regularly monitor and report on the performance of their departments against their agreed budgets for the year. This Act provides for regular monthly monitoring reports to be submitted to the National Treasury in order to develop a single process to meet the information needs of managers and other stakeholders and satisfy the reporting requirements of the PFMA and Division of Revenue Act (No. 5 of 2012) (DORA). These reports are required in terms of Section 32 of the PFMA and Section 9 of DORA<sup>14</sup> on a monthly basis for national departments and quarterly for provinces.

Section 32 of the PFMA provides for the publication of reports on the state of the budget. In this regard, the Act states that:

- (1) Within 30 days after the end of each month, the National Treasury must publish in the national *Government Gazette* a statement of actual revenue and expenditure with regard to the National Revenue Fund.
- (2) After the end of a prescribed period, but at least quarterly, every Provincial Treasury must submit to the National Treasury a statement of revenue and expenditure with regard to the Revenue Fund (for which that treasury is responsible), for publication in the national *Government Gazette* within 30 days after the end of each prescribed period.
- (3) The statement must specify the following amounts and compare those amounts in each instance with the corresponding budgeted amounts for the relevant financial year:
  - (a) The actual revenue for the relevant period, and for the financial year up to the end of that period;
  - (b) The actual expenditure per Vote (distinguishing between capital and current expenditure) for that period, and for the financial year up to the end of that period; and
  - (c) Actual borrowings for that period, and for the financial year up to the end of that period.

<sup>12</sup> Constitution of the Republic of South Africa

<sup>13</sup> Act 1 of 1999, as amended by Act 29 of 1999

<sup>14</sup> *Ibid*

Section 9 of the Division of Revenue Act<sup>15</sup> provides for the duties of the transferring national officer in respect of Schedule 4 allocations. In this regard, the transferring national officer is responsible for, amongst others:

- Monitoring expenditure and non-financial performance information on programmes funded by an allocation;
- Complying with the requirements of the applicable framework;
- Submitting a quarterly performance report within 45 days after the end of each quarter to the National Treasury, in accordance with the requirements of the relevant framework; and
- Evaluating the performance of programmes funded or partially funded by the allocation and the submission of such evaluations to the National Treasury, within four months in respect of a province, and six months in respect of a municipality, after the end of the financial year.

Parliament monitors expenditure, specifically through the Committees on Appropriations, and utilises expenditure figures as provided in monthly and quarterly National Treasury Statements on National Revenue, Expenditure and Borrowing, published in terms of Section 32 of the Public Finance Management Act (PFMA) and reported to the two Houses<sup>16</sup> on a quarterly basis. The PFMA Section 32 reports are an important resource as they provide an overview of expenditure for all national departments. The information provided by Section 32 reports is nevertheless limited as it does not include non-financial (service delivery performance) information. Financial information and analysis of expenditure trends are however, important for “in-year” monitoring by Parliamentary Committees, especially in respect of determining and tracking expenditure, which is an important consideration, particularly in light of the new extended role of Parliament in the budget process in terms of the Money Bills Amendment Procedure and Related Matters Act.<sup>17</sup>

The purpose of this publication is to provide a comparative and analytical five-year snapshot review of overall national departmental expenditure performance, including conditional grant expenditure, as well as a three-year comparative analysis of Third and Fourth Quarter Expenditure. Departments will be scrutinised based on the criteria indicated in Figure 1 below.

The issues that were highlighted and observed were first and foremost consistent under-expenditure or over-expenditure in the past five financial years. In addition, several departments were also analysed based on their Third and Fourth Quarter Expenditures for review over a three-year period in order to detect fiscal dumping. It is important to identify departments that consistently fail to spend their budget allocations by the end of the third quarter, only to spend more in the fourth quarter (March Spike) and the factors attributed to these expenditure patterns. This pattern of spending creates a picture of unbalanced budget expenditure outcomes.

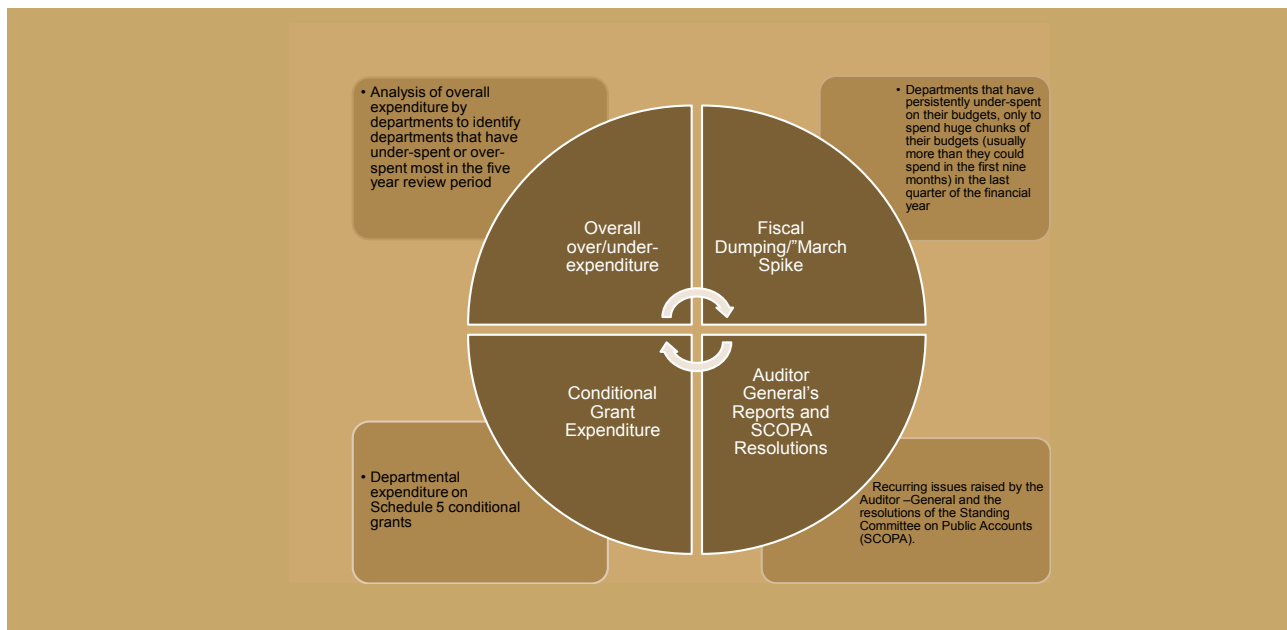
<sup>15</sup> Act 5 of 2012

<sup>16</sup> National Assembly and National Council of Provinces.

<sup>17</sup> Act No. 9 of 2009

In analysing expenditure, the report also takes into account the Auditor-General's opinions; summary and drivers of audit outcomes; irregular, unauthorised, fruitless and wasteful expenditure<sup>18</sup>; as well as Standing Committee on Public Accounts (SCOPA) resolutions for the five year period where these are available. The aim of the report however, is not to provide service delivery performance information, as the focus is on financial management and budget execution. To this end, the report analyses recurring issues that impact negatively on departmental expenditure, which could in turn compromise service delivery.

**Figure 1: Layout and scope of the report**



Source: Research Unit (2012)

Figure 1 shows that the report also includes expenditure trends for a select number of Schedule Five grants over the five-year period. Schedule Five grants are specific purpose allocations to provinces, and have been chosen to form part of the analysis as expenditure data is reported throughout the year, whereas other grants are linked to other funding sources (e.g. provincial own revenue) and merged across programmes and are therefore only reported annually.<sup>19</sup>

18 Irregular, unauthorised, fruitless and wasteful expenditure is comprised of the closing balance of the 2006/07 financial year, as well as the current expenditure reflected for subsequent years. Current expenditure includes current year expenditure and expenditure incurred in the previous financial year but only discovered in the current financial year. This also includes any other amounts that have been condoned before financial year-end.

19 The expenditure figures reported in this section are preliminary year-end expenditure results and have not been audited. However, the fact that they are preliminary figures does not detract from the figures providing a convincing representation of expenditure trends over time.

# SECTION 1

**OVERVIEW** OF BUDGET AND FINANCIAL MANAGEMENT IN DEPARTMENTS



## SECTION 1: OVERVIEW OF BUDGET AND FINANCIAL MANAGEMENT IN DEPARTMENTS

This section provides a comparative snapshot and an analytical five-year review of overall expenditure and financial performance of all departments. Departments that under-spent are coded in Red for the specific year that they incurred under-expenditure, whereas departments that over-spent are coded in yellow. This is done to assist committees to identify markedly persistent sub-standard expenditure performance, which can be deduced from Table 1 and Figure 3.

This section further identifies national government departments that have, over a three-year period, consistently failed to spend their budget allocations by the end of the third quarter, only to spend huge portions of their budgets in the fourth quarter.

Finally, Table 3 and Table 4 provide an overview of the summary of audit outcomes and the areas of qualification and predetermined objectives for all departments over the five-year period.

### 1.1 OVERALL EXPENDITURE OF DEPARTMENTS – 2007/08 - 2011/12

Table 1 below provides an overview of overall expenditure by all thirty eight national government departments; and highlights departments with recurring patterns of under-spending and/or over-spending in the last five financial years. The period covered includes the 2011/12 financial year as the expenditure reports for the 2011/12 financial year were already available. The monetary values indicate the amount that was under-spent or over-spent by departments. In terms of monetary expenditure, all departments that under/ over-spent by R10 million or less are coded white regardless of their percentage expenditure.

**Table 1: Overall expenditure of departments (2007/08-2011/12)**

DEPARTMENT	Expenditure Performance For the Five-Year Review Period				
	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
Presidency	97.1%	103.6%	96.3%	103.6%	97.7%
	R 7.9m	(R 11.4m)	R 18.1m	(R 29.0m)	R 21.4m
Parliament	100.0%	100.0%	100.0%	100.3%	100.0%
	R0	R0	R0	(R4.1m)	R0



DEPARTMENT	Expenditure Performance For the Five-Year Review Period				
	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
Cooperative Governance and Traditional Affairs	99.9%	99.2%	98.6%	99.7%	96.0%
	R 8.3m	R 291.6m	R 513.9m	R 135.4m	R 1.9bn
Home Affairs	92.6%	95.8%	98.7%	105.6%	97.4%
	R 262.3m	R 202.8m	R 70.1m	(R 328.9m)	R 150.8m
International Relations and Cooperation	99.7%	93.6%	93.5%	86.6%	96.2%
	R 11.7m	R 356.8m	R 360.9m	R 632.6m	R 196.0m
Performance Monitoring and Evaluation					96.5%
					R 3.4m
Public Works	90.6%	97.4%	93.1%	91.4%	88.8%
	R 355.0m	R 112.3m	R 418.8 m	R 633.4m	R 875.4m
Women, Children and People With Disabilities				75.6%	115.9%
				R 25.9m	(R 22.7m)
Government Communication and Information System	99.2%	97.2%	99.7%	94.9%	95.3%
	R3.1 m	R12.4 m	R1.4 m	R27.9 m	R20.7 m
National Treasury	96.0%	99.5%	99.7%	94.1%	89.6%
	R 782.2m	R 155.2m	R 176.8m	R 2.9bn	R 2.5bn
Public Enterprises	99.9%	99.9%	99.8%	96.7%	98.0%
	R1.4 m	R4.5 m	R8.2 m	R18.3 m	R7.2 m
Public Service and Administration	96.5%	97.3%	96.5%	95.5%	93.6%
	R 13.6m	R 11.4m	R 15.0m	R 29.9m	R 44.2m
Statistics South Africa	78.8%	100.0%	89.3%	86.4%	98.7%
	R 245.3m	R502 000	R183.1m	R 285.8m	R 48.7m

DEPARTMENT	Expenditure Performance For the Five-Year Review Period				
	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
Arts and Culture,	98.6%	98.1%	84.5%	92.1%	96.8%
	R 21.9m	R 42.1m	R 407.0m	R 192.6m	R 81.0m
Basic Education				89.4%	91.4%
				R 656.8m	R 1.2 b
Health	97.6%	97.5%	97.5%	96.6%	99.0%
	R 318.1m	R 401.6m	R 457.8m	R 743.5m	R 255.1m
Education	99.1%	99.8%	97.8%		
	R145.4m	R43.1m	R487.8m		
Higher Education and Training				99.9%	99.9%
				R24.5 m	R17.8 m
Labour	95.3%	94.7%	98.5%	99.3%	99.5%
	R96.2 m	R93.5 m	R31.3 m	R13.8 m	R10.3 m
Social Development	99.4%	99.7%	99.3%	99.1%	99.6%
	R391.6 m	R252.1 m	R573.0 m	R873.0 m	R382.0 m
Sport and Recreation South Africa	99.6%	99.4%	99.4%	99.7%	98.8%
	R18.9 m	R31.5 m	R17.5 m	R3.4 m	R10.3 m
Correctional Services	97.8%	104.0%	98.8%	95.3%	98.0%
	R 252.7m	(R 496.2m)	R 160.8m	R 725.4m	R 333.3m
Defence and Military Veterans	98.9%	99.7%	99.9%	99.5%	99.9%
	R289.7 m	R86.0 m	R15.6 m	R161.7 m	R19.3 m

DEPARTMENT	Expenditure Performance For the Five-Year Review Period				
	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
Independent Police Investigative Directorate	100.0%	100.8%	91.1%	97.7%	100.0%
	R4 000	(R808 000)	R10.4 m	R3.0 m	R4 000
Justice and Constitutional Development	97.7%	99.2%	99.7%	99.0%	99.9%
	R174.2 m	R71.1 m	R34.2 m	R106.3 m	R5.9 m
Police	100.0%	100.0%	100.0%	100.0%	99.0%
	(R4 000)	R0	R29 000	R42 000	R617.4 m
Agriculture, Forestry and Fisheries				97.4%	99.3%
				R 103.1m	R 36.2m
Communications	99.3%	99.9%	93.2%	66.8%	89.5%
	R 13.1 m	R 1.8m	R 168.6m	R 710.2m	R 210.9m
Economic Development				89.1%	96.7%
				R48.9 m	R19.9 m
Minerals and Energy	99.1%	99.4 %	97.1%		
	R27.8 m	R24.0 m	R135.7 m		

DEPARTMENT	Expenditure Performance For the Five-Year Review Period				
	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
Energy				97.2%	99.6%
				R 158.4m	R 26.6m
Environmental Affairs and Tourism	99.9%	99.7%	99.8%		
	R1.7 m	R8.6 m	R7.8 m		
Environmental Affairs				96.0%	97.8%
				R98.7 m	R93.0 m
Human Settlements	95.7%	99.8%	98.3%	98.8%	99.0%
	R384.2m	R17.6m	R 236.4m	R 204.4m	R 226.6m
Mineral Resources				99.9%	99.1%
				R1.3 m	R9.5 m
Rural Development and Land Reform	99.5%	99.9%	91.6%	97.7%	98.3%
	R30.8 m	R4.7 m	R536.4 m	R170.7 m	R139.0 m
Science and Technology	99.3%	99.5%	98.2%	98.2%	99.9%
	R21.4 m	R18.1 m	R77.8 m	R75.8 m	R3.6 m

DEPARTMENT	Expenditure Performance For the Five-Year Review Period				
	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
Tourism				96.6%	98.8%
				R40.3 m	R14.7 m
Trade and Industry	96.6%	98.5%	97.5%	93.5%	98.9%
	R184.2 m	R77.5 m	R163.1 m	R400.0 m	R75.5 m
Transport	98.3%	101.5%	100.5%	99.4%	99.2%
	R281.2 m	(R360.5 m)	(R114.6 m)	R148.2 m	R322.6 m
Water Affairs	91.9%	92.6%	98.8%	96.8%	91.4%
	R 472.6m	R 519.0m	R 91.3m	R 266.-0m	R 778.8m

Source: National Treasury (2007/08 – 2011/12)

 : Under-spending

 : Under/ over-spending of R10 million or less

 : Over-spending

 : The Department was not operational or the mandate has changed significantly

Table 1 and Figure 3 indicate that, of the thirty eight national Departments, only eight incurred over-expenditure, while most of the other departments successively incurred under-expenditure (i.e. 78.9 per cent of all departments) either over the period under review or since their inception.<sup>20</sup> Although departments have spent an average of 98.5 per cent of their budgets over the five-year period, Table 1 shows that there are varying degrees of expenditure. While some departments under-spend drastically, for example the Department of Communications spent 66.8 per cent of its budget in 2010/11, other departments, such as the Department of Police spent 100 per cent of their budgets in 2010/11, with a national expenditure average of 97.8 per cent for all departments in that year, as indicated in Figure 2.

<sup>20</sup> National Treasury (2007-2012)



**Figure 2: Average Departmental Expenditure Trends over the Five Year Period**

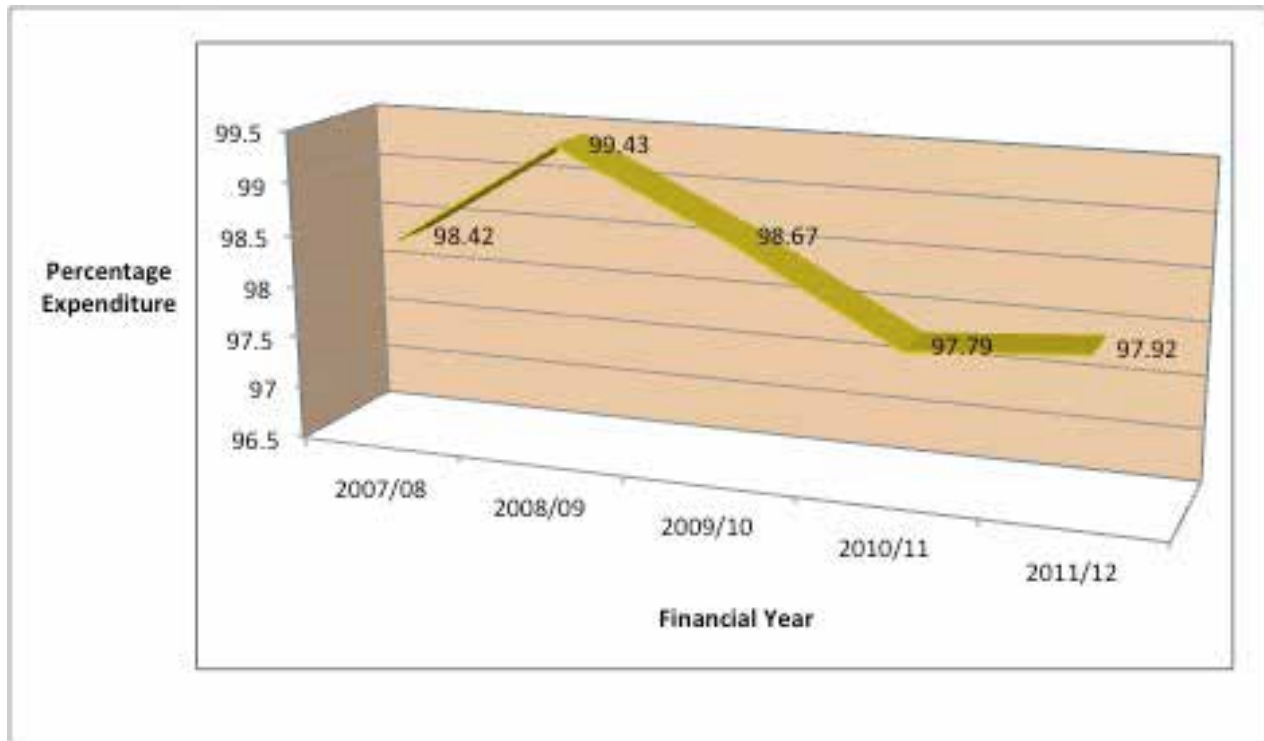
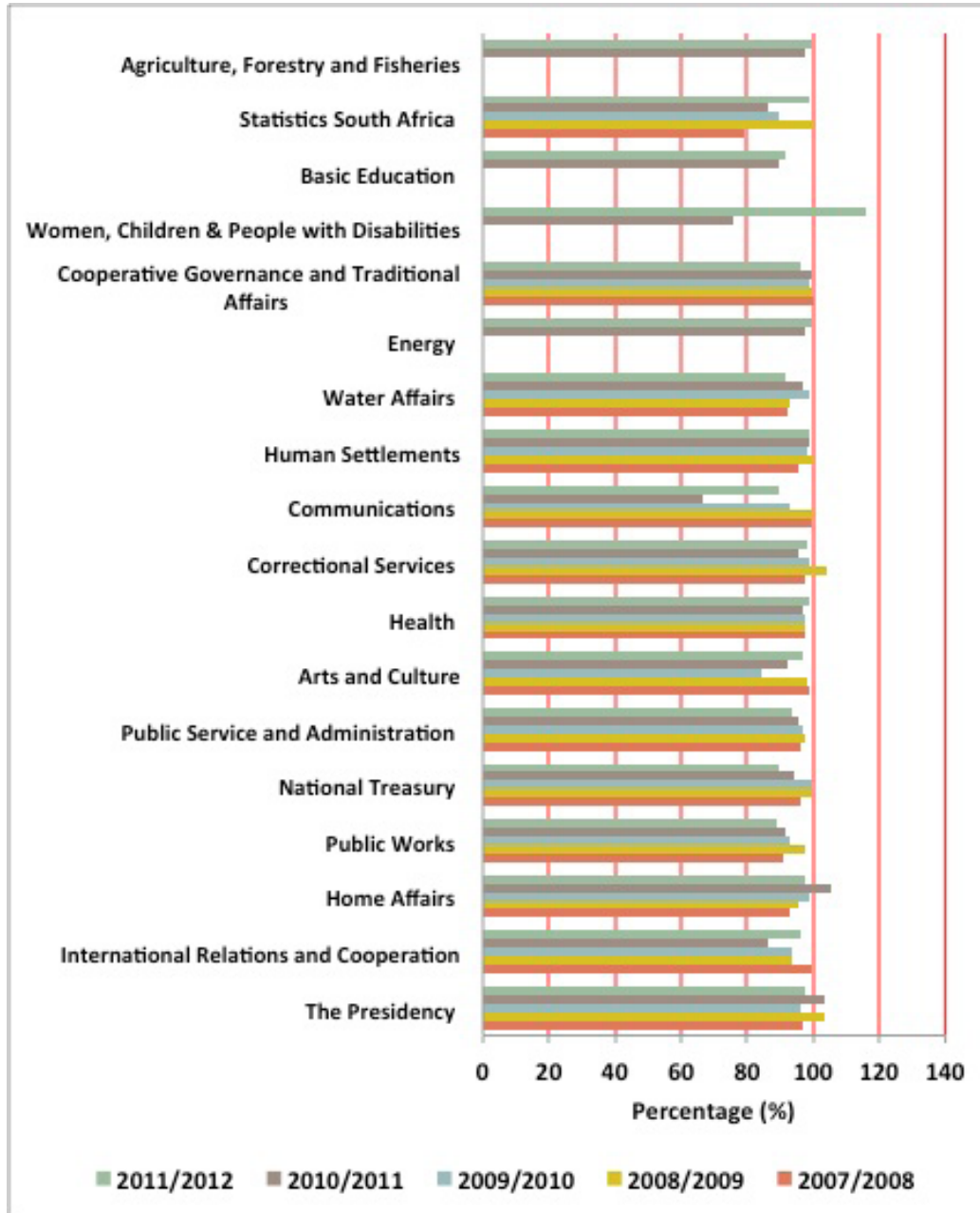


Figure 2 further indicates that there has been a sharp decline in expenditure from the 2008/09 Financial Year. Government should monitor this trend closely, particularly the thirty departments that consistently under-spend at the end of each financial year.

Some Departments however, are worse than others in terms of expenditure. The Department of Communications and Statistics South Africa are two of the lowest spending Votes, while the Department of Water Affairs and the Department of Public Works should also be closely monitored due to the size of their budgets and the importance of their mandates to the welfare of the citizenry.

**Figure 3: Expenditure Trends of the 18 Selected National Departments with conspicuous spending patterns for the Period 2007/08-2011/12**



Source: National Treasury (2007/08 – 2011/12)

## 1.2 HIGH FOURTH QUARTER EXPENDITURE – FISCAL DUMPING





The following departments have been selected for analysis based on third and fourth quarter expenditure trends. The third quarter reflects overall expenditure of a department by the end of the first nine months of the financial year, whilst the fourth quarter expenditure reflects overall expenditure for the departments at the end of the financial year.

**Table 2: Expenditure Trends for 2009/10-2011/12 – Third and Fourth Quarter Expenditure**

Department Name	2011/12		2010/11		2009/10	
	3rd	4th	3rd	4th	3rd	4th
The Presidency	69.37%	97.7%	76.32%	103.52%	56.93%	96.34%
Cooperative Governance and Traditional Affairs	65.59%	95.89%	74.67%	99.74%	69.86%	98.59%
Home Affairs	69.23%	96.66%	64.28%	105.63%	71.12%	98.59%
International Relations and Cooperation	53.86%	97.41%	55.25%	93.10%	47.14%	93.50%
Performance Monitoring and Evaluation	51.81%	96.51%				
Public Works	68.34%	90.44%	71.70%	91.38%	73.14%	93.08%
Women, Children and People with Disabilities	79.46%	115.86%	0%	103.52%		
Department of Public Service and Administration	65.63%	93.59%	68.23%	95.37%	61.77%	96.50%
Department of Arts and Culture	68.73%	96.81%	69.94%	92.12%	62.23%	84.54%
Independent Police Investigative Directorate	61.17%	100%	71.02%	97.72%	63.48%	91.09%
Department of Agriculture	70.11%	99.27%	77.35%	97.39%	61.41%	84.34%
Communications	46.13%	89.47%	45.15%	66.78%	62.50%	93.18%

Department Name	2011/12		2010/11		2009/10	
	3rd	4th	3rd	4th	3rd	4th
Rural Development and Land Reform	60.23%	98.29%	66.61%	97.85%	60.11%	91.61%
Water Affairs	46.92%	91.325	61.16%	95.75%	69.86%	98.59%

Source: National Treasury (2009/10-2011/12)

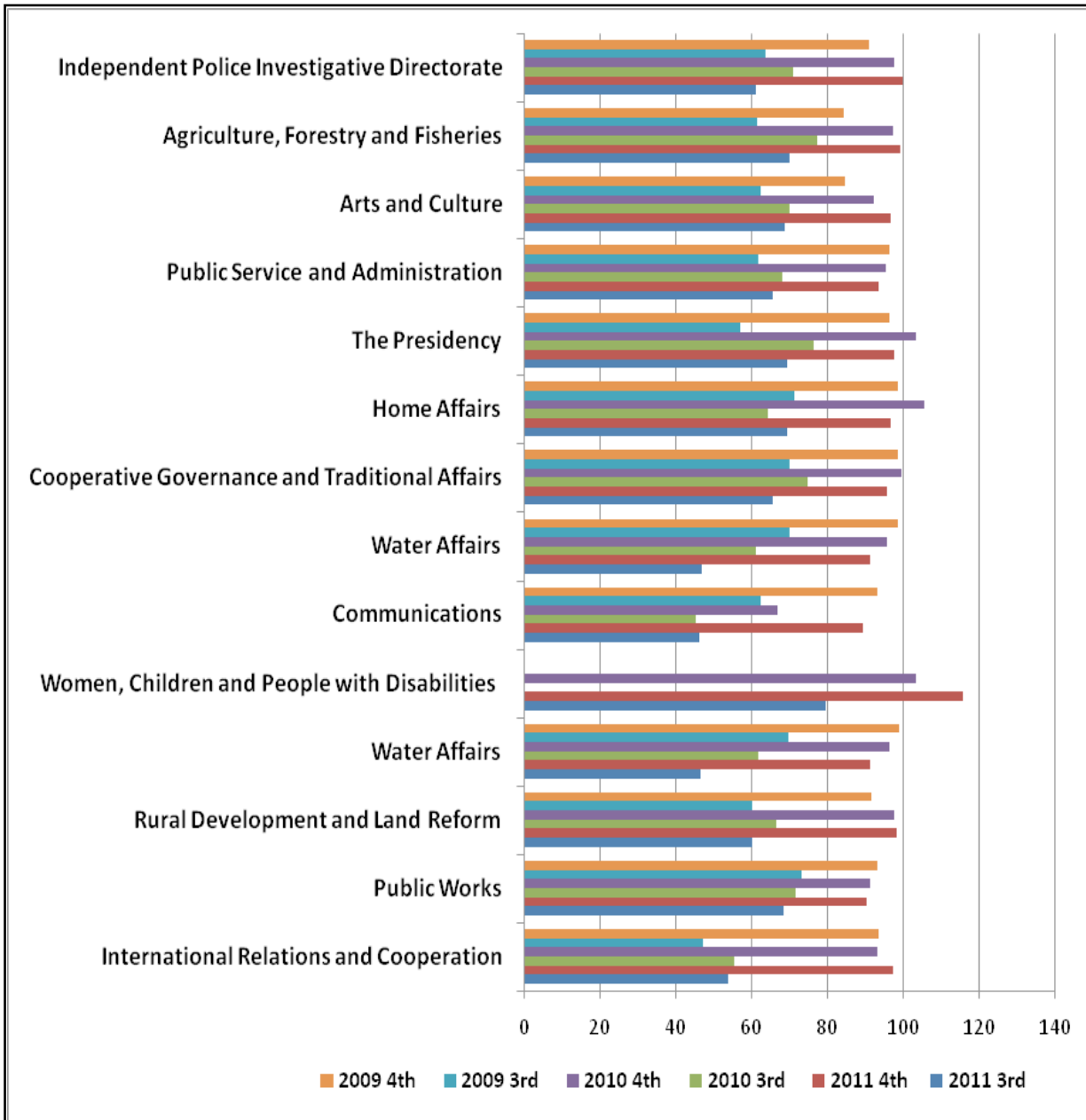
-  = Close monitoring and oversight required, excessive fourth quarter expenditure (March Spike)
-  = Moderate fourth quarter expenditure, requires attention
-  = Increased expenditure during the fourth quarter, but not excessive
-  = Caution is required, but there is not enough evidence to draw a conclusion.

The Departments in Table 2 are colour coded in order to reflect the frequency of poor expenditure patterns and the level of intervention possibly required. The red colour indicates departments that frequently under-spend on their budgets until the third quarter, and then spend most of the budget in the fourth quarter. These include the Department of International Relations and Cooperation, which reported expenditure between 40 and 50 per cent at the end of the third quarter for the past three years (2009, 2010 and 2011), while at the end of the financial year the Department reported more than 90 per cent expenditure. The Department of Communications also requires continuous monitoring as it has spent between 40 and 60 per cent of its budget at the end of the third quarter for each of the three years under review. There is a noticeable decline in expenditure trends from 2009/10 to 2011/12 by this department.

Departments coloured orange in Table 2 usually reflect expenditure above 60 per cent, and therefore still require caution as expenditure is still below 70 per cent at the end of the third quarter. These include the Departments of Public Service and Administration and the Department of Rural Development and Land Reform. The Departments coloured green have usually spent about 70 per cent by the end of the third quarter in the past three years. The yellow colour indicates that caution is required, but there is not enough evidence to draw a conclusion. For example, The Department of Monitoring and Evaluation is a new department that has already shown some signs of possible fiscal dumping.<sup>21</sup>

<sup>21</sup> The Department of Performance Monitoring and Evaluation (DPME) is a new department that has only reported expenditure patterns for 2011/12. Though it reflects the “March Spike” in 2011/12 from 51.81 per cent at the end of the third quarter to 96.51 per cent at the end of the fourth quarter, it is difficult to draw conclusions on the basis of a single financial year.

**Figure 4: Expenditure patterns for selected departments 2009/10-2011/12**



Source: National Treasury (2009/10-2011/12)

Figure 4 above depicts fourteen departments that have consistently under-spent by the end of the third quarter and spent large amounts of their budgets in the fourth quarter in the three year period under review.

Most departments have reported identical, recurring issues as reasons for under-expenditure in the three years under review; therefore these should be addressed urgently. These include under-expenditure due to unfilled positions, unprocessed invoices, capital assets, and the goods and services budget in most instances. A concerning factor regarding the misalignment of third quarter and fourth quarter expenditure is that departments rarely spend their budgets on what they were originally planned for. For example in 2007, the Department of Home Affairs was accused of fiscal dumping – spending money on computers and cars instead of infrastructure. The National Treasury indicated to the Standing Committee on Public Accounts in that year that there was evidence of fiscal dumping in the form of transfers that were likely to have a negative impact on service delivery. Capital allocations intended for capital projects including infrastructure were diverted to stand-alone assets such as vehicles and computers. National Treasury also noted that there appeared to be some payments made to service providers prior to the delivery of goods and services. A pattern of fiscal dumping or “March spike” is usually a caution that funds are redirected to areas of lesser priority<sup>22</sup>.

Parliament’s oversight over departments is critical to ensure that departments spend according to their strategic plans and cash flow projections. Diligent oversight will ensure that accounting officers do not transfer funds to conceal under-spending in their departments, which may constitute financial misconduct. Any intentions to transfer funds should be outlined during the department or entity’s budget preparation process and strategic planning process, before the financial year begins. Parliament should ensure that departments and State-owned enterprises have plans in place for spending the funds before the financial year commences, and proceed to monitor implementation of these budgets and programmes to ensure that departments adhere to their strategic and expenditure plans.

It is worth noting that most of the departments that have been highlighted as reflecting unbalanced expenditure patterns by under-spending significantly in the first nine months of the financial year and then spending large amounts of their budgets in the last quarter of the financial year in Table 2 (i.e. 79 per cent) have also been identified as departments that consistently under-spend in Table 1. This reaffirms the fact that these departments need to be closely monitored and that their financial and service delivery performance is closely and thoroughly scrutinised by Parliament.

<sup>22</sup> <http://www.iol.co.za/news/politics/home-affairs-chiefs-accused-of-fiscal-dumping>

### 1.3 SUMMARY OF AUDIT OUTCOMES

Audit Outcomes are important to consider as they inform Members of Committees about the financial position and financial management of their sector departments over the review period. This includes information about the state of financial controls and risk management in the department. This will enable Members to determine potential risks that the department might face, e.g. risk to fraud and corruption; and therefore be in a better position to recommend appropriate action. The information provided in this section illustrates how the Auditor-General's judgement about the nature of the matter giving rise to the modification and the pervasiveness of its (possible) effects on the financial statements, affect the type of opinion to be expressed.

**Table 3: Possible Audit Opinions**

Nature of matter giving rise to the modification	Auditor's judgement about the pervasiveness of the effects or possible effects on the financial statements	
	Material but not pervasive	Both material and pervasive
Financial statements are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

Source: Auditor-General (2009)

#### Qualified opinion

The Auditor-General expresses a qualified opinion when, after having obtained sufficient appropriate audit evidence, it is concluded that misstatements, individually or in aggregate, are material, but not pervasive, to the financial statements. Further, when the Auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, it is concluded that the possible effects on the financial statements of undetected misstatements could be material, but not pervasive.

#### Disclaimer of opinion

The Auditor-General will disclaim an opinion when he/she is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and therefore concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

**Note**

The Auditor-General cannot disclaim an opinion based on the impracticability or inability to quantify the effect of departures from the applicable basis of accounting and disagreements with management relating to such departures. For such cases, the opinion to be expressed is either qualified or an adverse opinion.

**Adverse opinion**

The Auditor-General will express an adverse opinion when it is concluded (after having obtained sufficient appropriate audit evidence) that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements. The Auditor may judge misstatements that are material individually or in aggregate to be pervasive to the financial statements when such misstatements are not confined to specific elements, accounts or items of the financial statements or if confined, the misstatements represent or could represent a substantial proportion of the financial statements. Furthermore, in relation to disclosures, the Auditor may judge misstatements that are material individually or in the aggregate to be pervasive to the financial statements when the misstated disclosures are fundamental to users' understanding of the financial statements.

**Table 4: Summary of Audit Outcomes for the five year period**

DEPARTMENT	2006/07	2007/08	2008/09	2009/10	2010/11
<b>The Presidency</b>	Financially unqualified with findings	Qualified	Qualified	Financially unqualified with findings	Financially unqualified with findings
<b>Parliament<sup>23</sup></b>	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings
<b>Cooperative Governance and Traditional Affairs</b>	Financially unqualified with findings	Financially unqualified with findings	Qualified	Financially unqualified with findings	Qualified
<b>Home Affairs</b>	Disclaimer	Disclaimer	Qualified	Qualified	Financially unqualified with findings
<b>International Relations and Cooperation</b>	Financially unqualified with findings	Financially unqualified with no findings	Financially unqualified with findings	Financially unqualified with no findings	Financially unqualified with findings

23 Parliament's Audit Outcomes, Areas of qualification and findings on predetermined objectives and drivers of Audit Outcomes could not be verified as they are not reflected in the 2007/08 Annual Report. The information contained in the report was extracted from the Auditor-General's report on National Audit Outcomes (2007/08).



DEPARTMENT	2006/07	2007/08	2008/09	2009/10	2010/11
<b>Public Works</b>	Qualified	Financially unqualified with findings	Qualified	Qualified	Disclaimer
<b>Women, Children and People with Disabilities</b>					Financially unqualified with findings
<b>Government Communication and Information System</b>	Financially unqualified with findings	Financially unqualified with no findings	Financially unqualified with no findings	Financially unqualified with findings	Financially unqualified with findings
<b>National Treasury</b>	Financially unqualified with findings	Financially unqualified with no findings	Financially unqualified with no findings	Financially unqualified with findings	Financially unqualified with findings
<b>Public Enterprises</b>	Financially unqualified with no findings	Financially unqualified with findings	Financially unqualified with no findings	Financially unqualified with no findings	Financially unqualified with no findings
<b>Public Service and Administration</b>	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings
<b>Statistics South Africa</b>	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings
<b>Arts and Culture</b>	Qualified	Qualified	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings
<b>Basic Education</b>					Financially unqualified with findings
<b>Health</b>	Qualified	Qualified	Qualified	Financially unqualified with findings	Qualified
<b>Education</b>	Financially unqualified with no findings	Financially unqualified with no findings	Financially unqualified with findings	Financially unqualified with findings	
<b>Higher Education and Learning</b>					Financially unqualified with findings
<b>Labour</b>	Qualified	Qualified	Qualified	Qualified	Financially unqualified with findings

DEPARTMENT	2006/07	2007/08	2008/09	2009/10	2010/11
<b>Social Development</b>	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Qualified	Qualified
<b>Sport and Recreation South Africa</b>	Qualified	Qualified	Qualified	Financially unqualified with findings	Financially unqualified with findings
<b>Correctional Services</b>	Qualified	Qualified	Qualified	Qualified	Qualified
<b>Defence and Military Veterans</b>	Qualified	Qualified	Qualified	Qualified	Qualified
<b>Independent Police Investigative Directorate</b>	Qualified	Qualified	Qualified	Financially unqualified with findings	Financially unqualified with findings
<b>Justice and Constitutional Development</b>	Qualified	Qualified	Qualified	Qualified	Qualified
<b>Police</b>	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings
<b>Agriculture, Forestry and Fisheries</b>	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings
<b>Communications</b>	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Qualified	Financially unqualified with findings
<b>Economic Development</b>					Financially unqualified with findings
<b>Minerals and Energy</b>	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Qualified	<b>Energy:</b> Financially unqualified with findings
					<b>Mineral Resources:</b> Qualified
<b>Environmental Affairs and Tourism</b>	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with no findings	Financially unqualified with no findings	
<b>Environmental Affairs</b>					Financially unqualified with no findings

DEPARTMENT	2006/07	2007/08	2008/09	2009/10	2010/11
<b>Human Settlements</b>	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings
<b>Rural Development and Land Reform</b>	Qualified	Qualified	Qualified	Qualified	Qualified
<b>Science and Technology</b>	Financially unqualified with no findings	Financially unqualified with no findings	Financially unqualified with no findings	Financially unqualified with findings	Financially unqualified with no findings
<b>Tourism</b>					Financially unqualified with findings
<b>Trade and Industry</b>	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings
<b>Transport</b>	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings	Financially unqualified with findings
<b>Water Affairs</b>	Qualified	Qualified	Financially unqualified with findings	Qualified	Qualified

Source: Auditor-General (2006/07 - 2010/11)

## 1.4 AREAS OF QUALIFICATION AND FINDINGS ON PREDETERMINED OBJECTIVES

In addition to expressing an opinion on the financial statements of departments, the Auditor-General goes further to provide information on areas of qualification and findings on predetermined objectives. A select number of areas of qualification are explained below, and thereafter all areas of qualification by government departments are listed in Table 5.

- **Predetermined objectives**

An audit of predetermined objectives entails an annual audit of reported actual performance against predetermined objectives, indicators/measures and targets. It is an integral part of the annual regularity audit, confirming the credibility of the reported performance information in the annual performance reports of departments. The main findings in this area usually relate to strategic planning and performance management, specifically a lack of effective, efficient and transparent systems and internal controls.

- **Non-compliance with applicable legislation**

The matters to be reported here are those instances of non-compliance with legislation that do not affect the fair presentation of the financial statements. Material instances of non-compliance with legislation that affect the financial statements should be reported as a qualified/disclaimer/adverse audit opinion, as appropriate. Such instances of compliance deviations would include instances of noncompliance with any legislation with a financial impact such as the PFMA and Treasury Regulations, Companies Act (No. 71 of 2008), DoRA, and any other applicable legislation.

- **Usefulness and reliability of reported performance information**

The following criteria are used to assess the usefulness and reliability of the information on the department's performance with respect to the objectives in its strategic plan:

- Consistency: Has the department reported on its performance with regard to the objectives, indicators and targets in its approved strategic plan?
- Relevance: Is the performance information, as reflected in the indicators and targets, clearly linked to the predetermined objectives and mandate of the department? Is this specific and measurable, and is the time period or deadline for delivery specified?
- Reliability: Can the reported performance information be traced back to the source data or documentation and is the reported performance information accurate and complete in relation to the source data or documentation?

- **Capital assets**

Common issues raised regarding capital assets include lack of or inadequate supporting documentation to support asset values disclosed; fixed asset counts not being performed regularly and timeously to allow for investigation and resolution of discrepancies; policies and procedures not updated to provide for changes in the reporting requirements; as well as asset registers that are not maintained and reconciled on a monthly basis to confirm accuracy and completeness thereof.

- **Current assets**

Common issues regarding current assets include the lack of adequate control systems to manage receivables and inventory; monthly accounts receivable reconciliation processes not being done; and inadequate Information Technology (IT) accounting systems.

- **Revenue**

Common issues regarding revenue include inadequate systems to ensure the complete recording of revenue; and incomplete recording of funding received from donors.

- **Expenditure**

A common issue regarding expenditure relates to ineffective filing systems within departments, resulting in inadequate or no support for amounts in the financial statements.

- **Liabilities**

Departments should submit adequate supporting documentation for accruals, provisions and guarantees. In this regard, policies and procedures should be written, implemented, monitored and complied with in terms of the collection and retention of documented information to support the disclosure of liabilities.

- **Disclosure items**

These include inadequate systems for recording the commitments of the department; therefore completeness of commitments cannot be confirmed. This section would also report on the lack of monitoring controls surrounding contract management; a lack of a commitment register; a lack of monitoring of contingent liabilities specifically to legal cases; as well as if there were no contingent liabilities register to confirm completeness thereof.

- **Internal control deficiencies**

In terms of ISA<sup>24</sup> 265, a deficiency in internal control exists when a control is designed, implemented or operated in such a way that it is unable to prevent, detect and/or correct misstatements in the financial statements timeously; or if such control does not exist.

- **Budgetary control**

This draws attention to instances of the following indicators of poor budget management, which could have, or have had, an impact on service delivery:

- Material under-spending of the budget by a department.
- High expenditure in the final months of the year, indicating that the budget has not been effectively managed (fiscal dumping).
- Late payment of transfer payments by a department.
- Large amounts held by public entities unspent due to amounts received late or not paid back to the department or the revenue fund.

- **Material misstatements corrected during the audit**

This includes all material misstatements corrected during the course of the audit. For example, a material misstatement can arise from a difference between the disclosures in the financial statements and the disclosures *required* by the financial reporting framework. These misstatements should also ideally be prevented or detected by the department's system of internal control.

24 International Federation of Accounts (IFAC) and International Auditing and Assurance Standards Board (IAASB) (2009)

- **Unauthorised/fruitless and wasteful/irregular expenditure**

*Unauthorised expenditure* - If there is an indication of potential unauthorised expenditure due to the late payment of goods and services (outside of the 30-day legislated period), the auditor will highlight this. In addition, all expenditure must be in accordance with the Vote, otherwise it is unauthorised.

*Fruitless and wasteful expenditure* - examples would include interest incurred on finance leases that were entered into outside of the permissible circumstances in National Treasury Practice Note 5 of 2006/07; as well as payments made to consultants for the preparation of financial statements that are still subject to material correction resulting from the audit.

*Irregular expenditure* - includes excessive use of the emergency provisions for purchasing goods and services and material deviations from supply chain management principles.

**Table 5: Areas of qualification and findings on predetermined objectives**

DEPARTMENT	2006/07	2007/08	2008/09	2009/10	2010/11
<b>Presidency</b>	Unauthorised, irregular, fruitless and wasteful expenditure	Capital assets	Capital assets	Predetermined objectives	Predetermined objectives
		Internal controls	Internal controls	Reported Information not useful	Reported Information not useful
			Unauthorised, irregular, fruitless and wasteful expenditure	Non-compliance with laws and regulations	Non-compliance with laws and regulations
				Unauthorised, irregular, fruitless and wasteful expenditure	Expenditure management
				Material losses	Procurement and contract management

DEPARTMENT	2006/07	2007/08	2008/09	2009/10	2010/11
<b>Parliament</b>	Material misstatements	Material misstatements	Material misstatements	Non-compliance with laws and regulations	Non-compliance with laws and regulations
	Internal controls		Restatement of corresponding figures	Restatement of corresponding figures	Restatement of corresponding figures
			Internal controls	Unauthorised, irregular, fruitless and wasteful expenditure	Material losses
					Internal controls
					Non-compliance with laws and regulations
					Procurement and contract management
<b>Cooperative Governance and Traditional Affairs</b>	Material misstatements	Material misstatements	Material misstatements	Reported Information not useful	Reported Information not reliable
	Capital assets	Non-compliance with laws and regulations	Non-compliance with laws and regulations	Non compliance with laws and regulations	Non-compliance with laws and regulations
	Non-compliance with laws and regulations	Predetermined objectives	Capital assets-property, plant and equipment	Predetermined objectives	Restatement of corresponding figures
	Internal controls		Unauthorised, irregular, fruitless and wasteful expenditure	Significant uncertainties	Unauthorised, irregular, fruitless and wasteful expenditure
	Asset management		Significant uncertainties	Unauthorised, irregular, fruitless and wasteful expenditure	Significant uncertainties
	Predetermined objectives		Internal controls		Procurement and contract management
	Unauthorised, irregular, fruitless and wasteful expenditure		Predetermined objectives		Expenditure management
	Predetermined objectives		Reported information not reliable		Unauthorised, irregular, fruitless and wasteful expenditure
			Reported information not useful		Transfers and conditional grants

DEPARTMENT	2006/07	2007/08	2008/09	2009/10	2010/11
<b>Home Affairs</b>	Non-compliance with laws and regulations	Non-compliance with laws and regulations	Non-compliance with laws and regulations	Non-compliance with laws and regulations	Non-compliance with laws and regulations
	Capital assets	Capital assets	Capital assets	Capital assets	Material losses
	Other disclosure items	Unauthorised, irregular, fruitless and wasteful expenditure	Unauthorised, irregular, fruitless and wasteful expenditure	Predetermined objectives	Predetermined objectives
	Revenue and receivables	Revenue and receivables	Material under-spending of the Vote	Reported information not useful	Reported information not useful
	Expenditure management	Expenditure management	Leases	Material losses	Expenditure management
	Cash and cash equivalents	Cash and cash equivalents	Internal controls	Unauthorised, irregular, fruitless and wasteful expenditure	Significant uncertainties
	Predetermined objectives	Restatement of corresponding figures	Reported information not useful	Restatement of corresponding figures	Procurement and contract management
	Material misstatements	Reported information not reliable	Reported information not reliable	Significant uncertainties	Internal controls
	Internal controls	Leases	Revenue management	Internal controls	
	Unauthorised, irregular, fruitless and wasteful expenditure	Internal controls			
	Payables and borrowings	Payables and borrowings	Payables and borrowings		
		Material misstatements	Material misstatement		
		Predetermined objectives			
<b>International Relations and Cooperation</b>	Non-compliance with laws and regulations		Material misstatements		Non-compliance with laws and regulations
	Receivables and intergovernmental receivables				Predetermined objectives
					Unauthorised, irregular, fruitless and wasteful expenditure
					Internal controls



DEPARTMENT	2006/07	2007/08	2008/09	2009/10	2010/11
<b>Public Works</b>	Immovable property - buildings	Unauthorised, irregular, fruitless and wasteful expenditure	Reported information not reliable	Predetermined objectives	Reported information not useful
	Movable property – furniture and equipment	Non-compliance with laws and regulations	Non-compliance with laws and regulations (non-material)	Non-compliance with laws and regulations	Non-compliance with laws and regulations
		Accruals	Revenue management	Capital assets	Capital assets
	Material misstatements	Material misstatements	Material misstatements	Material misstatements	Expenditure management
	Interdepartmental balances	Predetermined objectives	Interdepartmental receivables	Unauthorised, irregular, fruitless and wasteful expenditure	Material misstatements
	Rental debtors	Lack of appropriate audit evidence	Internal controls	Reported information not useful	Asset management
	Non-compliance with laws and regulations			Internal controls	Unauthorised, irregular, fruitless and wasteful expenditure
	Predetermined objectives				Lease commitments
					Contingent liabilities
					Public-private partnerships
					Material under-spending of Vote and conditional grants
					Reported information not reliable
					Procurement and contract management
					Restating of corresponding figures

DEPARTMENT	2006/07	2007/08	2008/09	2009/10	2010/11
<b>Women, Children and People with Disabilities</b>					Reported information not useful
					Non-compliance with laws and regulations
					Unauthorised, irregular, fruitless and wasteful expenditure
					Material inconsistencies in reported information
					Predetermined objectives
					Budget management
					Procurement and contract management
					Expenditure management
					Revenue management
					Human resource and compensation management
<b>Government Communication and Information System</b>	Internal controls – IT systems			Predetermined objectives	Non-compliance with laws and regulations
	Predetermined objectives			Reported information not useful	Significant uncertainties
	Material adjustments to reported information			Internal controls	Procurement and contract management
					Expenditure management
					Revenue management
					Internal controls

DEPARTMENT	2006/07	2007/08	2008/09	2009/10	2010/11
<b>National Treasury</b>	Internal controls			Internal controls	Predetermined objectives
				Non-compliance with laws and regulations	Non-compliance with laws and regulations
				Unauthorised, irregular, fruitless and wasteful expenditure	Expenditure management
				Restatement of corresponding figures	Unauthorised, irregular, fruitless and wasteful expenditure
					Procurement and contract management
					Material losses
					Internal controls
<b>Public Enterprises</b>		Non-compliance with laws and regulations	Restatement of corresponding figures		
<b>Public Service and Administration</b>	Lease commitments	Unauthorised, irregular, fruitless and wasteful expenditure		Predetermined objectives	Predetermined objectives
	IT systems	Material misstatements		Restatement of corresponding figures	Presentation of non financial information
	Material misstatements			Reported information not useful	Reported information not useful
	Asset management			Unauthorised, irregular, fruitless and wasteful expenditure	Reported information not reliable
	Non-compliance with laws and regulations	Non-compliance with laws and regulations		Non-compliance with laws and regulations	Non-compliance with laws and regulations
	Internal controls			Internal controls	Restatement of corresponding figures
					Expenditure management
				Internal controls	

DEPARTMENT	2006/07	2007/08	2008/09	2009/10	2010/11
<b>Statistics South Africa</b>	Weak IT Controls	Material misstatements	Material misstatements	Unauthorised, irregular, fruitless and wasteful expenditure	Non-compliance with laws and regulations
		Predetermined objectives	Non-compliance with laws and regulations	Material loss	Significant uncertainties
		Reported information not relevant		Material under-spending of the Vote	Material under-spending of the Vote
					Expenditure management
					Internal controls
<b>Arts and Culture</b>	Material misstatements corrected	Accruals	Unauthorised, irregular, fruitless and wasteful expenditure	Predetermined objectives	Predetermined objectives
	Leave provision	Material misstatements	Material under-spending of the budget	Unauthorised, irregular, fruitless and wasteful expenditure	Presentation of non-financial information
	Asset management – capital assets	Non-compliance with laws and regulations	Material misstatements	Non-compliance with laws and regulations	Non-compliance with laws and regulations
		Tangible capital assets	Performance information not received in time for audit	Reported information not useful	Internal controls
		Goods and services		Internal controls	Unauthorised, irregular, fruitless and wasteful expenditure
		Transfers and subsidies			Expenditure management
		Employee benefit provisions			

DEPARTMENT	2006/07	2007/08	2008/09	2009/10	2010/11
Basic Education					Predetermined objectives
					Reported information not useful
					Reported information not reliable
					Non-compliance with laws and regulations
					Unauthorised, irregular, fruitless and wasteful expenditure
					Significant uncertainties
					Material under-spending of Vote
					Outstanding balances
					Transfer payments
					Material misstatements
				Internal controls	

DEPARTMENT	2006/07	2007/08	2008/09	2009/10	2010/11
<b>Health</b>	Lack of governance	Predetermined objectives	Revenue management	Predetermined objectives	Predetermined objectives
	Presentation of non financial information	Reported information not reliable	Goods and services	Material misstatements	Restatement of corresponding figures
	Transfer payments	Material misstatements	Material misstatements	Reported information not reliable	Reported information not reliable
	Non-compliance with laws and regulations	Non-compliance with laws and regulations	Non-compliance with laws and regulations	Non-compliance with laws and regulations	Non-compliance with laws and regulations
	Capital assets	Capital assets	Capital assets	Material under-spending of Vote	Movable tangible Capital assets
	Lack of monitoring	Material under-spending of Vote	Internal controls	Unauthorised, irregular, fruitless and wasteful expenditure	Material misstatements
	Value for money	Accruals	Reported information not reliable	Internal controls	Unauthorised, irregular, fruitless and wasteful expenditure
		Internal controls			Procurement and contract management
		Material under-spending of the Vote			Conditional grants
<b>Education</b>			Predetermined Objectives	Predetermined Objectives	
			Inadequate quarterly reporting on performance information	Inadequate quarterly reporting on performance information	
			Reported information not relevant	Internal controls	
			Reported information not useful		

DEPARTMENT	2006/07	2007/08	2008/09	2009/10	2010/11
Higher Education and Training					Significant uncertainties
					Unauthorised, irregular, fruitless and wasteful expenditure
					Predetermined objectives
					Non-compliance with laws and regulations
					Reported information not useful
					Presentation of non-financial information
					Procurement and contract management
					Transfers and conditional grants
					Human Resource Management and compensation
					Material misstatements corrected
					Internal controls

DEPARTMENT	2006/07	2007/08	2008/09	2009/10	2010/11
<b>Labour</b>	Fixed assets	Fixed capital assets	Capital assets	PPP – IT (capital assets)	Predetermined objectives
	Significant uncertainties	Non-compliance with laws and regulations	Public-private Partnership (assets)	Non-compliance with laws and regulations	Non-compliance with laws and regulations
	Weak internal controls	Material misstatements	Non-compliance with laws and regulations	Reported information not relevant	Reported information not useful
	Internal Audit		Inconsistently reported information	Contingent liabilities	Asset management
	Non-compliance with laws and regulations	Lack of sufficient appropriate audit evidence	Unauthorised, irregular, fruitless and wasteful expenditure	Unauthorised, irregular, fruitless and wasteful expenditure	Expenditure management
	Value for money	Lack of systems for generating performance information	Material misstatements	Contract and procurement management	Human Resource Management and compensation
			Internal controls	Presentation of non-financial information	Internal controls
			Internal controls		
<b>Social Development</b>	Internal Controls		Flow of funds	Flow of funds	Transfers and subsidies
			Social assistance grants	Internal controls	Flow of funds
			Material misstatements		Internal controls
			Non-compliance with laws and regulations		Predetermined objectives
					Non-compliance with laws and regulations
					Reported information not useful
					Expenditure management
				Reported information not reliable	



DEPARTMENT	2006/07	2007/08	2008/09	2009/10	2010/11
<b>Sport and Recreation South Africa</b>	Tangible capital Assets	Tangible capital assets	Receivables for departmental revenue	Non-compliance with laws and regulations	Predetermined objectives
	Receivables	Goods and services	Unauthorised, irregular, fruitless and wasteful expenditure	Significant uncertainties	Non-compliance with laws and regulations
	Payables and borrowings	Receivables for departmental revenue	Non-compliance with laws and regulations	Restatement of corresponding figures	Reported information not useful
	Provisions and capital commitments	Unauthorised, irregular, fruitless and wasteful expenditure	Lack of source documentation	Unauthorised, irregular, fruitless and wasteful expenditure	Reported information not reliable
	Leases	Non-compliance with laws and regulations	Internal controls	Non-compliance with laws and regulations	Financial misconduct
	Expenditure				
	Non-compliance with laws and regulations	Predetermined objectives	Material misstatements	Internal controls	Internal controls
		Reported information not reliable	Reported information not reliable	Material misstatements corrected	Transfers and/or conditional grants
		Material misstatements	Inconsistently reported performance information		Unauthorised, irregular, fruitless and wasteful expenditure
		Internal controls			Procurement and contract management
					Human Resource Management and compensation
					Expenditure management

DEPARTMENT	2006/07	2007/08	2008/09	2009/10	2010/11
<b>Correctional Services</b>	Medical expenditure	Tangible capital assets	Movable tangible capital assets	Major movable tangible assets	Material losses
	Payables and borrowings	Internal controls	Unauthorised, irregular, fruitless and wasteful expenditure	Unauthorised, irregular, fruitless and wasteful expenditure	Unauthorised, irregular, fruitless and wasteful expenditure
	Receivables	Material misstatements	Material misstatements	Reported information not useful	Material under-spending of the budget
	Asset management - capital assets		Movable minor capital assets	Reported information not reliable	Reported information not reliable
	Non-compliance with laws and regulations	Non-compliance with laws and regulations	Non-compliance with laws and regulations	Non-compliance with laws and regulations	Non-compliance with laws and regulations
					Capital assets
	Accruals		Internal controls	Predetermined objectives	Predetermined objectives
	Internal Controls		Material misstatements	Minor movable tangible assets	Presentation of non financial information
	Information systems audits			Material losses	Reported information not useful
				Internal controls	Expenditure management
					Procurement and contract management
					Internal controls

DEPARTMENT	2006/07	2007/08	2008/09	2009/10	2010/11
<b>Defence and Military Veterans</b>	Tangible and intangible capital assets	Tangible and intangible capital assets	Tangible and intangible assets	Capital assets	Movable and immovable capital assets
	Unauthorised, irregular, fruitless and wasteful expenditure	Employee benefit provision: Capped leave commitments	Lease commitments	Non-compliance with laws and regulations	Restatement of corresponding figures
	Travel and subsistence	Contingent liabilities	Unauthorised, irregular, fruitless and wasteful expenditure	Predetermined objectives	Unauthorised, irregular, fruitless and wasteful expenditure
	Prepayments and advances	Related parties	Goods and services: consultant expenditure	Tangible and intangible assets	Compliance with laws and regulations
	Accruals	Accruals	Departmental revenue: other sales	Unauthorised, irregular, fruitless and wasteful expenditure	Human resource management and compensation
	Lease commitments	Lease commitments	Corresponding Figure: accruals	Reported information not reliable	Non-compliance with laws and regulations
	Regional Service Council Levies	Departmental revenue	Restatement of corresponding figures	Internal controls	Procurement and contract management
	Contingent liabilities	Internal controls	Non-compliance with laws and regulations		Expenditure management
	Misclassification of expenditure	Material misstatements	Internal controls		Internal controls
	Receivables		Material misstatements corrected		
	Departmental revenue		Reported information not reliable		
	Commitments				
	Clearing accounts				
	Rank review audit				
	Comparatives				
	Internal controls				
	Non-compliance with laws and regulations				
	Predetermined objectives				
	Material misstatements				

DEPARTMENT	2006/07	2007/08	2008/09	2009/10	2010/11
<b>Independent Police Investigative Directorate</b>	Leave benefits	Capital assets	Property, plant and equipment	Reported information not reliable	Predetermined objectives
		Commitments overstated	Internal controls	Internal controls	
	Non-compliance with laws and regulations	Material misstatements	Reported information not reliable		Reported information not reliable
	Goods and services	Internal controls	Material misstatements	Non-compliance with laws and regulations	Non-compliance with laws and regulations
	Value for money			Unauthorised, irregular, fruitless and wasteful expenditure	
	Capital assets				

DEPARTMENT	2006/07	2007/08	2008/09	2009/10	2010/11
<b>Justice and Constitutional Development</b>	Third-Party Funds (formerly referred to as Monies in Trust)	Tangible capital assets	Source information not accurate and complete	Predetermined objectives	Departmental revenue, receivables for departmental revenue, contingent liabilities and provisions
	Potential claims against the department	Departmental revenue, asset, liability and contingent liability relating to third party funds	Departmental revenue, contingent liability and receivables for departmental revenue:	Non-compliance with laws and regulations	Unauthorised, irregular, fruitless and wasteful expenditure
	Asset management	Internal controls	Finance lease commitment	Departmental revenue, receivables for departmental revenue and contingent liability	Accruals
	Information system matters	Commitments	Employee benefit	Unauthorised, irregular, fruitless and wasteful expenditure	Human resource management and compensation
	Non-compliance with laws and regulations	Unauthorised, irregular, fruitless and wasteful expenditure	Capital and minor assets	Restatement of corresponding figures	Restatement of corresponding figures
	Material misstatements	Non-compliance with laws and regulations	Unauthorised, irregular, fruitless and wasteful expenditure	Accruals	Reported information not useful
	Investigation into awarding of contract to a supplier	Material misstatements	Restatement of corresponding figures	Presentation of reported performance information	Reported information not reliable
	Value for money matters	Reported information not reliable	Non-compliance with laws and regulations	Reported information not useful	Expenditure management
	Lack of sufficient audit evidence	Lack of sufficient appropriate audit evidence	Human Resource Management	Reported information not reliable	Revenue management
	Predetermined objectives		Internal controls	Internal controls	Asset management
					Procurement and contract management
					Financial misconduct
					Internal controls
			Material misstatements		Predetermined objectives
			Predetermined objectives		Non-compliance with laws and regulations
			Reported information not relevant		Other disclosure items
		Reported information not reliable			

DEPARTMENT	2006/07	2007/08	2008/09	2009/10	2010/11
<b>Police</b>	Material misstatements	Material misstatements		Predetermined objectives	Predetermined objectives
	Supply Chain Management irregularities	Non-compliance with laws and regulations		Reported information not useful	Significant uncertainty
	Inventory stores	Reported performance information did not meet criteria		Reported information not reliable	Reported information not reliable
	Non-compliance with laws and regulations	Reported information not reliable		Non-compliance with laws and regulations	Non-compliance with laws and regulations
	Firearm control	Source information not accurate and complete		Internal controls	Internal controls
				Unauthorised, irregular, fruitless and wasteful expenditure	Procurement and contract management
<b>Agriculture, Forestry and Fisheries</b>	Capital assets	Unauthorised, irregular, fruitless and wasteful expenditure	Unauthorised, irregular, fruitless and wasteful expenditure	Predetermined objectives	Predetermined objectives
	Lack of sufficient appropriate audit evidence	Material misstatement	Material misstatements	Non-disclosure of forestry assets	Presentation of non financial information
	Measurable objectives not consistent		Predetermined objectives	Reported information not useful	Reported information not useful
			Internal controls	Reported information not reliable	Reported information not reliable
			Non-compliance with laws and regulations	Non-compliance with laws and regulations	Non-compliance with laws and regulations
			Reported information not useful	Unauthorised, irregular, fruitless and wasteful expenditure	Expenditure management
			Reported information not reliable	Internal controls	Procurement and contract management
			Reported information not relevant		
			Lack of source documentation		Internal controls

DEPARTMENT	2006/07	2007/08	2008/09	2009/10	2010/11	
<b>Communications</b>	Internal controls	Internal controls		Unauthorised, irregular, fruitless and wasteful expenditure	Unauthorised, irregular, fruitless and wasteful expenditure	
					Strategic planning and performance management	
					Material under-spending of the Vote	
					Human resource management	
					Procurement and contract management	
					Non-compliance with laws and regulations	
					Expenditure management	
					Transfer payment	
					Internal controls	
					Reported information not useful	
		Non-compliance with laws and regulations		Non-compliance with laws and regulations	Non-compliance with laws and regulations	Non-compliance with laws and regulations
		Matters of Governance			Internal controls	Predetermined objectives
<b>Economic Development</b>					Non-compliance with laws and regulations	
					Employee costs	
					Expenditure management	
					Procurement and contracts	
					Annual financial statements	
					Internal controls	
					Material misstatements	

DEPARTMENT	2006/07	2007/08	2008/09	2009/10	2010/11
<b>Minerals and Energy</b>	Information System Audit matters	Non-compliance with laws and regulations	Non-compliance with laws and regulations	Non-compliance with laws and regulations	
	Material misstatements	Material misstatements	Reported information not useful	Reported information not useful	
			Material misstatements	Reported information not reliable	
				Receivables for departmental revenue	
				Restatement of corresponding figures	
				Unauthorised, irregular, fruitless and wasteful expenditure	
				Material under spending of budget	
				Accruals	
				Material misstatements	
<b>Energy</b>					Predetermined objectives
					Non-compliance with laws and regulations
					Unauthorised, irregular, fruitless and wasteful expenditure
					Reported information not useful
					Expenditure management
					Material misstatements
					Internal controls



DEPARTMENT	2006/07	2007/08	2008/09	2009/10	2010/11
<b>Mineral Resources</b>					Current assets
					Liabilities
					Capital and reserves
					Revenue management
					Unauthorised, irregular, fruitless and wasteful expenditure
					Receivables and departmental revenue
					Payables
					Provisions
					Contingent liabilities
					Restatement of corresponding figures
					Material losses
					Accruals
					Expenditure management
					Non-compliance with laws and regulations
				Internal controls	
<b>Environmental Affairs</b>					
<b>Environmental affairs and tourism</b>	Non-compliance with laws and regulations		Non-compliance with laws and regulations	Material misstatements	
	Value for money		Material misstatements		
	Human resource management				

DEPARTMENT	2006/07	2007/08	2008/09	2009/10	2010/11
<b>Human Settlements</b>		Material misstatements	Inconsistently reported performance information	Unauthorised, irregular, fruitless and wasteful expenditure	Predetermined objectives
				Significant uncertainties	Significant uncertainties
				Presentation of reported performance information	Restatement of corresponding figures
				Internal controls	Unauthorised, irregular, fruitless and wasteful
				Predetermined objectives	Material under-spending of the Rural Household Infrastructure Grant
		Reported information not useful	Lack of source documentation	Reported information not useful	Reported information not useful
		Reported information not reliable	Unauthorised, irregular, fruitless and wasteful expenditure	Reported information not reliable	Reported information not reliable
		Lack of supporting documentation	Non-compliance with laws and regulations	Non-compliance with laws and regulations	Non-compliance with laws and regulations
			Reported performance information not relevant		Expenditure management
			Reported performance information not reliable		Procurement and contract management
					Transfer of funds and/or conditional grants
					Internal controls

DEPARTMENT	2006/07	2007/08	2008/09	2009/10	2010/11
<b>Rural Development and Land Reform</b>	Predetermined objectives	Receivables for departmental revenue	Receivables for departmental revenue	Reported information not useful	Unauthorised, irregular, fruitless and wasteful expenditure
	Rental revenue receivable – land lease	Interest received, interest receivable for departmental revenue and pre-payments	Unauthorised, irregular, fruitless and wasteful expenditure	Reported information not reliable	Predetermined objectives
	Non-compliance with laws and regulations	Material misstatements	Internal controls	Non-compliance with laws and regulations	Non-compliance with laws and regulations
	Asset management-capital assets	Tangible capital assets	Tangible capital assets	Tangible capital assets	Tangible capital assets
	Material misstatements	Commitments	Material misstatements	Material losses through criminal conduct	Significant uncertainties
	Value for money matters	Biological assets	Reported information not reliable	Significant uncertainties	Restatement of corresponding figures
	Internal controls	Significant uncertainties	Lack of source documentation	Unauthorised, irregular, fruitless and wasteful expenditure	Commitments
		Internal controls		Commitments	Reported information not useful
		Predetermined objectives		Internal controls	Reported information not reliable
					Expenditure management
				Risk management	
				Human resource management and compensation	
				Internal controls	
<b>Science and Technology</b>	Information systems		Reported information not relevant	Predetermined objectives	
	Policies and procedures-assets			Restatement of corresponding figures	
				Internal controls	
				Reported information not useful	

DEPARTMENT	2006/07	2007/08	2008/09	2009/10	2010/11
<b>Tourism</b>					Non-compliance with laws and regulations
					Internal controls
<b>Trade and Industry</b>		Material misstatements	Restatement of corresponding figures	Predetermined objectives	Unauthorised, irregular, fruitless and wasteful expenditure
			Non-compliance with laws and regulations	Non-compliance with laws and regulations	Significant uncertainties
			Internal controls	Restatement of corresponding figures	Restatement of corresponding figures
			Material misstatements	Significant uncertainties	Material impairments
			Predetermined objectives	Unauthorised, irregular, fruitless and wasteful expenditure	Predetermined objectives
				Reported information not useful	Non-compliance with laws and regulations
					Reported information not useful
					Procurement and contract management
					Asset management
					Expenditure management
					Reported information not reliable
				Internal controls	

DEPARTMENT	2006/07	2007/08	2008/09	2009/10	2010/11
<b>Transport</b>	Non-compliance with laws and regulations	Non-compliance with laws and regulations	Non-compliance with laws and regulations	Non-compliance with laws and regulations	Non-compliance with laws and regulations
	Material misstatements	Material misstatements	Internal controls	Predetermined objectives	Predetermined objectives
	Internal controls	Internal controls	Unauthorised, irregular, fruitless and wasteful expenditure	Unauthorised, irregular, fruitless and wasteful expenditure	Unauthorised, irregular, fruitless and wasteful expenditure
	Supply Chain Management			Internal controls	Reported information not reliable
	Value for Money				Reported information not useful
					Internal controls
					Expenditure management
<b>Water Affairs</b>	Property, plant and equipment	Significant uncertainties	Material misstatements	Predetermined objectives	Predetermined objectives
	Loans, receivables and capitalisation reserve	Predetermined objectives	Reported information not reliable	Presentation on non financial information	Procurement and contract management
	Cash and cash equivalents	Internal controls	Internal controls	Reported information not useful	Reported information not useful
	Non-compliance with laws and regulations	Non-compliance with laws and regulations		Non-compliance with laws and regulations	Non-compliance with laws and regulations
	Material misstatements	Tangible capital assets		Immovable assets	Movable and tangible capital assets
	Disclosure and other matters	Material misstatements		Movable assets	Reported information not reliable
	Expenditure management			Goods and services	Revenue management
	Segregation			Unauthorised, irregular, fruitless and wasteful expenditure	Unauthorised, irregular, fruitless and wasteful expenditure
				Reported information not useful	Restatement of corresponding figures
				Internal controls	Goods and services
				Commitments	
				Expenditure management	

Source: Auditor-General (2006/07 - 2010/11)

## 1.5 DRIVERS OF AUDIT OUTCOMES<sup>25</sup>

Over the last few years, the Auditor-General of South Africa has identified three categories of drivers of audit outcomes during its interaction with auditees. These categories have been used to formally document the results of quarterly key control visits by the Auditor-General. These drivers (key controls) are categorised into the fundamental areas of internal control, namely:

- **Leadership**

Effective leadership should be exercised at all levels of governance and management. Good practices in this regard include implementation of internal controls, review of financial statements to ensure compliance with the requirements of the applicable financial reporting framework. Leadership should be available for the Auditor-General's stakeholder interactions throughout the year to influence improvements in audit outcomes.

- **Financial and performance management**

The basic controls to improve financial and performance management should include the following:

- Regular preparation of complete and accurate financial and performance reports that are supported by reliable information.
- Enforcing and monitoring of compliance with laws and regulations.
- Proper record keeping ensuring that complete, relevant and accurate information is accessible and available timeously.
- Maintaining discipline over daily and monthly processing and reconciling of transactions.
- Designing and implementing formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and safeguarding of information.

- **Governance**

Good governance practices include the following:

- Ensuring that regular risk assessments are conducted, including consideration of IT risks and fraud prevention, and that a strategy to address identified risks is developed and its implementation monitored.
- Ensuring that an adequately resourced and effectively functioning Internal Audit Unit is in place to identify internal control deficiencies and recommend corrective action.

<sup>25</sup> Auditor-General (2009)

- o Ensuring that the Audit Committee promotes accountability and service delivery by evaluating and monitoring management responses to risks. The Audit Committee must also provide oversight of the adequacy of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

Deficiencies in some or all of these controls can be directly linked to audit opinions on the financial statements, findings on predetermined objectives, and findings on compliance with laws and regulations.

Table 6 highlights the specific drivers of audit outcomes in departments over the past five financial years.

**Table 6: Drivers of Audit Outcomes (2006/07-2010/11)**

Department	Year	Leadership						Financial and performance					Governance		
		Effective leadership culture	Oversight responsibility	HR management	Policies and procedure	Action plans	IT Governance	Proper record keeping	Processing and reconciling controls	Reporting	Compliance	IT systems controls	Risk management	Internal audit	Audit Committee
The Presidency	2006/07								X	X	X				
	2007/08							X							
	2008/09		X	X	X		X	X		X		X	X		
	2009/10			X		X		X					X	X	
	2010/11	X	X		X	X		X	X	X	X				
Parliament	2006/07						X					X	X	X	X
	2007/08								X				X	X	X
	2008/09							X		X			X		
	2009/10														
	2010/11			X	X								X		X
Cooperative Government and Traditional Affairs	2006/07				X			X		X			X	X	
	2007/08							X		X					
	2008/09	X	X	X	X	X	X	X		X	X	X	X		X
	2009/10	X						X	X	X	X		X	X	
	2010/11		X		X			X		X	X			X	

Department	Year	Leadership					Financial and performance					Governance		
		Effective leadership culture	Oversight responsibility	HR management	Policies and procedure	Action plans	IT Governance	Proper record keeping	Processing and reconciling controls	Reporting	Compliance	IT systems controls	Risk management	Internal audit
Home Affairs	2006/07				X		X	X		X	X	X	X	X
	2007/08						X						X	X
	2008/09	X	X	X	X	X	X	X	X	X	X	X	X	X
	2009/10	X	X	X		X	X	X	X		X	X	X	
	2010/11		X	X		X	X	X		X	X	X		X
International Relations and Cooperation	2006/07			X							X			
	2007/08											X		
	2008/09											X		
	2009/10													
	2010/11		X		X		X	X	X	X			X	
Public Works	2006/07										X			
	2007/08								X					
	2008/09	X	X	X	X	X	X	X	X	X	X	X	X	X
	2009/10		X		X			X		X	X			
	2010/11	X	X	X	X	X		X	X	X	X	X	X	X
Women, Children and People with Disabilities	2010/11	X	X	X	X			X	X	X	X		X	X
Government Communication and Information System	2006/07						X							
	2007/08													
	2008/09	X												
	2009/10	X				X			X					
	2010/11		X					X	X	X				
National Treasury	2006/07										X			
	2007/08													
	2008/09													
	2009/10													
	2010/11		X							X	X			



Department	Year	Leadership						Financial and performance					Governance		
		Effective leadership culture	Oversight responsibility	HR management	Policies and procedure	Action plans	IT Governance	Proper record keeping	Processing and reconciling controls	Reporting	Compliance	IT systems controls	Risk management	Internal audit	Audit Committee
<b>Public Enterprises</b>	2006/07														
	2007/08														
	2008/09														
	2009/10														
	2010/11		X							X			X		
<b>Public Service and Administration</b>	2006/07				X		X				X	X		X	
	2007/08							X		X		X			
	2008/09														
	2009/10		X			X	X	X		X		X			
	2010/11	X	X		X	X	X	X		X	X	X	X		
<b>Statistics South Africa</b>	2006/07										X				
	2007/08														
	2008/09							X		X					
	2009/10														
	2010/11		X		X				X	X	X	X			
<b>Arts and Culture</b>	2006/07		X	X				X					X		
	2007/08				X				X	X	X		X		
	2008/09				X			X		X		X			
	2009/10				X		X			X	X	X			
	2010/11		X					X	X	X	X				
<b>Basic Education</b>	2010/11		X	X	X					X	X		X		
<b>Health</b>	2006/07	X							X						
	2007/08							X							
	2008/09		X					X							
	2009/10			X	X	X	X	X		X	X	X			
	2010/11		X	X	X	X	X	X	X	X	X	X		X	

Department	Year	Leadership						Financial and performance					Governance		
		Effective leadership culture	Oversight responsibility	HR management	Policies and procedure	Action plans	IT Governance	Proper record keeping	Processing and reconciling controls	Reporting	Compliance	IT systems controls	Risk management	Internal audit	Audit Committee
Education	2008/09									X					
	2009/10									X			X		
Higher Education and Training	2010/11		X	X				X		X	X		X		
Labour	2006/07										X			X	
	2007/08							X	X	X					
	2008/09	X	X	X	X	X		X	X	X	X	X	X	X	X
	2009/10		X	X				X		X	X		X	X	
	2010/11		X	X		X	X	X		X	X	X	X		
Social Development	2006/07				X							X			
	2007/08										X			X	
	2008/09							X			X				
	2009/10		X						X		X	X	X		
	2010/11		X							X	X				
Sport and Recreation South Africa	2006/07														
	2007/08				X					X	X			X	X
	2008/09	X	X	X	X	X	X		X	X	X	X	X	X	X
	2009/10	X	X		X			X		X	X		X	X	
	2010/11		X	X						X	X				
Correctional Services	2006/07						X	X			X				
	2007/08														
	2008/09	X	X	X	X	X		X	X	X	X	X	X	X	X
	2009/10					X	X	X		X		X	X		
	2010/11		X	X		X	X	X	X	X	X	X	X		

Department	Year	Leadership					Financial and performance					Governance		
		Effective leadership culture	Oversight responsibility	HR management	Policies and procedure	Action plans	IT Governance	Proper record keeping	Processing and reconciling controls	Reporting	Compliance	IT systems controls	Risk management	Internal audit
Defence and Military Veterans	2006/07		X					X	X	X	X			
	2007/08													
	2008/09	X	X	X	X	X		X	X	X	X	X	X	X
	2009/10			X	X			X	X	X	X		X	X
	2010/11		X	X	X			X	X	X	X	X	X	
Independent Police Investigative Directorate	2006/07			X					X					
	2007/08								X					
	2008/09	X	X	X	X	X		X	X	X	X	X	X	X
	2009/10		X						X		X			
	2010/11	X			X					X	X			
Justice and Constitutional Development	2006/07											X		
	2007/08													
	2008/09	X	X	X	X	X		X	X	X	X	X	X	X
	2009/10									X	X			
	2010/11		X	X	X	X		X	X	X	X			
Police	2006/07							X						
	2007/08				X			X				X		
	2008/09													
	2009/10		X					X						
	2010/11		X					X	X					
Agriculture, Forestry and Fisheries	2006/07													
	2007/08													
	2008/09													
	2009/10		X	X		X		X	X	X	X	X	X	
	2010/11		X			X		X	X	X	X	X	X	

Department	Year	Leadership						Financial and performance					Governance		
		Effective leadership culture	Oversight responsibility	HR management	Policies and procedure	Action plans	IT Governance	Proper record keeping	Processing and reconciling controls	Reporting	Compliance	IT systems controls	Risk management	Internal audit	Audit Committee
Communications	2006/07			X	X						X				
	2007/08												X	X	
	2008/09												X	X	
	2009/10	X						X				X			
	2010/11			X				X		X	X	X	X	X	
Economic Development	2010/11				X					X	X				
Minerals and Energy	2006/07				X		X					X	X		
	2007/08				X										
	2008/09				X					X					
	2009/10	X	X		X										
	2010/11														
Energy	2010/11		X							X					
Mineral Resources	2010/11							X	X	X	X				
Environmental Affairs	2010/11			X											
Human Settlements	2006/07														
	2007/08							X		X					
	2008/09						X			X	X	X			
	2009/10					X	X	X			X	X			
	2010/11		X	X				X	X	X	X				
Rural Development and Land Reform	2006/07			X	X			X	X						
	2007/08														
	2008/09	X	X	X	X	X		X	X	X	X	X	X	X	
	2009/10	X	X	X		X		X	X	X	X	X			
	2010/11	X	X	X	X	X	X	X	X	X	X	X			

Department	Year	Leadership						Financial and performance					Governance		
		Effective leadership culture	Oversight responsibility	HR management	Policies and procedure	Action plans	IT Governance	Proper record keeping	Processing and reconciling controls	Reporting	Compliance	IT systems controls	Risk management	Internal audit	Audit Committee
Science and Technology	2006/07				X		X								
	2007/08														
	2008/09				X						X				
	2009/10							X							
	2010/11														
Tourism	2010/11							X			X				
Trade and Industry	2006/07														
	2007/08														
	2008/09														
	2009/10							X		X	X				
	2010/11		X	X	X				X	X	X	X			
Transport	2006/07			X	X				X		X	X	X	X	X
	2007/08								X				X		
	2008/09							X		X			X		
	2009/10														
	2010/11	X	X							X	X				
Water Affairs	2006/07		X	X	X			X							
	2007/08							X						X	
	2008/09			X	X			X		X				X	
	2009/10	X	X	X		X		X		X	X				
	2010/11	X	X	X	X	X	X		X	X	X			X	
Environmental affairs and tourism	2006/07	X									X		X		

Source: Auditor-General (2006/07-2010/11)

# SECTION 2

DETAILED FINANCIAL AND **EXPENDITURE ANALYSIS** PER DEPARTMENT



## SECTION 2: DETAILED FINANCIAL AND EXPENDITURE ANALYSIS PER DEPARTMENT

### VOTE 1: PRESIDENCY

Over the past five financial years, the Presidency has been characterised by both under-expenditure and over-expenditure. Over-expenditure of 3.6 per cent (i.e. R323.1 million against a budget of R311.7 million) was incurred in 2008/09 and 3.6 per cent (i.e. R836.4 million against a budget of R807.5 million) in 2010/11. The over expenditure by the Presidency in the 2010/11 financial year was due to the provision of accommodation for the Deputy Minister. Of the three instances of under-expenditure in the period under review, the lowest was incurred in 2009/10 at 96.3 per cent (i.e. R476.2 million against a budget of R494.3 million), resulting in under-expenditure of R18.1 million. In 2011/12, the Presidency spent 97.7 per cent (i.e. R930.9 million against a budget of R909.5 million), resulting in under-expenditure of R21.4 million.

#### Assessment of Unbalanced Expenditure Trends

During the period under review, the Presidency has reflected a trend of under-spending by the end of the third quarter, and then spending a large part of its budget in the fourth quarter. For example, in 2009/10 the Presidency had spent 53.9 per cent of its budget at the end of the third quarter, and then recorded 96.3 per cent expenditure at the end of the financial year, thereby spending almost 40 per cent of its budget in the last quarter of that financial year. Even though the Presidency under-spent on its overall budget, Figure 5 highlights specific areas of expenditure on which the Presidency over-spent (e.g. compensation of employees), whereas it under-spent drastically on other areas, such as transfer payments.

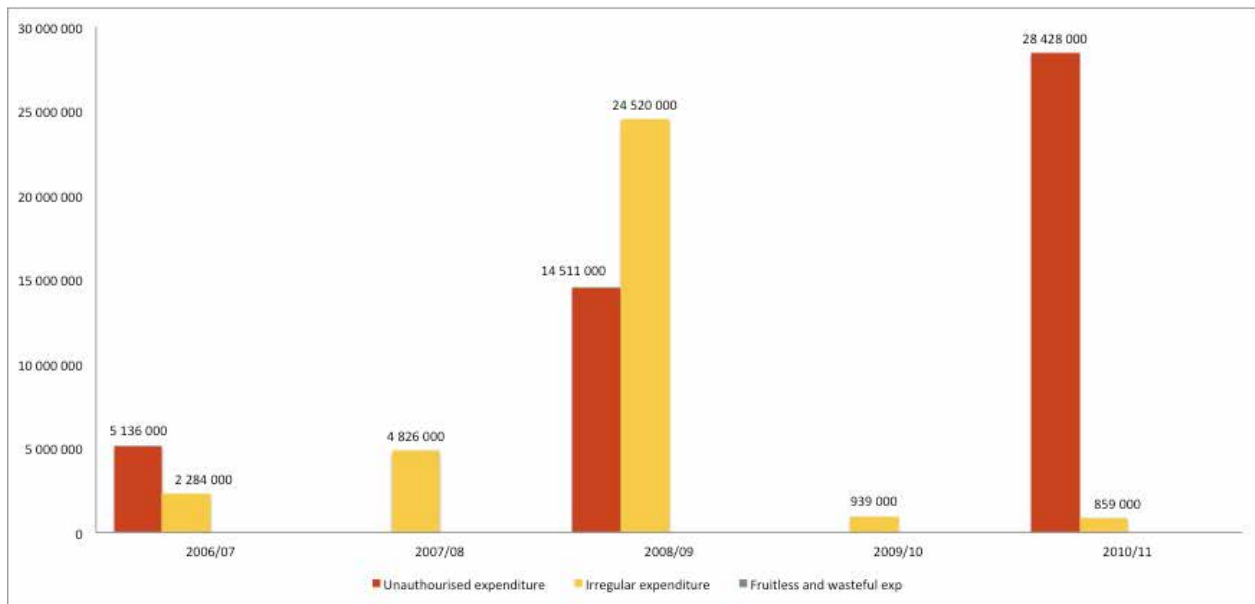
**Figure 5: Third and Fourth Quarter Expenditure**

2009/110	2010/11	2011/12
<ul style="list-style-type: none"> <li>• High expenditure due to the:</li> <li>• Appointment of new Ministers in Presidency for the National Planning Commission, and Women Children and People with Disabilities.</li> <li>• Slow spending due to delays in transfer payments for National Youth Commission and for the National Income Distribution Study</li> </ul>	<ul style="list-style-type: none"> <li>• <b>3<sup>rd</sup> Quarter</b></li> <li>• More spending on personnel support to the President.</li> <li>• <b>4<sup>th</sup> Quarter</b></li> <li>• over-expenditure due to payment for Presidential Hotline that was only made at the end of the year.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>3<sup>rd</sup>Quarter</b></li> <li>• Under-expenditure due to:</li> <li>• Non-filling of funded vacant posts in the National Planning Department.</li> <li>• Some refurbishment projects were put on hold as The Presidency reprioritised funds to augment spending pressures on its current payments.</li> <li>• <b>4<sup>th</sup> Quarter</b></li> <li>Expenditure not much different from first three quarters.</li> </ul>

### Irregular, fruitless, wasteful and unauthorised expenditure

The Presidency incurred unauthorised expenditure amounting to R48 million over the period. Unauthorised expenditure increased steadily from R14.5 million in 2008/09 to R28.4 million in 2010/11. Concerns relating to the prevention and detection of unauthorised expenditure include the fact that this could be indicative of inadequate budgetary processes and in-year monitoring of expenditure.<sup>26</sup> The Presidency also incurred R33.4 million in irregular expenditure over the five-year period; the highest amount being R24.5 million in 2008/09. The Department also incurred significant material losses in 2009/10, amounting to R5.8 million.<sup>27</sup>

**Figure 6: Irregular, fruitless, wasteful and unauthorised expenditure**



Source: Auditor-General (2006/07 – 2010/11)

### SCOPA Resolutions and Implementation of SCOPA Recommendations

The Department appeared before SCOPA once in the five-year period, on 22 March 2010 to report on the 2007/08 Annual Report. Resolutions addressed the following issues:

<sup>26</sup> Auditor-General (2011)

<sup>27</sup> There were no material losses prior to 2009/10.



**Table 7: SCOPA resolutions on the 2007/08 Annual Report**

Focus area	Issues raised by SCOPA
<b>Asset Register of tangible assets was incomplete</b>	No documented proof for spending on furniture and office equipment.
	The Asset Register was not complete.
	Consumables were erroneously recorded.
	Time lapses between acquisition and recording of assets, posed the risk of these portable assets disappearing.
<b>Lack of internal controls</b>	The system of internal control was not entirely effective.
	Deficiencies and deviations in the system of internal control as reported by the internal auditors and the Auditor-General were of concern.
	Matters reported upon in previous years had not been addressed.
<b>Irregular and unauthorised expenditure</b>	Unauthorised expenditure of R14.5 million due to over-spending.

**VOTE 2: PARLIAMENT**

Parliament spent 100 per cent of its budget in most of the five financial years reviewed. However, recurring expenditure issues over the period have included under-spending due to:

- Outstanding invoices.
- Envisaged structure change still in the process of being reviewed, which resulted in delays in filling vacancies.

**Irregular, fruitless, wasteful and unauthorised expenditure**

Parliament incurred a total of R15.2 million irregular expenditure and R15.5 million fruitless and wasteful expenditure, as well as R23.2 million in unauthorised expenditure over the review period.

**Table 8: Irregular, fruitless, wasteful and unauthorised expenditure**

Year Incurred	Irregular Expenditure	Fruitless and Wasteful Expenditure	Unauthorised
2006/07	R0	R 14 561 000	
2007/08	R0	R544 000	
2008/09	R 189 000	R 0	
2009/10	R 4 901 188 <sup>28</sup>	R115 000 <sup>29</sup>	
2010/11	R 10 112 000	R251 000 <sup>30</sup>	R23 202 000

Source: Auditor-General (2006/07-2010/11)

28 This includes an amount of R2.986 188 which relates to the previous year but was discovered and condoned in the 2009/10 financial year.

29 Sourced from Parliament's Annual Report (2010/11)

30 Ibid

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**Note:**

Parliament's 2007/08 Annual Report does not include the Annual Financial Statements or the Auditor-General's report. Therefore, information on the audit outcomes, drivers of audit outcomes and irregular, fruitless and wasteful expenditure and unauthorised expenditure could not be verified. In addition, the 2008/09 Annual Report indicates that if the Auditor-General had not corrected material misstatements in Parliament's Annual Report, Parliament would have received a qualified audit opinion.<sup>31</sup>

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**VOTE 3: COOPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS**

The Department of Cooperative Governance and Traditional Affairs has successively incurred under-expenditure over the five financial years under review. In 2011/12, the Department recorded its lowest expenditure of 96 per cent (i.e. R46.3 billion against an available budget of R48.2 billion), thereby incurring under-expenditure of R1.9 billion.

**Assessment of Unbalanced Expenditure Trends**

Over the three-year period indicated in Figure 7, the Department of Cooperative Governance and Traditional Affairs spent an average of 70.04 per cent of its budget by the end of the third quarter, and 98.08 per cent on average at the end of the fourth quarter. This indicates a significant increase in expenditure in the last quarter of the financial year, which is an issue that the Portfolio Committee should monitor.

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31 Parliament (2009)

**Figure 7: Third and Fourth Quarter Expenditure**

2009/10	2010/11	2011/12
<ul style="list-style-type: none"> <li>• Under-expenditure mainly due to:</li> <li>• Slow spending on MIG (transfers withheld from non-performing municipalities).</li> <li>• Delays in procuring IT assets, and other equipment for the new Branch of Traditional Affairs.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>3<sup>rd</sup> Quarter</b></li> <li>• Under-expenditure mainly due to:</li> <li>• Lack of spending on MIG and LGES to Municipalities and Provinces.</li> <li>• Non-procurement of new furniture for new employees.</li> <li>• Lack of spending on goods and services due to the late acquiring of IT software.</li> <li>• None filling of funded vacancies</li> <li>• <b>4<sup>th</sup> quarter</b></li> <li>• The overall under-expenditure mainly due to:</li> <li>• Non-filling of funded vacant posts.</li> <li>• Delays in the completion of the provincialisation process.</li> <li>• Delays in setting up the Department of Traditional Affairs and lack of spending on consultant's budgets.</li> <li>• The non-procurement of office furniture and other office equipment.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>3<sup>rd</sup> Quarter</b></li> <li>• Under-expenditure due to:</li> <li>• The number of projects being deferred to the next financial year (ICT Master plan and Knowledge Management).</li> <li>• Delays in the transfer payment of the MIG and LGES. Transfers were also withheld from some Municipalities who did not surrender their unspent funds</li> <li>• <b>4<sup>th</sup> Quarter</b></li> <li>• There was high over-expenditure in the Administration Programme on transfers and subsidies (7 245 per cent), payment for financial assets (238.8 per cent) and Compensation of employees (102.0 per cent); as well as under the Provincial and Municipal Government Systems programme's goods and services budget (114.7 per cent).</li> </ul>

Under-expenditure was mostly due to slow spending on the Municipal Infrastructure Grant and the non-transfer of the Local Government Equitable Share to municipalities<sup>32</sup>, as well as delays in payments of capital assets relating to IT and other equipment.

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

The Department incurred irregular expenditure amounting to R501.4 million, unauthorised expenditure of R67.5 million and fruitless and wasteful expenditure amounting to R360 000 over the review period.

<sup>32</sup> Local government equitable share was offset against unspent funds for the conditional grants that were never surrendered to the National Revenue Fund in previous years.

**Table 9: Irregular, fruitless, wasteful and unauthorised expenditure**

Year Incurred	Irregular Expenditure	Fruitless and wasteful expenditure	Unauthorised Expenditure
2006/07	R 24 161 000	R0	R67 510 000
2007/08	R12 515 000	R24 000	R0
2008/09	R37 635 000 <sup>33</sup>	R0	R0
2009/10	R 7 574 000	R0	R0
2010/11	R419 586 000	R336 000	R0

Source: Auditor-General (2006/07-2010/11)

**SCOPA Resolutions and Implementation of SCOPA Recommendations**

The Department of Cooperative Governance and Traditional Affairs appeared before the Standing Committee on Public Accounts (SCOPA) in March 2010, on issues raised by the Auditor-General in the 2008/09 Annual Report. SCOPA subsequently issued resolutions with recommendations on the following issues:

**Table 10: SCOPA resolutions on the 2008/09 Annual Report**

Focus areas	Issues raised by SCOPA
<b>Property, Plant and Equipment</b>	Compliance with Section 40 (1) (a) of the PFMA and Treasury Regulation 17.2.3.
	Regular asset counting, verification and reconciliation should be implemented in order to avoid incorrect disclosures in the annual financial statements.
	Placement of skilled employees who will deal with the asset challenges of the Department should be prioritised.
<b>Irregular Expenditure</b>	Disciplinary action should be taken against employees who were responsible for incurring irregular expenditure, as required by Section 51 (e) (iii) of the PFMA.
	The Department should intensify its internal control environment in order to avoid incurring further irregular expenditure.
<b>Non-compliance with applicable legislation</b>	Creditors should be paid within the required 30 days in order to avoid penalties that might arise from late payment of creditors as required by Treasury Regulation 8.2.3.
	Credit management controls should be enhanced in order to avoid any wastage of funds resulting from late payments of creditors.

33 This includes an amount of R27 570 000 that was incurred in the previous financial year but only discovered in the 2008/09 financial year.

<b>Governance</b>	A monitoring system should be developed that will address challenges of poor financial reporting, compliance with legislation and the adequacy of performance information. Such a system must be frequently reviewed in order to address any gaps that are identified.
<b>Performance information</b>	The Annual Performance Plan should be developed in accordance with the objectives, indicators and targets outlined in the Strategic Plan to avoid having targets that were not part of the priorities outlined in the Strategic Plan.
	There must be regular reporting (quarterly) of all performance objectives and targets of the Department to ensure that information on targets and performance objectives is properly stored and recorded.
	The Department should adequately report on all its performance activities within the required time and records should be kept for audit and verification purposes.

**Note**

It appears that the Department has not implemented the SCOPA recommendations, because the Auditor-General has identified the same issues for the subsequent financial years.

The Department of Cooperative Governance and Traditional Affairs also appeared before SCOPA in February 2012, but these resolutions have not yet been tabled in the House.

**VOTE 4: HOME AFFAIRS**

In the 2010/11 financial year the Department of Home Affairs over-spent by 5.6 per cent (i.e. R6.2 billion against an available budget of R5.8 billion), which amounted to an over-expenditure of R329 million. The Department under-spent in the rest of the review period, with the lowest expenditure of 92.5 per cent incurred in 2007/08.

**Assessment of Unbalanced Expenditure Trends**

The Department of Home Affairs has consistently under-spent by the end of the third quarter, only to spend a large part of its budget in the last quarter of the financial year. The Department has spent an average of 68.21 per cent of its budget at the end of the third quarter in the last three financial years, compared to an average of 100.3 per cent for the end of the fourth quarter. In 2010/11 for example, the Department spent 64.3 per cent of its allocation at the end of the third quarter, and recorded over-expenditure at the end of the fourth quarter, with 105.6 per cent of the budget spent. Figure 8 illustrates that the Department attributed the over-expenditure in that year to an increase in the budget for personnel and the payment of outstanding debts from previous financial years.<sup>34</sup>

34 National Treasury (2011)

**Figure 8: Third and Fourth Quarter Expenditure**

2009/10	2010/11	2011/12
<ul style="list-style-type: none"> <li>• Under-expenditure mainly due to :</li> <li>• Non payment for WHO AM I ONLINE and Smart Card ID.</li> <li>• Non-payment of the outstanding invoices for Property Management</li> </ul>	<ul style="list-style-type: none"> <li>• <b>3<sup>rd</sup> Quarter</b></li> <li>• Under-expenditure due to:</li> <li>• Non-payment of office accommodation and IT projects; HANIS projects under CAPEX; and commitments of the 2010 FIFA World Cup, respectively.</li> <li>• <b>4<sup>th</sup> Quarter</b></li> <li>• Increased expenditure due to increased budget for personnel and the payment of outstanding debts from previous financial years</li> </ul>	<ul style="list-style-type: none"> <li>• <b>3<sup>rd</sup> Quarter</b></li> <li>• Under-expenditure was due to:</li> <li>• Late filling of funded vacant posts.</li> <li>• Additional funding received during adjustment period not spent.</li> <li>• <b>4<sup>th</sup> Quarter</b></li> <li>• The Department incurred over-expenditure under transfers and subsidies in the Citizen Affairs Programme on the Electoral Commission's contributions.</li> </ul>

**Note:**

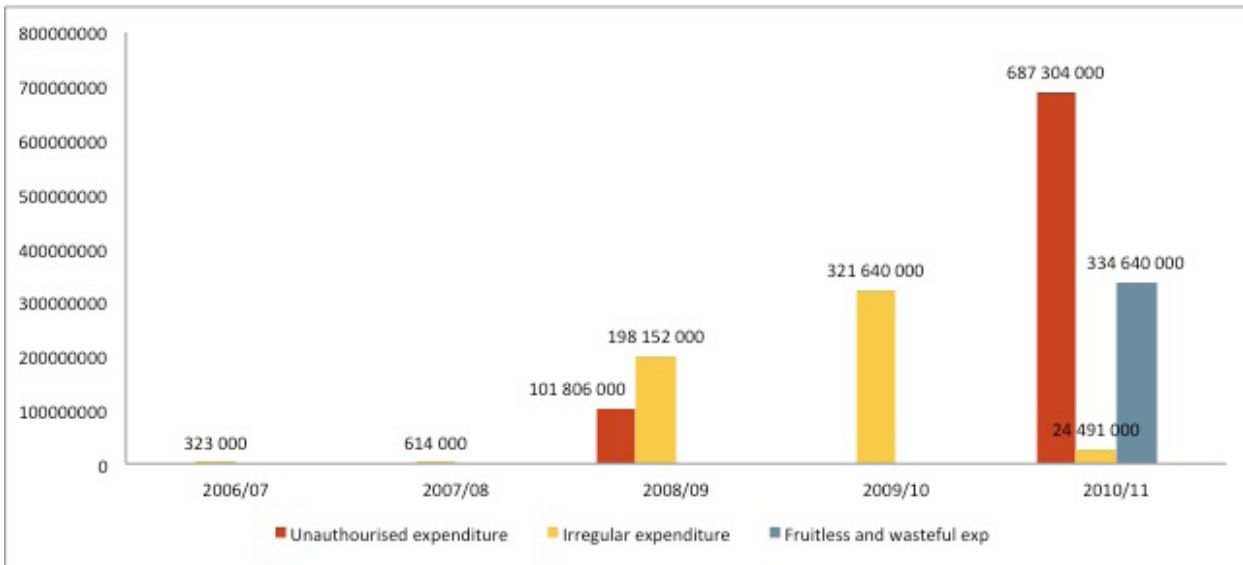
The Department has indicated that unfilled vacancies were due to an inability to find the right calibre of candidates.

**Irregular, fruitless, wasteful and unauthorised expenditure**

The Department incurred unauthorised expenditure of R789.1 million in total in the 2008/09 and 2010/11 financial years respectively. The Department further incurred irregular expenditure of R545.2 million, fruitless and wasteful expenditure of R334.6 million,<sup>35</sup> and material losses amounting to R131 million over the period.

<sup>35</sup> All fruitless and wasteful expenditure was incurred in 2010/11.

**Figure 9: Irregular, fruitless, wasteful and unauthorised expenditure**



Source: Auditor-General (2006/07-2010/11)

Although the Department received an unqualified audit opinion in 2010/11, material losses were on the increase. In 2010/11, material losses incurred by the Department increased to R66.8 million. Unauthorised expenditure also increased significantly from R101.8 million in 2008/09 to R687.3 million in 2010/11. The Auditor-General stated that this was due to over-spending on settlements made to third parties.<sup>36</sup> The Department incurred no fruitless or wasteful expenditure prior to 2010. However, in the 2010/11 financial year, fruitless and wasteful expenditure amounted to R334.6 million. This is a concern as this expenditure could have been averted.

Irregular expenditure in 2009/10 amounted to R321.6 million, but declined to R24.5 million in 2010/11. Moreover, 65 per cent of irregular expenditure incurred in 2010/11 was due to supply chain management irregularities and the rest related to compensation of employees.

**SCOPA Resolutions and Implementation of SCOPA Recommendations**

The Department appeared before SCOPA twice in the five year period. A hearing was held on 20 February 2008 for the 2006/07 Annual Report. Resolutions addressed the following issues:

36 Auditor-General ( 2011)

**Table 11: SCOPA Resolutions on the 2006/07 Annual Report**

Area of focus	Issues raised by SCOPA
<b>Non-compliance with legislation</b>	Funds were not disclosed as required by Treasury Regulations.
<b>Capital assets and incomplete Asset Register</b>	The Asset Register was not made available on time for audit purposes.
	Asset management verification and valuation was not done, resulting in an incomplete Register.
<b>Revenue and receivables</b>	The Department's revenue collection systems were manual systems.
	The system was susceptible to fraud and corruption.
	The reliability and control mechanisms in such systems were inadequate.

A second hearing took place on 21 November 2008 for the 2007/08 financial year. SCOPA resolutions were to address the following:

**Table 12: SCOPA Resolutions on the 2007/08<sup>37</sup> Annual Report**

Area of focus	Issues raised by SCOPA
<b>Issues raised by SCOPA</b>	The Asset Register was not updated, and the physical count of assets did not reconcile with the Asset Register.
<b>Non-compliance with legislation, which had also been mentioned in earlier resolutions</b>	Six areas of the PFMA and two sections of the Public Service Regulations had been violated.
<b>HR issue</b>	The Department had a vacancy rate of 29 per cent.
	Competency of senior officials was a concern as the majority did not pass a competency test. Critical key posts had even higher vacancy rates.
<b>Lack of supporting documents</b>	Documents supporting expenditure and revenue were missing. There was no audit trail due to the lack of supporting documents for most services provided by the Department. Manual systems of data collection were used by all offices which could not be verified.

<sup>37</sup> Issues of non-compliance with legislation and capital assets have been recurring over the years.



**VOTE 5: INTERNATIONAL RELATIONS AND COOPERATION**

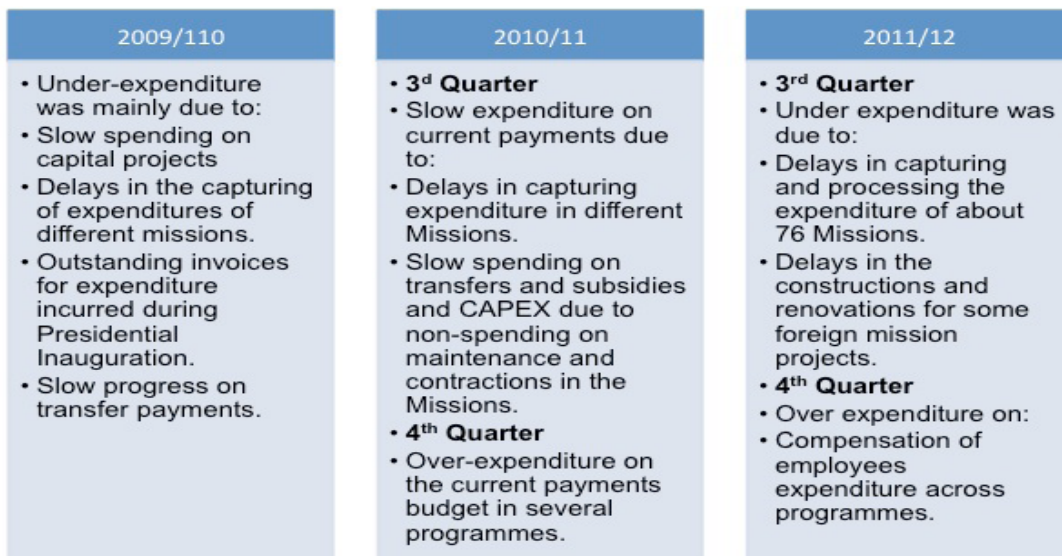
The Department has successively incurred under-expenditure over the past five financial years. The lowest expenditure was incurred in 2010/11, in which the Department spent only 86.6 per cent of its budget (i.e. R4.1 billion against a budget of R4.7 billion), resulting in under-expenditure of R632.6 million. In 2011/12, only 96.2 per cent was spent (i.e. R4.9 billion against a budget of R5.2 billion), resulting in under-expenditure of R195.9 million.

Several programmes have also reported under-expenditure on their current budgets as a result of unfilled vacancies. In addition, expenditure is directly affected by foreign exchange rates during the financial year. Favourable conditions in foreign exchange rates result in savings while unfavourable condition result in over-expenditure.

**Assessment of Unbalanced Expenditure Trends**

The Department of International Relations and Cooperation is one of the worst-spending departments in terms of budget management and unbalanced expenditure trends. The trend indicates that the Department frequently under-spends by the end of the third quarter, which often results in under-expenditure at the end of the financial year, while at other times the Department spends up to 46 per cent of its budget in the last quarter of the financial year. For example, in 2009/10 and 2011/12 the Department spent 47.14 per cent and 53.86 per cent of its budget at the end of the third quarter, respectively. However at the end of these financial years, the Department had spent 93.50 per cent and 93.20 per cent of its budget, respectively.

**Figure 10: Third and Fourth Quarter Expenditure**



### Irregular, fruitless, wasteful and unauthorised expenditure

The Department incurred unauthorised expenditure amounting to R104.8 million in the 2006/07 financial year, as well as irregular expenditure amounting to R526 000 in 2010/11.

**Table13: Irregular, fruitless, wasteful and unauthorised expenditure**

Year Incurred	Irregular Expenditure	Fruitless and Wasteful Expenditure	Unauthorised Expenditure
2006/07	R0	R0	R104 816 000
2010/11	R526 000	R0	R0

Source: National Treasury (2006/07-2010/11)

### VOTE 6: PERFORMANCE MONITORING AND EVALUATION

During 2009/10 and 2010/11, the Department of Performance Monitoring and Evaluation was not a stand-alone Department, as it was still reporting under The Presidency. The Department only obtained its Vote in the 2011/12 financial year. Expenditure results show that the Department had spent 96.5 per cent of its budget by the end of the 2011/12 financial year.

**Figure 11: Third and Fourth Quarter Expenditure**



## VOTE 7: PUBLIC WORKS

The Department has successively incurred under-expenditure over the past five financial years. The Department's highest recorded spending of 97.4 per cent occurred in 2008/09. Since then, successive regression has been evident, leading to the lowest expenditure recorded to date of only 88.8 per cent (i.e. R7 billion against an available budget of R7.8 billion), resulting in under-expenditure of R875.4 million in 2011/12.

Recurring expenditure issues include:

- Non-payment of the Expanded Public Works Programme (EPWP) Incentive Grant due to failure to meet quarterly performance targets by receiving bodies.<sup>38</sup>
- The Energy Efficiency Project, which commenced in 2008/09 and was scheduled for completion on 31 March 2012 has been characterised by poor spending since its inception. Of the R70 million allocated in 2011/12, only R55 million had been spent at the end of the 2011/12 financial year.

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### Note:

The Administration programme usually spends its entire budget, but over spent in 2011/12. This was mainly due to adjustments relating to improved conditions of service for departmental staff (including senior management staff), which were not adequately budgeted for as well as staff appointments made outside the available budget.

Under-expenditure was attributed to low expenditure for infrastructure projects due to lack of appropriate capacity within the Department to plan for and implement projects.

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### Assessment of Unbalanced Expenditure Trends

The Department of Public Works usually under-spends moderately on its budget in the first three quarters of the financial year, with an average third quarter expenditure rate of 71.1 per cent and average expenditure of 91.6 per cent fourth quarter expenditure for the period under review. The Department has consistently been one of the lowest spending departments in each financial year.

It is concerning that under-spending has consistently been attributed to lack of spending on the Expanded Public Works Programme and other expenditure projects, as this will compromise the government's ability to reach the set targets of important national priorities, such as job creation (in terms of the Expanded Public Works Programme) and economic growth (public sector infrastructure spending is a critical factor of South Africa's fiscal policy).

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<sup>38</sup> In terms of economic classification, the under-spending occurred mainly on capital payments.

**Figure 12: Third and Fourth Quarter Expenditure**

2009/10	2010/11	2011/12
<ul style="list-style-type: none"> <li>• Under-expenditure mainly on:</li> <li>• Compensation of employees due to funded vacant posts.</li> <li>• Transfer payments, particularly for Property Management entity.</li> <li>• Lack of expenditure on infrastructure and capital projects.</li> <li>• Slow spending on the EPWP Incentive Grant to municipalities and provinces.</li> <li>• Slow spending on Council for Built Environment.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>3<sup>rd</sup> Quarter</b></li> <li>• Under-expenditure was due to slow spending on:</li> <li>• Office accommodation due to late submission of invoices from Property Management Entity.</li> <li>• Expanded Public Works Programme Incentive Grant.</li> <li>• Capital payments, due to lack of spending on infrastructure projects.</li> <li>• Lack of spending on Energy Efficiency Project in Government Buildings</li> <li>• <b>4<sup>th</sup> Quarter</b></li> <li>• The department spent most on:</li> <li>• Payments of office accommodation and consultants.</li> <li>• Spending pressures on infrastructure projects</li> <li>• Funds transferred to the Independent Development Trust to carry out certain responsibilities for the Department.</li> <li>• Consistent lack of expenditure on the Energy Efficiency project.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>3<sup>rd</sup> Quarter</b></li> <li>• Under-expenditure due to:</li> <li>• Slow spending on EPWP Incentive grant.</li> <li>• Consistent lack of spending on Energy Efficiency projects.</li> <li>• Lack of spending on infrastructure projects (CAPEX)</li> <li>• <b>4<sup>th</sup> Quarter</b></li> <li>• Most over-expenditure due to:</li> <li>• Compensation of employees in the Administration Programme and Immovable Asset Management Programme</li> <li>• Transfers and subsidies of the Property and Construction Industry Policy Regulations Programme (389.6 per cent).</li> </ul>

### Public Works Conditional Grant Expenditure

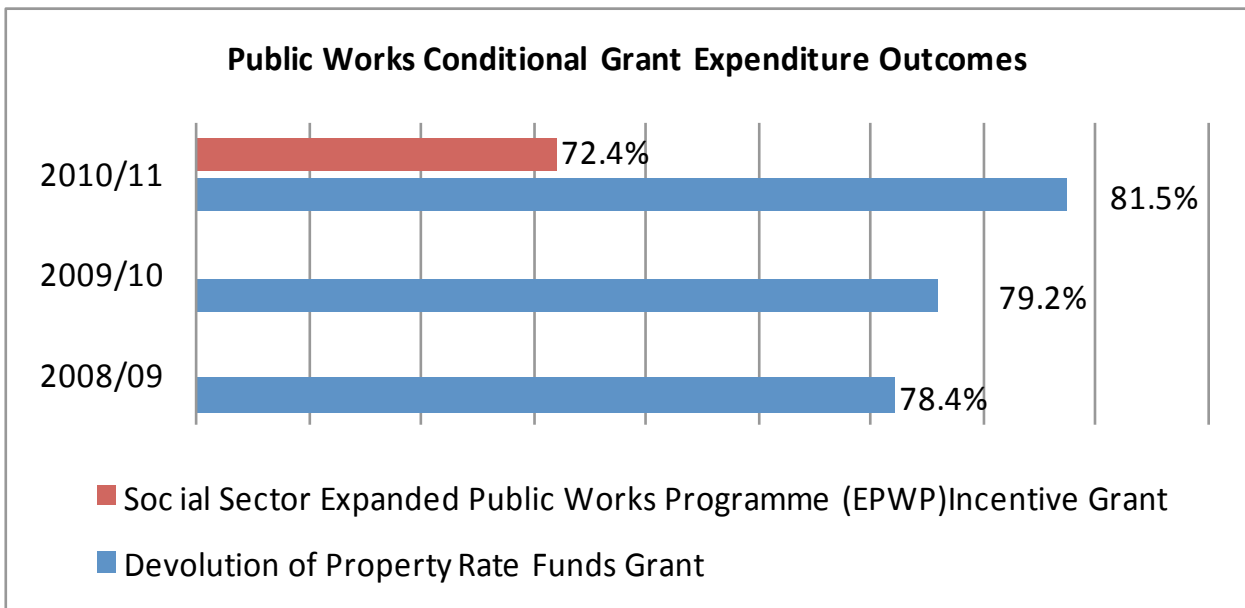
The national Department of Public Works is responsible for administering the following two Schedule Five conditional grants:

- The Devolution of Property Rate Funds Grant is aimed at facilitating the transfer of property rates expenditure responsibility to provinces. This grant came into effect in the 2008/09 financial year.
- Social Sector Expanded Public Works Programme (EPWP) Incentive Grant to Provinces is aimed at incentivising provincial social sector departments identified in the Social Sector EPWP Log-frame to increase job creation by focusing on the strengthening and expansion of social service programmes that have employment potential. This grant was first introduced in the 2010 Division of Revenue Bill [B4-2010].

Expenditure on the Devolution of Property Rate Funds Grant started off slowly at 78.4 per cent in 2008/09, but increased steadily over the review period to 79.2 per cent in 2009/10 and 81.5 per cent in 2010/11. The performance of this grant is measured in terms of payments made for provincially-owned properties, thus expenditure of the grant allocation is representative of the grant's service delivery performance.

On the other hand, the Social Sector Expanded Public Works Programme Incentive Grant for Provinces recorded expenditure of only R41.0 million or 72.4 per cent of the total available funds of R56.6 million for the 2010/11 financial year. According to the Department of Public Works,<sup>39</sup> the 2010/11 grant funding created 4 926 full time equivalent jobs in the non-state social sector; and an additional 4 291 individuals (i.e. home-based community care givers) that were previously not remunerated, benefited by receiving stipends.

**Figure 13: Public Works Conditional Grant Expenditure Trends for 2008/09 to 2010/11**



Source: National Treasury (2008/09–2010/11)

**Irregular, fruitless, wasteful and unauthorised expenditure**

The Department incurred irregular expenditure of R67.8 million; unauthorised expenditure of R403.9 million, and fruitless and wasteful expenditure amounting to R38 million over the five year period.

39 Department of Public Works (2012)

**Table 14: Irregular, fruitless, wasteful and unauthorised expenditure**

Year Incurred	Irregular Expenditure	Fruitless and Wasteful Expenditure	Unauthorised Expenditure
2006/07	R39 008 000	R37 980 000	R345 474 000
2007/08	R0	R5 000	R9 653 000
2008/09	R0	R0	R48 840 000
2009/10	R27 402 000	R0	R0
2010/11	R1 396 000 <sup>40</sup>	R2 000	R0

Source: Auditor-General (2006/07-2010/11)

### Note

Unauthorised, irregular, fruitless and wasteful expenditure of R314 million, 38 million and 39 million respectively, and emanating from prior years had not been cleared from the Departments' records.

The Department of Public Works appeared before SCOPA in October 2007 for the 2006/07 Annual Report and annual financial statements. The following were SCOPA's recommendations and resolutions to the Department:

**Table 15: SCOPA resolutions on the 2006/07 Annual Report**

Focus Area	Issues raised by SCOPA
<b>Capacity and/or people related issues</b>	Vacancies, especially senior management and positions in highly skilled levels, should be filled. The Department indicated that applicants with relevant skills and qualifications were being considered for filling those posts and appropriate training should be provided where it is lacking.
	Parliament should receive quarterly progress reports on how the Department has addressed the high vacancy rate.
<b>Asset management</b>	<i>The Committee recommended that the Accounting Officer should:</i> Exercise strict controls over management and all staff in supervisory positions.
	Ensure that all Asset Registers are accurately updated.
	Put controls in place to ensure that there are complete, accurate and valid Asset Registers.
	Ensure that training as well as disciplinary action, are undertaken and implemented with regard to staff members who do not perform as required.
	Ensure that management consistently monitors policies and procedures.
	Ensure that National Treasury classifies the expenditure and provides feedback to Parliament.
	Ensure that outstanding balances and all unallocated deposits are collected, reconciled, and cleared.

40 Irregular expenditure amounted to R1.4 million. However, the Auditor-General highlighted that the figure was understated by R16.5 million.

The Department of Public Works appeared for the second time before SCOPA in March 2010, on matters raised by the Auditor-General in the 2008/09 Annual Report. SCOPA subsequently issued resolutions with recommendations on the following issues:

**Table 16: SCOPA resolutions on the 2008/09 Annual Report**

Focus Area	Issues raised by SCOPA
<b>Movable tangible capital assets and minor assets</b>	Management should understand and exercise oversight responsibility in relation to financial reporting and internal control.
	Management should undertake a needs assessment before any assets are purchased.
	Progress with regard to the government-wide initiative in respect of the vesting of ownership of State-owned land should be continually monitored and reported annually.
<b>Non-compliance with applicable legislation</b>	Ongoing monitoring and supervision should be undertaken and the Department should ensure that controls are present and functioning.
	Officials should be held accountable and disciplinary steps should be taken against those who contravene prescripts.
	Management should implement a performance management system in terms of which staff performance is evaluated against key performance indicators to enable management to take appropriate steps based on agreed deliverables.
<b>Staff Establishment</b>	The Accounting Officer should ensure that vacancies are filled urgently, in order to strengthen internal controls and improve service delivery.

SCOPA resolutions were adopted by the House and the Department was required to submit a progress report on their implementation by 31 March 2011. No progress report has been received thus far and the SCOPA recommendations do not seem to have been implemented as the Department continues to receive recurring issues of qualification from the Auditor-General.

**Note:**

The Department of Public Works also appeared before SCOPA on 14 February 2012, for the 2010/11 Annual Report and annual financial statements. SCOPA issued recommendations. However, these recommendations have not yet been adopted by the House.



**VOTE 8: DEPARTMENT OF WOMEN, CHILDREN AND PEOPLE WITH DISABILITIES**

The Department has been operational since 2010/11 and has incurred over-spending since its inception. The Department recorded expenditure of 115.9 per cent in the 2011/12 financial year (i.e. R165.9 million against an available budget of R143.1 million), thus incurring over-expenditure of R22.7 million.

For the 2010/11 financial year, the Department’s expenditure was R109.92 million, which was R3.74 million over the allocated budget. The establishment and finalisation of the Department’s financial systems was only finalised in November 2010. Expenditure from the beginning of the year was only captured on the financial systems from November onwards. The Department’s expenditure was captured under the Presidency’s Suspense Account (Presidency offered to assist the Department in this regard, until it was ready to operate independently). Therefore, quarterly expenditure of the Department as reflected in the National Treasury’s Section 32 preliminary expenditure reports, including that of the fourth quarter, were not a true reflection of expenditure in the 2010/11 financial year.

**Table 17: Main spending items- 2010/ 11 financial year**

Goods and services (R'000)	Actual expenditure	% of total budget	% of Goods and Services budget
1. Travel and Subsistence	R23 411	23%	88%
2. Venues and Facilities	R3 593	3%	14%
3. Promotional Items	R3 814	4%	14%
4. Catering	R2 611	2%	10%
5. Cell contracts	R1 100	1%	4%
<b>Total</b>	<b>R34 529</b>	<b>33%</b>	<b>130%</b>

Source: National Treasury (2011)

Table 17 above indicates the cost drivers in the Department. A closer look at expenditure on Goods and Services indicates that the Department spent most of the budget on Travel and Subsistence (which made up 88 per cent of the Goods and Services budget and 23 per cent of the total Departmental budget). The over-expenditure was also due to the appointment of staff outside the approved establishment and available budget (which affected the Compensation of employees budget. On the other hand, under-expenditure was realised in the following areas:

- Unprocessed invoices and delays in procurement processes.
- Unfilled vacant posts.



## Assessment of Unbalanced Expenditure Trends

The Department of Women, Children and People with Disabilities has been over-spending on its budget since inception, mostly on travelling, venues and compensation of employees.

**Figure 14: Third and Fourth Quarter Expenditure**

2009/10	2010/11	2011/12
<ul style="list-style-type: none"> <li>• Department was still reporting under The Presidency.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>3<sup>rd</sup> Quarter</b></li> <li>• Financial management system of the Department not in yet in place.</li> <li>• <b>4<sup>th</sup> Quarter</b></li> <li>• Most over-expenditure was under the Administration, Women Empowerment and Gender Equality, and Children's Rights and Responsibilities Programmes' goods and services budgets (mostly on travelling, venues and facilities) and compensation of employees.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>3<sup>rd</sup> Quarter</b></li> <li>• Over-expenditure due to:               <ul style="list-style-type: none"> <li>• Staff appointed above the required notches.</li> <li>• Some were appointed within the post establishment but outside the available resources.</li> <li>• Creation of new research unit which was not budgeted for in the Office of Director General.</li> <li>• Procurement of new computers to accommodate new staff.</li> </ul> </li> <li>• <b>4<sup>th</sup> Quarter</b></li> <li>• Most over-expenditure was under the Administration Programme on compensation of employees, goods and services, and transfers and subsidies budgets.</li> </ul>

### Irregular, fruitless, wasteful and unauthorised expenditure

The Department did not follow procurement processes when awarding contracts to service providers. The Department claims it incurred irregular expenditure because the Supply Chain Management Unit was quantitatively under-capacitated and staff was not adequately trained. It is evident from the issues noted above that this is one of the departments that Parliament should monitor closely.

The Department incurred irregular expenditure amounting to R6.6 million, unauthorised expenditure amounting to R3.7 million and fruitless and wasteful expenditure amounting to R1 000 in the 2010/11 financial year.

## VOTE 9: GOVERNMENT COMMUNICATION AND INFORMATION SYSTEM

The Government Communication and Information System has consistently under-spent its allocated budget over the five-year review period. The Department recorded its highest expenditure of 99.7 per cent in the 2009/10 financial year, but could not maintain this high expenditure in the two outer years of the period under review. The Department spent only 94.9 per cent of its allocated budget in 2010/11, followed by 95.3 per cent in 2011/12. The unspent balances in 2010/11 and 2011/12 amounted to R27.9 million and R20.7 million, respectively. At the end of the 2008/09 financial year, the Department remained with an unspent balance of R12.4 million.

### Irregular, fruitless, wasteful and unauthorised expenditure

The Department incurred irregular expenditure amounting to R518 000 and fruitless and wasteful expenditure amounting to R169 000 in the 2010/11 financial year.

## VOTE 10: NATIONAL TREASURY

National Treasury has been under-spending over the past five financial years, with relatively improved spending of 99.6 per cent and 99.7 per cent in 2008/09 and 2009/10 respectively. The least amount spent of 89.6 per cent (i.e. R21.4 billion against an available budget of R23.8 billion) was incurred in 2011/12, and amounted to a total under-expenditure of R2.5 billion. The main reasons for the under-expenditure included:

- Under-spending on the Neighbourhood Development Partnership Grant to recipient metropolitan municipalities.<sup>41</sup>
- Unfilled vacant positions.
- Under-expenditure on the Integrated Financial Management System (IFMS) project.
- Direct charges relating to State debt costs primarily due to fluctuations in international markets as well as the strength of the local currency.<sup>42</sup>

### Irregular, fruitless, wasteful and unauthorised expenditure

National Treasury incurred irregular expenditure amounting to R26.2 million over the period; with the largest portion (R23.4 million) incurred in the 2010/11 financial year. National Treasury also incurred R102 570 in fruitless and wasteful expenditure.

<sup>41</sup> Some municipalities spent slowly due to project milestones that were not met.

<sup>42</sup> Spending on direct charges tends to be in line with projections, with the only deviations normally being realised in the State debt cost item where exchange rate fluctuations and international market and economic factors cause a month-to-month revision of the projected costs related to this item.

**Table 18: Irregular, fruitless, wasteful and unauthorised expenditure**

Year Incurred	Irregular Expenditure	Fruitless and Wasteful Expenditure
2006/07	R176 000	R 0
2008/09	R2 746 000 <sup>43</sup>	R101 408
2009/10	R12 097 000 <sup>44</sup>	R1 162
2010/11	R11 142 088	R 0

Source: Auditor-General (2006/07-2010/11)

### VOTE 11: PUBLIC ENTERPRISES

The Department of Public Enterprises maintained a relatively high expenditure rate of 99.0 per cent in the first three years (i.e. 2007/08, 2008/09 and 2009/10) of the period under review. However in 2010/11 and 2011/12, the Department's expenditure slowed down to 96.7 per cent and 98.0 per cent, respectively. The Department's highest under-expenditure in terms of Rand value was recorded in 2010/11 by an amount of R18.3 million, which had been preceded by an unspent balance of R8.2 million in 2009/10.

#### Irregular, fruitless, wasteful and unauthorised expenditure

The Department of Public Enterprises incurred most of its irregular, fruitless, wasteful and unauthorised expenditure in the 2006/07 financial year, as indicated in Table 19. Unauthorised expenditure for the period amounts to R26.2 million.

**Table 19: Irregular, fruitless, wasteful and unauthorised expenditure**

Year Incurred	Irregular Expenditure	Fruitless and Wasteful Expenditure	Unauthorised Expenditure
2006/07	R228 000	R80 000	R26 165 000
2010/11	R0	R4 000	R0

Source: Auditor-General (2006/07-2010/11)

### VOTE 12: PUBLIC SERVICE AND ADMINISTRATION

The Department of Public Service and Administration has successively incurred under-expenditure over the past five financial years. The least recorded spending of only 93.6 per cent (i.e. R645.9 million against a budget of R690.2 million) was incurred in 2011/12 and resulted in an under-expenditure of R44.2 million. Under-expenditure was mainly due to the following:

<sup>43</sup> This irregular expenditure was condoned in 2008/09 but only reflects in the 2009/10 financial statements.

<sup>44</sup> Refer to 2010/11 Annual Report for consolidated report on 2009/10 irregular expenditure.

- Late receipt and processing of invoices from service providers.
- Delays in the completion of projects and payments to service providers.
- Vacant positions.
- Delays in finalising the last phase of the Human Resource (HR) Connect project.

### Assessment of Unbalanced Expenditure Trends

The Department of Public Service and Administration is one of the slowest spending departments with an average third quarter expenditure of 65.2 per cent; and an average expenditure of 95.2 per cent at the end of the fourth quarter. Figure 15 shows that although the Department under-spent by 6.4 per cent in the 2011/12 financial year, it still incurred over-expenditure in the areas reflected below.

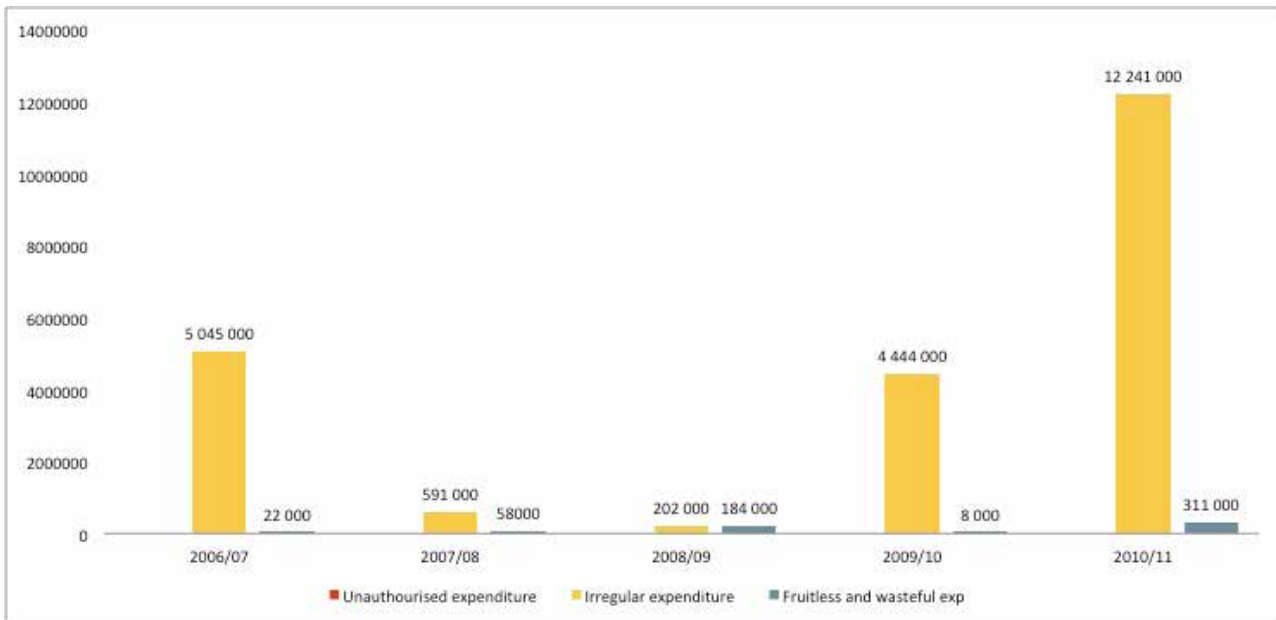
**Figure 15: Third and Fourth Quarter Expenditure**

2009/10	2010/11	2011/12
<ul style="list-style-type: none"> <li>• Under-expenditure due to:</li> <li>• Delays in procurement processes for IT infrastructure, machinery and equipment.</li> <li>• Delays in the transfer payments for the Trading Account to training entities</li> </ul>	<ul style="list-style-type: none"> <li>• <b>3<sup>rd</sup> Quarter</b></li> <li>• Under-expenditure on Goods and services due to:</li> <li>• Late receipt of invoices from the Department of Public Works (DPW) for Office Accommodation.</li> <li>• Delays in the procurement processes for Thusong Service Centres.</li> <li>• <b>4<sup>th</sup> Quarter</b></li> <li>• Under-expenditure due to:</li> <li>• Late receipt of invoices from DPW for lease agreement.</li> <li>• Slow spending on goods and services due to delays in finalising HR Connect project.</li> <li>• Delays in finalising Single Public Service Change Readiness Assessment.</li> <li>• Slow progress on ICT infrastructure projects.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>3<sup>rd</sup> Quarter-</b></li> <li>• Under-expenditure due to:</li> <li>• Delays in receiving invoices from DPW and SITA.</li> <li>• Slow spending on travel and subsistence, and consultants.</li> <li>• <b>4<sup>th</sup> Quarter</b></li> <li>• Over-expenditure on the Labour Relations and Remuneration Management Programme (Capital Payments -735.7 per cent) and the Public Sector Information and Communication Technology Management Programme (Transfers and subsidies - 135.5 per cent).</li> </ul>

**Irregular, fruitless, wasteful and unauthorised expenditure<sup>45</sup>**

Irregular expenditure increased steadily from R2 million in 2008/09 to R10.9 million in 2010/11 as a result of supply chain management irregularities relating to uncompetitive or unfair procurement processes and inadequate contract management. Over the period under review, the Department incurred irregular expenditure amounting to R22.5 million, and fruitless and wasteful expenditure amounting to R583 000.

**Figure 16: Irregular, fruitless, wasteful and unauthorised expenditure**



Source: Auditor-General (2006/07-2010/11)

**SCOPA Resolutions and Implementation of SCOPA Recommendations**

The Department of Public Service and Administration appeared before SCOPA and the Joint Budget Committee on 24 October 2007 as a result of the 2006/07 audit findings. Resolutions addressed the following issues:

<sup>45</sup> The Department of Public Service and Administration’s 2007/08 and 2008/09 Annual Reports are not available on the Department’s Website or the Government Information Website. Financial information for the 2008/09 financial year was verified through the 2009/10 Annual Report.

**Table 20: SCOPA resolutions on the 2006/07 Annual Report**

Area of focus	Issues raised by SCOPA
<b>Record keeping</b>	There was a lack of record keeping and documentation; an issue that had been highlighted in previous Annual Reports.
<b>Lease commitments</b>	The Department did not include all its lease commitments in the financial statements.
<b>Weaknesses in the IT systems</b>	<b>No additional information was provided in this regard.</b>
<b>Asset management</b>	Inadequate asset monitoring, where assets had not been reflected in the Asset Management Register.
<b>Risk management</b>	The Department did not have a Risk Management Strategy in place, and the Risk Committee had only met once during the year.
<b>Non-payment of invoices within 30 days which is in contravention with the PFMA</b>	<b>No additional information was provided in this regard.</b>

The issues raised in 2007, including the lack of proper record keeping were cited by the Auditor-General as the main drivers of the audit outcome (i.e. the findings). The Department should ensure that predetermined objectives are improved and also ensure proper compliance with laws and regulations in order to achieve clean audits.

### **VOTE 13: STATISTICS SOUTH AFRICA**

Statistics South Africa has (with the exception of the 2008/09 financial year, in which 100 per cent of its budget was spent) consistently incurred under-expenditure in four of the five years under review. The lowest expenditure of 78.8 per cent was incurred in 2007/08, while expenditure in 2011/12, reached 98.7 per cent (i.e. R3.68 billion against an available budget of R3.73 billion), which is an under-expenditure of R48.7 million. Under-expenditure was mainly due to:

- High staff turnover.
- Delays in procurement processes and late payment of invoices.
- Changes in various survey methodologies which led to delays in some of the Census 2011 activities.
- General salary adjustments implemented on 01 July 2009.
- Difficulty in attracting and retaining qualified statisticians and qualified methodologists (particularly for Census 2011).
- The appointment of fewer ICT technicians and fieldwork coordinators related to the Census 2011 project than originally planned. These ICT technicians and fieldwork coordinators were also appointed at a lower stipend compared to the original notch that the Department had budgeted for.

**Note:**

The Department has also experienced instances of over-spending on travel and subsistence in the Goods and Services budget.

**Irregular, fruitless, wasteful and unauthorised expenditure**

Statistics South Africa incurred irregular expenditure of R22.5 million, fruitless and wasteful expenditure of R6.1 million and unauthorised expenditure amounting to R121.9 million over the period under review.

**Table 21: Irregular, fruitless, wasteful and unauthorised expenditure**

Year Incurred	Irregular Expenditure	Fruitless and Wasteful Expenditure	Unauthorised Expenditure <sup>46</sup>
2006/07	R15 109 000	R2 492 000	R121 937 000
2007/08	R121 000	R2 678 000	R0
2008/09	R0	R284 000 <sup>47</sup>	R0
2009/10	R1 015 000	R263 000	R0
2010/11	R6 223 000 <sup>48</sup>	R378 000	R0

Source: Auditor-General (2006/07-2010/11)

**VOTE 14: ARTS AND CULTURE**

The Department of Arts and Culture has successively incurred under-expenditure over the past five financial years. The lowest expenditure of 84.5 per cent (i.e. R2.2 billion against an available budget of R2.6 billion) was incurred in 2009/10, resulting in under-expenditure of R407 million. In 2011/12 expenditure of 96.8 per cent (i.e. R2.46 billion against an available budget of R2.53 billion) was incurred, resulting in under-expenditure of R81 million. Under-expenditure was mainly due to:

- Late receipt of invoices from service providers for computers and other IT related equipment.
- Withholding of funds due to unsatisfactory spending by provinces on the Community Library Services Conditional Grant.
- Slow spending on the Investing in Culture Programme.
- Slow spending on the allocation for Capital Works and infrastructure projects by public entities.<sup>49</sup>

46 As per note 26 of the financial statements. Note 10 reflects a zero balance.

47 This was sourced from the 2009/10 Annual report. The 2008/09 Annual report indicated no Fruitless and Wasteful expenditure.

48 This includes an amount of R4.993 million related to the previous financial year but was discovered in the 2010/11 financial year.

49 This slow spending was mainly due to delays in the appraisal of project plans by the Department which delayed the allocation of funds to entities.



## Assessment of Unbalanced Expenditure Trends

The Department of Arts and Culture is one of the lowest spending departments, with an average third quarter expenditure of 67.0 per cent and an average fourth quarter expenditure of 91.2 per cent. Figure 17 illustrates the main reasons for third quarter under-expenditure patterns.

**Figure 17: Third and Fourth Quarter Expenditure**

2009/10	2010/11	2011/12
<ul style="list-style-type: none"> <li>• Under-expenditure due to:                             <ul style="list-style-type: none"> <li>• Vacant post (s) in senior management</li> <li>• Delays in transferring funds earmarked for Investing in Culture projects.</li> </ul> </li> <li>• Misclassification of funds used for the Promotion of Art and Culture internationally.</li> <li>• Delays in transferring funds earmarked for capital works for public entities (Public Museums).</li> </ul>	<ul style="list-style-type: none"> <li>• <b>3<sup>rd</sup> Quarter</b></li> <li>• Slow spending mainly due to:                             <ul style="list-style-type: none"> <li>• Late submission of invoices by DPW for Office Accommodation.</li> <li>• Delays in the implementation of projects such as refurbishing of offices for new appointments.</li> <li>• Slow expenditure on Capital Works projects</li> <li>• Slow spending on the Investing in Culture project.</li> </ul> </li> <li>• <b>4<sup>th</sup> Quarter</b></li> <li>• Most of the over-expenditure was on:                             <ul style="list-style-type: none"> <li>• The Cultural Industries programme: project financing (167.5 %), International Promotion programme (360.1 %), Projects that Promote Heritage (109.1 %) and Blind South Africa (107.4 %).</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <b>3<sup>rd</sup> Quarter</b></li> <li>• Under-expenditure due to:                             <ul style="list-style-type: none"> <li>• Non-filling of funded vacancies, especially management positions.</li> <li>• Delays in the implementation of certain projects such as Mzansi Golden Economy projects.</li> <li>• Late receipt of drawdown schedules for capital work transfers.</li> <li>• Delays in a number of orders for machinery and equipment for the National Archives.</li> </ul> </li> <li>• <b>4<sup>th</sup> Quarter</b></li> <li>• Expenditure trends did not change much from the first three quarters.</li> </ul>

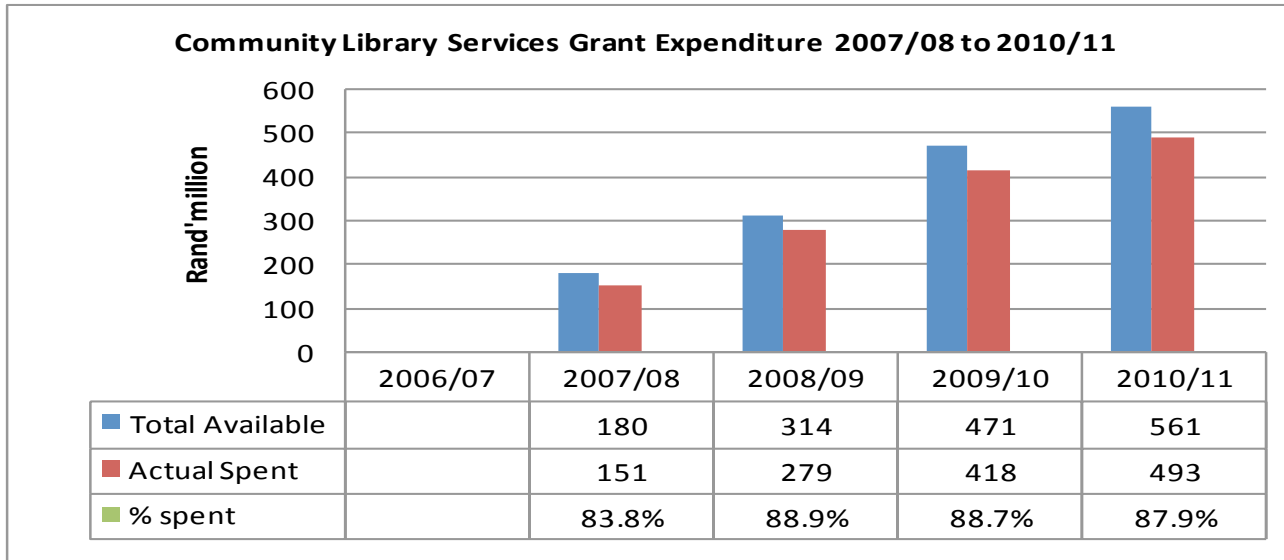
## Arts and Culture Conditional Grant Expenditure

The Community Library Services Grant is administered by the national Department of Arts and Culture. This grant was first introduced in the 2007 Division of Revenue Bill [B3-2007] to consolidate library services at provincial level. The purpose of the grant is to transform urban and rural community library infrastructure, facilities and services (primarily targeting previously disadvantaged communities) through a recapitalised programme at the provincial level in support of local government and national initiatives.

Since inception of the grant, the monetary value of the grant allocation has grown at an average rate of 46.1 per cent (from R180.0 million in 2007/08 to R561.1 million in 2010/11), while expenditure has grown at an average rate of 48.4 per cent (from R150.80 million in 2007/08 to R493.3 million in 2010/11). The expenditure rate, however, has remained within the 83.8 per cent to 88.9 per cent expenditure range over the period under review. A variance of twelve percentage points or more since the grant's inception may not appear to be a great shortfall; however when converted to monetary terms it amounts to between R29 million and R68 million that could have been used more efficiently.



**Figure 18: Arts and Culture Conditional Grant Expenditure Trends for the period 2006/07 to 2010/11**



Source: National Treasury (2006/07-2010/11)

The performance outputs and outcomes to be achieved by this grant were informed by the priority areas identified in the Klynveld Peat Marwick Goerdeler (KPMG) 2007 study on the status quo of library services, commissioned by the Department of Arts and Culture. The priority areas include: staff capacity, library material, Information and Communication Technology (ICT) infrastructure, staff training, infrastructure, upgrading and maintenance of existing library buildings, security, office and library furniture and equipment, mobile libraries and literacy programmes. In 2010/11, the grant enabled provinces to build 10 new libraries; upgrade 56 libraries; appoint 237 staff members; purchase library furniture and equipment; install security systems that have resulted in a reduction in the theft of library books; procure library material written in indigenous languages; invest in ICT infrastructure; and implement reading/literacy programmes.<sup>50</sup>

However, some provinces continue to face challenges in implementing this grant, such as procurement delays; human resources (i.e. high turnover rate amongst contract staff); the intergovernmental relations framework (i.e. service level agreements were not signed by all municipalities); funding (i.e. equitable share allocation for library services declined, resulting in an over-reliance on the grant funding for the provision of library services); implementation of infrastructure projects (i.e. problems with implementing agencies such as the Department of Public Works and the State Information Technology Agency (SITA): Library and Information Management System).<sup>51</sup>

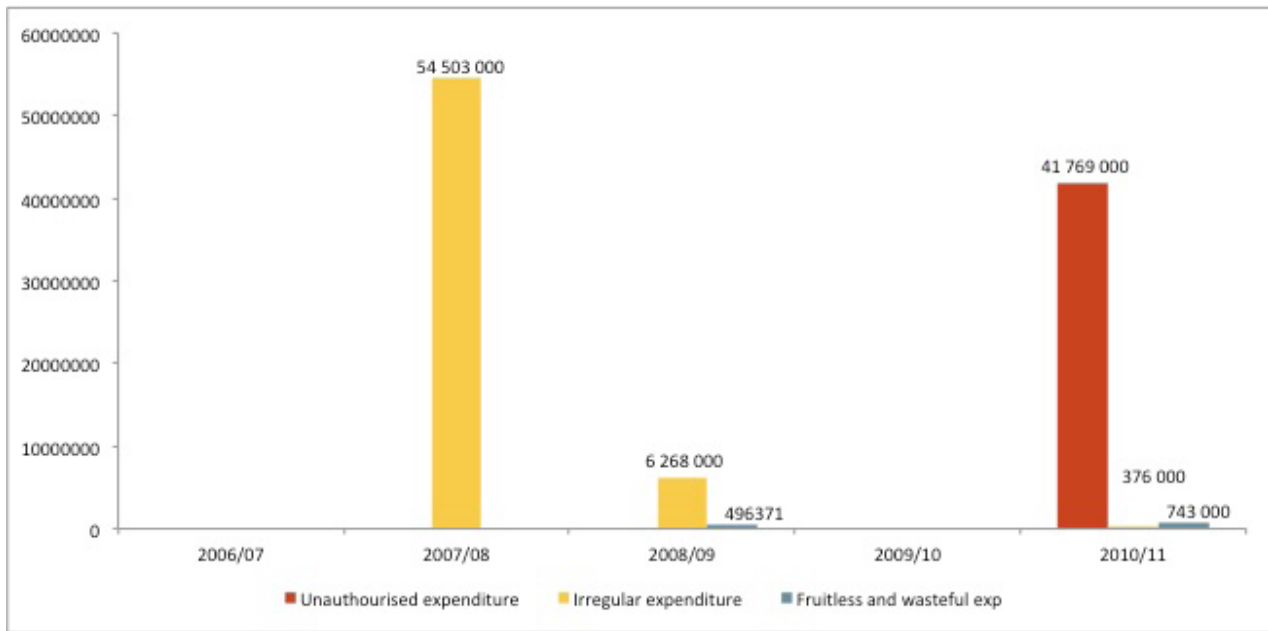
50 Department of Arts and Culture (2011)

51 *ibid*

### Irregular, fruitless, wasteful and unauthorised expenditure

The Department incurred irregular expenditure of R61.1 million and unauthorised expenditure amounting to R41.8 million over the period under review. All unauthorised expenditure was incurred in the 2010/11 financial year due to the Department failing to spend in accordance with conditions set for the allocations.

**Figure 19: Irregular, fruitless, wasteful and unauthorised expenditure**



Source: Auditor-General (2006/07-2010/11)

### SCOPA Resolutions and Implementation of SCOPA Recommendations

The Department of Arts and Culture appeared before SCOPA on 27 May 2007 for issues raised in the 2005/06 Annual Report. The following concerns were raised with the Department:

**Table 22: SCOPA resolutions on the 2005/06 Annual Report**

Focus area	Issues raised by SCOPA
<b>HR Issues</b>	The Department paid bonuses of R4.7 million and performance management procedures/ systems were inadequate.
	The vacancy rate stood at 39 per cent.
<b>Asset management</b>	The Asset Register was incomplete.
	The Asset Register did not reconcile with the physical count of assets.
<b>Irregular expenditure</b>	The Department incurred irregular expenditure of R3.9 million due to proper supply chain management processes not being followed.

On 19 March 2008, the Department appeared before SCOPA for its 2006/07 Annual Report. SCOPA resolutions related to the following issues:

**Table 23: SCOPA resolutions on the 2006/07 Annual Report**

Focus area	Issues raised by SCOPA
<b>Asset Register</b>	Monthly reconciliations of assets were not conducted, and information on the Asset Register did not reconcile with the physical count of assets.
	Assets could not physicality verified.
<b>HR Issues</b>	High vacancy rate of 33 per cent, including top management posts was a serious concern.
	The Department had inaccurate leave balances.
<b>Governance</b>	The Department did not have a Risk Management Policy in place.
	14 art-works were missing and the value of the art-works could not be determined.
	The Internal Audit Unit was not functioning fully due to capacity constraints as a result of the high vacancy rate.

The Department has implemented SCOPA resolutions, as reflected by audit opinions in subsequent years. The Department has dealt with the issue of capital assets, which was prominent prior 2008.

## VOTE 15: BASIC EDUCATION

The Department of Basic Education has been under-spending since its inception in 2009 with expenditure of 89.4 per cent in 2010/11. In 2011/ 12, the Department spent 91.4 per cent of its budget, which was R12.9 billion of an available budget R14.1 billion, resulting in under-expenditure of R1.2 billion. Recurring expenditure issues include:

- Delays in the receipt and processing of invoices for the delivery of Workbooks. This was reported as the main reason for under-expenditure.
- Low expenditure in current payments, specifically in the goods and services budget.
- Delays in filling vacant posts for the Integrated Quality Management System (IQMS) and the National Education Evaluation and Development Unit (NEEDU) affected both the current and capital budgets.
- Problems and subsequent cancellation of tender for literacy and numeracy workbooks for Grades R – 6 learners.
- Recurring delays in the Annual National Assessments, specifically for Grades 3, 6 and 9, which were done in February 2011 and not in October 2010 as initially projected.
- The National School Nutrition Programme (NSNP) baseline study did not take place as initially planned.

### Basic Education Conditional Grant Expenditure

The Department of Basic Education is responsible for administering four Schedule Five grants. These are:

- Dinaledi Schools Grant.
- HIV and AIDS (Life Skills Education) Grant.
- National School Nutrition Programme Grant.
- Technical Secondary Schools Recapitalisation Grant.

The Dinaledi Schools Grant aims to support Dinaledi schools<sup>52</sup> in improving learner performance in mathematics and physical science. The grant was first introduced in the 2010 Division of Revenue Bill [B4-2010]. However, funding was only made available in the 2011/12 financial year and therefore does not form part of this five-year expenditure review report.

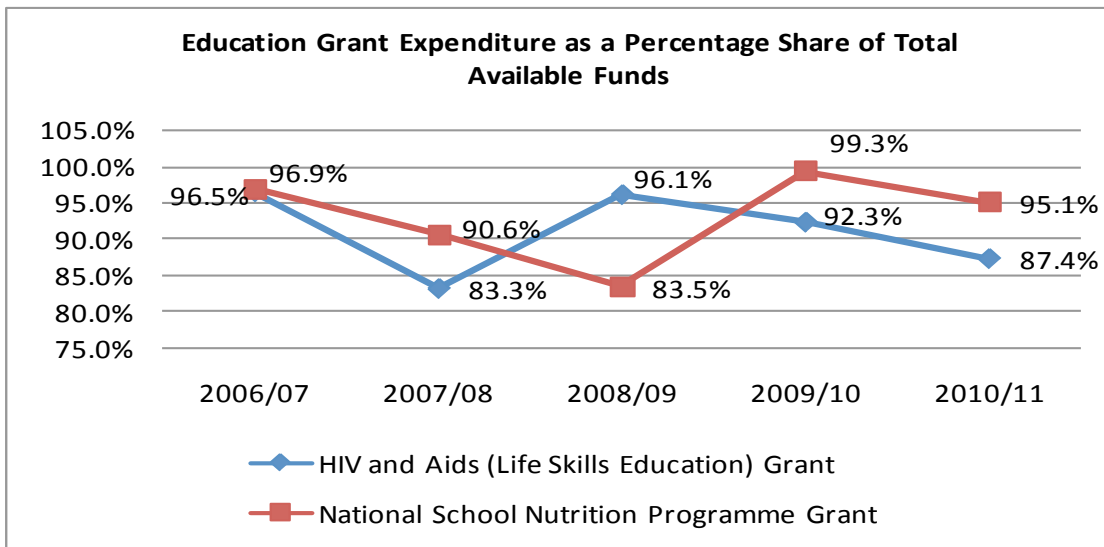
The HIV and AIDS (Life Skills Education) Grant supports South Africa's HIV prevention strategy by promoting life skills training, sexual and reproductive knowledge and encouraging appropriate decision making among

<sup>52</sup> Department of Education, (2009) Dinaledi Schools are secondary schools (i.e. specifically previously disadvantaged schools) selected on the basis that they have demonstrated the potential for increasing learner participation and performance in mathematics and science, and providing them with the resources and support to improve the teaching and learning of these subjects.

learners and educators to mitigate the impact of HIV and AIDS. Over the review period, expenditure on the HIV and AIDS Grant averaged 90.9 per cent. With regard to service delivery performance, the HIV and AIDS Grant through advocacy activities reached 117 151 learners, educators and members of the school communities, produced 749 master trainers and delivered 121 327 sets of Learning and Teaching Support Material to 24 628 schools in 2010/11.<sup>53</sup> This is compared to 2009/10, where the HIV and AIDS Grant through advocacy activities reached 115 363 learners, educators and members of the school communities, produced 1 069 master trainers and delivered 353 000 sets of Learning and Teaching Support Material to 15 000 schools.<sup>54</sup>

The National School Nutrition Programme Grant seeks to improve the nutrition of poor school children, enhance learning capacity and improve attendance in schools. Expenditure of the grant allocation over the review period amounts to 93.6 per cent on average. The grant programme was extended to Quintile 3 secondary schools for the first time in April 2011 and meals were provided to a total of 8.3 million learners in 2010/11 compared to 7.1 million learners in 2009/10.<sup>55</sup>

**Figure 20: Basic Education Conditional Grant Expenditure Trends for the period 2006/07 to 2010/11**



Source: National Treasury (2006/07-2010/11)

The Technical Secondary Schools Recapitalisation Grant (that came into effect as of 2010/11) is aimed at recapitalising technical<sup>56</sup> schools to improve their capacity to contribute to skills development and training in the country. The total available funds for the 2010/11 financial year amounted to R80.0 million of which R60.6 million or 75.8 per cent was spent by 31 March 2011.

53 National Treasury (2012)

54 National Treasury (2011)

55 National Treasury (2011) and (2012)

56 Technical Schools are secondary schools that offer vocational training with respect to specific technical subjects, which include: Civil Technology; Electrical Technology; Mechanical Technology; and Engineering Graphics and Design.

Implementation challenges with respect to the Technical Secondary Schools Recapitalisation Grant include: internal administrative delays in the development and approval of tender specifications for the building and refurbishment of workshops; late approval of provincial and schools business' plans resulting in delayed implementation; unrealistic projects contained in business plans resulting in under-performance; and failure to consult other departments such as Public Works and Infrastructure continue to delay the construction of workshops.

The Department of Basic Education is one of the newly created departments, (through the separation in 2009 of the former Department of Education into that of the Departments of Basic and Higher Education and Training respectively) and therefore faces challenges of capacity constraints due to unfunded vacant positions.<sup>57</sup> This impacted on the Department's strategic planning process and, to some extent, on its service delivery monitoring and reporting. The Department was financially unqualified with findings in 2010/11.

Due to capacity constraints, there was a lack of monitoring, as well as, a lack of compliance with relevant laws and regulations, resulting in matters of non-compliance being reported.<sup>58</sup> The Department had two areas of qualifications related to non-financial information, as the reported information was neither useful nor reliable. Education is one of the twelve priority areas of government, therefore, achieving service delivery aims are crucial. The reliability of collected information is also critical to assess progress on service delivery in education.

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

The Department of Basic Education incurred irregular expenditure of R81.7 million in 2010/11 due to supply chain management irregularities. The Auditor-General highlighted findings related to non-compliance with laws and regulations specifically in relation to procurement and contract management; Transfers and Subsidies.

### **VOTE 16: HEALTH**

The Department of Health has successively incurred under-expenditure over the past five financial years, with the lowest spending of 96.6 per cent incurred in 2010/11. In 2011/12, the Department spent 99 per cent (R25.7 billion against an available budget of R26 billion), thereby under-spending by R255.1 million due to the following reasons:

- Delays in the appointment of staff, partly due to ongoing restructuring within the Department.
- Challenges in the procurement of IT services and specialised health equipment.
- Withholding of funds from provinces for the Hospital Revitalisation Programme due to slow spending.

<sup>57</sup> Auditor-General (2011)

<sup>58</sup> *Ibid*

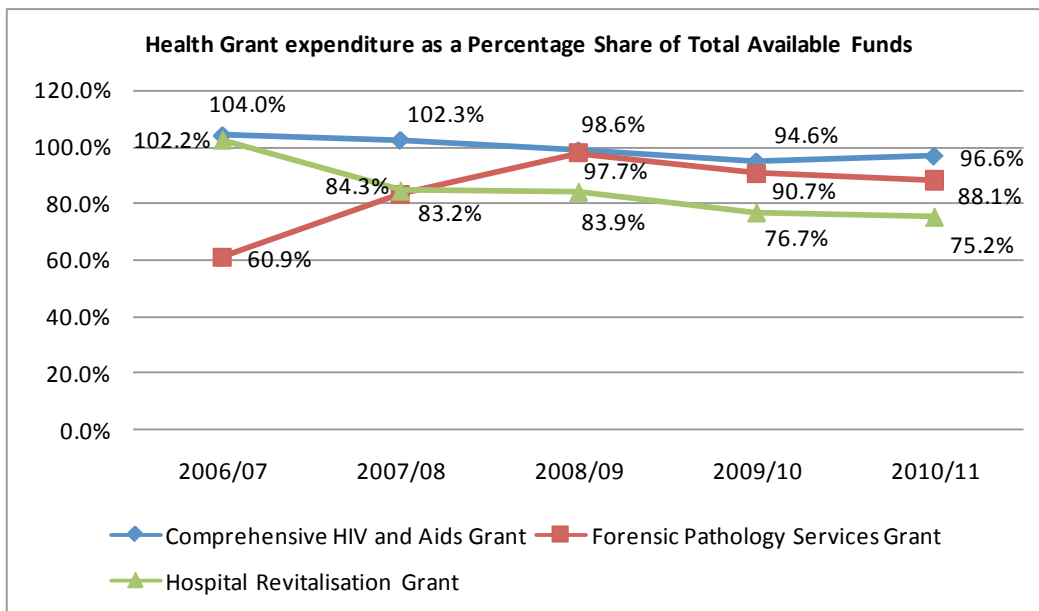
### Health Conditional Grant Expenditure

The following three Schedule Five grants are administered by the national Health Department:

- The Comprehensive HIV and AIDS Grant is aimed at developing an effective response to HIV and AIDS, including universal access to HIV counseling and testing; The grant also supports the implementation of the National Operational Plan for comprehensive HIV and AIDS treatment and care; as well as subsidising in-part funding for the antiretroviral treatment programme.
- The Forensic Pathology Services Grant was introduced as a temporary funding tool to facilitate the transfer of forensic pathology services from the South African Police Services to the national Department of Health.
- The Hospital Revitalisation Grant provides funding to enable provinces to plan, manage, modernise, rationalise and transform health infrastructure, health technology, and the monitoring and evaluation of health facilities in line with the national policy objectives.

Figure 21 below outlines conditional grant expenditure outcomes as a percentage share of total available funds over the period 2006/07 to 2010/11.

**Figure 21: Health Conditional Grant Expenditure Trends for the period 2006/07 to 2010/11**



Source: National Treasury (2006/07-2010/11)

Expenditure in the first year (i.e. 2006/07) of the review period commenced with a very high expenditure base (of 104.0 per cent and 102.2 per cent respectively) for the Comprehensive HIV and AIDS Grant and the Hospital Revitalisation Grant. Thereafter the spending on the two Grants declined over the review period to 96.6 per cent and 75.2 per cent, respectively in 2010/11.

On the other hand, the expenditure performance of the Forensic Pathology Services Grant began with a low base of just above 60.0 per cent in 2006/07, steadily increasing to 97.7 per cent in 2008/09, and thereafter declining to 88.1 per cent in 2010/11.

The Forensic Pathology Services Grant was a temporary grant covering a period of five years which concluded at the end of the 2011/12 financial year. Not all the performance targets of the grant were reached due to delays in acquiring land in some provinces. In addition, escalation costs and grant funding did not sufficiently cover occupation-specific dispensation and overtime remuneration; hence provinces did not manage to build all the mortuaries as per the original project plan, and neither could they fill all the posts nor procure equipment as required. Considering the fact that the objective of the grant is to improve conditions of mortuaries, the national Department of Health recommended that the phasing of the grant funding into the equitable share be attached with some conditionality in order to ensure that forensic pathology services are adequately prioritised within the provinces.

The Hospital Revitalisation Grant has thus far been the worst performing grant (i.e. in terms of expenditure) when compared to the other two health sector grants. Expenditure on the Hospital Revitalisation Grant has been on a downward trend over the review period, which according to the national Department of Health, began in 2007/08 due to funds being monitored more closely in order to ensure that spending was aligned to the intended purpose of the grant.

The performance outputs of provinces vary greatly across the three programmes (i.e. infrastructure; health technology; and organisation development and quality assurance) funded by this grant. There is a lack of capacity in the provinces to manage the Hospital Revitalisation Grant and infrastructure projects of this grant are plagued by poor performing contractors. Nonetheless, the national Department of Health, with the assistance of the Council of Scientific and Industrial Research (CSIR), the Development Bank of Southern Africa (DBSA) and National Treasury are managing five projects (which include: the development of norms and standards; capital project status reporting; project management information systems; project monitoring and oversight support; and the development of cost modelling tools) at national level to assist provinces in the delivery of health facilities.

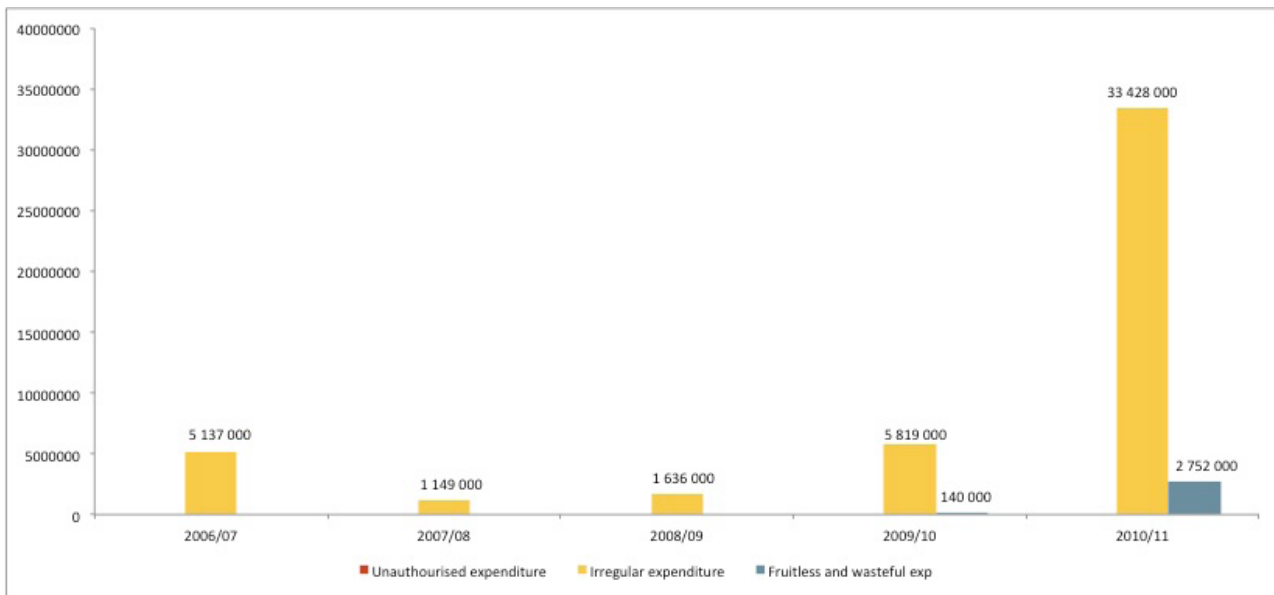
The Department of Health received qualified audit opinions for three consecutive years prior to 2009. In the 2009/10 financial year the financial performance of the Department improved as the Department received a financially unqualified report with findings but regressed to a qualification in 2010/11. Recurring matters in the Department include findings on predetermined objectives; non-compliance with laws and regulations such as DORA and the PFMA; and findings on capital assets. Health is one of the Government's twelve key priorities identified in the Medium Term Strategic Framework. Knowledge of the achievements in the sector in terms of service delivery will assist government in assessing its objective of providing a long and healthy life to all South Africans. The availability and reliability of non-financial information is vital in assessing service delivery targets. Currently, the collected information from the Department of Health is not reliable.



### Irregular, fruitless, wasteful and unauthorised expenditure

Figure 22 indicates a steady increase in irregular expenditure over the years, and a particularly significant increase in 2010/11 due to supply chain management related expenditure. Over the five year period, the Department incurred irregular expenditure amounting to R47.2 million, as well as fruitless and wasteful expenditure of R2.9 million. Findings on supply chain management included unfair procurement processes, inadequate contract management and inadequate supply chain management controls. Figures for 2006/07 were sourced from the 2007/08 Annual Report. In addition, the 2008/09 irregular expenditure figure of R1.636 million includes an amount of R4.916 million related to the prior year but discovered in the 2008/09 financial year. Similarly, the 2010/11 irregular expenditure figure of R33.428 million includes an amount of R201 000 related to the 2009/10 financial year but discovered in the 2010/11 financial year.

**Figure 22: Irregular, fruitless, wasteful and unauthorised expenditure**



Source: Auditor-General (2006/07-2010/11)

### SCOPA Resolutions and Implementation of SCOPA Recommendations

The Department appeared before SCOPA on 14 November 2007 to report on findings in its 2006/07 Annual Report. The following issues had to be addressed by the Department:

**Table 24: SCOPA resolutions on the 2006/07 Annual Report**

Area of focus	Issues raised by SCOPA
<b>Asset management</b>	The Auditor-General reported that due to the lack of reconciliations between the fixed Asset Register and the basic accounting system, it was not possible to obtain adequate assurance regarding the negative adjustment totalling R31 million to the opening balance of R84 million. This adjustment was due to a lack of monitoring of controls developed to ensure the safeguarding, reporting and maintenance of assets.
<b>Division of Revenue Act (DORA)</b>	<p>The business plans, quarterly performance reports and monthly financial reports from provinces had either not been submitted for approval and monitoring purposes, or had been submitted late.</p> <p>Quarterly provincial liaison and visits to provinces to physically monitor compliance with the DoRA were not always carried out due to a shortage of staff.</p> <p>Information submitted in provincial reports was inadequately evaluated, which did not enable the timeous identification of potential non-compliance with the conditions attached to these grants.</p>
<b>Transfer payments</b>	It was reported that, due to the lack of monitoring of controls developed to ensure compliance, payments to the value of R35 million were made to an NGO in contravention of section 2.3 of the National NGO Funding Guideline, which requires that Service Level Agreements (SLAs) are signed before funds are transferred.
<b>Governance-related matters</b>	The Department did not comply with the National Environmental Management Act, (No. 107 of 1998) (NEMA) which requires the Department to prepare an Environmental Impact Assessment within a year of promulgation of the Act and every four years thereafter.

The Department appeared before SCOPA for the second time on 1 March 2010 in relation to its 2008/09 Annual Report. The following concerns were raised by SCOPA:

- Under-expenditure on the budget.
- Lack of compliance with laws and regulations.

The Department appeared before SCOPA for a third time during the period under review on 28 February 2012 with regard to the 2010/11 Annual Report. SCOPA recommended that the following issues should be addressed:

**Table 25: SCOPA Resolutions on the 2010/11 Annual Report**

Area of focus	Issues raised by SCOPA
<b>Movable tangible capital assets</b>	Movable tangible capital assets as disclosed in note 29 to the financial statements to the amount of R130.1 million and minor assets as disclosed in note 29.4 to the financial statements to the amount of R34.4 million could not be verified. In July 2011, the Department undertook to bar-code all assets and confirm the physical asset count within the Asset Register.
	Adequate audit assurance was not obtained relating to the valuation and allocation of assets as disclosed in the disclosure notes. There was no satisfactory alternative procedure that could be performed.
<b>Restatement of comparative Figures</b>	The comparative figures operating the lease of expenditure for buildings and other fixed structures for the year ended 31 March 2010 had been restated with an amount of R146.7 million because no lease commitment provision had been made in the previous year. This was corrected in the 2010/11 financial statements of the Department.
<b>Irregular expenditure</b>	As disclosed in note 23 to the financial statements, irregular expenditure to the amount of R43 274 000 (2010:R13 639 000) was incurred, because proper supply chain management processes were not followed.
<b>Procurement and contract management</b>	In certain instances, Goods and Services with a transaction value of between R10 000 and R500 000 were procured without inviting at least three written quotations from the prospective suppliers as per the Treasury Regulations requirements.
<b>Conditional grants</b>	The transferring National Department did not adequately monitor expenditure and non-financial performance information on programmes funded by the allocation, as per the requirements of DoRA.

### **VOTE 17: HIGHER EDUCATION AND TRAINING**

The Department of Higher Education and Training became operational in 2010/11. The Department spent 99.9 per cent of its allocated budget in 2010/11 and 2011/12. Unspent funds amounted to R24.5 million and R17.8 million, respectively.

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

The Department of Higher Education and Training is a new Department, and it incurred irregular expenditure amounting to R4.0 million in the 2010/11 financial year. The Department did not incur any fruitless, wasteful or unauthorised expenditure.

**Note:**

The Department of Education spent an average of above 97.0 per cent from 2006/07 until it was separated into two departments in 2009/10. The Department spent 99.1 per cent of its allocated budget in 2007/08, 99.8 per cent in 2008/09 and 97.8 per cent in 2009/10. The collective unspent balances for the period amounted to R676.3 million. In addition, the Department incurred irregular expenditure in only one financial year during the period, i.e. 2006/07 with irregular expenditure amounting to R1.2 million. The Department did not incur any fruitless, wasteful or unauthorised expenditure during the period.

**VOTE 18: LABOUR**

The Department of Labour has successively incurred under-expenditure over the five-year period under review. The lowest expenditure of 94.7 per cent was incurred in 2008/09, resulting in under-expenditure of R93.5 million. In 2011/12, the Department spent 99.5 per cent (i.e. R2.00 billion against an available budget of R2.17 billion), thus incurring under-expenditure of R10.3 million.

In 2009/10, current payments were slightly higher due to claims by the Department of Public Works (DPW) for regional office accommodation exceeding the budget provided by DPW. In 2011/12, almost half of the Departments' expenditure was incurred in the last quarter due to delays in the submission of invoices by the Department of Public Works (DPW) for leases of office buildings that did not occur as anticipated during the months of April, July and October.

**Irregular, fruitless, wasteful and unauthorised expenditure**

The Department incurred irregular expenditure of R73.4 million and unauthorised expenditure amounting to R1.3 million over the period under review.

**Table 26: Irregular, fruitless, wasteful and unauthorised expenditure**

Year Incurred	Irregular Expenditure	Fruitless and Wasteful Expenditure	Unauthorised Expenditure
2006/07	R 1 012 000 <sup>59</sup>	R0	R 1 260 000
2007/08	R 2 000	R0	R0
2008/09	R 59 492 000	R0	R0
2009/10	R 3 392 000	R0	R0
2010/11	R 9 522 634	R0	R0

Source: Auditor-General (2006/07-2010/11)

<sup>59</sup> The 2006/07 irregular expenditure figure was sourced from the 2007/08 Annual Report.

### SCOPA Resolutions and Implementation of SCOPA Recommendations

The Department of Labour appeared before SCOPA in February 2010 for the 2008/09 Annual Report, and the following recommendations and resolutions were made by SCOPA:

**Table 27: SCOPA resolutions on the 2008/09 Annual Report**

Area of focus	SCOPA Resolutions
<b>Capital assets</b>	<b><i>The Committee recommended that the Accounting Officer ensures that:</i></b>
	The Department employs professionally skilled personnel and that ongoing monitoring and supervision are undertaken to enable management to determine whether controls are present and functioning.
	Personnel are provided with in-service training.
	Adequate controls are designed and implemented to ensure that a complete and accurate fixed Asset Register is maintained and updated on a regular basis.
	Disciplinary action is taken against underperforming staff.
	Monthly reconciliations are performed as prescribed.  Shortages or losses that were incurred due to an inadequate Asset Register are identified and reported on.
<b>Governance Issues</b>	<b><i>The Committee recommended that the Accounting Officer ensures that:</i></b>
	The Department’s Audit Committee should take corrective action with regard to internal control deficiencies.
	Personnel with adequate skills should be employed.
	The head of Human Resources and senior management should fill vacant posts urgently.
	Disciplinary action should be taken against management and staff who fail to perform their duties as required.
Management should implement a performance management system where staff performance is evaluated against specific key performance areas to enable management to take appropriate steps based on agreed deliverables.	

<b>Non-compliance with Laws and Regulations</b>	<b><i>The Committee recommended that the Accounting Officer ensures that:</i></b>
	Control activities are identified and developed with consideration of their cost and their potential effectiveness in mitigating risks.
	Management establishes documents and implements a Fraud Prevention Plan.
	Management maintains an effective Risk Management policy which continuously evaluates and updates the financial management and internal control risks.
	Reasonable steps are taken to recover debts before they are written off and further steps are taken to recover debts from the individuals responsible.
	Criminal charges are laid against individuals who have committed financial misconduct.
	Internal control deficiencies are identified and communicated in a timely manner to those responsible for taking corrective action.
	An effective and well capacitated Internal Audit Division is established.
	Management implements regular assessments of supply chain performance to ensure that deficiencies are corrected.
	The entity addresses areas of responsibility and establishes lines of reporting in order to support effective internal control over financial reporting.
Effective policies and procedures in relation to financial reporting are established and communicated.	

**Note**

It appears that the Department has made substantial progress in implementing SCOPA recommendations. The Department received a financially unqualified audit opinion for 2010/11 and the only findings were on non-compliance with laws and regulations. The Department also appeared before SCOPA on May 2012; however SCOPA resolutions have not yet been adopted by the House.

**VOTE 19: SOCIAL DEVELOPMENT**

The Department of Social Development has maintained an average expenditure rate of 99.4 per cent over the period from 2007/08 to 2011/12. The expenditure rate of the Department may appear to be within the confines of expenditure norms; however, because of the size of the Department’s allocation, unspent budget balances over the review period collectively amount to R2.47 billion. In 2011/12, the Department spent 99.6 per cent of its allocated budget, and remained with an unspent balance of R382.0 million.

## Irregular, fruitless, wasteful and unauthorised expenditure

The Department of Social Development incurred irregular expenditure of R10.3 million, fruitless and wasteful expenditure amounting to R710 000 and unauthorised expenditure amounting to R26.8 million during the period under review.

**Table 28: Irregular, fruitless, wasteful and unauthorised expenditure** <sup>60</sup>

Year Incurred	Irregular Expenditure	Fruitless and Wasteful Expenditure	Unauthorised Expenditure
2006/07	R75 000	R266 000	R 681 000
2007/08	R0	R377 000	R26 168 000
2008/09	R8 885 000 <sup>60</sup>	R0	R0
2010/11	R1 322 000	R67 000	R0

Source: Auditor-General (2006/07-2010/11)

## SCOPA Resolutions and Implementation of SCOPA Recommendations

The Department of Social Development appeared before the Standing Committee on Public Accounts in June 2011 for a hearing on the 2009/10 Annual Report. The Department received the following SCOPA recommendations and resolutions:

**Table 29: SCOPA resolutions on the 2009/10 Annual Report**

Areas of Focus	Issues raised by SCOPA
Transfers and Subsidies	<b><i>The Committee recommended that the Accounting Officer ensures that:</i></b> Management reviews application forms and supporting documentation to ensure that they are complete before approval of the grant.
	Beneficiary files are properly maintained and safeguarded against loss or misplacement.
	Reviews are performed quarterly in order to identify any changes in circumstances of the beneficiary.
Flow of funds	<b><i>The Committee recommended that the Accounting Officer ensures that:</i></b> Arrangements relating to the flow of funds are reconsidered in order to clear any uncertainties on the roles, responsibilities and accountability for the expenditure of funds allocated to the South African Social Security Agency (SASSA).
	Corporate governance and accountability of SASSA should be addressed.
	Responsibilities of the Department with regard to in year monitoring of SASSA management of funds should be properly managed.

<sup>60</sup> This includes an amount of R2.051 million related to the previous financial year but was discovered in the 2008/09 financial year.

**Comment on SCOPA Resolutions:**

The Department of Social Development appeared before SCOPA for a hearing on the 2009/10 qualified audit report from the Auditor-General. The Department also received a qualified audit report for the 2010/11 financial year from the Auditor-General.

**VOTE 20: SPORT AND RECREATION SOUTH AFRICA**

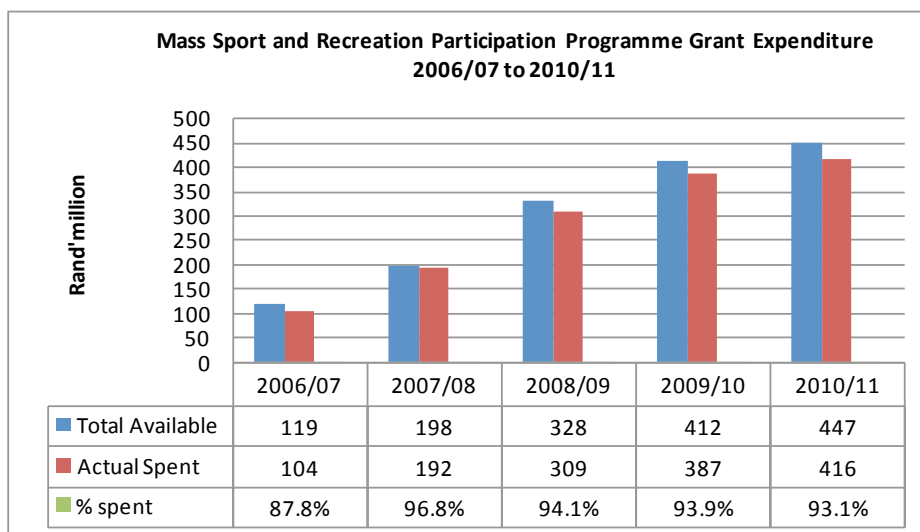
During the period under review Sport and Recreation South Africa under-spent on its allocated budget by less than 1 per cent on average. In monetary terms, the unspent budget balance collectively amounted to R81.6 million for the period under review. The Department recorded its highest expenditure of 99.7 per cent in 2010/11 and the highest unspent balance of R31.5 million in 2008/09.

**Conditional Grant Expenditure**

Sport and Recreation South Africa administers the Mass Sport and Recreation Participation Programme Grant, which is aimed at facilitating mass participation within communities and schools through selected activities, empowerment of communities and schools in conjunction with relevant stakeholders.

The monetary value of the grant allocations and expenditure has increased gradually over time. However the total grant allocation has never been fully expensed. The expenditure rate of this grant for the period 2006/07 to 2010/11 averaged approximately 93.3 per cent.

**Figure 23: Sport and Recreation South Africa Conditional Grant Expenditure Trends for the period 2006/07 to 2010/11**



Source: National Treasury (2006/07-2010/11)



The Annual Evaluation Report<sup>61</sup> of the Department of Sport and Recreation is not easily accessible as the reporting format presents the performance information in a fragmented manner and therefore an assessment of performance outcomes against the targets cannot be concluded.

Notwithstanding the limitations of the Annual Evaluation Report, some performance information is reported in the Division of Revenue Bill [B4-2012]. In 2010/11, the grant funding provided for training of 3 298 people in sport and development compared to 14 679 people in 2009/10. In addition, 45 mass mobilisation campaigns were held, the same number as in 2009/10; and 5.1 million people participated in the programme via schools and community clubs compared to the 4.5 million people that participated in 2009/10.

According to the national Department's Annual Evaluation Report, challenges at the provincial level include: underage participants; the non-arrival of transport requested to transport participants; and purchase orders of sporting equipment being placed late thus affecting some deliveries. At the national level, challenges with the co-ordination and implementation of the programme is primarily attributed to delays in provinces confirming their accommodation and last minute withdrawals; prolonged Memorandum of Understanding (MOU) discussions between the national department and provinces; and Sport and Recreation South Africa not attending the majority of the plenary meetings.<sup>62</sup>

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

Sport and Recreation South Africa incurred irregular expenditure amounting to R60.2 million, unauthorised expenditure amounting to R1.5 million; as well as fruitless and wasteful expenditure amounting to R7.2 million over the period under review.

**Table 30: Irregular, fruitless, wasteful and unauthorised expenditure**

<b>Year Incurred</b>	<b>Irregular Expenditure</b>	<b>Fruitless and Wasteful Expenditure</b>	<b>Unauthorised Expenditure</b>
<b>2006/07<sup>63</sup></b>	<b>R0</b>	<b>R2000</b>	<b>R833 000</b>
<b>2007/08</b>	<b>R8 937 000<sup>64</sup></b>	<b>R0</b>	<b>R675 000</b>
<b>2008/09</b>	<b>R45 770 000<sup>65</sup></b>	<b>R4 979 000</b>	<b>R30 000</b>
<b>2009/10</b>	<b>R2 964 000</b>	<b>R2 176 000</b>	<b>R0</b>
<b>2010/11</b>	<b>R2 513 000</b>	<b>R6 000</b>	<b>R0</b>

Source: Auditor-General (2006/07-2010/11)

### **SCOPA Resolutions and Implementation of SCOPA Recommendations**

Sport and Recreation South Africa appeared before SCOPA in February 2010 and reported on the 2008/09 Annual Report and financial statements, with the following resolutions taken by the Committee:

61 Sport and Recreation South Africa (2011)

62 *Ibid*

63 Figures for 2006/07 were sourced from the 2007/08 Annual Report.

64 An amount of R2.856 million of the R8.937 million was condoned in the 2007/08 financial year.

65 This includes an amount of R10.909 million related to the previous financial year but was discovered in the 2008/09 financial year.

**Table 31: SCOPA resolutions on the 2008/09 Annual Report**

<b>Areas of Focus</b>	<b>Issues raised by SCOPA</b>
<b>Receivables for Departmental Revenue</b>	<b><i>The Committee recommended that the Accounting Officer ensures that:</i></b> Management familiarises itself with the contents of the contract between the Independent Monitoring Group (IMG) and the former South African Sports Commission (SASC) to ensure completeness of royalties' receivables.
	Steps are taken to recover monies from the parties involved.
<b>Irregular, fruitless and wasteful expenditure</b>	<b><i>The Committee recommended that the Accounting Officer ensures that:</i></b> Policies and procedures are developed, implemented and communicated to all staff to ensure compliance.
	A detailed register in compliance with Chapter 8 of the National Treasury guidelines is maintained for all unauthorised, fruitless and wasteful expenditure.
	The outcome of the investigation is reported to the Auditor-General as and when it is finalised.
<b>Division of Revenue Act (DoRA) related issues – mass participation grants</b>	<b><i>The Committee recommended that the Accounting Officer ensures that:</i></b> All monthly reports are available for audit and reference purposes as required by DoRA.
	There are no disbursements of funds without approved business plans.
	All business plans are approved in time and made available for audit purposes.
	Ongoing monitoring and supervision is undertaken by management to ensure that internal control over financial reporting is efficient.
<b>Division of Revenue Act (DoRA) related issues – Insufficient visits to hubs</b>	<b><i>The Committee recommended that the Accounting Officer ensures that:</i></b> Hubs are visited as required by DoRA.
	Vacant positions are filled.
<b>Non-compliance with applicable laws and regulations</b>	<b><i>The Committee recommends that the Accounting Officer ensures that:</i></b> Officials comply with policies and procedures, and that required motivations are provided for audit purposes.

### **SCOPA Resolutions 2010/11**

The Department also appeared before SCOPA in April 2012 for the hearing on the 2010/11 Annual Report and annual financial statements. The SCOPA recommendations and resolutions for this hearing have not yet been adopted by the House.

**VOTE 21: CORRECTIONAL SERVICES**

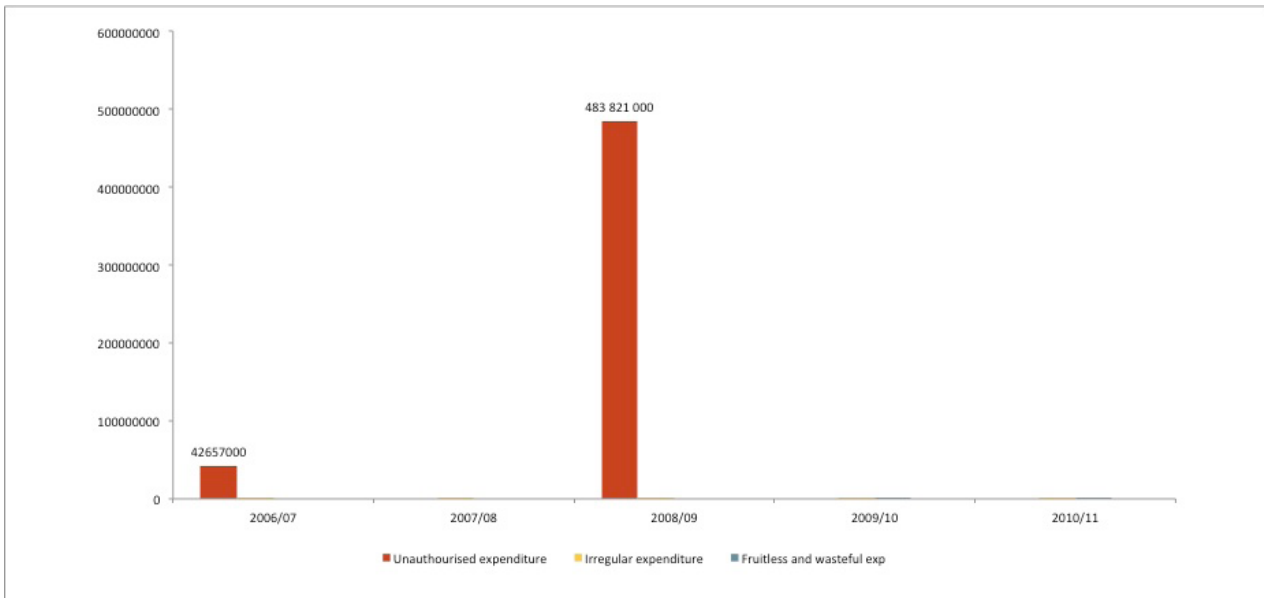
Except for over-expenditure of 4.9 per cent in 2008/09, the Department of Correctional Services incurred under-expenditure for four of the five financial years reviewed. The lowest spending was incurred in 2010/11, in which only 95.3 per cent (i.e. R14.7 billion against an available budget of R15.4 billion) was spent, resulting in under-expenditure of R725.4 million. In 2011/12 the Department spent 98 per cent (R16.4 billion against an available budget of R16.7 billion), thus incurring under-expenditure of R333.3 million. Recurring expenditure issues include:

- Delays in internal procurement processes.
- Under-spending on current payments due to vacant posts.
- Delays in payments for capital assets as a result of slow implementation of capital works projects and IT related projects.

**Irregular, fruitless, wasteful and unauthorised expenditure**

Unauthorised expenditure and material losses have been two of the areas of qualifications in this department. The Department incurred R526.5 million in unauthorised expenditure over the review period.

**Figure 24: Irregular, fruitless, wasteful and unauthorised expenditure**



Source: Auditor-General (2006/07-2010/11)

## SCOPA Resolutions and Implementation of SCOPA Recommendations

The Department appeared before SCOPA three times in the five year period. There was a hearing on 19 November 2008 for the 2007/08 Annual Report. Resolutions addressed the following issues:

**Table 32: SCOPA Resolutions on the 2007/08 Annual Report**

Area of focus	Issues raised by SCOPA
<b>Capital assets and incomplete Asset Register</b>	There were severe discrepancies in the Asset Register. Opening balances were changed by R162 million for land and buildings and by R805 million for buildings and machinery. An amount of R164 million worth of assets could not be accounted for.
<b>Under-spending</b>	The Department under-spent by R262 million on facilities in 2007/08 and R400 million in the previous year.
	The Department was unable to manage cash flow.
<b>Human Resources</b>	The vacancy rate in the Department was 11 per cent. In finance alone, there were 137 vacancies.
	The Department spent R3 million on consultants.

A second hearing was held on 27 January 2010 for the 2008/09 financial year. SCOPA resolutions addressed the following:

**Table 33: SCOPA Resolutions 2008/09**

Area of focus	Issues raised by SCOPA
<b>Internal Controls</b>	The Audit Committee had not fulfilled its responsibilities for the year as required by the PFMA.
	The Internal Audit Unit did not fulfill its responsibilities for the year as required by the Treasury Regulations.
	There were significant deficiencies in the design and implementation of internal control and risk management.

<b>Asset Management</b>	Assets were counted annually, but exceptions were not followed up timeously.
	Documentation relating to assets was not readily available for examination.
	The plans for the control of assets were in place, but they were not applied appropriately.
	Assets that were not captured on LOGIS <sup>66</sup> resulted in information not being available timeously for effective monitoring of events, activities and transactions to allow for prompt reaction.
	Assets that were recorded on the financial systems were not reconciled to the fixed Asset Register.
	Data that was recorded by information and financial systems was not compared with physical assets/stock and resulted in discrepancies.
	Management did not have a proper strategy in place to ensure that ongoing monitoring was effective, and the existing strategy was not being applied effectively with regard to asset management.
<b>Capacity Issues</b>	The Department had a high vacancy rate in critical occupations, e.g. nurses (25.4 per cent), pharmacists (44.4 per cent), medical practitioners (20 per cent), finance and economics related professionals (26.1 per cent), financial and related posts (47 per cent) and information technology (66.7 per cent).
	Inadequate training of personnel.
	The Human Resource (HR) plan had not been updated with projected information for the 2008/09 financial year.
	The HR plan provided only reflected projected information for the 2006/07 financial year.
<b>System-related Issues</b>	No proper reconciliations were performed between the Web Asset Tool (WAT) and LOGIS systems to ensure that all assets were captured.
	Lack of independent reviews by management caused shortcomings in internal controls.
	Inadequate policy and procedure manuals have resulted in incomprehensive business processes.
<b>Unauthorised Expenditure</b>	The Department incurred unauthorised expenditure amounting to R483 million as a result of implementing the Public Service Co-ordinating Bargaining Council (PSCBC) Resolution No. 1 of 2007 on the improvement of salaries and other conditions of service for the 2007/08 to 2010/11 financial years.

66 LOGIS is a provisioning, procurement and stock-control system which is highly adaptable to the requirements of any department. The structure or primary components of the system enable it to be implemented in any situation. LOGIS enables the recording and tracking of each serialised item (asset), thereby entrenching accountability and control. Items which are serialised are normally high-value, non-consumable items. These items are often issued to a sub-division or entity, and should be returned when no longer needed. LOGIS also enables asset verification, asset reporting and disposal of assets.

The Department appeared before SCOPA for the third time on 28 November 2011 for the 2010/11 financial year. The following issues were raised by SCOPA:

**Table 34: SCOPA Resolutions on the 2010/11 Annual Report**

Area of focus	Issues raised by SCOPA
<b>Movable tangible capital assets</b>	In terms of Chapter 9 of the Departmental Reporting Framework Guide, non-cash additions represent the fair value of all assets received in kind or donated (non-cash items) from sources outside Government during the 2010/11 financial year, and items transferred from another Government department without payment. Furthermore, this Guide states that the disposals indicate the cost amount as reflected in the Asset Register for all assets transferred to another Government department or donated to another entity outside Government.
	Included in the disclosure notes to the financial statements, non-cash additions stated at R306.9 million and disposals stated at R290.5 million were materially overstated by internal transfers of movable tangible capital assets between departmental stores. This resulted from failure/inability of the accounting system (LOGIS) used by the Department to account separately for internal transfers.
<b>Material losses</b>	The Department incurred material losses of R3.39 million as a result of significant losses in State vehicles amounting to R2.9 million, claims amounting to R218 000 as well as other losses amounting to R247 000.
<b>Expenditure management</b>	In certain cases expenditure was incurred without the approval of a delegated official as per the requirements of the PFMA and Treasury Regulations.
	Payments due to creditors were not always settled within 30 days from the receipt of an invoice as per the requirements of the PFMA.
<b>Unauthorised expenditure</b>	Unauthorised expenditure of R483 million was incurred by the Department as a result of implementing the Public Service Coordinating Bargaining Council (PSCBC) Resolution No. 1 of 2007 on the improvement in salaries and other conditions of service for the 2007/08 to 2010/11 financial years.
<b>Material under-spending of the budget</b>	Compensation of employees: Savings as a result of lower than anticipated expenditure due to non-filling of vacant posts before financial year-end as well as vacancies resulting from natural attrition.
	Goods and Services: net under-spending was mainly due to the late finalisation of the State Information Technology Agency (SITA) service level agreements for the information technology projects for the financial year, which ultimately resulted in the delayed finalisation of payments.
	Buildings and other fixed structures: Net under-spending was mainly due to lower than anticipated expenditure that arose from the slow progress and, as reported by the Department, poor workmanship by the Department of Public Works (DPW) contractors, delays in the DPW tender process and appointment of contractors as well as delays in the approval of a site valuation.

**Note**

As disclosed in the appropriation statement, the Department materially under-spent its total budget (vote). As at 31 March 2011, the under-spending amounted to R728.6 million.

The issues raised by the Committee in 2011 had also been raised by the Committee prior to the last hearing. The Department must ensure that SCOPA resolutions are implemented.

**VOTE 22: DEFENCE AND MILITARY VETERANS**

The Department of Defence and Military Veterans recorded under-expenditure on its allocated budget for each year of the review period. On average, the Department spent approximately 99.0 per cent of its allocated budget over the review period. The Department's highest under-expenditure was recorded in 2007/08 at R289.7 million followed by R161.7 million in 2010/11. At the end of the 2011/12 financial year, the Department had an unspent balance of R19.3 million.

**Irregular, fruitless, wasteful and unauthorised expenditure**

Table 35 below shows that the Department incurred R2.6 billion in irregular expenditure (most of which was incurred in the 2009/10 financial year), R12.2 million in fruitless and wasteful expenditure and R20.6 million in unauthorised expenditure in the period under review.

**Table 35: Irregular, fruitless, wasteful and unauthorised expenditure**

Year Incurred	Irregular Expenditure	Fruitless and Wasteful Expenditure	Unauthorised Expenditure
2006/07	R481 000	R959 000	R20 625 000
2007/08	R4 440 000	R55 000	R0
2008/09	R116 315 000 <sup>67</sup>	R4 596 000	R0
2009/10	R1 724 605 000 <sup>68</sup>	R6 065 000	R0
2010/11	R799 488 000 <sup>69</sup>	R491 000	R0

Source: Auditor-General (2006/07-2010/11)

**SCOPA Resolutions and Implementation of SCOPA Recommendations**

The Department of Defence appeared before SCOPA in February 2011 on the 2009/10 Annual Report and annual financial statements. Subsequent to the hearing, the following SCOPA resolutions and recommendations were adopted by the House:

67 This includes an amount of R47.573 million related to the previous financial year, but was discovered in the 2008/09 financial year and the was a condonement of R1.03 million in 2008/09.

68 This includes an amount of R721.731 million related to the previous financial year but was discovered in the 2009/10 financial year.

69 This includes an amount of R139 000 related to the previous financial year but was discovered in the 2010/11 financial year.

**Table 36: SCOPA Resolutions on the 2009/10 Annual Report**

Areas of Focus	Issues raised by SCOPA
<b>Tangible and intangible assets</b>	<b><i>The Committee recommended that the Accounting Officer ensures that:</i></b> Management implements a bar-coding system that will ensure that all tangible assets are identifiable.
	A verifiable Asset Register, which contains asset descriptions, dates on which they were acquired, as well as serial numbers is created and updated on a monthly basis.
	A dedicated asset management component is established within the Department to manage assets according to the National Treasury guidelines.
	All assets are classified according to the Standard Chart of Accounts (SCOA).
	There is improvement to the current system, or implementation of a new system, to ensure that asset values are in line with the accounting policy.
	All assets are valued as prescribed by the National Treasury.
	A proper system of record-keeping is implemented to ensure that documentation is readily available.
	Monthly reconciliations between the Financial Management System (FMS) and logistical system relating to additions and disposals of assets are performed.
	Policies and procedures relating to assets are amended to ensure that assets are counted annually before the end of each financial year.
<b>Restatement of corresponding figures</b>	<b><i>The Committee recommended that the Accounting Officer ensures that:</i></b> The financial statements and other information included in the Annual Report are checked and reviewed for completeness and accuracy prior to audit. All amendments to the financial statements and information should be done before the annual audit commences.
<b>Irregular expenditure</b>	<b><i>The Committee recommended that the Accounting Officer ensures that:</i></b> Appropriate disciplinary measures are taken against employees who were responsible for incurring irregular expenditure in terms of section 38(1) (h) (iii) of the PFMA.
	The Department implements effective, efficient and transparent financial and risk management processes.
	The Department strengthens its internal control systems in order to avoid incurring further irregular expenditure.



<b>Predetermined objectives – reliability of reported information</b>	<b><i>The Committee recommended that the Accounting Officer ensures that:</i></b>
	The planned and reported performance targets are specific, measurable and time-bound.
	The accomplishment of predetermined objectives and targets is continuously monitored.
<b>Non-compliance with laws and regulations</b>	Relevant supporting evidence is made available in future.
	<b><i>The Committee recommended that the Accounting Officer ensures that:</i></b>
	The Department adheres to the applicable laws and regulations: including the PFMA, Treasury Regulations, Defence Act (No. 42 of 2002), Public Service Act (No. 103 of 1994), and appropriate disciplinary measures are taken against officials who do not comply with laws and regulations.
<b>Internal controls -Leadership</b>	The Department has an effective Audit Committee that promotes independence, accountability and effective risk assessment.
	<b><i>The Committee recommended that the Accounting Officer ensures that:</i></b>
	The Department has a Risk Management Strategy, which must include a Fraud Prevention Plan.
<b>Internal controls -Governance</b>	There is oversight responsibility over financial reporting and internal control, and appropriate disciplinary measures are taken against individuals who fail to exercise this responsibility.
	<b><i>The Committee recommended that the Accounting Officer ensures that:</i></b>
	The Department has the necessary key controls in place to manage performance effectively, against predetermined objectives.
<b>Internal controls -Leadership</b>	There is ongoing monitoring of compliance with laws, regulations and policies.
	<b><i>The Committee recommended that the Accounting Officer ensures that:</i></b>
	The Department has a Fraud Prevention Plan that is reviewed on a continuous basis, and appropriate disciplinary measures are taken against individuals who do not adhere to it.
<b>Internal controls -Governance</b>	The internal audit function is fully operational throughout the year and assists in maintaining efficient and effective controls. The internal audit function should evaluate the controls on a continuous basis, and develop recommendations for improvement.
	<b><i>The Committee recommended that the Accounting Officer ensures that:</i></b>
	The Department appoints the Head of Internal Audit as a matter of urgency.

**Comment on SCOPA resolutions**

It appears that the Department has not implemented SCOPA resolutions as the Department received a qualified audit opinion in 2010/11. The main area of qualification was capital assets with emphasis of matter on non-compliance with laws and regulations.

## VOTE 23: INDEPENDENT POLICE INVESTIGATIVE DIRECTORATE

The Independent Police Investigative Directorate incurred 100 per cent expenditure in succession in 2007/08 and 2008/09. The lowest spending of 91.1 per cent (i.e. R106.1 million against an available budget of R116.5 million) was incurred in 2009/10, resulting in under-expenditure of R10.4 million. In 2010/11, expenditure of 97.7 per cent (i.e. R128.5 million against an available budget of R131.4 million) was incurred, resulting in under-expenditure of R2.9 million. Recurring expenditure issues include:

- Delays in the relocation of the national office;
- Non filling of vacancies, and
- Outstanding invoices.

### Assessment of Unbalanced Expenditure Trends

The Independent Police Investigative Directorate has spent an average of 65.2 per cent at the end of the third quarter, while recording an average of 96.3 per cent at the end of the fourth quarter for the period under review. The Independent Police Investigative Directorate spent 100 per cent of its budget in the 2011/12 financial year, recording slight over-expenditure on its Goods and Services budget.

Figure 25: Third and Fourth Quarter Expenditure<sup>70</sup>

2009/10	2010/11	2011/12
<ul style="list-style-type: none"> <li>• Under-expenditure mainly due to :</li> <li>• Slow spending on compensation of employees.</li> <li>• Slow spending on goods and services due to unpaid invoices.</li> <li>• Outstanding invoices for SITA and travel expenditure.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>3<sup>rd</sup> Quarter</b></li> <li>• Under-expenditure due to:</li> <li>• Late relocation of the national office</li> <li>• Lack of transfers to the SASSETA (training authority).</li> <li>• <b>4<sup>th</sup> Quarter</b></li> <li>• Slow expenditure for outstanding invoices for the relocation of the national office.</li> <li>• Slow spending due to non-completion of job evaluation for new identified posts.</li> <li>• Delays in the appointment of new staff as a result of organisational restructuring.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>3<sup>rd</sup> Quarter</b></li> <li>• Under-expenditure due to non-filling of funded posts.</li> <li>• Late implementation of performance evaluations.</li> <li>• Slow spending on advertisement, bursaries and accommodation.</li> <li>• Funds allocated to transfers and subsidies were earmarked to be spent at the end of the financial year.</li> <li>• <b>4<sup>th</sup> Quarter</b></li> <li>• Over-expenditure on the Goods and Services budgets of the following programmes:</li> <li>• Complaints Processing, Monitoring and Investigation Programme - 04.5 per cent</li> <li>• Information Management and Research Programme - 105.2 per cent), and the Administration Programme - 102.1 per cent.</li> </ul>

<sup>70</sup> SASSETA aims to develop an integrated education and training authority for the safety and security sector. SASSETA (Safety and Security Skills Education Training Authorities (SETA)) was formed on 1 July 2005 when the POSLECSETA (Police, Private Security, Legal, Correctional Services and Justice Sector Education and Training Authority) and DITETA (Diplomacy, Intelligence, Defence and Trade Education and Training Authority) were amalgamated.

### Irregular, fruitless, wasteful and unauthorised expenditure

The Independent Police Investigative Directorate incurred unauthorised expenditure amounting to R891 000, irregular expenditure amounting to R655 000 and R17 000 fruitless and wasteful expenditure over the period under review.

**Table 37: Irregular, fruitless, wasteful and unauthorised expenditure**

Year Incurred	Irregular Expenditure	Fruitless and Wasteful Expenditure	Unauthorised Expenditure
2006/07	R0	R0	R91 000
2007/08	R303 000	R0	R0
2008/09	R154 000	R14 000	R800 000
2009/10	R198 000	R0	R0
2010/11	R0	R3 000	R0

Source: Auditor-General (2006/07-2010/11)

### SCOPA Resolutions and Implementation of SCOPA Recommendations

The Independent Police Investigative Directorate appeared before the Standing Committee on Public Accounts in June 2008 for the 2006/07 Annual Report and annual financial statements. The following recommendations and resolutions were adopted by the House:

**Table 38: SCOPA Resolutions on the 2006/07 Annual Report**

Areas of focus	Issues raised by SCOPA
<b>Document Management System</b>	<b><i>The Committee recommended that the Accounting Authority should:</i></b> Implement an appropriate document management system to control all source documentation and to ensure accurate reconciliation at financial year end.
<b>Tangible assets</b>	<b><i>The Committee recommended that the Accounting Authority should:</i></b> Ensure that all assets have been recorded and uniquely bar coded.
<b>Minor assets</b>	All items with a value below R5 000 should be removed from the entity's list of capital assets.
<b>Human Resource Management Plan</b>	The Independent Police Investigative Directorate's Human Resource Plan should be updated in order to ensure that the entity complies with all human resource policies and guidelines.

The entity has made progress in implementing substantial SCOPA resolutions. The entity has reported that it has attended to most of the SCOPA resolutions on its 2008/09 Annual Report. The Independent Police Investigative Directorate received an unqualified audit opinion from the Auditor-General for both the 2009/10 and 2010/11 financial years.

## VOTE 24: JUSTICE AND CONSTITUTIONAL DEVELOPMENT

The Department of Justice and Constitutional Development recorded under-expenditure on its allocated budget in each year of the review period. The unspent budget balances over the review period collectively amounted to R391.7 million. The highest unspent budget balance was recorded in 2008/09 at R174.2 million followed by R106.3 million in 2010/11. At the end of the 2011/12 financial year, the Department had spent 99.9 per cent of its allocated budget, which was its best expenditure performance over the review period.

### Irregular, fruitless, wasteful and unauthorised expenditure

Table 39 below shows that the Department incurred R1.5 billion irregular expenditure, R24.1 million in fruitless and wasteful expenditure, and R185.6 million unauthorised expenditure during the period under review.

**Table 39: Irregular, fruitless, wasteful and unauthorised expenditure**

Year Incurred	Irregular Expenditure	Fruitless and Wasteful Expenditure	Unauthorised Expenditure
2006/07	R77 797 000	R2 797 000	R185 617 000
2007/08	R99 111 000	R0	R0
2008/09	R60 497 000	R17 800 000	R0
2009/10	R805 386 000	R2 261 000	R0
2010/11	R420 722 000	R1 232 000	R0

Source: Auditor-General (2006/07-2010/11)

The 2008/09 Annual Report indicates irregular expenditure amounting to R60 497 000; of which R25 495 000 was incurred in the 2007/08 financial year but only discovered in the 2008/09 financial year, and R35 002 000 was incurred in the 2008/09 financial year. Most of the irregular expenditure was condoned, resulting in a closing balance of R5 774 000 for the 2008/09 financial year. The Department has provided the following explanations in the 2009/10 Annual Report regarding the figures that do not match:

1. An amount of R69 000 was erroneously and included as irregular expenditure during the 2008/09 financial year relating to the 2009/10 financial year had been corrected. In addition, an amount of R34 615 000 previously disclosed as irregular expenditure in 2009/10 in respect of finance leases had been restated as R32 976 000 as a result of the Lease Project.
2. An amount of R34 615 000 reflected as condoned by the National Treasury in the 2008/09 financial year had been restated to R12 503 000. The amount was incorrectly classified as condoned in terms of finance leases entered into in respect of RT3 and in terms of Practice Note 5 of 2008/09. This means that the amount condoned by both the National Treasury and the Accounting Officer was not R109 076 000 as reflected in the 2008/09 Annual Report, but R85 964 000.

3. Irregular expenditure amounting to R681 913 000 identified as a result of the audit is included in the above amount. The Department indicated that the amount of R805 386 000 included R681 913 000 that was identified as a result of the audit. Furthermore, R680 454 000 of the 681 913 000 related to the erroneous application of the Broad Based Black Economic Empowerment Code of Good Practice instead of the Preferential Procurement Framework Regulations.

The closing balance on the 2009/10 Annual report reflected an amount of R812 374 000. However, the 2010/11 Annual Report reflects an opening balance of almost R 3 billion (R2 979 823). This includes an opening balance of R26 179 000; irregular expenditure of R766 264 000 for the 2009/10 financial year (which also includes an amount of R2 069 983 000 that was incurred in 2008/09 but only discovered in 2009/10) this amount was not reflected in either the 2008/09 nor 2009/10 Annual Reports. In explaining this, the Department has included a footnote in the Annual Financial Statements (Note 26.1) to indicate that the previous year's figures were restated as the amount for the incorrect application of the PPPFA instead of BBBEE had been qualified, and the amount was condoned by National Treasury on 24 June 2011. The Department further added that irregular expenditure could be understated due to a forensic investigation that had not been finalised at year-end.

### SCOPA Resolutions and Implementation of SCOPA Recommendations

The Department of Justice and Constitutional Development appeared before SCOPA in November 2010 for the 2009/10 Annual Report and annual financial statements. The following recommendations and SCOPA resolutions were adopted:

**Table 40: SCOPA Resolutions 2009/10**

Areas of Focus	Issues raised by SCOPA
<b>Irregular expenditure</b>	<p><b><i>The Committee recommended that the Accounting Officer should ensure that:</i></b></p> <p>Disciplinary actions are taken against employees who were responsible for incurring irregular and fruitless expenditure as required by section 51 (e) (iii) of the PFMA.</p>
	<p>The Department strengthens its internal control systems in order to avoid incurring further irregular expenditure.</p>

<b>Supply Chain Management issues</b>	<b><i>The Committee recommended that the Accounting Officer should ensure that:</i></b>
	The Departmental Supply Chain Management (SCM) policy be updated encompassing all the elements of the PFMA, Treasury Regulations, Preferential Procurement Framework Act (No. 5 of 2000), Preferential Procurement Regulations and SCM practice notes issued by the National Treasury that will ensure an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective.
	A checklist of all legislative requirements is kept for all SCM related transactions, signed by both the preparer and reviewer.
	A proper filing system for all information supporting SCM related transactions is kept.
	Critical vacancies in the SCM Unit are filled with adequately skilled officials.
	Early warning reports listing contracts that will soon expire are compiled; and new tender processes be entered into timeously.
	Monthly reconciliations should be undertaken in order to avoid non-compliance with SCM requirements.
	Internal audit scope with regard to SCM is increased to ensure that day to day controls are effectively implemented and all procurement complies with SCM legislative requirements.
	The total population of expenditure is revisited to determine the full extent of the non-compliance, which will lead to irregular expenditure.
Disciplinary measures are taken against all officials that do not comply with the legislative requirements surrounding SCM.	
<b>Internal Audit Unit</b>	<b><i>The Committee recommended that the Accounting Officer should ensure that:</i></b>
	A fully functional Audit Committee that promotes independence, accountability and service delivery is established.
	The internal audit function monitors the adequacy and implementation of internal control.
<b>Human Resources related issues</b>	Effective risk assessments and strategies, including Fraud Prevention Plans are maintained, to address identified weaknesses.
	<b><i>The Committee recommended that the Accounting Officer should ensure that:</i></b>
	Human Resource policies are developed and implemented.
	Department of Public Service and Administration policies and procedures are complied with.
<b>Asset Register</b>	The vacancy rate is reduced by appointing permanent senior management.
	Leave forms are timeously and correctly captured on PERSAL.
	<b><i>The Committee recommended that the Accounting Officer should ensure that:</i></b>
All capital assets are properly recorded as required by section 40 (1) (a) of the PFMA and Treasury Regulation 17.2.3.	
There is regular asset counting, verification and reconciliation in order to avoid incorrect disclosures in the annual financial statements.	

<b>Governance</b>	<b><i>The Committee recommended that the Accounting Officer should ensure that:</i></b> A monitoring system is developed that will address the adequacy of performance information.
	Such a system is frequently reviewed in order to address any gaps that are identified.
<b>Third Party Funds</b>	<b><i>The Committee recommended that the Accounting Officer should ensure that:</i></b> A proper financial system is developed or that the current features of the Justice Deposit Administration System (JDAS) are enhanced with the required controls to ensure complete, accurate and reliable financial information and reporting.
	The vacancies at court level are filled with adequately skilled officials.
	All fraud, cash shortages and losses are investigated timeously.
	Disciplinary measures are taken against every official that does not comply with policies and procedures or who was charged or found guilty of misconduct.
<b>Information systems and related issues</b>	<b><i>The Committee recommended that the Accounting Officer should ensure:</i></b> An IT Governance Framework is developed that directs the positioning of IT, resource requirements, service continuity in instances of data loss and risk and internal control management.
	Access control security is strengthened to ensure that no unauthorised access takes place.

**VOTE 25: POLICE**

The Department of Police spent 100 per cent of its budget for four of the five years under review, with the exception of the 2011/12 financial year, whereby the Department spent almost 99 per cent of its budget. Financial year 2011/12 expenditure issues related to the following:

- Under-spending on the Technology Management System due to the slow implementation of modernisation projects, and delays in completion of new police stations.
- Lower than expected expenditure on the Administration and Protection and Security Services programmes at 94.6 per cent and 97.9 per cent, respectively. This was due to the slow implementation of modernisation projects and delays in procurement processes in relation to machinery and equipment.
- Spending on Current Payments amounted to 98.8 per cent of the budget, primarily due to the slow spending on the Criminal Justice Sector Revamp projects under Goods and Services.
- Transfers and Subsidies spending was 8.8 percentage points higher than the budget due to transfers to provinces and municipalities for non-anticipated vehicle licence renewals, transfers to departmental agencies and accounts and transfers to Households for post-retirement benefits.

- Payment for Capital Assets at 99.8 per cent was marginally lower than expected, which was largely influenced by expenditure on buildings and other fixed structures (54.3 per cent) due to the non-performance of contractors and changes in the design and scope of projects by the Department of Public Works (DPW).
- The Department spent only 71.5 per cent (R669.9 million) of the earmarked amount for the construction and upgrading of police stations. The Department of Police asserts that the under-spending was, amongst others, due to delays in site clearance, changes in design and scope of projects and delays in the awarding of contracts for the construction of police stations.
- Only 83.5 per cent (R1.78 billion) of the earmarked amount for the Integrated Justice Sector (IJS) Programme was spent. This was a result of cumbersome procurement processes that were faced by the Department.
- Higher than expected spending occurred on the other three programmes:
  - Spending under Visible Policing was 1.1 per cent higher than budgeted due to increases in spending in compensation of employees as well as fuel and oil prices;
  - Detective Services at 102.5 per cent exceeded its budget by 2.5 per cent due to higher than anticipated spending on transport assets for the detectives; and
  - Spending under Crime Intelligence was marginally higher than the budget (0.5 per cent) due to the purchase of specialised equipment.

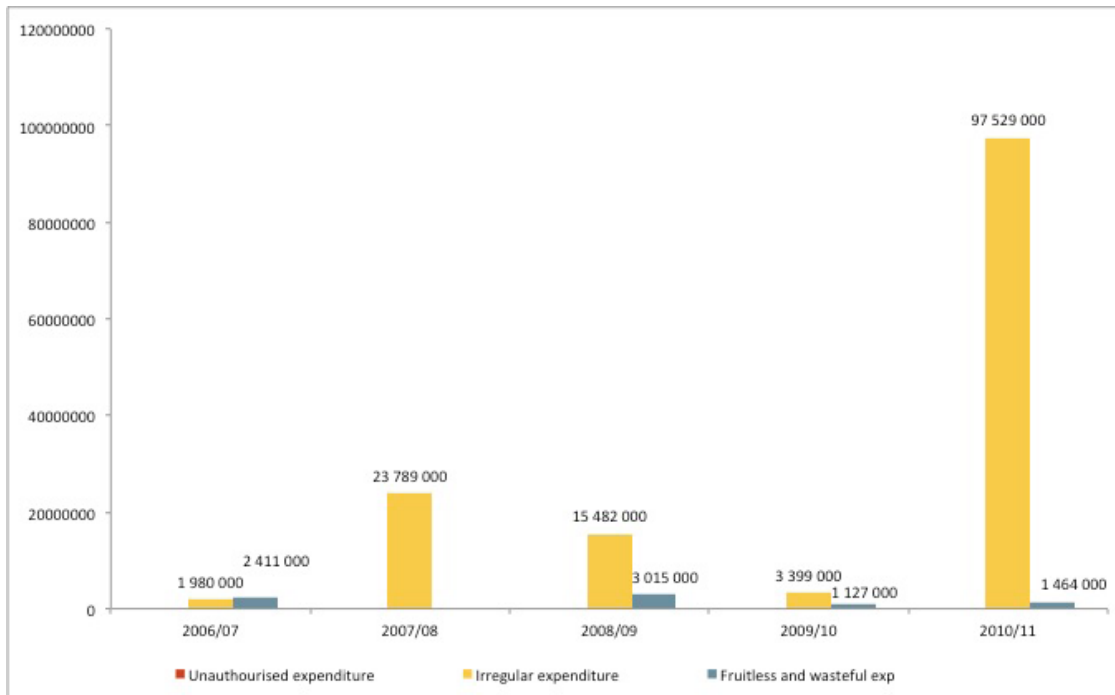
### **Irregular, fruitless, wasteful and unauthorised expenditure**

The Department of Police incurred irregular expenditure amounting to R142.2 million and R8.0 million in fruitless and wasteful expenditure. Most of the irregular expenditure was incurred in the 2010/11 financial year due to supply chain management irregularities. Irregular expenditure amounted to R23.8 million in 2007/08, and thereafter declined to R15.2 million in 2008/09 and R2.5 million in 2009/10 before increasing sharply to R76.2 million in 2010/11. The key findings on supply chain management include:

- Awards to state officials and their close family members;
- Uncompetitive or unfair procurement processes; and
- Inadequate contract management.<sup>71</sup>

<sup>71</sup> Auditor-General (2011)



**Figure 26: Irregular, fruitless, wasteful and unauthorised expenditure**

Source: Auditor-General (2006/07-2010/11)

### VOTE 26: AGRICULTURE, FORESTRY AND FISHERIES

The Department of Agriculture, Forestry and Fisheries (formerly the Department of Agriculture) spent 97.4 per cent and 99.3 per cent of its allocated budget in 2010/11 and 2011/12 respectively. The expenditure of 99.3 per cent in 2011/12 resulted in under-expenditure of R36.2 million. Under-spending was mainly due to:

- Membership fees and contributions to international organisations.
- Agricultural training institutions.
- Delays in executing projects.
- Several memorandums of understanding pending.
- Outstanding payments in Goods and Services.

## Assessment of Unbalanced Expenditure Trends

The Department of Agriculture, Forestry and Fisheries spent an average of 69.6 per cent at the end of the third quarter for the period under review, and a total average expenditure of 93.6 per cent.

**Figure 27: Third and Fourth Quarter Expenditure**

2009/10	2010/11	2011/12
<ul style="list-style-type: none"> <li>• Under-expenditure was due to:</li> <li>• Slow spending on programmes such as the Comprehensive Agricultural Support Programme (CASP), Illima Letsema project, Outsourcing Research consultants, and the Land Care Programme</li> </ul>	<ul style="list-style-type: none"> <li>• <b>3<sup>rd</sup> Quarter</b></li> <li>• Under-expenditure due to :                             <ul style="list-style-type: none"> <li>• Non-filling of vacant posts.</li> <li>• Unpaid invoices for Goods and Services.</li> <li>• Delays in the implementation of AgriBEE and Cooperative development projects.</li> </ul> </li> <li>• <b>4<sup>th</sup> Quarter</b></li> <li>• Slow spending due to:</li> <li>• Delays in the procurement of Goods and Services.</li> <li>• Slow spending on CASP and Illima Letsema conditional grants</li> <li>• Delays in the implementation of Lesotho Boarder Fencing projects</li> </ul>	<ul style="list-style-type: none"> <li>• <b>3<sup>rd</sup> Quarter</b></li> <li>• Under-expenditure mainly due to:                             <ul style="list-style-type: none"> <li>• The outsourcing of claims for foreign offices under Goods and Services.</li> <li>• Delays in the payment of prevention and mitigation of disaster risks.</li> <li>• Non-procurement of inventory items for the Primary Animal Health Care Programme.</li> <li>• Non-transfer of conditional grants to provinces.</li> </ul> </li> <li>• <b>4<sup>th</sup> Quarter</b></li> <li>• Expenditure consistent with other quarters</li> </ul>

## Agriculture Conditional Grant Expenditure

The national Department of Agriculture, Forestry and Fisheries is responsible for administering two Schedule Five grants, which are:

- The Illima/Letsema Projects Grant aimed at assisting vulnerable South African farming communities to increase agricultural production and improving farming skills.
- The Land Care Programme Grant: Poverty Relief and Infrastructure Development is aimed at enhancing the sustainable conservation of natural agriculture resources through a community-based participatory approach; creating job opportunities through the Expanded Public Works Programme; as well as creating an enabling environment for improved food security and poverty relief.

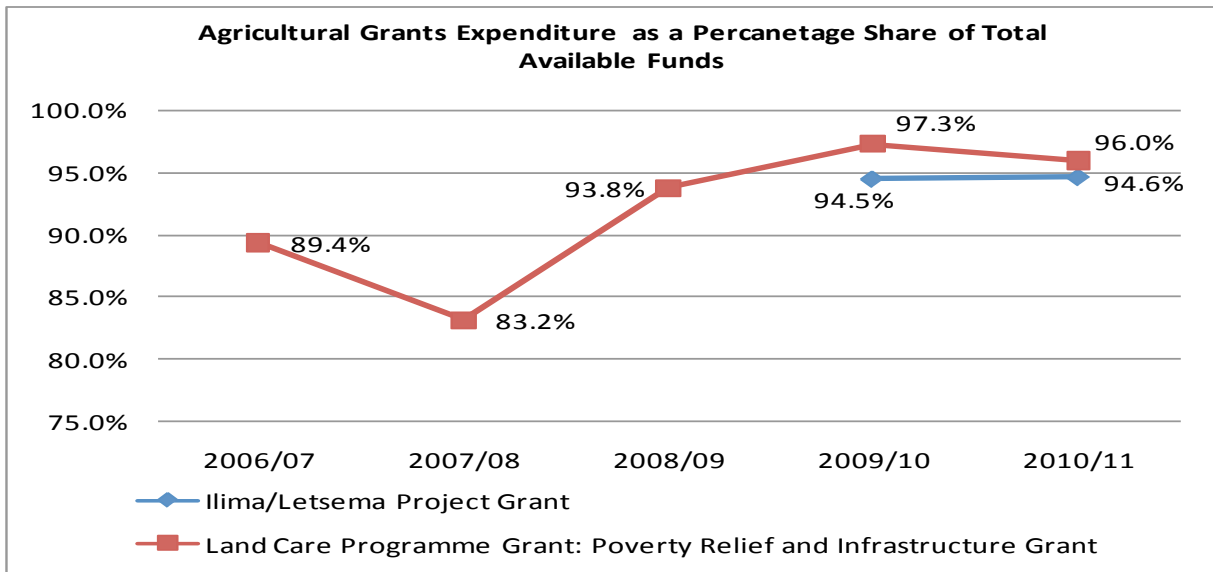
Figure 28 below illustrates conditional grant expenditure outcomes as a percentage share of total available funds<sup>72</sup> over the period 2006/07 to 2010/11. The Ilima/Letsema Projects Grant was first introduced in the 2008/09 financial year, with funding only being made available in the 2009/10 financial year. The expenditure performance of this Grant is relatively high, averaging just below 95.0 per cent.

In 2010/11, the Ilima/Letsema Projects Grant funding assisted with:

- The creation of 3 581 jobs compared to 1 053 jobs in 2009/10.
- Supported 75 207 beneficiaries/households compared to 12 967 beneficiaries/households in 2009/10.
- Planted 127 198 hectares compared to 8 029 hectares in 2009/10.<sup>73</sup>

Since the inception of the Ilima/Letsema Grant in 2008/09, the grant has assisted in increasing food production in the country through the provision of production inputs and the revitalisation of irrigation schemes.<sup>74</sup>

**Figure 28: Agriculture Conditional Grant Expenditure Trends for the period 2006/07 to 2010/11**



Source: National Treasury (2006/07-2010/11)

72 Total available funds include the allocation as set out in the Division of Revenue Act, any adjustments such as roll-overs or additions as set out in the Amended Division of Revenue Act and Provincial Adjustments Budget Documentation.

73 National Treasury (2011) and (2012)

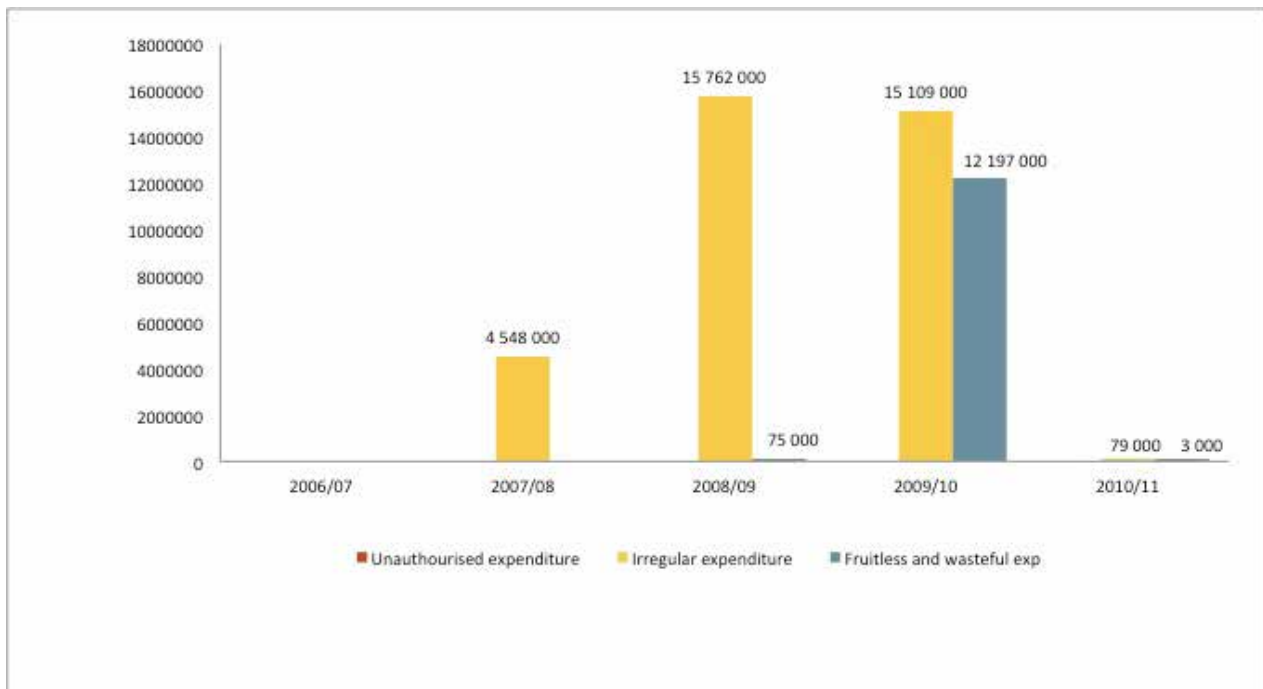
74 Department of Agriculture, Forestry and Fisheries (2010a)

As can be observed from Figure 28, the Land Care Programme Grant expenditure in 2006/07 amounted to 89.4 per cent and declined in 2007/08 to 83.2 per cent, after which expenditure grew over 2008/09 and 2009/10 before declining slightly by 1.3 per cent in 2010/11. Overall the expenditure performance of the Land Care Programme Grant averages approximately 91.8 per cent over the review period.

**Irregular, fruitless, wasteful and unauthorised expenditure**

The Department of Agriculture, Forestry and Fisheries incurred total irregular expenditure amounting to R35.5 million and fruitless and wasteful expenditure amounting to R12.3 million in the period under review.

**Figure 29: Irregular, fruitless, wasteful and unauthorised expenditure**



Source: Auditor-General (2006/07-2010/11)

**SCOPA Resolutions and Implementation of SCOPA Recommendations**

The Department appeared before SCOPA twice in the five year period. The hearing on 15 August 2007 dealt with the Auditor-General’s special report on the performance audit of the Import Inspection Services of the Department. The resolutions emanating from the hearing sought to address the following issues:

**Table 41: SCOPA Resolutions on the Auditor-General's special report on the performance audit of the Import Inspection Services of the Department of Agriculture – 2006/07**

Area of Focus	Issues raised by SCOPA
<b>Human Resources issues</b>	The entity was under-staffed, with a vacancy rate of 26 per cent.
	There was a shortage of skilled labour in the entity.
<b>Risk management and controls</b>	There was no Risk Management Plan to address outbreaks of diseases such as foot and mouth, and the registration and importation of products.
	Inspectors were not aware of all consignments to be inspected, and the Department relied on third parties at ports to inform the Department of the entry of goods.
	There were ineffective and incomplete procedures at various ports of entry.
<b>Internal Audit</b>	The Department was required to strengthen the Internal Audit System.

Although the Department received an unqualified audit opinion in 2005/06, SCOPA had concerns due to a number of findings by the Auditor-General. A hearing was held on 31 January 2007 on the findings of the 2005/06 Annual Report. SCOPA resolutions were to address the following:

**Table 42: SCOPA Resolutions on the 2005/06 Annual Report**

Area of focus	Issues raised by SCOPA
<b>Lack of supporting documents</b>	A lack of documented policies, which lead to deficiencies in the effective management of receipts, and a lack of reconciliation over revenue and licenses issued.
<b>Human Resources issues</b>	The vacancy rate of the Department stood at 26 per cent; which had been an on-going issue of concern in the Department.
<b>Debt Management</b>	A production loan scheme for emerging farmers ran between 1995 and 1997 as a three year pilot scheme. The Department granted loans through agencies, which were then availed to small-scale farmers in various areas. Many of the agencies complied with the conditions, but two of the agencies involved had failed to adhere to the terms of repayment.
<b>Internal Audit Unit</b>	Lack of effectiveness of the Internal Audit Unit.

## VOTE 27: COMMUNICATIONS

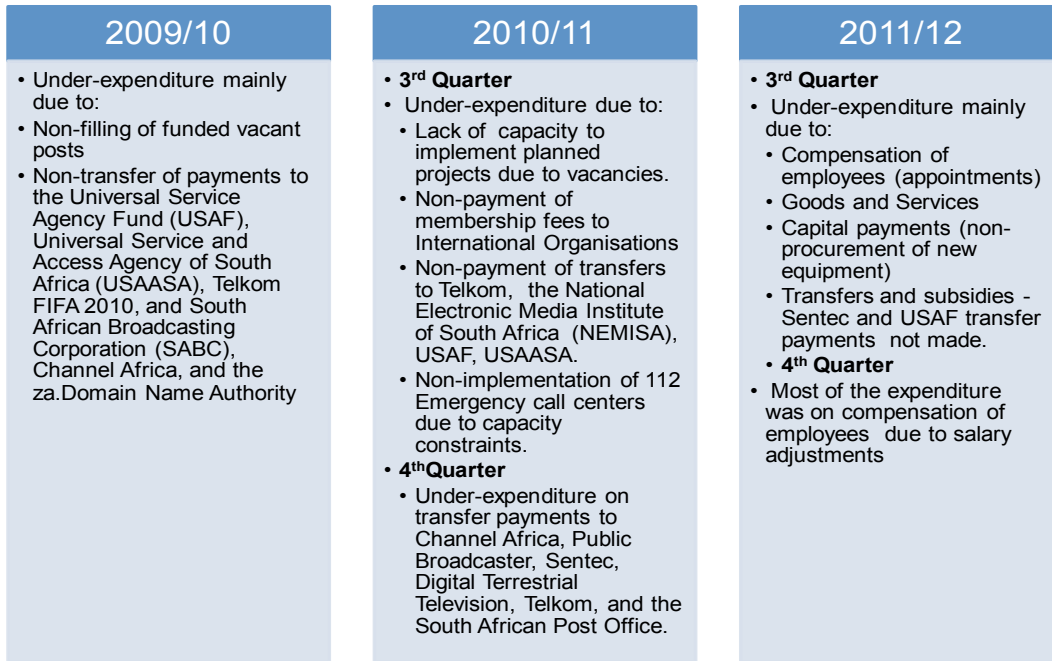
- The Department of Communications emerged as the worst spending Department with the lowest expenditure recorded of only 66.8 per cent (i.e. R1.4 billion against an available budget of R2.1 billion) in 2010/11. In fact, as shown in Table 1 and Figure 1, the Department of Communications is the only department that has ever spent below 80 per cent in the review period. In 2011/12 only 89.5 per cent was spent (R1.8 billion against an available budget of R2 billion), resulting in under-expenditure of R210.9 million. Under-expenditure was mainly due to:
  - Slow progress in the implementation of the Digital Migration Project and the manufacturing of the Set-Top-Boxes (STBs).
  - Unfilled vacant posts due to an ongoing organisational review, as well as a moratorium on the appointment of staff.
  - Delays in the implementation of the 112 Emergency Call Centre project.

### Assessment of Unbalanced Expenditure Trends

The Department of Communications has been the slowest spending Department in all three financial years. The Department spent an average of 51.1 per cent at the end of the third quarter, and 83.18 per cent at the end of the fourth quarter for the period under review. In 2011/12, the Department spent 46.13 per cent of its budget at the end of the third quarter and then went on to spend 43.4 per cent in the last quarter, thereby spending 89.47 per cent of its budget at the end of the financial year. In monetary terms, the Department spent R 923.8 million of its R2.0 billion budget allocation at the end of the third quarter of the 2011/12 financial year. In the last three months of 2011/12, the Department spent R 868 million, bringing the total expenditure to approximately R1.8 billion.

As indicated in Figure 30, most of the expenditure in the fourth quarter is due to Compensation of Employees, while under-expenditure resulted from non-spending of the Transfer and Capital Payments budgets.

**Figure 30: Third and Fourth Quarter Expenditure**



**Irregular, fruitless, wasteful and unauthorised expenditure**

The Department of Communications incurred irregular expenditure amounting to R26.0 million and fruitless and wasteful expenditure amounting to R2.2 million over the five year period.

**Table 43: Irregular, fruitless, wasteful and unauthorised expenditure**

Year Incurred	Irregular Expenditure	Fruitless and Wasteful Expenditure
2006/07	R8 625 000	R132 000
2007/08	R908 000	R555 000
2008/09	R5 111 000	R3000
2009/10	R24 202 000 <sup>75</sup>	R54 000
2010/11	R4 405 000 <sup>76</sup>	R1 661 000 <sup>77</sup>

Source: Auditor-General (2006/07-2010/11)

75 This includes an amount of R15.7 million related to the previous financial year but was discovered in the 2009/10 financial year.  
 76 This includes an amount of R1.6 million related to the previous financial year but was discovered in the 2010/11 financial year.  
 77 This includes an amount of R173 000 related to the previous financial year but was discovered in the 2010/11 financial year.

## VOTE 28: ECONOMIC DEVELOPMENT

The Department of Economic Development was established in 2009 and became operational in 2010/11. The Department spent 89.1 per cent of its allocated budget for 2010/11, thus recording an unspent balance of R48.9 million. The Department's expenditure improved in 2011/12 to 96.7 per cent, recording an unspent balance of R19.9 million at financial year-end.

### Irregular, fruitless, wasteful and unauthorised expenditure

The Department of Economic Development incurred fruitless expenditure amounting to R27 000 in the 2010/11 financial year, and did not incur any irregular or unauthorised expenditure.

## VOTE 29: ENERGY

The Department of Energy has successively incurred under-expenditure since its inception in 2009, with expenditure of 97.2 per cent in 2010/11 and 99.6 per cent (i.e. R6.17 billion against an available budget of R6.2 billion) in 2011/12, resulting in under-expenditure of R26.6 million. Recurring expenditure issues include:

- Delays associated with procurement processes for Goods and Services.
- Delays in transfer payments and outstanding order payments.
- Late receipt of invoices and subsequent delay in payments.

### Irregular, fruitless, wasteful and unauthorised Expenditure

The Department incurred unauthorised expenditure amounting to R14.9 million, and irregular expenditure amounting to R112.4 million in the 2010/11 financial year.

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## DEPARTMENT OF MINERALS AND ENERGY (2006/07-2009/10)

The expenditure analysis of the Department of Minerals and Energy covers the period 2007/08 to 2009/10, as it was separated into two departments due to the macro-reorganisation of the State in 2009. The Department of Minerals and Energy maintained an expenditure rate of 99.2 per cent on average in the first two years of the review period and thereafter expenditure declined to 97.1 per cent in 2009/10. The unspent budget balances amounted to R27.8 million in 2007/08, R24.0 million in 2008/09 and an elevated amount of R135.7 million in 2009/10.

The Department of Minerals and Energy incurred fruitless and wasteful expenditure worth R56 000 in the 2007/08 financial year and irregular expenditure amounting to R4.2 million in the 2009/10 financial year. The Department did not incur any unauthorised expenditure in the review period.

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### VOTE 30: ENVIRONMENTAL AFFAIRS

The Department of Environmental Affairs was established as a stand-alone department in 2009 as part of the macro-reorganisation of the State. The Department previously operated as the Department of Environmental Affairs and Tourism. The Department recorded expenditure of 96.0 per cent in 2010/11 and expenditure of 97.8 per cent in 2011/12. The unspent budget balances amounted to R98.7 million in 2010/11 and R93.0 million in 2011/12.

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

The Department has not incurred any irregular, fruitless, wasteful and unauthorised expenditure.

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#### **ENVIRONMENTAL AFFAIRS AND TOURISM (2006/07-2009/10)**

The expenditure analysis of the Department of Environmental Affairs and Tourism covers the period 2007/08 to 2009/10, as it was split into two separate departments following the macro-reorganisation of the State in 2009. Over the period under review, the Department under-spent its allocated budgets by a margin of less than 1 per cent. The Department spent 99.9 in 2007/08, 99.7 per cent in 2008/09 and 99.8 per cent in 2009/10. The unspent budget balances amounted to R1.7 million in 2007/08 and increased to R8.6 million in 2008/09 and R7.8 million in 2009/10.

The 2006/07 Annual Report reflected unauthorised expenditure amounting to R100 000. In 2007/08, the Department incurred fruitless and wasteful expenditure of R530 000, which was condoned in the same financial year. The Department further incurred irregular expenditure R155 000 which was condoned in the 2007/08 financial year.<sup>78</sup>

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### VOTE 31: HUMAN SETTLEMENTS

The Department of Human Settlements (formerly the Department of Housing) has successively incurred under-expenditure over the past five financial years. The lowest expenditure was in 2007/08 with 95.7 per cent (i.e. R8.6 billion against an available budget of R8.9 billion). In 2011/12, the Department spent 99 per cent (i.e. R22.6 billion against an available budget of R22.8 billion), resulting in under-expenditure of R226.6 million.

Recurring expenditure issues include:

- Under-expenditure has mostly been attributed to unfilled vacancies (including vacancies that were delayed due to the turn-around strategy undertaken by the Department), consultants' costs and acquisition in most programmes.

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<sup>78</sup> This information was sourced from the 2008/09 Annual Report of the Department.

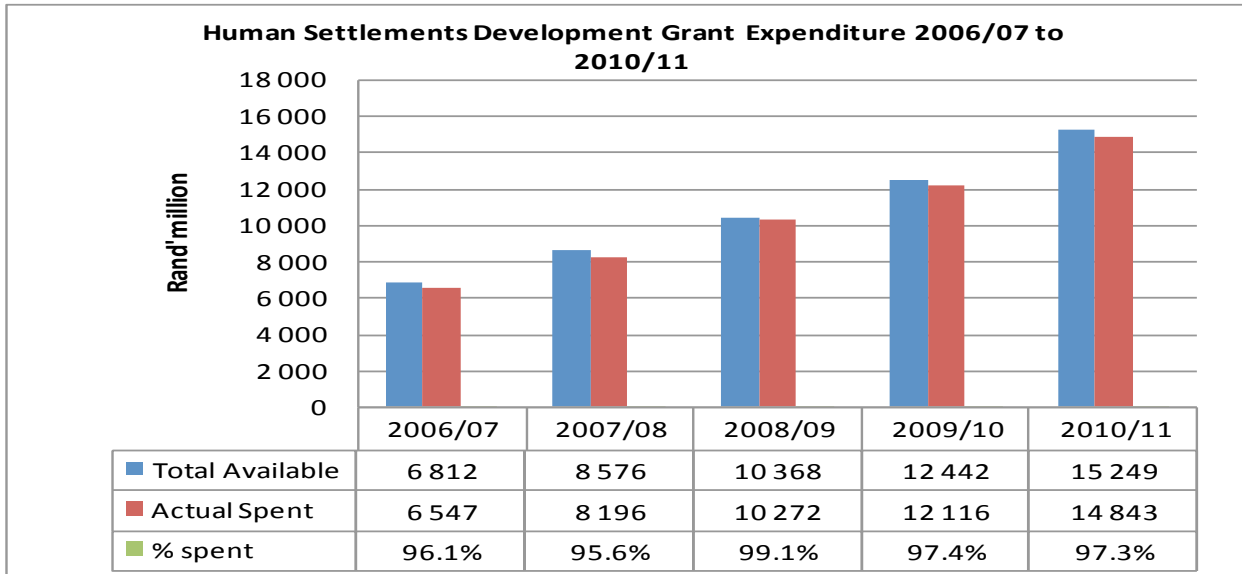
- Under-spending on the Accelerated Community Infrastructure Programme.
- Poor spending on the Rural Household Infrastructure Grant and on the Goods and Services budget related to the Housing Subsidy System, the Special Investigations Unit and office accommodation.
- Low spending on office furniture and equipment; adverts for recruitment and office accommodation, transport and travel and subsistence.
- In 2010/11, the Housing Policy, Research and Monitoring Programme under-spent on its budget due to delays in the roll-out of a new research framework, and in 2011/12, under-spending was attributed partly to less than expected spending on consultants undertaking housing research.
- Programmes under the Housing Planning and Delivery Support Programme, e.g. the Human Settlement planning for implementation of the community outreach programme and the Accelerated Community Infrastructure Programme recorded under-expenditure.
- Delays in the implementation of projects on the Rural Household Infrastructure Grant were due in turn to delays in procurement processes and the finalisation of appointing service providers.
- Delays in appointing service providers to maintain and render the necessary support to provinces on the Housing Subsidy System in 2010/11, as well as delays in payments for computer services related to the Housing Subsidy System.

### **Human Settlements Conditional Grant Expenditure**

The Human Settlements Development Grant is administered by the national Department of Human Settlements and is aimed at providing funding for the creation of sustainable human settlements.

The expenditure performance of the Human Settlements Development Grant over the review period averages approximately 97.2 per cent, about 3 per cent short of achieving full expenditure. The highest expenditure outcome for this grant was registered in 2008/09 at 99.1 per cent and the lowest expenditure outcome was 95.6 per cent in 2007/08.

**Figure 31: Human Settlements Conditional Grant Expenditure Trends for the period 2006/07 to 2010/11**



Source: National Treasury (2006/07-2010/11)

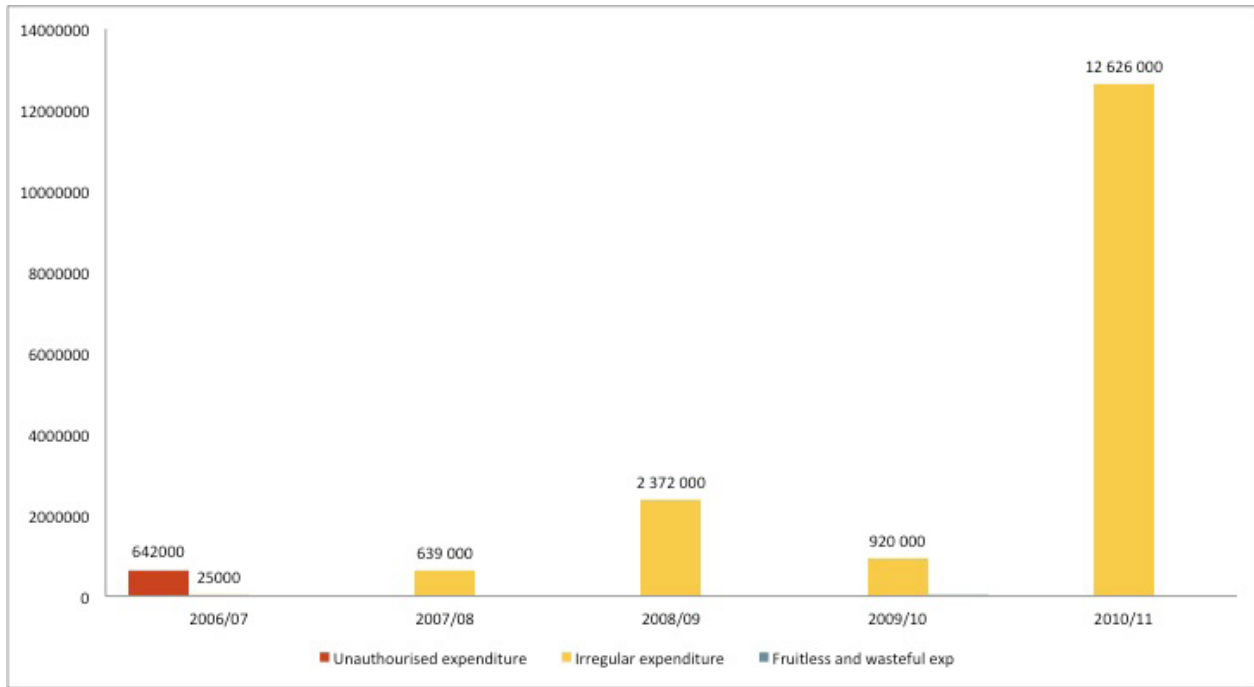
The outputs of this Grant include: financial interventions and measures that improve access to the property market; the number of informal settlement households upgraded; the number of social, rental and rural housing units developed; and the number of service sites developed.

**Irregular, fruitless, wasteful and unauthorised expenditure**

The Department of Human Settlements incurred irregular expenditure due to non-adherence to supply chain management regulations. Irregular expenditure increased from R639 000 in 2007/08 to R12.6 million in 2010/11, accumulating to R16.6 million over the five year period. An estimated 95 per cent of the irregular expenditure was due to supply chain management irregularities. The Department assured the Auditor-General that there are systems in place to ensure that irregular expenditure is adequately reported and disclosed in its financial statements.<sup>79</sup>

79 General Report on National Audit Outcomes (2010-11)

**Figure 32: Irregular, fruitless, wasteful and unauthorised expenditure**



Source: Auditor-General (2006/07-2010/11)

### VOTE 32: MINERAL RESOURCES

The Department of Mineral Resources has utilised its budget relatively well since its inception in 2009. The Department’s lowest expenditure of R99.1 per cent (i.e. R1.029 billion against an available budget of R1.038 billion) was incurred in 2011/12, resulting in under-expenditure of R9.5 million. Recurring expenditure issues include:

- Under-spending mostly related to delays in delivery,
- Late receipt of invoices and consequent delays in processing of payments in the procurement of goods and services.

The Department incurred Irregular expenditure amounting to R8.0 million and fruitless and wasteful expenditure amounting to R4 000 in the 2010/11 financial year.

## SCOPA Resolutions and Implementation of SCOPA Recommendations

The Department of Mineral Resources appeared before SCOPA in May 2012 in relation to the 2010/11 Annual Report and annual financial statements. However, no outcomes are disclosed as the SCOPA resolutions and recommendations have not yet been adopted by the House.

## VOTE 33: RURAL DEVELOPMENT AND LAND REFORM

The Department of Rural Development and Land Reform (previously the Department of Land Affairs) has successively incurred under-expenditure in the period under review. Expenditure of 91.6 per cent (i.e. R5.6 billion against an available budget of R6.4 billion) was incurred in 2009/10, resulting in under-expenditure of R536.4 million. In 2011/12, the Department spent R98.3 per cent (R7.9 billion against an available budget of R8.1 billion) thereby incurring under-expenditure of R138.9 million. Recurring expenditure issues include:

- Under-expenditure in current payments due to vacant posts as a result of restructuring of the Department and lengthy recruitment processes.
- Over-expenditure on transfers due to the need to speed up the land reform process.
- Delays in rolling out the Comprehensive Rural Development Programme.
- Consistent over-spending of the Restitution Programme due to a need to resolve restitution court cases. The exception has been the 2011/12 financial year, in which the Programme was below the projected target due to delays in settlement of restitution claims.
- Implementation of the Recapitalisation and Development Programme.

## Assessment of Unbalanced Expenditure Trends

The Department of Rural Development and Land Reform spent an average of 62.3 per cent by the end of the third quarter and 95.9 per cent at the end of the fourth quarter for the three-year review period. Although the Department generally under-spends on its budget, Figure 33 below indicates that there was over-expenditure in certain areas such as the payment of land restitution cases.

**Figure 33: Third and Fourth Quarter Expenditure**

2009/10	2010/11	2011/12
<ul style="list-style-type: none"> <li>• Under-expenditure due to lack of spending on the following programmes:                             <ul style="list-style-type: none"> <li>• Survey and Mapping Programme</li> <li>• Land Reform programme</li> <li>• South African Council for Planners subprogramme.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <b>3<sup>rd</sup> Quarter</b> Over-expenditure due to the payments of land restitution cases and land claims. The high number of court cases forced the Department to refocus its energy on restitution settlements.</li> <li>• <b>4<sup>th</sup> Quarter</b></li> <li>• Most expenditure was on Rural Development to roll out the National Comprehensive Rural Development Programme.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>3<sup>rd</sup> Quarter</b></li> <li>• Under-expenditure due to:                             <ul style="list-style-type: none"> <li>• Non-filling of vacant budgeted posts.</li> <li>• Delays in the settlements of restitution claims.</li> <li>• Slow spending on the Capital payments budget i.e. machinery and equipment</li> </ul> </li> <li>• <b>4<sup>th</sup> Quarter</b></li> <li>• Most expenditure was on Capital payments and Transfers and subsidies.</li> </ul>

**Irregular, fruitless, wasteful and unauthorised expenditure**

The Department incurred R158.8 million irregular expenditure and R81.6 million fruitless and wasteful expenditure in the period under review.

**Table 44: Irregular, fruitless, wasteful and unauthorised expenditure**

Year Incurred	Irregular Expenditure	Fruitless and Wasteful Expenditure
2006/07	R34 103 000	R473 000
2007/08	R0	R123 000
2008/09	R74 957 000 <sup>80</sup>	R4 864 000
2009/10	R4 177 000	R2 728 000
2010/11	R45 536 000	R73 406 000

Source: Auditor-General (2006/07-2010/11)

**SCOPA Resolutions and Implementation of SCOPA Recommendations**

The Department of Rural Development and Land Reform appeared before SCOPA in February 2008 related to the 2006/07 Annual Report and annual financial statements. The Department received the following SCOPA resolutions and recommendations:

<sup>80</sup> This includes an amount of R64,6 million related to the previous financial year but was discovered in the 2008/09 financial year.

**Table 45: SCOPA Resolutions 2006/07**

Areas of Focus	Issues raised by SCOPA
<b>Asset Management</b>	The Department's Asset Register should be regularly updated with disposals and lost assets.
	All lost assets should be written off and the reasons for the loss should be investigated. Moreover, action should be taken and controls should be improved to prevent any recurrences in future.
	The Department should comply with the requirements of the Asset Management Guidelines issued by National Treasury and report progress to the Committee every quarter.
	Controls relating to asset management should be put in place.
<b>Rental Receivable</b>	The Department should develop a comprehensive database of land leased by the Department, with sufficient information to ensure appropriate administration of the leased land.
	The Department should implement an adequate Debt Management System.
<b>Rental Revenue Receivable – Land Lease</b>	Provincial Departments of Agriculture should transfer all funds collected in terms of the Power of Attorney to the national Department of Rural Development and Land Reform (formerly Department of Land Affairs) as stipulated in their Memorandum of Understanding.
	Proper reconciliations between revenue receivable and revenue received should be done.
	All the information on all land available for leasing and disposal should be updated.

The Department appeared before SCOPA in March 2010 in relation to the 2008/09 financial statements. However, there were no SCOPA resolutions and recommendations given to the Department.

The Department also appeared before SCOPA in February 2012, but the SCOPA resolutions and recommendations have not yet been adopted by the House.

### **VOTE 34: SCIENCE AND TECHNOLOGY**

In 2007/08 and 2008/09, the Department of Science and Technology spent on average 99.0 per cent of its allocated budget. Thereafter expenditure by the Department declined to 98.0 per cent on average in 2009/10 and 2010/11. The Department's unspent budget balances increased sharply from R21.4 million in 2007/08 and R18.1 million in 2008/09 to R77.8 million in 2009/10 and R75.8 million in 2010/11. By the end of the 2011/12 financial year, the Department's expenditure improved to 99.9 per cent, thus recording its lowest unspent balance of R3.6 million over the review period.

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

The Department of Science and Technology incurred all its irregular, fruitless and wasteful expenditure in the 2010/11 financial year; i.e. R1.3 million irregular expenditure and R110 000 fruitless and wasteful expenditure. The Department did not incur any unauthorised expenditure during the period under review.

### VOTE 35: TOURISM

The Department of Tourism (previously the Department of Environmental Affairs and Tourism) was established as a stand-alone department in 2009 as part of the macro-reorganisation of the State. The Department of Tourism recorded expenditure of 96.6 per cent in 2010/11, which increased to 98.8 per cent in 2011/12. The unspent budget balances amounted to R40.3 million in 2010/11 and R14.7 million in 2011/12.

#### Irregular, fruitless, wasteful and unauthorised expenditure

The Department had incurred irregular expenditure of R208 000 and fruitful and wasteful expenditure of R28 000 in the 2010/11 financial year.

### VOTE 36: TRADE AND INDUSTRY

The Department of Trade and Industry consistently under-spent its budget allocations and recorded large unspent budget balances throughout the review period. The unspent amounts are as follows: R184.2 million in 2007/08; R77.5 million in 2008/09; R163.1 million in 2009/10; R400.0 million in 2010/11 and R75.5 million in 2011/12. The collective unspent budget balances amount to R900.3 million over the five-year review period.

#### Irregular, fruitless, wasteful and unauthorised expenditure

The Department incurred irregular expenditure amounting to R30.5 million, fruitless and wasteful expenditure amounting to R488 000 and unauthorised expenditure amounting to R72.6 million over the period under review.

**Table 46: Irregular, fruitless, wasteful and unauthorised expenditure**

Year Incurred	Irregular Expenditure	Fruitless and Wasteful Expenditure	Unauthorised Expenditure
2006/07 <sup>81</sup>	R0	R20 000	R72 551 000
2007/08	R0	R101 000	R0
2008/09	R251 000	R95 000	R0
2009/10	R1 889 000	R113 000	R0
2010/11	R28 323 000	R159 000	R0

Source: Auditor-General (2006/07-2010/11)

<sup>81</sup> Figures sourced from the 2007/08 Annual Report.



## VOTE 37: TRANSPORT

In 2007/08, the Department of Transport under-spent its allocated budget by R281.2 million, and subsequently overspent by R360.5 million in 2008/09 and R114.6 million in 2009/10 respectively. In the two latter years of the review period, the Department's expenditure slowed down to an average of 99.0 per cent, thus under-spending the budget allocations by R148.2 million for 2010/11 and R322.6 million in 2011/12.

### Irregular, fruitless, wasteful and unauthorised expenditure

The Department incurred irregular expenditure amounting to R44.5 million, fruitless and wasteful expenditure amounting to R4.6 million and unauthorised expenditure of R1.2 billion for the period under review.

**Table 47: Irregular, fruitless, wasteful and unauthorised expenditure**

Year Incurred	Irregular Expenditure	Fruitless and Wasteful Expenditure	Unauthorised Expenditure
2006/07	R19 622 000	R2 107 000	R3 123 000
2007/08	R26 000	R0	R0
2008/09	R3 260 000	R2 343 000	R844 980 000
2009/10	R951 000	R101 000	R362 394 000
2010/11	R20 646 052	R48 806	R0

Source: Auditor-General (2006/07-2010/11)

## VOTE 38: WATER AFFAIRS

The Department of Water Affairs successively incurred under-expenditure over the past five years under review. The slowest expenditure occurred in 2011/12, in which only 91.4 per cent (i.e. R8.2 billion against an available budget of R9 billion) was spent, resulting in under-expenditure of R778.8 million. The under-expenditure was mainly due to:

- Delays in the completion of capital projects (i.e. the building of Water Dams).
- Unfilled positions.
- Delays in the procurement of office equipment due to delays in the filling of vacant positions.
- Significant recurring under-expenditure in terms of transfers to the Water Trading Entity.
- Poor expenditure on the transfers to resource poor farmers and dam safety projects.

## Assessment of Unbalanced Expenditure Trends

The Department of Water Affairs spent an average of 59.3 per cent at the end of the third quarter over a three-year period, while recording an average of 95.2 per cent in terms of its fourth quarter expenditure for the period under review. In the 2011/12 financial year, the Department had spent 46.9 per cent of its budget by the end of the third quarter (i.e. R 4.2 billion of the R 9 billion). However, by the end of the financial year; the Department recorded a total expenditure of 91.3 per cent with an overall monetary expenditure of R8.2 billion.

**Figure 34: Third and Fourth Quarter Expenditure**

2009/10	2010/11	2011/12
<ul style="list-style-type: none"> <li>Under-expenditure was mainly due to :</li> <li>Vacant positions and high turnover rate</li> <li>Non-implementation of projects, e.g. poverty campaign, youth programmes and change journey.</li> </ul>	<ul style="list-style-type: none"> <li><b>3<sup>rd</sup> Quarter</b></li> <li>Under-expenditure due to :</li> <li>Non-filling of funded vacant posts</li> <li>Goods and services - outstanding invoices of office accommodation from DPW.</li> <li>Non-transfer of payments to the Water Trading Entity</li> <li><b>4<sup>th</sup> Quarter</b></li> <li>Slow spending due to non-filling of vacant post and Delays in the approval of projects underpinning the Masibambane programme.</li> </ul>	<ul style="list-style-type: none"> <li><b>3<sup>rd</sup> Quarter</b></li> <li>Under-expenditure was due to:                             <ul style="list-style-type: none"> <li>Non-filling of vacant budgeted posts.</li> <li>Late submission of invoices for goods and services from DPW and SITA.</li> <li>Unspent funds for Acid Mine Drainage</li> <li>Slow spending on Transfer payments to Rand Water Board.</li> <li>Delays in the appointments of implementing agencies for Nandoni, Inyaka and Hluhluwe Dam.</li> </ul> </li> <li><b>4<sup>th</sup> Quarter</b></li> <li>Over-expenditure on compensation of employees due to the Water Services Operating Subsidy Grant (130.7 per cent), and the African Ministers Council on Water (181.0 per cent).</li> </ul>

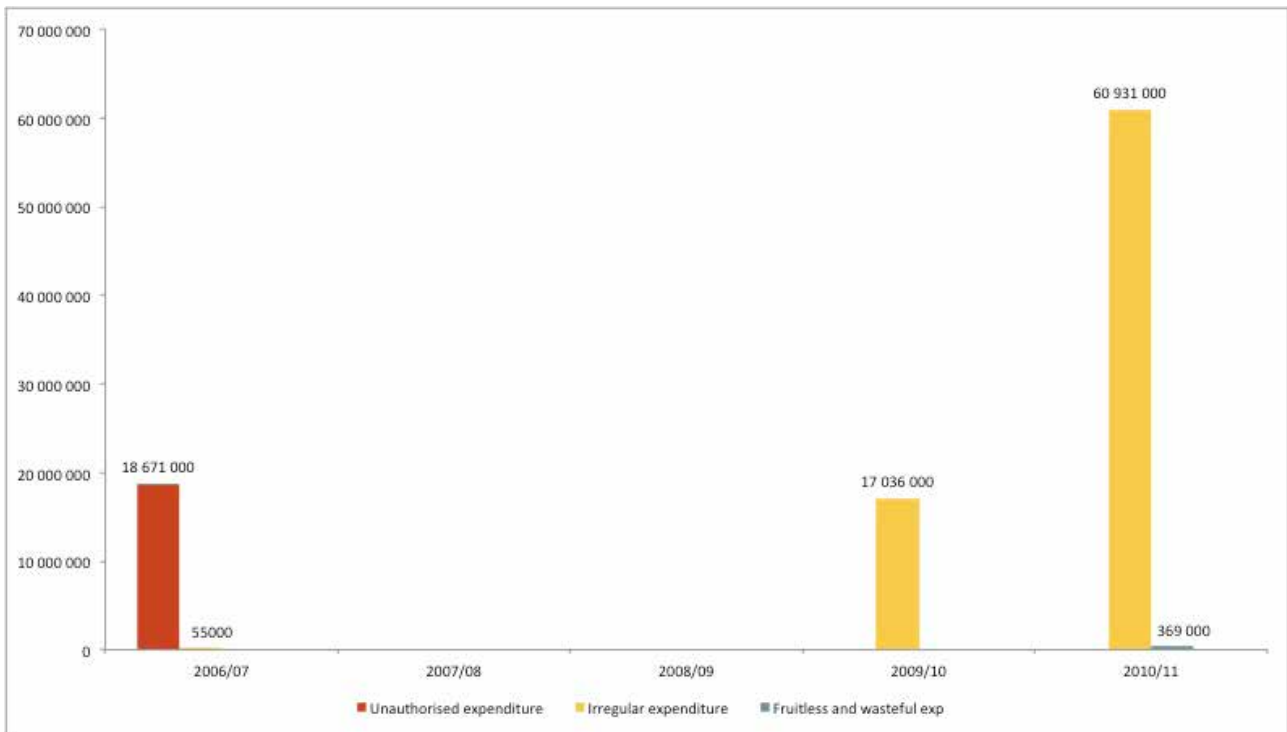
**Note:**

The Department of Water Affairs has to ensure stability at top management level. In 2010/11, there were a number of dismissals and suspensions especially in key positions such as the Chief Finance Officer (CFO), Deputy Director-General (DDG) and Chief Information Officer (CIO). There is also a skills shortage within the Department. Current control and reporting systems as well as the IT network are inadequate. Proper record keeping supporting financial reporting is also a major concern, including the prevention and detection of unauthorised, irregular as well as fruitless and wasteful expenditure within the Department and the Water Trading Entity.

### Irregular, fruitless, wasteful and unauthorised expenditure

The Department incurred a total of R78.0 million in irregular expenditure over the period, which increased from R17.0 million in 2009/10 to R60.9 million in 2010/11. Approximately 60 per cent of all irregular expenditure was due to supply chain management irregularities and 40 per cent to compensation of employees. In addition, unauthorised expenditure amounted to R18.7 million and fruitless and wasteful expenditure amounted to R369 000 in the period under review.

**Figure 35: Irregular, fruitless, wasteful and unauthorised expenditure**



Source: Auditor-General (2006/07-2010/11)

### SCOPA Resolutions and Implementation of SCOPA Recommendations

Implementation of SCOPA resolutions is a concern. The Department appeared before SCOPA three times in the five-year period. A hearing was held on 13 March 2007 to address issues leading to the qualification received in 2005/06. SCOPA resolutions were to address the following issues:

**Table 48: SCOPA Resolutions on the 2005/06 Annual Report**

Areas of focus	Issues raised by SCOPA
<b>Asset Management</b>  <i>The completeness, accuracy and validity of the Asset Register could not be verified as:</i>	The Basic Accounting Systems (BAS) and LOGIS were not reconciled.
	Assets purchased in that year could not be traced to the Asset Register.
	Physical existence of assets purchased in the current year could not be verified.
	Assets were not adequately safe-guarded as some of the assets were not bar-coded.
	Inconsistent use of LOGIS and manual registers in regional offices.
<b>Performance information</b>	The Department did not submit performance information for audit purposes.
<b>Monitoring</b>	An amount of R55.2 million was shifted from the capital budget to the current budget of the Water Services Programme (Programme 3) without obtaining approval from National Treasury.
	Unauthorised expenditure amounting to R3.7 million resulted from exceeding the budgets for Current Payments, Transfers and Subsidies.
<b>Non-compliance with legislation</b>	The Department did not comply with the requirements of the PFMA with regard to expenditure, and its bank account was overdrawn.

A second hearing was held on 27 February 2008 on the Annual Report for the 2006/07 financial year, and SCOPA resolutions were to address the following:

**Table 49: SCOPA Resolutions on the 2006/07 Annual Report**

Areas of focus	Issues raised by SCOPA
<b>Asset management</b>	The recording of assets was incomplete. Assets in the Asset Register could not be physically verified. Assets procured during the year could not be traced to the Asset Register.
<b>Effectiveness and capacitation of the Internal Audit Unit</b>	The Internal Audit Unit was not capacitated and not functioning effectively to ensure good governance.
<b>Delayed payment of invoice</b>	Invoices submitted for payment were delayed. The PFMA stipulates that payment of invoices must be done within 30 days of their receipt.

On 14 March 2011, the Department and the Water Trading Entity appeared before SCOPA to address issues raised in the 2009/10 Annual Report and the Special Report by the Auditor-General. The following issues were raised:

**Table 50: SCOPA Resolutions 2009/10**

<b>Areas of focus</b>	<b>Issues raised by SCOPA</b>
<b>Movable assets</b>	The value of movable assets in the Asset Register did not correspond to the assets in the financial statements. Supporting documents were not available to verify the correct amount of assets.
<b>Immovable assets</b>	The Asset Register for immovable assets was incomplete. Existence of assets to the value of R33 million could not be verified by auditors as there were no supporting documents.

The Special Report by the Auditor-General identified various supply chain management irregularities with regard to extension of several contracts, which is in contravention with departmental procurement processes, thereby resulting in irregular expenditure. The finding on capital assets is a recurring qualification from 2005/06 to 2010/11 and has been highlighted in all resolutions. The Department did not implement the SCOPA Resolutions outlined in the three hearings. The Department's failure to do so is a matter of concern.

# SECTION 3

## CONCLUSION AND RECOMMENDATIONS



## ISSUES OF CONSIDERATION FOR COMMITTEES

### General Recommendations

Departments have, over the five-year period, incurred R5.9 billion in irregular expenditure, R3.7 billion in unauthorised expenditure and R350.9 million in fruitless and wasteful expenditure as indicated in Table 51 below. The Departments of Defence and Military Veterans and Justice and Constitutional Development have incurred the most irregular expenditure, and the Department of Transport incurred the most unauthorised expenditure in monetary terms over the review period and this needs to be regulated.

**Table 51 Cumulative irregular, fruitless, wasteful and unauthorised expenditure incurred by departments over the five-year period**

DEPARTMENT	IRREGULAR	UNAUTHORISED	FRUITLESS
Presidency	33 428 000	48 075 000	0
Parliament	15 202 188	23 202 000	15 471 000
Cooperative governance and Traditional Affairs	50 147 000	67 510 000	360 000
Home Affairs	545 220 000	789 110 000	131 142 000
International Relations and Cooperation	526 000	104 816 000	0
Performance Monitoring and Evaluation	0	0	0
Public Works	67 806 000	403 967 000	37 987 000
Women, Children and People with Disabilities	6 629 000	3 729 000	1 000
Government Communication Information System	518 000	0	169 000
National Treasury	26 161 088	0	102 570
Public Enterprises	228 000	26 165 000	84 000
Public Service and Administration	22 523 000		583 000
Statistics South Africa	22 468 000	121 937 000	6 095 000
Arts and Culture	61 147 000	41 769 000	1 239 371
Basic Education	81 771 000	0	0
Health	47 169 000	0	2 892 000
Higher Education and Training	4 023 000	0	0

DEPARTMENT	IRREGULAR	UNAUTHORISED	FRUITLESS
Labour	73 421 000	1 260 000	0
Social Development	10 282 000	26 849 000	710 000
Sport and Recreation South Africa	60 184 000	1 538 000	7 163 000
Correctional Services	3 328 000	526 478 000	93 000
Defence and Military Veterans	2 645 329 000	20 625 000	12 166 000
Independent Police Investigative Directorate	655 000	891 000	17 000
Justice and Constitutional Development	1 463 513 000	185 617 000	24 090 000
Police	142 179 000	0	8 017 000
Agriculture, Forestry and Fisheries	35 498 000	0	12 275 000
Communications	43 251 000	0	2 405 000
Economic Development	0	0	27 000
Energy	112 363 000	14 860 000	0
Human Settlements	16 582 000	642 000	3 000
Mineral Resources	7 974 752	0	4 000
Rural Development and Land Reform	158 773 000	0	81 594 000
Environmental Affairs	0	0	0
Science and Technology	1 336 000	0	110 000
Tourism	208 000	0	28 000
Trade and Industry	30 463 000	72 551 000	488 000
Transport	44 505 052	1 210 497 000	4 599 806
Minerals and Energy	4 200 000	0	56 000
Environmental Affairs and Tourism	155 000	100 000	530 000
Water Affairs	78 022 000	18 671 000	369 000
<b>Total</b>	<b>5 917 188 080</b>	<b>3 710 859 000</b>	<b>350 870 747</b>



- Parliament should consider mechanisms to ensure that there is follow-up on SCOPA resolutions, including enforcing the implementation of SCOPA resolutions by departments. Portfolio Committees should play a critical role in interrogating all instances of unauthorised, irregular, fruitless and wasteful expenditure, and material losses; and this should not only be the responsibility of the Appropriations Committees and the Committee on Public Accounts. Departments' management of their public finances is central to ultimate service delivery; therefore Portfolio Committees should be regularly updated on all aspects of financial, budgetary and service delivery performance by their sector departments. Portfolio Committees can also assist by ensuring that departments comply with SCOPA recommendations, as this would greatly benefit government's service delivery programmes.
- The Portfolio Committee on Public Works should investigate the understated irregular expenditure of R16.5 million that was highlighted by the Auditor-General in 2009/10.
- The Auditor-General should be invited to brief Parliamentary Committees on the different possible areas of qualification and the seriousness and possible implications of these qualifications. The Auditor-General and National Treasury can also assist Committees in identifying areas Committees should focus on during oversight in terms of financial management and regulation within departments and entities.
- Most departments struggle with reporting non-financial information (leading to emphasis or qualification on predetermined objectives). An additional challenge is compliance with laws and regulations such as the PFMA and DoRA, as well as supply chain management regulations, which were continually raised by the Auditor-General during the five-year period.
- Vacant positions remains the main reason for slow spending in numerous departments, therefore strong parliamentary oversight is required. The failure to fill vacant positions has overarching implications in the capacitation and subsequent service delivery performance of government departments, and also negatively affects expenditure patterns. For example, under-expenditure due to a vacant position inevitably extends to the Goods and Services and Capital Payments budget. The procurement of new equipment and other office furniture can only be finalised once the vacancies are filled.
- None or late payment of outstanding invoices affect the growth and prospectus of small medium enterprises and the creation of jobs, which is contrary to government's stated priority to support these small businesses. Parliament should strengthen its oversight and scrutiny of departments' budgets to ensure that all outstanding invoices are paid as per Treasury Regulation 13.1.5 and there is value for every rand spent by government.
- Parliament should interrogate both the quarterly expenditure reports and quarterly performance reports of departments during the third and the fourth quarters to identify possible fiscal dumping and March Spike, and the associated expenditure irregularities.
- Portfolio and Select Committees should work closely with the Appropriations Committees and the Committee on Public Accounts in order to monitor expenditure trends and the financial position of

their sector departments. This would strengthen oversight as the Appropriations and Public Accounts Committees oversee the financial and budgetary responsibilities of departments, while Portfolio and Select Committees focus more on service delivery issues. The financial information emanating from the reports of the Appropriations and Public Accounts Committees is a crucial component of the overall oversight function over sector departments. In order to be optimally effective in overseeing departments, all Committees should consider linking both financial and non-financial information in order to get a global picture of the overall performance of departments. This is important given the extended role of Parliament to amend money bills, and the legislative requirement for Committees to compile annual Budget Review and Recommendation Reports to be tabled in the House.

### Department-Specific Issues

- The *Department of Public Works* should be closely monitored, given that it is the lead department responsible for implementing labour-intensive job creation programmes through the Expanded Public Works Programme. It is concerning that most of the under-spending of the Department is within the EPWP programme, particularly when considering its potential role in employment creation. The significant irregular and unauthorised expenditure incurred by the Department must also be monitored.
- The expenditure patterns and service delivery performance of the *Department of Women, Children and People with Disabilities* are concerning. The Department has been over-spending since inception, therefore intervention is required to curb undue over-spending, as well as to ensure that spending is in line with the mandate of the Department and that there is value for money.
- Under-spending by the *National Treasury* demands serious parliamentary scrutiny given its role as the custodian of public finances. National Treasury is expected to be exemplary to other government departments and agencies, especially given that it is responsible for the disbursement of essential grants to municipalities, and also performs a key public sector financial management and performance stewardship role. It is also concerning that the Auditor-General emphasised matters relating to oversight responsibility, non-compliance with laws and regulations and reporting by the National Treasury over the period under review.
- The Portfolio Committee on Justice and Constitutional Development should investigate the understated irregular expenditure that was high-lighted by the Auditor-General in the 2009/10 financial year. The Committee should invite the Department and the Auditor-General to provide a detailed report and explanation of the discrepancies between the closing and opening balances, condonement amounts, and figures not being reconcilable in the financial statements of the Department from the 2008/09 to 2010/11 financial years.
- The Department of *Water Affairs*' continued under-spending could significantly compromise the delivery of water, particularly to semi-urban and rural communities. This is particularly concerning, considering that water is one of the Constitutionally Mandated Basic Services. An additional factor to

consider is the service delivery protests and litigations that have plagued local government in recent years. This Department administers a massive budget, and received an allocation of R9 billion in the 2011/12 financial year. It is therefore important to ensure that these resources are used efficiently.

## CONCLUSION

The objective of this report is to provide Members of Committees with a five-year snapshot review of departmental financial and expenditure performance. Although the focus of the report is exclusively budgetary and focuses on expenditure information rather than performance information, it nevertheless provides a comprehensive look at all aspects of financial performance. The report will provide Committees with a starting point when considering issues of value for money within their sector departments. The information in this report will assist Portfolio Committees to monitor their sector departments' expenditure, and allow committees to probe deeper into service delivery performance information.

Scrutiny of the budget and financial information of departments is important as it fulfils Parliament's responsibility to carry out budgetary oversight over departments and State-owned entities. Monitoring the expenditure and financial controls of departments will assist in facilitating the improvement of audit outcomes. Departments that have improved their audit outcomes could attribute this to the implementation and effective monitoring of the three fundamentals of internal controls, i.e. leadership; financial and performance management, and governance. Failure to implement the three fundamentals may lead to negative outcomes or regression. Therefore, in addition to budget expenditure, Committees should be aware of the risk management strategies and internal control environment of their sector departments, as these ultimately affect expenditure performance and service delivery performance.

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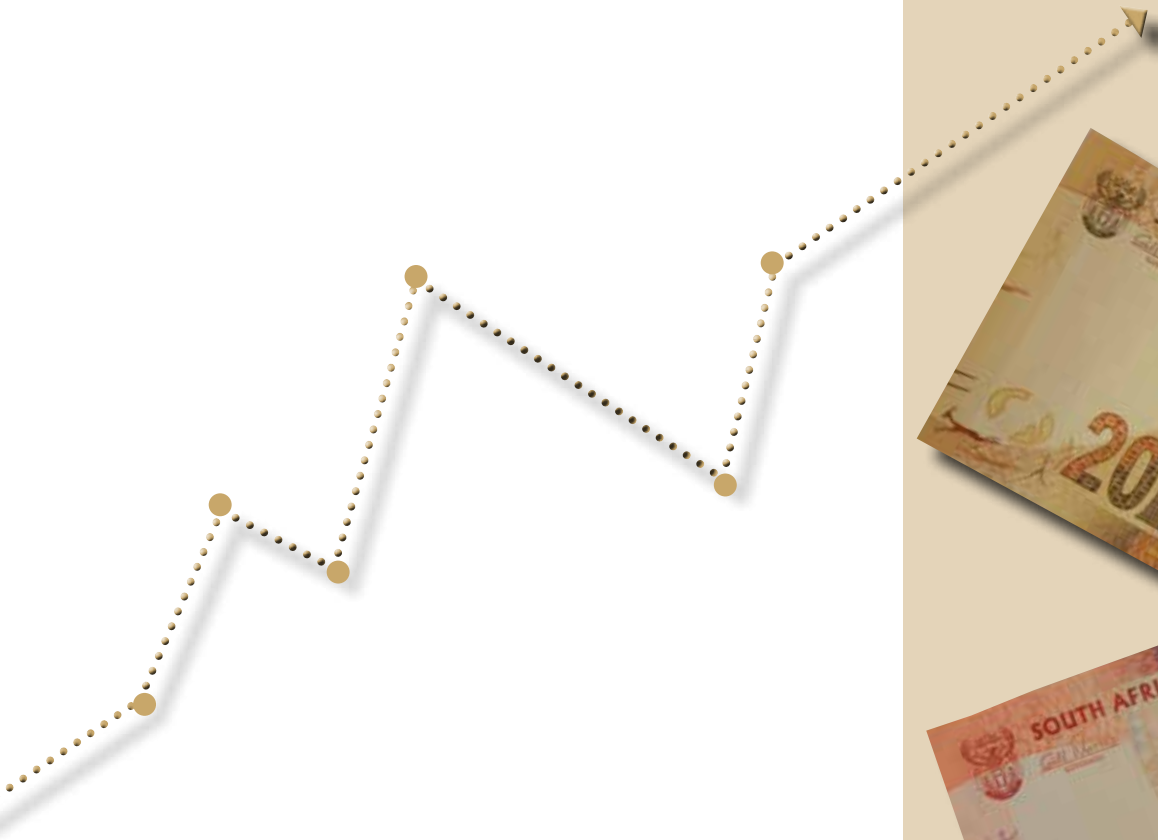
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**FIVE YEAR  
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2006/07 - 2010/11



PARLIAMENT OF THE REPUBLIC OF SOUTH AFRICA,  
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