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**Vision statement**

*“We will help, support and ensure that your Rand goes the EXTRA MILE”.*

**Mission statement**

“We, the Provincial Treasury, pledge to provide the KwaZulu-Natal Provincial Government with efficient and effective public-finance management support. This we will achieve by adhering to the highest standards in financial management, and by developing and implementing optimal systems and processes.”

**Legislative mandate**

The department’s mission clearly indicates the advisory nature of the services rendered by the department primarily in the financial management arena. The fundamental changes brought about by the Public Finance Management Act (PFMA) created significant challenges in terms of the reforms each provincial department is required to undertake. The philosophies and best practices contained in the PFMA form the basis of detailed practice notes currently being developed by the department to further reinforce the Treasury Regulations. The PFMA and Treasury Regulations clearly stipulate the mandate of the department.

The Bills of Exchange (Act 34 of 1964 as amended), Income Tax Act 58 of 1962 and the Banking Act govern the management of the Exchequer account and paymaster general account undertaken by the department. The amendments to this legislation have had a major impact on our internal and external clients. It has introduced certain restrictions aimed at fraud reduction, but the unintended consequence has been the effect of limits on transactions.

The KwaZulu-Natal Internal Audit Act (Act No. 3 of 2001) determines the activities, the reporting framework and the obligations of the Audit Committee and the Internal Audit unit, namely to:

- Facilitate risk assessment workshops for the various provincial departments to determine material risks and to evaluate the strategy for the management of those risks;
- Evaluate financial statements of the institution for reasonableness and fair presentation before submission to the Auditor - General;
- Comment on the effectiveness of internal controls and on the quality of monthly management reports in the annual report of the institution; and
- Report instances of fraud, corruption and gross negligence within the relevant structures.

In order for the Internal Audit Unit, resident in the department, to be able to successfully fulfil the statutory requirements, the Internal Audit Charter, Audit Committee Charter, and Internal Audit Procedures Manual prescripts were developed to guide the activities of the Unit.

The KwaZulu-Natal Procurement Act and accompanying regulations govern procurement activities undertaken by the department. Although this is fairly new legislation, the necessary procurement committees have already been established and are now in the process of implementing the required procedures and delegations. The procurement regulations have been drafted in accordance with the Preferential Procurement Policy Framework Act, which is also instrumental in the regulation of procurement. The Procurement Administration Office is presently compiling a Procurement Procedure Manual and revising the format of tender documentation with a view to ensuring the smooth operation of procurement within the province.

Human resource management is regulated through the Public Service Regulations, Constitution Act, No. 108 of 1996, Labour Relations Act, 66 of 1995, and Department of Public Service Administration policy statements.

At this stage there are no major changes anticipated in terms of the legislative and statutory mandate of the department. However, it is anticipated that the establishment of the Accounting Standards Board will have a major impact in terms of the accounting policies developed and the reciprocating amendments required to existing infrastructure and implementing agencies. It is anticipated that such policy changes will begin to take place in mid-2002 and will continue indefinitely.

### **Submission of the annual report to the Legislature**

I wish to formally table for the consideration of this House the Annual Report for Vote 6 : Department of Finance.

### **Achievement of Outcomes**

The strategic objectives set for the department's four divisions for the 2001/2002 financial year, as contained in the business plan, have in most instances been achieved and have provided the foundation for further development in the medium to long term.

In the first instance, the focus on efficient procurement and the continuation of reforms in terms of supporting previously disadvantaged individuals (PDI's) and small medium macro enterprise (SMME's) in order to ensure a fair and equitable process has continued, involving the development and implementation of procurement legislation, supporting structures, tendering procedures and purchasing systems.

Secondly, the Internal Audit Unit has continued to perform services on behalf of departmental accounting officers in order to minimise fraud, identify and thereby prevent business risks, and to proactively highlight internal control weaknesses. Significant developmental work has been finalised. Some key successes, as will become even more evident in the coming months, have already been achieved.

The third focus area – financial accounting - has seen a move to detailed reporting of both qualitative and quantitative information by each provincial department. This in turn has enabled accounting officers to identify potential business opportunities or risks, to monitor the performance of their organisation continuously throughout the period, and to comply with legislated requirements.

Finally, the emphasis on effective budget management has continued in the review period. This has resulted in controlled spending in terms of available resources and provincial priorities. The early warning system has provided an essential tool in ensuring that provincial spending is properly managed and controlled. Strategic interventions have been made possible by timely anticipation of problem areas.

### **Operating Environment**

As the department's core function is to provide advisory support to provincial departments primarily on financial matters, it was not surprising that the primary focus for the year under review has been on financial management reforms required in terms of the PFMA, and the issue of compliance with this most important piece of legislation.

In managing the process of implementing the many changes in financial management practice necessitated by the PFMA, the department adopted a flexible approach in order to meet the various needs of the client departments.

### **Outlook**

In the area of procurement, the reform process will continue unabated in the year ahead. The main objectives will be the capacitating of the procurement advisory service, and the expansion of supplier database functionalities to include an electronic purchasing/quotation module. This will not only help to reduce the risk of irregularities during the procurement process, but also greatly facilitate the procurement process itself.

It is intended to promote job creation and alleviate poverty – two important provincial policy priorities - by focusing on redesigning tender specifications and by promoting these factors when drafting tender documents. The procurement component will also assist the budgetary process of Departments with a better-programmed procurement system aimed at making the tendering process more efficient, and encouraging and facilitating forward planning for consistent budget expenditure.

Revised and simplified tender documents will be introduced which will formally give effect to the new procurement legislation and procurement delegations. The establishment of a Compliance Monitoring Section, which will monitor contract performance by suppliers and adherence to prescribed procurement procedures by participants in the procurement process, will also be undertaken in the 2002/03 financial year.

With regard to financial accounting and accounting practice, ongoing improvements in terms of disclosing financial statements in the annual reports is required in order to prepare provincial departments for the inevitable introduction of accrual accounting in terms of the PFMA. This will incorporate building a close relationship with National Treasury in order to synchronise system updates and policy development.

One of the major focus areas will be the management of assets, specifically in terms of recording and reporting procedures. In the absence of suitable long-term management systems, short-term solutions will be required with supporting policies and procedures suitable for our unique operating environment.

The appointment of the departmental information officer has highlighted the need for the development of an information technology strategy that will ensure that the long-term objectives of the department's operating systems are taken into consideration.

The Treasury Regulations require all payments to third parties of a value higher than R2000, to be processed through the electronic funds transfer medium. The department will be focusing on methodologies to ensure that the provincial departments comply with this requirement.

The focus of Internal Audit, for its part, will shift slightly in the coming months to ensuring that all processes in the client departments are audited and reported on. This is in line with the requirements for the audit committee to provide an opinion on the effectiveness of internal controls, which will cover a wider spectrum within the departments' operations. Our fundamental objective in this regard is to assist the Audit Committee to make an informed opinion on the effectiveness of internal control.

The Treasury Regulations dictate that Audit Committees also provide an opinion on the reliability of the monthly and quarterly reports and the Annual Financial Statements as presented by the provincial departments. To this end, a deliberate effort has been made in the past year to understand the environment within which internal audit operates whilst making recommendations on improvements of internal controls, building capacity within the unit, and conducting extensive research on how best these requirements can be fulfilled.

Internal Audit has invested a considerable amount of time and effort in conducting audit assignments, generating reports where findings are sighted to management and recommendations made, as well as liaising with client departments' management with a view of obtaining a commitment that those recommendations will be implemented. The year ahead will be spent on establishing whether these recommendations have, in fact, been implemented and evaluating the effects of those recommendations. This will add tremendous value to client departments and to the Unit itself, as its recommendations are only as good as they are effectively implemented.

Internal Audit will be investing in software that will enable the teams to utilize the best, global approach to internal auditing. This investment in technology will realize improvements in efficiencies, savings in time and costs charged to internal audit projects and assist in standardizing our internal audit approach.

With regards to the implementation of fraud prevention strategies, Internal Audit will endeavour, with the co-operation of client departments, to:

- analyse the external and operational risk factors relating to their environments in order to develop customized fraud prevention strategies; and
- assist with the implementation and the monitoring of the fraud prevention strategies.

At the request of client departments, the Unit will continue to carry out, facilitate and /or co-ordinate fraud detection and investigations within departments, make the necessary recommendation to management, and assist with the implementation of the recommendations.

In summary, during the year ahead the Department of Finance commits itself, in line with its stated mission, to assisting departments throughout the provincial government to continue implementing the many reforms in this new era of financial management in the public sector ushered in by the introduction of the PFMA.

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**PM MILLER**  
**MINISTER OF FINANCE**

**Introduction by the Head of the Department**

The comprehensive financial management reform process currently underway in the provincial government of KwaZulu-Natal has placed a number of exceptional demands on the Department of Finance. In order to be able to perform its core functions in an extremely challenging environment, the department has had to restructure itself as a professional and focused organisation with a unique blend of skills, expertise and experience. The fact that we have managed to achieve major successes this year can be ascribed in no small measure to the competence and professionalism of the department's management team, and the positive relationships which have been developed with client departments.

**Specific Achievements during the Year**

On the procurement front, the review period was characterized by the active involvement of the Procurement Administration Office in the promulgation of the KwaZulu-Natal Procurement Act of 2001 and the amendment subsequently promulgated on 14 December 2001. In addition, the office was instrumental in promulgating the Procurement Regulations, ensuring in the process conformance with the Preferential Procurement Framework Policy Act (PPFFA) and Regulations. Additional revisions were required to the procurement delegations, tender documents and tender conditions and procedures to ensure alignment with the new legislation.

The Procurement Administration Office has, subsequent to the implementation of the new Act, overseen the formation of the new Central Procurement Committee (CPC) which replaced the KZN Tender Board. The CPC hosted its first meeting during June 2001 and has had mandatory monthly meetings and *ad hoc* meetings as required. By year end 978 contracts had been awarded to the value of R1,088,415,000, of which 46 % was awarded to Previously Disadvantaged Individual's (PDI's), 18% to Small Medium Macro Enterprises (SMME's) and 36 % to other businesses.

In accordance with the Act, a new Appeals Tribunal was established. The Tribunal commenced duties on 1 December 2001 and has dealt with 13 appeals.

A very successful project involved the establishment of a Tender Information Centre in Pietermaritzburg, Housed on the ground floor of Treasury House, allowing easy public access, the Centre has been fully equipped with the required resources. In addition, a tollfree helpline has been installed specifically to deal with tender enquiries.

Measurable progress was also recorded with the suppliers' database, a project initiated with the twin objectives of improving communication between the Provincial Government and its suppliers and making procurement more accessible to the public. It is anticipated, furthermore, that the database will expedite the procurement process and enhance consistency, transparency and accountability in the awarding of contracts.

During the reporting period 8 446 applications were received for registration. Only 777 applications were, however, correctly submitted and could be fully registered on the database. The remaining suppliers are provisionally registered, pending receipt of outstanding information.

Other developments included the establishment of the Management Information System, currently in the process of being implemented, as a tool to track the progress of tenders on line, and a major effort to emphasise the potential of Provincial general period contracts as a means of stimulating the local economy. These efforts will be increased in 2002.

In the focal area of financial accounting, the department continued to devote a great deal of time and energy to the Financial Management Improvement Programme (FinMIP), established specifically to facilitate the implementation of the PFMA. In the period under review, the Department undertook to project manage the relationship between the consultants and the provincial departments. Largely as a result of the tremendous support which this programme continued to receive from the senior management of provincial departments, it was decided to extend the programme until June 2002. In its final phase, the emphasis of the programme shifted to the need to formalise implementation strategies and to ensure sustainability.

In a first for the provincial government, all provincial departments completed Annual Financial Statements, containing an Income Statement, Balance Sheet and Cash Flow Statement. What was especially pleasing was the fact that the Statements, for the year ending 31 March 2001, were completed on time and in the required format. National Treasury's format was enhanced by introducing additional elements aimed at providing useful local information to the reader.

Building on this success, provincial departments compiled interim financial statements for the period ending 30 September 2001. The format was again revised to introduce specific elements of accrual accounting. These included the disclosure of bad debts to be written off, trade creditors and fixed assets purchased during the reporting period. This process required continual support by the department to provincial departments, as they did not have the FinMIP consultants to assist them at the time. Furthermore, the amendments introduced provided an opportunity for departments to establish the required infrastructure in order to provide this type of information in the future when it becomes a statutory obligation. It bears mentioning that KwaZulu-Natal was the only province to introduce these elements of accrual accounting into the financial statements, and to produce interim financial statements.

In respect of financial reporting procedures, the department developed a useful management reporting tool to assist accounting officers to meet the rigorous requirements of the PFMA and other legislation during the period under review. Not only was the reporting format designed to enable accounting officers to provide the required information timeously, but it also serves as an aid to manage their responsibilities by providing them with up to date financial and performance information on a monthly basis according to a range of indicators and criteria. The reporting tool provides information on both qualitative and quantitative aspects and introduces information on general ledger reporting, risk management and service delivery indicators. This project has received both Cabinet and MEXCO support due to the exceptional value which the tool provides. The management tool was introduced to provincial departments in road shows held with the top management of each department, including in most cases the political head. This department served as an advisor and support to departments as they began to implement this tool from September 2001.

In a further effort to improve financial management performance through the sharing and exchange of information, a Chief Financial Officers forum was established in July 2001. The forum has already proved its worth as a means of promoting a strong and positive relationship between this department and the financial managers of all provincial departments.

The compilation and tabling of departmental Annual Reports became a statutory obligation with effect from the 2000/2001 financial year. The Department of Finance took the lead in developing a suitable generic format and framework for the Reports, ensuring that adequate support was given to departments to meet the reporting deadline of August 2001. It is pleasing to report that the province met the statutory requirement in this regard by timeously producing quality Annual Reports containing a great deal of useful information for both internal and external users.

The promulgation of the new Banking Act resulted in a major shift in the encashment of both provincial cheques and cheques received by provincial departments. Intensive communication strategies were implemented to ensure that both the public and all provincial officials were aware of the implications of the new Act and that the necessary changes were implemented.

In the field of cash management, the department revised its investment policy with a view to ensuring greater investment opportunities and the optimisation of revenue collection. As a result the department earned a substantial amount of interest on both the call account and the investments, totalling R237 266 000, as compared to R153 173 000 collected during the previous financial year. Unfortunately the cash surplus currently being experienced is anticipated to drop significantly due to the projected provincial spending pressures in the current financial year.

In an ongoing effort to improve efficiencies and service delivery, the department has continued to identify and devolve functions to departments where accountability for providing the specific service clearly resides with the departments in question and not with the Treasury. Examples of this devolvement have been in emolument attachment orders and the loss control function. Where possible the department has provided support in terms of expertise and resources.

The implementation of the Logistic Information System (LOGIS) has continued at a slower rate due to the pending investigation by National Treasury. As a result only four additional sites were completed. The Department of Agriculture now has LOGIS implemented in all its stores sites.

The Budget Office continued to vigorously manage and monitor the provincial budget through the use of the early warning system and the monthly reports. This enabled inter alia the early detection of potentially serious budget overruns in the departments of Health and Welfare. As a result dedicated meetings were held between the Treasury Committee and the two departments in question to ensure that the expenditure was controlled as far as practically possible.

It was encouraging to note an improvement in the reporting by departments on the collection of own revenue. It was also pleasing to note that some departments have in fact updated their tariffs when finalizing their budgets as required by the Treasury Regulations. Nevertheless, much remains to be done, and the province is still faced with a huge challenge in ensuring that the collection of own revenue is done efficiently and effectively. The Budget Office of the department, for its part, will focus a great deal of attention in the forthcoming financial year on the all-important issue of accurately budgeting for and managing the collection of own revenues.

In respect of the Internal Audit Component, the year under review was one of solid achievement and progress.

No less than 36 audits were conducted during the financial year.

Since its establishment in April 1999, the Risk Management Unit has conducted and finalised 14 theft, fraud and corruption investigations, involving a total amount of R4 790 772. In addition, it is noteworthy to mention that a total sum of no less than R4 504 928 in potential fraud and theft against the Provincial Government was prevented by the efforts of the Unit.

The above achievements apart, the Unit is also working hand-in-glove with the Directorate for Serious Offences in investigating and prosecuting various offences of fraud, theft and corruption against the Provincial Government. A total of 23 cases of fraud, theft and corruption against the Provincial Government are being investigated, involving the theft and fraudulent misappropriation of no less than R21 788 913.

Numerous criminal convictions involving a total amount of about R3 575 872 have been secured through the efforts of the said Forensic Unit. Amongst such convictions one must mention a precedent setting case where for the first time the Minimum Sentences Legislation was applied by the court when imposing sentence on a convicted fraudster.

A Fraud Prevention Framework for the Province has been developed and a process has begun whereby a customized Fraud Prevention Strategy for each provincial department will be implemented.

In sum, it will be clear from this Annual Report that the Department of Finance continues to live up to its stated Vision and Mission through the efficient execution of its core functions. It is with pride that I commit the department to achieving even greater successes in the year ahead – to this end the department will continue to provide a valuable service to its clients through the appointment of highly qualified personnel and continual improvements in existing processes and systems.

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**DSD SHABALALA**  
**HEAD OF DEPARTMENT**

## Financial Overview

During the previous financial year the department underwent a major realignment of its organisational structure, operations and services provided. As a result, the financial year under review was a period of consolidation and implementing the realignment through the appointment of suitably qualified personnel, provision of adequate infrastructure and making the necessary adjustments to programme structures.

In order to provide high quality services to provincial departments in terms of its stated mission, the department has not compromised on the appointment of highly qualified personnel with specific skills in the vacant managerial positions. This has proved an onerous and time-consuming task, as several positions have had to be re-advertised. As a result, the appointment of three senior general managers and two directors was only finalized during the latter part of the year. This has had a direct effect on the spending of the department in terms of personnel and administrative expenditure, with savings of R2,6 million and R2,8 million reflected respectively. The newly-established job evaluation unit in the department will help to ensure that the process of appointing personnel from the initial phase of evaluation to the final stage of the appointment will be highly efficient, thereby facilitating more accurate human resource budgeting and planning.

It is common practice to move funds between programmes in-year due to changes in priorities, based on the needs of our clients, and through the identification of areas of efficiencies, releasing funds, which can then be allocated to meet additional strategic objectives. Included in the original budget was an amount of R6m for professional and special services for the possible establishment of a Municipal Finance Control Unit in the department. This funding was not utilised in this financial year due to the delay in the promulgation of the Municipal Finance Bill. A portion of this saving was transferred to Internal Audit to fund the increase in the scope of audit work based on requests from provincial departments. The remainder of the saving was transferred to Accounting Control for the extension of the Financial Management Improvement Programme.

In addition, funds were shifted according to the realignment of specific activities. The registry funds relating to the function, bursary awards and advertisements for vacant posts were transferred from Accounting Control to Transverse Support as these are transversal functions and are more appropriately located under this programme.

## Expenditure

The financial performance of the department for the 2001/2002 financial year is detailed in the Income Statement. The table below summarises the actual expenditure for the year as compared to the voted funds per programme. As illustrated, the four programmes remained within their budgetary constraints. The two areas of significant underspending were Accounting Control and Internal Audit.

<b>Programme</b>	<b>Voted Funds</b>	<b>Actual Expenditure</b>	<b>Under/(Over)</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
Transverse support	8,103	7,607	496
Budget management	4,241	3,803	438
Accounting control	106,524	60,994	45,530
Internal audit	25,440	19,973	5,467
Special Functions	0	8,467	(8,467)
<b>Total Expenditure</b>	<b>144,308</b>	<b>100,844</b>	<b>43,464</b>

Firstly, Accounting Control reflects a saving of R45,5 million. The majority of this saving reflects the remainder of the provincial financial management reserve of R37,8 million, following the allocation to provincial departments during the adjustment estimates in September. An additional R2 million can be accounted for by accounts payable for services rendered at year end. The balance relates primarily to the decreased implementation of Logis, resulting in savings of ± R2,4 million in equipment.

Secondly, Internal Audit reflects a saving of R5 467 000. Several additional posts were created for the provincial internal audit unit during the 2000/2001 realignment process. The filling of the posts began during the year but unfortunately did not progress at the rate at which they were budgeted for and 19 posts remained vacant at year end. This has had a direct bearing on administrative and other related costs. Furthermore, there has been a reduction in the utilisation of the Integritas consortium as more in-house staff became capacitated to undertake the required audits and investigations, thereby resulting in further savings.

The amount reflected under special functions relates to debts identified for write-off based on the departmental debt write off policy, such as the expiration of the prescription period and consideration of the cost in undertaking collection of these debts versus the value of the debt. 95% of the debts are provincial debts dating back to 1994/95 in respect of services undertaken between national and provincial departments and do not reflect a loss of revenue to the state. The Auditor-General is satisfied that the debts should be written off in an attempt to clear the long outstanding balances.

### **Revenue**

The department does not undertake services which generate income and as a result the primary source of revenue for this department is the interest earned on the surplus funds in the provincial bank accounts maintained by this department. Interest of R237 million was earned for the year as compared to the R153 million in the 2000/2001 financial year.

This amount is made up of interest earned on positive bank balances and funds invested. Sound cash management resulted in surplus funds being invested in financial institutions at higher rates of return than would have been received in the Paymaster General Account. The increase is due to the favorable interest rates, additional cash reserves and the increase in investment limits with the approved investing institutions.

Other income of R84 million (R79 million: 2001) is made up of material losses recovered, cheques written back and commission earned on personnel deduction payovers. Due to the nature of the income, this amount will vary unpredictably from year to year.

### **Programme Review**

Vote 6 is made up of four programmes, namely Transverse Support, Budget Management, Chief Financial Office and Internal Audit. The purpose and the expenditure trends of each of these programmes are described in detail below.

## PROGRAMME ONE: TRANSVERSE SUPPORT

This programme consists of the Ministry and Management sub-programmes.

### Aim

To render a support service to all directorates to enable the department to realise its vision and to ensure that the department carries its social responsibility with great conviction through an efficient Human Resource Management, Ministerial support and Communication function.

### Achievements

The establishment and training of job analysts and panellists for the departmental job evaluation unit in February 2002 resulted in 10 vacant positions being evaluated by year-end. A significant increase in activities is anticipated in the forthcoming year.

The Human Resource Development and Training Committee was established during the year and led to an improvement in both the awarding and monitoring of bursaries in the department. A training plan is currently being compiled to ensure that the development of skills is in line with progression within the department.

An appeals authority to consider disciplinary appeals has been set up to ensure that grievances are dealt with effectively.

### Overview and Key Policy Developments

The Employment Equity Plan has been developed and will be presented to organised labour to obtain their support before the plan is finalised for implementation. The component is in the process of drafting the Skills Development Plan to ensure employees have the necessary skills relevant to the department's core functions.

The departmental operational human relations policies have been finalized and distributed to role players.

### Output and Service Delivery Trends

Original targets set in the Medium-Term Expenditure Estimate		Report Against Targets
Outputs	Service delivery indicators	Status
Development of Departmental operational policies	Improve on the Human Resource Management Processes	Finalised and distributed to all line managers
Provision of an effective Labour Relations service	Effective management of all Labour Relations Processes such as discipline and grievances	There is marked improvement in the handling of discipline and grievances
Provision of Legal Advisory Service to the Department	Default judgments against the department have been eliminated and matters requiring legal representation have been co-ordinated efficiently	Ongoing - the capacity in this regard will be improved with the appointment of the Chief Legal Advisor who will assume duty on 01/09/2002
Management of all personnel related processes	Provide both personnel utilisation and provisioning. Improved management of leave, state guarantees, bursaries, appointment and exist, merit and personnel profiles	Marked improvement in these areas. This is an ongoing process

## **PROGRAMME TWO: BUDGET MANAGEMENT**

### **Aim**

To formulate and review policies and legislation which have financial implications, to co-ordinate provincial estimates, as well as to monitor provincial expenditure.

### **Achievements**

The Early Warning System reports due to National Treasury on the 22<sup>nd</sup> of every month were submitted timeously, based on the monthly and quarterly reports on provincial departments' revenue and expenditure reports. Analysis of the monthly expenditure and revenue reports and quarterly bi-lateral meetings by the Treasury Committee enabled early action to be taken to minimise the impact of the projected over-expenditure in two key social service departments. Similarly, affected departments were advised on how to manage their budgets so as to minimise the under-expenditure anticipated in terms of the infrastructure allocations. These departments were given detailed advice, which enabled them to deal with the bottlenecks that were causing a delay in spending the allocated funds.

For the first time in 2001/02, departments making transfers from the Provincial Revenue Fund to municipalities had to gazette those transfers before the actual transfers could be effected. The Budget Office was charged with the responsibility to coordinate the gazetting of the transfers as well as the monitoring of the actual transfers and expenditure trends. This was successfully done and the monthly reports on transfers to municipalities were submitted to National Treasury.

The additional provincial own revenue generated through improved cashflow and management of interest bearing investments was allocated to departments during the adjustments estimate tabled in November 2001.

The budget planning unit developed a budget assessment tool, which was used to evaluate requests for additional funding. The tool was used to make recommendations to the MinComBud (Ministers Committee on the Budget) and Cabinet on additional allocations to various departments.

The budget submissions by the departments for 2002/03 included, for the first time, performance measures and targets. This was due to the implementation of the performance budgeting guideline document that was approved by Cabinet in January 2001. The inclusion of performance measures in the budget documents for 2002/03 represented a major shift from the traditional way of budgeting. For the first time departments have set out clear performance measures and targets that they will be reporting on in their annual reports.

### **Overview and key policy developments**

The unit was re-structured during the review period to reflect its core functions, namely policy and planning, budget management and budget planning units. Owing to capacity constraints, however, the Budget Office adopted a project team approach to all the activities of the component during the period under review. Specific project teams drawn from all three of the abovementioned units were established to perform the main Budget Office tasks. An added advantage of this approach was that all members of the Budget Office were exposed to the whole spectrum of Budget Office and Treasury functions, enhancing their understanding of public financial management issues in the process.

In 2000, the procurement component was moved to the newly established Accounting Control Branch within the Provincial Treasury. During the course of 2001, this decision was reversed and the procurement component moved back to Budget Office. However, for financial reporting purposes, this change will only be effected in 2002/03. The Senior General Manager, who was appointed in April 2001, heads both the Budget and Procurement Offices.

## Output and Service Delivery Trends

Original targets set in the Medium-Term Expenditure Estimate		Report Against Targets
Outputs	Service delivery indicators	Status
Fiscal Policy advice	Accurate and detailed recommendations	Completed
Research papers	Timely and quality papers	Five completed
Monthly budget monitoring report	Timely and accurate reports	Completed
Quarterly budget monitoring report	Timely, accurate and well detailed reports	Completed
Adjustments Estimates	Accurate, timely, balanced estimates	Tabled
Treasury Guideline Document	Timely, accurate, user-friendly document	Completed
Budget Statements Format	Timely, accurate, user-friendly document	Completed
Budget Submission Evaluation Tool	Timely, objective evaluation tool	Completed
Main Estimates	Accurate, timely, balanced estimates	Tabled

## **PROGRAMME THREE: ACCOUNTS CONTROL**

### **Aim**

The purpose of this programme is to provide financial management support in terms of policies, procedures and systems.

This programme is made up of 4 sub-programmes namely: -

1. Chief Financial Office
2. Revenue Management
3. Systems and Training
4. Procurement

### ***Sub-Programme: Chief Financial Office***

The purpose of this sub-programme is to provide financial support, maintain financial records, and provide financial management advice to the department.

### **Achievements**

This component has played a fundamental role in the project management of the consultants appointed to assist the province with FinMIP. Co-ordination of all activities and the establishment of a chief financial officer's forum resulted in the participation and successful acceptance of the development of provincial practice notes. The refinement of such practice notes was required in order to ensure compliance and compatibility with any policies or frameworks issued by National.

During the past financial year the component has improved financial management in the areas of ordering, payments, reporting, asset management, debts and ledger balances. Cost saving initiatives have seen a reduction in telephone, building maintenance, vehicle and stationery costs. Debts are managed on a week-by-week basis, with a detailed analysis of each debt utilizing the management accounts' tool.

The component has also been able to assist departments on a number of financial management issues at the chief financial officer's forum. Substantial historical debts have been written off based on the write-off policy approved by the accounting officer in an attempt to clear long outstanding ledger balances.

### **Overview and Key Policy Developments**

The recent realignment of the department streamlined the component into:-

- A sub-component which is responsible for the financial and accounting control of the department; and
- A sub-component that deals with financial management issues that are transversal to all departments.

## Output and Service Delivery Trends

Original targets set in the Medium-Term Expenditure Estimate		Report Against Targets
Outputs	Service delivery indicators	Status
Establish an internal control environment	No. of compliance queries raised by the Auditor General	An internal control unit has not yet been established. Improved internal controls have however been put in place, which have reduced the number of informal queries raised by the Auditor General for the 2002 financial year.
Clear the general ledger accounts	Value of debts written off	The majority of the general ledger accounts have been analyzed and a total of R8m has been written off.
Implement the move towards Electronic Funds Transfer (EFT) payments	Value of EFT's compared to value of cheques	The value of EFT's to cheques as at 31 March 2002 was 53% to 47% compared to the previous year at 27% to 73%, and this has continued to improve subsequent to the year end.
Produce accurate financial reports as required by the PFMA	Meet deadlines as specified in the PFMA	The monthly reporting deadline of the 15 <sup>th</sup> of each month is being met. Annual financial statements, consolidated annual financial statements and interim financial statements have been prepared for the first time.
Decentralization of the management of the Loss Control System	No. of departments for which the CFO component is performing this function	Audits where departments have already been trained to establish sustainability. Assisted with the year end reconciliation between LOCO and FMS. Training and Report back to each of the chief financial officers.
Implement a creditors system	No. of creditors reconciliations completed per month	Awaiting system from National Treasury.
Complete and maintain a fixed asset register	Complete fixed asset register	The department has completed the fixed asset register and maintained monthly updates.
Development of practice notes on accounting related policies and procedures	No. of practice notes	The department has completed and issued 26 practice notes.

## ***Sub-Programme: Banking, Revenue and Asset Management***

### **Aim**

The purpose of banking, revenue and asset management is to ensure efficient policies and procedures are implemented and maintained in terms of provincial banking and revenue and asset management.

### **Achievements**

During the past year, despite being faced with problems associated with reliance on National Treasury and the Provincial Banker for information technology infrastructure and maintenance of the PERSAL, Financial Management and Banking integrated systems, the directorate has maintained a high standard of service delivery and successfully achieved its main objectives which encompass the following:

- Management and pay over of all provincial salary deductions, maintenance of salary related returns and issuance of accurate IRP5 tax certificates
- Management of the Provincial Bank Accounts, investigating and reporting on fraudulent cheque activities within the Province of KwaZulu-Natal
- Cash-flow and Asset Management

Income tax in respect of employees of the Administration totaling approximately R2 billion for the 2001/2002 tax year has been reconciled and paid over to South African Revenue Services on a monthly basis by the due date. Effective and efficient management of tax payovers has alleviated potential penalties and interest charges. Tax records of all employees have been maintained as accurately as possible with all errors in tax deductions being rectified to ensure accurate IRP5 Tax Certificates.

Additionally, an amount of R837 313 has been collected and paid over to South African Revenue Services for the 2002 tax year in respect of casual labourers, community health workers, consultants, committees and commissions employed by various Departments. In the absence of a payroll system for the recording of tax accumulations and issuance of IRP5 Tax Certificates for these groups, the Directorate has performed all related functions on a manual basis.

All other statutory salary deductions, an average total amount of approximately R640 million per month, were reconciled and paid over to 1 619 judicial and sundry creditors accurately and timeously after each pay date or on a monthly basis. Whereas all judicial creditors had been paid by cheque in the past, in order to facilitate risk management and implement stricter controls, payment by electronic fund transfer into designated bank accounts was introduced. Bank details have been received, captured and activated in respect of approximately 30% of the 1 200 judicial creditors.

Strict controls have been maintained in the administration of salary related transactions by electronic fund transfer which included the maintenance of appropriate item and aggregate limits. Such controls made possible a total amount of approximately R9 million, comprising 252 payments, being rejected and investigated by Departments during the 2001/2002 year, thereby eliminating the possibility of fraudulent or erroneous transactions. In addition, a total amount of approximately R25 million was recovered from banking institutions through the successful recalling of 4 656 electronic salary transactions which avoided over or incorrect payments.

Provincial cash flow management has been characterised by strict controls, careful forecasting and close monitoring. Every effort has been made to maximise investment opportunities, capitalising on sources where optimal earnings would be forthcoming in the investment of all surplus funds and renewals. An amount of approximately R237 million has been earned on investments and favourable cash balances during the year.

During the past year, the Directorate has investigated 72 new cases of cheque fraud with a total value of approximately R1.5 million. At present, 31 cases have been finalized, to the value of R764 487.

As part of the on-going campaign to reduce the risk of fraud, Commercial Banks and the Payment Association of SA (PASA) have set limits on cheque payments, electronic fund transfers and debit orders with effect from 14 January 2002. Such payments may not exceed R5 million. In order to accommodate payments made by all Departments in excess of the said limit, the Directorate has formulated a procedure whereby all such payments are processed and transferred to the respective creditors' bank accounts via the ABSA Cash Focus facility, which provides a direct link between the Directorate and the Provincial Bank Account.

A firm stand was taken in eliminating the practice of hand written cheques being processed on a weekly basis for payment to the Cash Paymaster Services. The payments were in respect of social pensions and constituted millions of rands. Investigations into these payments being transferred electronically via the Cash Focus facility and discussions between the Department of Social Welfare and this department were fruitful, culminating in the implementation of a system which has proven most effective and efficient in controlling the payments as well as the relevant accounting transactions.

### **Overview and Key Policy Developments**

Changes became necessary to the organisational structure of the Sub-Programme during the past year.

Firstly, certain registry functions performed by the Directorate were considered to be incorrectly placed. The functions, together with the equipment utilised for weighing and franking of postal items, were transferred to the Directorate: Transverse Support, on which organisational structure the Registry Component is placed.

Secondly, the Cheque Fraud Component which was on the organisational structure of the Internal Audit Programme, was considered to be inappropriately placed. Assessment of the functions of the component resulted in the decision for it to be incorporated within the Banking and Cheque Control Division of the Sub-Programme: Banking, Revenue and Asset Management with effect from September 2001.

With the view to streamlining the procedure associated with the conversion and transmission of information from the Provincial Banker (ABSA), the Directorate undertook negotiations with ABSA for access to the interface updating programme and the requisition of a more user-friendly programme. This step has resulted in the development of a simpler windows-based interface programme which is expected to be implemented during the new financial year.

An area which is currently under investigation is the management of Provincial Assets. In preparation for the formulation of a Provincial Asset Management Policy, steps were taken to identify the main categories of assets maintained and to establish the nature of asset management policies which are in place within Departments. Research into the legislated requirements for classification, as well as depreciation and write off, was also undertaken.

In terms of South African Revenue Services regulations the disclosure of subsistence allowance on IRP5 Tax Certificates has become a requirement. Arrangements are currently being undertaken by National Treasury for the programmatic recording of the relevant information. In order to meet the requirements for the 2002 tax year, the Directorate was faced with the responsibility of manually updating the data provided by all Departments. It is anticipated that this manual procedure will be required to continue on a monthly basis until the programmatic procedure has been finalised.

## Output and Service Delivery Trends

Original targets set in the Medium-Term Expenditure Estimate		Report Against Targets
Outputs	Service delivery indicators	Status
Improve controls of suspense accounts	Reports and reconciliation schedules	Achieved and on-going
Prevent the public from collecting cheques from the Cheque Control Section	Decrease in number of unknown clients demanding cheques	Achieved and on-going
Revise the payment of Community Health Workers and Casual Labourers, currently paid on the Imprest Account System	Manual payment system and reports	Investigations into payments being generated via PERSAL system unsuccessful
Improve the management of Financial and Banking Systems	Reports and reconciliation schedules	Delay is influenced by dependence on Provincial Banker
Provide electronic payment system for various organisations including National Departments	Reports and accuracy in allocation of funds to Departments	Achieved and on-going
Modify cashflow management	Schedules	Achieved and on-going
Identify the Department which will be responsible for controlling Game Licences	Legislation	Pending promulgation of legislation
Investment of funds	Availability of funds and interest rates	Realised earning of R237 million in interest
Eliminate posting of reconciliation schedules	Transmission time for e-mail to creditors	Smaller companies not equipped with e-mail facilities.
Releasing of all cheques generated on FMS on a weekly basis	Number of interception letters and telephone calls	Release of cheques now bi- monthly
Overall control of Imprest and Petty Cash Accounts	Reconciliations and reports	Audit completed Accounts streamlined and controls enhanced
Emolument attachment orders	Enquiries from creditors and departments	Problems encountered in processing by certain departments. Continual guidance and assistance provided to departments
Limit tax debts	Reports	Stricter control measures implemented  Reduction in number of tax debts achieved
Introduce electronic generation of duplicate IRP5 tax certificates and de-centralise processing	Number of requests and time allocated to function	Delay due to programme problems at National Treasury
Facilitate final tax year-end reconciliation	Reports and manual adjustments	Achieved by target date
Limit the manual updating of non-PERSAL employees	Number of committees, commissions and consultants manually recorded on spreadsheets	Establishment of a programme by SITA in progress

## **Sub-Programme: Systems and Training**

### **Aim**

The purpose of the systems and training component is to manage the provincial financial, asset and information management systems.

### **Achievements**

The component did not achieve all its objectives set for the review period. This was primarily as a result of the very nature of its business, namely the maintenance and implementation of transversal systems. The reliance on National Treasury is such that the province must consider the sustainability and relevance of systems before taking any actions which could have cost implications and cause considerable damage to relationships with provincial departments.

As a result of the future of LOGIS being questionable, the major roll-out planned for the province did not materialize. However, the focus was shifted to information technology development within the department where success was achieved in negotiating the SITA business agreement, resulting in lower monthly costs to the department. Furthermore, the appointment of a Departmental Information Officer has ensured a closer and more efficient working relationship with the service provider.

A disaster recovery plan and a detailed IT procedure manual have been completed in order to minimize the risks associated in the IT environment and to provide the department users with a guide to prevent virus infections and to provide guidance on data protection through informal briefing sessions. The web-site is currently being re-vamped to ensure that the users are able to access valuable information as this will form the main communication tool by the department for its clients.

### **Overview and Key Policy Developments**

The renewed focus on Information Technology within the department has resulted in a Senior Communications Officer being transferred from Transverse Support to this component who will be responsible for communication via the Internet and Intranet. A decision regarding the future accounting system for KwaZulu-Natal will be taken in the forthcoming financial year, as the current financial management system will be phased out by National Treasury. This will have a significant impact on the operations of this component, especially in terms of building in-house capacity in order to maintain the new system.

### **Output and Service Delivery Trends**

<b>Original targets set in the Medium-Term Expenditure Estimate</b>		<b>Report Against Targets</b>
<b>Outputs</b>	<b>Service delivery indicators</b>	<b>Status</b>
Publish proposed changes to the FMS on the Provincial Treasury web site	FMS changes available on web-site	All changes available on FMS web-site
Create separate bank accounts for separate Departments	Each department operating its own bank account	Will be undertaken with BAS
Clean up FMS	No redundant data on FMS	Achieved and on-going
Perform an internal audit on all aspects of the Biometric Access Control System	Listing of all access cards issued to users	Completed
Build internal capacity on Vulindlela	No. of staff trained	Achieved and on-going
Establish LOGIS Help Desk	KZN employees using Provincial Help Desk	LOGIS support was to be used as start-up, however LOGIS put on hold
LOGIS Implementation at KZN stores	All KZN stores using LOGIS	4 sites completed during the year
Post Implementation reviews & stores performance audits	Better use of computerised stores systems	Achieved and on-going
LOGIS skills Transfer	Skilled Stores personnel	1 employee attended LOGIS course

## Sub-Programme: Procurement

### Aim

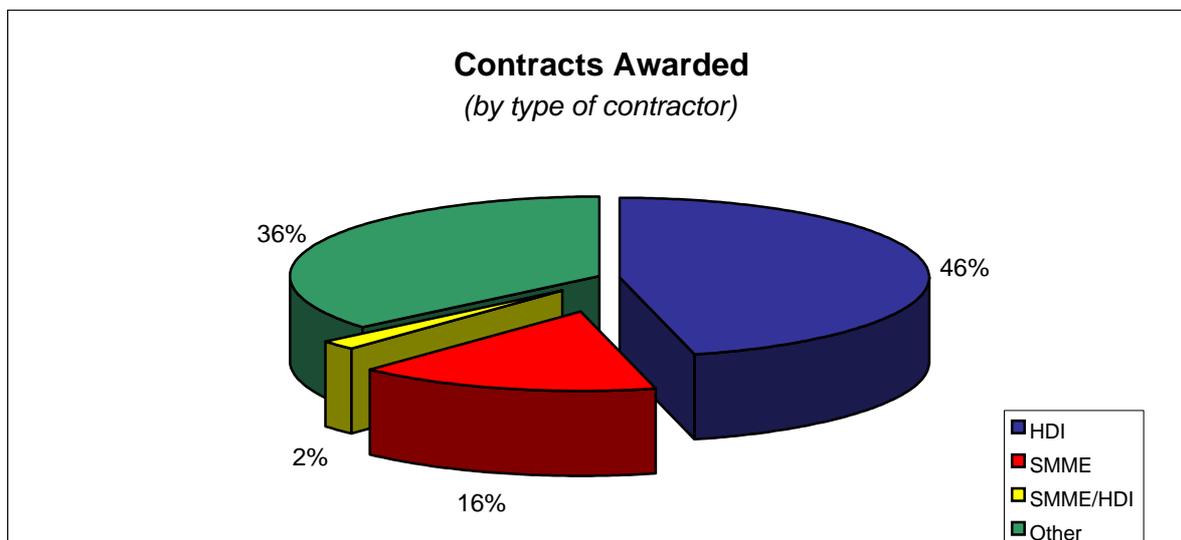
The purpose of the procurement component is investigating procurement policies and practices, provision of advice, managing and monitoring the evaluation and awarding of provincial tenders.

### Achievements

From a policy development perspective several noteworthy achievements have been attained during the reporting period. The KwaZulu-Natal Procurement Act was promulgated in April 2001, which initiated the transformation of the provincial procurement system in line with the objectives and principles of the Public Finance Management Act. In June 2001 the Procurement Act had been officially implemented and had become effective by means of notification in the Provincial Gazette. This enabled the Provincial Government to subsequently establish the Central Procurement Committee, the new Tender Appeals Tribunal and internal procurement structures to be utilized by departments.

The Central Procurement Committee has since its inaugural meeting held on 13 June 2001, convened 13 times. 978 contracts to the value of R 1 088 457 298 have been awarded by the CPC as follows:-

DEPARTMENT	NO. OF CONTRACTS	AMOUNT R'000
Health	108	R 56 408
Transport	427	R 244 379
Education	74	R 328 219
Works	309	R 332 990
Social Welfare	18	R 26 247
Other Departments	42	R 100 172
<b>TOTAL</b>	<b>978</b>	<b>R 1 088 415</b>



The availability of a fair and cost-effective appeals process was retained in the new legislation by providing for the Tender Appeals Tribunal. The following schedule provides detail of appeals lodged during the period 13 June 2001 to 31 March 2002.

Source	No. of appeals lodged	No. of appeals withdrawn	No. of appeals dismissed	No. of appeals finalised	Successful appeals	Unsuccessful appeals
Central Procurement Committee	8	1	3	4	0	4
Departmental Procurement Committee	6	1	2	3	1	2
<b>TOTAL</b>	<b>14</b>	<b>2</b>	<b>5</b>	<b>7</b>	<b>1</b>	<b>6</b>

Since the previous procurement delegations had their roots in the Tender Board Act and Regulations, they had to be revised to be brought in line with the Procurement Act.

The revised delegations will allow Departments increased independence from the Central Procurement Committee relating to their procurement activities. They are also designed to expedite the procurement process by providing clear guidelines on procurement procedures. Departments will be able to invite and finalise tenders up to a value of R1 million each, including the awarding of contracts under circumstances of urgency or emergency. The aforementioned upper monetary limit may be revised from time to time to consider adjusting these upward.

Inputs on the draft revised delegations were obtained from provincial departments. These were processed and incorporated into the new delegations where appropriate. The final product will be issued by the Minister of Finance, as provided for by the Procurement Act early in the new financial year.

In addition, the promulgation of the Act necessitated the amendment of the standard tender forms. In particular, the forms determining tender conditions and procedures to be followed by tenderers during the tendering process, also had to be amended. All the necessary changes to the standard tender forms were brought about, which will facilitate the implementation of the new procurement legislation in the tendering process. It is planned that the revised tender document will be implemented in the first quarter of the new financial year.

Another important development was the official launching of the Provincial Suppliers Database in May 2001, which houses suppliers to be utilized by Provincial departments when goods and services are to be procured. The Database allows better management of suppliers and also serves as an aid to departments during the procurement process.

By means of Internet and Intranet respectively the public and provincial departments may gain access to the following information stored on the database:

- a list of registered suppliers, including contact information;
- preference points allocated to each fully registered supplier;
- detailed business profiles of registered suppliers to assist provincial departments during the tender evaluation process.

It has become necessary to upgrade the Database as a matter of urgency, mainly due to the high number of suppliers that have requested registration on the Database, and continued additional functionalities that had to be added to its capabilities. The upgrade will improve data stability and security and will establish the Database as a tool to be utilised in a wide variety of procurement activities. It will also improve productivity, accuracy and cost effectiveness relating to Provincial procurement in general. The upgrade is expected to take place during the first quarter of the next financial year.

Applications for registration received had numbered 8 446 by the end of the reporting period. An electronic Management Information System (MIS), also known as the Procurement Administration Registration System, has been developed for use by the Procurement Administration Office. This system is an electronic register to record a wide range of administrative particulars and it will enable the Office to expedite the processing of departmental submissions, to be submitted to the CPC, without compromising the quality of such processing. The system will also serve as a tracking system to quickly determine the location of a submission in order to monitor progress made. Furthermore, it will generate a variety of reports, ranging from document flow to statistical data, pertaining to various aspects of the awarding of contracts by the CPC. It is anticipated that the MIS will be fully operational early in the next financial year.

### **Overview and Key Policy Developments**

Reference has already been made to the promulgation of the Procurement Act in April 2001. In terms of the Procurement Act the Provincial Minister of Finance will have overall control of the provincial procurement system. The main contract awarding body in this system is now the Central Procurement Committee (CPC), which replaces the traditional Tender Board. This body has contract awarding functions only, while procurement policy development responsibilities now vest in the Procurement Administration Office. The latter Office replaces the traditional "Office of the Tender Board" and now plays a more active role in the procurement system. It not only gives administrative support to the CPC and Tender Appeals Tribunal but also must assist Provincial Departments in building their capacity to execute departmental procurement.

The Act also requires the establishment of departmental Tender Award and Tender Evaluation Committees. These Committees have the authority to award departmental contracts with values up to four times that previously permitted to departments, thus providing accounting officers with more autonomy regarding their own procurement affairs, which in turn facilitates improved service delivery by means of quicker procurement processes.

The Procurement Regulations were promulgated on 14 December 2001. An important feature of the Regulations is the setting of the delegated procurement limit at R1 million, in respect of contracts that may be awarded by a Tender Award Committee. It also spells out the functions of the Procurement Administration Office and introduces the details of the preferential procurement system to be used in the Province. The last-mentioned system is in accordance with that determined in the Preferential Procurement Policy Framework Regulations, but has been simplified to make it more understandable and easier to apply. It is expected that the full implementation of the Procurement Act and Regulations will be initiated early in the next financial year.

## Output and Service Delivery Trends

Original targets set in the Medium-Term Expenditure Estimate		Report Against Targets
Outputs	Service delivery indicators	Status
Achieve timely Procurement	On average 25 - 30 submissions are considered by the CPC per month (300 - 360 Annually)	The office was able to deal with the backlog of all submissions by the end of the reporting period
Provide assistance to all clients	Extent of utilization of Tender Information Centres	The PMB Office is extremely active and deals with approximately 80 -100 counter or telephonic queries daily. The Ulundi Office receives approximately 20 queries daily
Provide support services to the CPC/TAT	Provide logistical support to monthly meetings	The service is being provided with adherence to statutory and other requirements
Arrange/Administer General Period Contracts	3 Provincial General Period Contracts and 14 National General Period Contracts currently in place	Ongoing
Development and implementation of Suppliers Database	Develop operational features Register suppliers on Database	Upgrading programme for the Database currently in progress. ± 8 000 suppliers have been registered on the Database
Development and implementation of procurement policies and procedures	Develop policy/procedure manual	A draft has been completed
Procurement Monitoring	Investigate alleged non-compliance and perform routine investigations. Compile quarterly reviews	Filling of posts will commence once the establishment has been approved

## **PROGRAMME FOUR: INTERNAL AUDIT**

This programme consists of 2 sub-programmes: Internal Audit and Risk Management

### **Aim**

The purpose of this programme is to provide an innovative, cost-efficient and value-added internal audit service to client departments to ensure good corporate governance in KwaZulu-Natal

### **Achievements**

The Internal Audit component has grown substantially in size and capacity over the past few years and this trend will continue in terms of its legislated responsibilities.

The following targets set for the year have been achieved and finalized:

Planned assignments	:	96
Completed assignments:		63
Cancelled assignments	:	33

(All Internal Audit assignments cancelled are due largely to the Risk Assessment exercise currently being embarked on)

To give effect to the Standards for the Professional Practice of Internal Auditing, which states that professional internal audit staff should have sufficient knowledge, skills and experience, qualified staff at senior management level (a Chartered Accountant and an Attorney) were appointed. Continuous education and training is one of the key focus areas in order to comply with the IIA Standards and to build the necessary capacity in the Unit. Intensive one-week training on internal audit processes was undertaken for all internal auditors, from entry level to senior internal auditor. Further intensive training on "planning" for the Audit Supervisors and Senior Internal Auditors was also conducted during the year under review. The Unit was further requested by KwaZulu-Natal Nature Conservation (Wildlife) to conduct intensive training on internal audit processes for all their staff, which was successfully done. Senior Management of the Unit attended four intensive training workshops, during the year under review, on performance and risk management.

The Unit was requested by public entities such as KZN Nature Conservation and Tourism KZN to undertake risk assessments and internal audit functions. Of the 63 assignments conducted, several audits uncovered potential fraud, theft and wasteful, unauthorized and irregular expenditure, which were confirmed by investigations. For instance, the audit on procurement at the Department of Transport revealed:

- Suspected abuse of procurement processes to the value of R17 158 864;
- Unauthorised expenditure amounting to R11 545 749;
- Possible fruitless or wasteful expenditure amounting to R1 746 439.

Following a request by Cabinet, an audit was conducted on the Government Employee Pension Fund, highlighting the cause of the delays in pension payouts and providing the necessary recommendations.

Among the forensic investigations conducted during the year under review, the Unit has probed fraud, theft, mismanagement, wasteful, unauthorized and irregular expenditure involving procurement of goods and services from one supplier trading under different names, by the Department of Education and Culture, to the tune of R14 144 932.

Forensic investigation into suspected irregularities in merit awards and leave gratuity payments in eight hospitals was conducted and unearthed irregular payments to the value of R697 261.

A total amount of R720 303 in actual fraud and R3 302 000 in potential fraud, made up of 413 transactions involving more than 10 officials working in the Personnel Section of the Department of Education and Culture in Ulundi, was uncovered during investigations. Emanating from an audit at Durban South Region, the Unit uncovered fraud amounting to R321 490 on salaries, which resulted in 6 officials being charged with misconduct and 1 criminal prosecution.

The Unit assisted National Treasury in developing the Internal Audit Framework within the Public Service.

### **Overview and Key Policy Developments**

In order to promote and enforce the efficiency and effectiveness of the Unit, a performance management system was developed during the year under review. The performance management system was based on the Balanced Score Card concept and focused on indicators of cost, quality, staff training and timely delivery.

As a result of rapid changes within the internal audit profession, as well as new responsibilities in terms of Treasury Regulations issued in 2001, the Unit reviewed and enhanced its Audit Procedures Manual and methodology. The new procedures and methodology are now in compliance with the new definition of internal audit:

“ Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It assists the organisation in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

Internal Audit has undertaken and completed assignments based on the risk assessment workshops that were conducted with client’s management. The significant disadvantage of the previous approach was that insufficient knowledge and evidence existed to make an informed judgment on the effectiveness of the Internal Control environment in the client departments. Furthermore, a lack of understanding of the processes and activities in client departments compromised the component’s ability to provide informed advice and recommendations.

It was confirmed at the Audit Committee Workshop that these identified weaknesses were serious enough to ultimately cripple the effectiveness of the Unit. In contrast, if the Unit is equipped with current information on the operational processes and objectives of client departments, it will be in a position to prioritise resources on critical aspects of the client departments, generate evidence to support non-auditing of certain areas and make informed recommendations on the improvement of internal controls. Other advantages apart, the revised approach will serve to satisfy the Treasury Regulations which require annual Audit Committee reports to express an opinion on the effectiveness of the control environment in departments.

A three-pronged strategy is to be adopted in implementing the new approach to internal audit assignments.

Firstly, it will be necessary to ensure that a thorough understanding is obtained of departmental objectives and service delivery expectations, both at a political and community level. This will be a high level information gathering exercise which will largely involve the Accounting Officers and the Chief Financial Officers.

Secondly, internal auditors will focus on the pertinent details of the department and seek to obtain information at programme level. In this process Internal Audit will assess the role of the programme managers and the organizational structure with a view to identifying relevant and key officials of the department.

This phase will generate an understanding of the processes and activities embarked on by the department such as strategic planning, budgeting, procurement and expenditure, revenue management, cash management, asset management, human resource management, information technology and general management. Detailed documents will be generated on how the systems operate in terms of the outline processes, as well as the key personnel in the systems. This will give

the unit a detailed understanding of the client's environment and will better equip the unit for the phase that follows.

The third phase will involve workshop sessions to be conducted with the audit personnel to determine the risks, based on the information gathered from the department. All risks will be determined and ratings of high, medium or low assigned to them based on the inherent implications of those risks. Care will be taken not to assign risk ratings based on quantitative measures as political sensitivities and administrative sensitivities could pose significant risks in our administrative environment.

The systems documents and any other information obtained from the department will be used to identify and assess the strength of the controls against those risks. The residual risks, after taking into account the controls, will be assessed. In this regard the risk of fraud will also be assessed.

The conclusion of the entire process will see the production of a balanced risk assessment report which will be issued to management. This will, as far as possible, be given by programme and then consolidated to a departmental report. A report on recommendations for improvements in controls will be issued where the residual risk has been assessed to be high.

The departmental fraud risk profile will also be generated for the benefit of the client. Again this report will be balanced so as to facilitate focused attention on the areas of major concern.

A consolidated risk assessment and fraud risk profile will be generated for the whole of the KwaZulu-Natal Provincial Administration. This report will highlight risk factors and the departments that are affected and the residual risk for the Province.

#### Output and Service Delivery Trends

Original Targets set in the Medium-Term Expenditure Estimate		Report Against Targets
Outputs	Service delivery indicators	Status & Comment
Conduct audit assignments in order to enable the Audit Committee to make opinion on the control environment of client departments	Complete coverage of all key aspects of control within the client departments	Approach has shifted from being driven by senior management to the appropriate regulatory framework. This will ensure that the focus is on auditing the entire environment rather than sections of it.
Increase awareness about the Unit	Brochures and documents	To be developed
Design a web-page for the Unit that will be linked to the Provincial Treasury site	A web-page to improve awareness of the Unit	A web-page has been designed and will be implemented in the new year
Address queries from the Auditor-General	Assignments will be planned to ensure that concerns are adequately addressed	Risk and Audit Steering Committees have been established and provide advisory support in this regard
Follow up on previous audit assignments	Acceptance and effective implementation of the recommendations. Meaningful and practical recommendations	Risk and Audit Steering Committees have been established to follow up and appraise management of the risk of non-implementation
Reduce the risk of fraud	Developing and monitoring mechanisms and strategies to detect and, where possible, recover losses incurred by departments	The Risk Management Unit has been working closely with Accounting Officers in improving internal control systems that could be abused by officials and third parties

## Free services

The advisory services, forming the core function of this department, are not charged to client departments or external clients. The costs associated in providing these services amount to the allocated voted funds for this department. A detailed assessment is reflected in the annual financial statements.

## Transfer payments

No transfer payments were made during the year.

## Conditional Grants

			2001/2002	2001/2002	2001/2002
			R'000	R'000	R'000
Received from	Purpose	Note	Total Allocation	Actual Expenditure	Variance
National Treasury	LOGIS Implementation	1	1,667	366	1,301
National Treasury	Capacity Building	2	1,432	830	602
<b>TOTAL</b>			<b>3,099</b>	<b>1,196</b>	<b>1,903</b>

**Note 1** The implementation of LOGIS was limited owing to uncertainty at a national level on its sustainability.

**Note 2** The remaining funds will be utilized for the purchase of audit software and infrastructure in the next year thereby further capacitating the unit.

## Capital investment, maintenance and asset management plan

The advisory nature of the department's services, as discussed in Part 1 and 2 of this report, clearly indicates that the department has not invested much of its budget in terms of capital projects. The primary spending is on the human resources and underlying overheads incurred in maintaining a suitable working environment. The small portion of the budget attributed to capital spending relates to replacing existing pool vehicles and computer equipment or the minor infrastructure items such as office furniture. The department does not intend to invest in any capital projects in the near future.

Maintenance costs incurred by the department relate to the upkeep of Treasury House, which is currently being leased by the department, as well as the regular vehicle and equipment repair and maintenance services.

## Trading Activities

The department does not undertake any trading activities.

## **Public Private Partnerships**

The department has not entered into any public private partnership agreements.

## **Discontinued/Pending Operations**

The Tender Board, to which the department provided administrative support, has been replaced by the Central Procurement Committee. This change has not brought about any major changes in terms of the department's involvement, save to say that the process is now far more efficient, being based locally and thereby reducing administrative costs of the committee.

## **New/Proposed activities**

During the financial year no new activities were undertaken. The forthcoming year may bring about the promulgation of the Municipal Finance Bill, which could necessitate the establishment of specialized skills and resources in order to provide the required assistance to local government. The department's role has not been clearly defined, but a provision has been made for this function during the budgetary process of the department.

## **Public Entities**

The KwaZulu-Natal Central Procurement Committee has replaced the KwaZulu-Natal Tender Board. The Central Procurement Committee is responsible for the awarding of tenders for the province in accordance with the procurement procedure. The KwaZulu-Natal Appeals Tribunal deals with appeals regarding the awarding of tenders. In terms of the PFMA these are Schedule 3 public entities and are not government business enterprises. Therefore, separate financial statements have not been prepared for these public entities. Per correspondence with National Treasury, the department has requested that the above two be excluded from the list of public entities, as these do not meet the definition of a public entity.

## **Risk Management and Fraud**

Internal audit has facilitated two risk assessment workshops which highlighted specific areas which required management attention. It was pleasing to note that a review of the first assessment revealed that most of the risks previously identified have been dealt with, to the extent that they no longer pose a major threat to the department.

The two main risks identified were firstly, the lack of filling vacant posts. This could have a major impact on the objectives which have been set for the forthcoming financial year. Steps have been taken to address this matter through the establishment of an internal evaluation unit. A second issue raised was the difficulty in complying with specific requirements of the PFMA. This was caused by restrictions placed on departments due to inadequate financial management systems. This concern has been raised with National Treasury and improvements are currently underway.

The department has a draft fraud prevention plan which aims to create a working environment where the risk of fraud occurring is reduced to an acceptable and manageable level.

## **Implementation of the PFMA**

The department is well on its way to meeting all statutory requirements of the PFMA. The department complies with the monthly and annual reporting requirements and has gone one step further by producing consolidated annual financial statements, prior to this becoming a statutory requirement. The Auditor-General's report clearly reflects the improvement in internal controls through the issue of an unqualified audit opinion.

The department has compiled a detailed assets register and has assigned values, classifications and locations, as opposed to a mere listing of assets. This register has been presented to departments as an interim solution for the recording of assets. In terms of asset management the department, in conjunction with National Treasury, has issued a framework document providing the reader with an

understanding of what asset management entails.

The budgetary process and quarterly reports to Treasury now incorporate an element of output based qualitative information. The link has now been made between the strategic planning process and the budgeting and IT development processes.

The department was the first to conclude its business agreement with SITA in order to participate in the cost savings in respect of IT services.

In the second quarter of the financial year the Financial Management Improvement Programme consultants, in conjunction with the department, developed a month end management pack for monthly reporting purposes. This was rolled out to all departments through road shows that were held with each department, represented by the executive authority, accounting officer and chief financial officer. The preparation of the month end pack is now mandatory and assists departments in meeting the month end reporting requirements, as well as providing assistance with budgeting, projecting expenditure and revenue and assisting in variance analysis. The pack further assists departments with monitoring over/ under expenditure and the analysis of ledger balances.

The department has issued 32 practice notes, which set out the best practices and detailed procedures that should be followed in the various accounting cycles to ensure adequate controls and minimal risks. These have replaced the Treasury Instructions and provide frameworks and guidelines on various financial management issues.

#### **Events after Balance sheet date**

National Treasury has confirmed the deletion of the KwaZulu-Natal Tender Board from Schedule 3 of the PFMA.

#### **Other matters**

During the 1998/1999 financial year an amount of R29m was paid to KwaZulu Transport through the Department of Economic Affairs and Tourism. This payment was accounted for as a transfer payment (though in fact it was seen as a loan which would be repaid to this department as per the verbal agreement) and not as an asset which was in line with the cash basis of accounting. KwaZulu Transport was placed in liquidation during the 2001/2002 financial year. There is currently an investigation by a Judicial Committee of Enquiry into the reasons which gave rise to the liquidation of KwaZulu Transport. No decision has been reached in terms of this investigation and therefore at this stage it is premature to disclose any further information regarding this matter.

#### **Approval**

The annual financial statements set out in part 7 have been approved by the Accounting Officer.

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**CL COETZEE**  
**ACCOUNTING OFFICER**

**PART 4 : REPORT ON HUMAN RESOURCE MANAGEMENT**

The statistics and information published in this part of the annual report are required in terms of regulation III J.3 of the Public Service Regulations, 2001 and have been prescribed by the Minister of Public Service and Administration for all government departments within the Public Service. The statistical tables provide high-level information on key human resource issues. The information aims to empower legislatures, the media, the public and other key stakeholder to monitor whether the department is:

- exercising the powers granted under Public Service and Public Finance legislation in a responsible manner; and
- achieving national transformation priorities established by Cabinet, for example, affirmative action.

The following tables summarise the final audited expenditure by programme (Table 1) and by salary level (Table 2). In particular, it provides an indication of the amount spent on personnel costs in terms of each of the programmes or salary levels within the department.

**TABLE 1 – Personnel costs by programme, 2001/ 02**

<b>Programme</b>	<b>Total Expend (R'000)</b>	<b>Personnel (R'000)</b>	<b>Admin &amp; Other (R'000)</b>	<b>Prof &amp; Special (R'000)</b>	<b>Personnel cost as a % of total Expend.</b>	<b>Average personnel cost per employee (R'000)</b>
Transverse Support	7 607	5 617	1 928	62	73.8	165
Budget Management	3 803	3 008	665	70	79.1	188
Accounting Control	60 994	17 372	9 364	34 258	28.5	119
Internal Audit	19 973	6 944	2 347	10 682	34.8	139
Special Functions	8 467	-	8 467	-	N/A	N/A
<b>TOTAL</b>	<b>100 844</b>	<b>33 001</b>	<b>22 771</b>	<b>45 072</b>	<b>32.7</b>	<b>134</b>

Personnel costs account for a large proportion of the first two programmes. Internal audit still relies on the use of professional services, which accounts for 53 % of their spending, until such time as they are fully capacitated. The costs associated with the maintenance of the transversal provincial system and the management of the centralised bank accounts cater for approximately 68 % of accounting control's budget.

**TABLE 2 – Personnel costs by salary level, 2001/ 02**

<b>Programme</b>	<b>Total Expend (R'000)</b>	<b>Personnel</b>	<b>Admin &amp; Other (R'000)</b>	<b>Prof &amp; Special (R'000)</b>	<b>Personnel Cost as a % of total Expend</b>	<b>Average personnel cost per employee (R'000)</b>
<b>Levels 1-2</b>	113	37	26	50	32.7	6
<b>Levels 3-5</b>	13 690	4 480	3 091	6 119	32.7	39
<b>Levels 6-8</b>	40 210	13 159	9 080	17 972	32.7	167
<b>Levels 9-12</b>	19 220	6 290	4 340	8 591	32.7	197
<b>SMS</b>	27 611	9 035	6 234	12 340	32.7	430
<b>TOTAL</b>	<b>100 844</b>	<b>33 001</b>	<b>22 771</b>	<b>45 072</b>	<b>32.7</b>	<b>130</b>

The following tables provide a summary by programme (Table 3) and salary level (Table 4), of expenditure incurred as a result of allowances and benefits. Benefits reflect the amount utilised for the state's contribution to medical aid and pension funds. In each case, the table provides an indication of the percentage of the personnel budget that was used for these items. Minimal overtime of R2 000 was incurred during the financial year at salary level 6-8.

**TABLE 3 – Allowances, and benefits by programme, 2001/ 02**

<b>Programme</b>	<b>Allowances</b>		<b>Benefits</b>	
	<b>Amount (R'000)</b>	<b>% of personnel costs</b>	<b>Amount (R'000)</b>	<b>% of personnel costs</b>
Transverse Support	848	15.1 %	790	14.1 %
Budget Management	493	16.4 %	407	13.5 %
Accounting Control	1 013	5.8 %	2 476	14.3 %
Internal Audit	579	8.3 %	1 076	15.5 %
<b>TOTAL</b>	<b>2 933</b>	<b>8.9 %</b>	<b>4 749</b>	<b>14.4 %</b>

**TABLE 4 – Allowances and benefits by salary level, 2001/ 02**

Salary level	Allowances		Benefits	
	Amount (R'000)	% of personnel costs	Amount (R'000)	% of personnel costs
<b>S levels 1-2</b>	2	5.4 %	6	16.2 %
<b>S levels 3-5</b>	216	4.8 %	755	16.9 %
<b>S levels 6-8</b>	710	5.4 %	2 218	16.9 %
<b>S levels 9-12</b>	331	5.3 %	1 060	16.9 %
<b>SMS</b>	1 674	18.5 %	710	7.9 %
<b>TOTAL</b>	<b>2 933</b>	<b>8.9 %</b>	<b>4 749</b>	<b>14.4 %</b>

As members of senior management benefit from structuring their salary packages, allowances account for a higher proportion of the salary cost.

#### 1. Employment and Vacancies

The tables in this section summarise the position with regard to employment and vacancies. The approved establishment reflects the number of posts that the executing authority has approved to carry out the core and support functions of the department. The first table (table 1) provides an estimate of the size of the establishment over the MTEF period. The information in each case reflects the situation as at 31 March 2002. For an indication of changes in staffing patterns over the year under review, please refer to section 5 of this report.

**TABLE 1 – Approved establishment by programme**

Programme	Approved Establishment		Medium-term establishment estimate	
	1 April 2001	31 March 2002	31 March 2003	31 March 2004
Transverse Support	39	39	47	47
Budget Management	20	20	19	19
Accounting Control	181	181	176	176
Internal Audit	69	69	69	69
Office of the Ministry	7	7	7	7
<b>TOTAL</b>	<b>316</b>	<b>316</b>	<b>318</b>	<b>318</b>

The following tables summarise the number of posts on the establishment, the number of employees and the vacancy rate. There are no additional posts to the establishment.

In terms of current regulations it is possible to create a post on the establishment that can be occupied by more than one employee. Therefore, the vacancy rate reflects the percentage of posts that are not filled.

**TABLE 2 – Employment and vacancies by programme, 31 March 2002**

<b>Programme</b>	<b>Establishment</b>	<b>Number of employees</b>	<b>Vacancy Rate</b>
Transverse Support	39	34	12.8 %
Budget Management	20	16	20.0 %
Accounting Control	181	146	19.3 %
Internal Audit	69	50	27.5 %
Office of the Ministry	7	7	-
<b>TOTAL</b>	<b>316</b>	<b>253</b>	<b>19.9 %</b>

**TABLE 3 – Employment and vacancies by salary band, 31 March 2002**

<b>Salary band</b>	<b>Establishment</b>	<b>Number of employees</b>	<b>Vacancy Rate</b>
<b>Salary levels 1-2</b>	3	6	-100.0 %
<b>Salary levels 3-5</b>	87	115	-32.2 %
<b>Salary levels 6-8</b>	142	79	44.4 %
<b>Salary levels 9-12</b>	62	32	48.4 %
<b>SMS</b>	22	21	4.5 %
<b>TOTAL</b>	<b>316</b>	<b>253</b>	<b>19.9 %</b>

Majority of the vacancies identified above in accounting control (primarily at junior levels) will not be filled as the shift in functions to departments and the subsequent transfer of staff has reduced the need to fill these posts. The establishment will be amended in the forthcoming year. However, the remaining programmes will, as a matter of urgency, be filling their vacant posts, as in most cases these are specialist posts at more senior levels.

## **2. Job Evaluation**

The Public Service Regulations, 1999 introduced job evaluation as a way of ensuring that work of equal value is remunerated equally. Within a nationally determined framework, the executing authority may evaluate or re-evaluate any job in his organisation. In terms of the Regulations, all vacancies on salary levels 9 and higher must be evaluated before they are filled. This was complemented by a decision by the Minister for Public Service and

Administration that all SMS jobs must be evaluated before 31 December 2002. Ten positions at salary level band 9-12 were evaluated in the year under review due to the late establishment of in-house skills.

During the year there were no employees absorbed in an upgraded post.

There was one case where the remuneration level exceeded the grade determined by job evaluation. This was for a labour relations specialist and was a measure to retain the official (african male).

### 3. Employment Changes

This section provides information on changes in employment over the financial year. Table 1 summarises appointments (including interdepartmental transfers to and from the department), promotions and service terminations by race, gender and disability. In addition, the table provides an indication of the impact of these changes on the employment profile of the department.

**TABLE 1 – Appointments, promotions and terminations, 1 April 2001 to 31 March 2002**

	Employees, 1 April 2001	Appointments and transfer	Promotions	Terminations and transfers	Net % change
<b>African</b>	127	14	13	5	7.1 %
<b>Male</b>	64	9	5	2	10.9 %
<b>Female</b>	63	5	8	3	3.2 %
<b>Asian</b>	35	1	1	1	0.0 %
<b>Male</b>	9	-	-	1	-11.1 %
<b>Female</b>	26	1	1	-	3.8 %
<b>Coloured</b>	14		1	1	-7.1 %
<b>Male</b>	2	-	1	-	0.0 %
<b>Female</b>	12	-	-	1	-8.3 %
<b>White</b>	85	-	-	5	-5.9 %
<b>Male</b>	24	-	-	2	-8.3 %
<b>Female</b>	61	-	-	3	-4.9 %
<b>Employees with a disability</b>	2	-	-	-	0.0 %
<b>TOTAL</b>	<b>263</b>	<b>15</b>	<b>15</b>	<b>12</b>	<b>1.1 %</b>

With the finalisation of the employment equity plan the department, as the table clearly indicates, is making progress towards meeting its targets in terms of affirmative action without compromising the importance of employing highly skilled professionals.

The following tables provide a summary of turnover rates by salary band (Table 2).

**TABLE 2 – Annual turnover rates by salary band**

Salary Band	Appointments and transfer	Terminations and transfers	Turnover rate
Levels 1-2	0	1	1
Levels 3-5	1	3	4
Levels 6-8	8	7	15
Levels 9-12	2	0	2
SMS	4	0	4
<b>TOTAL</b>	<b>15</b>	<b>11</b>	<b>26</b>

The finalisation of the organisational structure realised a number of vacancies in more senior positions. This is reflected below, but the forthcoming year will see an increase in levels 9-12, once positions have been evaluated.

Table 3 identifies the major reasons why staff left the department. The transfer of functions to departmental level led to an increase in the transfer of staff.

**Table 3 – Reasons why staff are leaving the department**

Termination Type	Number
Death	1
Resignation	6
Other (transfer)	5

#### 4. Affirmative Action

The Public Service Regulations require the development and implementation of an affirmative action programme that contains the following:-

- Numeric and time-bound targets for achieving representativeness,
- Annual statistics on the appointment, training and promotion within each grade of each occupational category of persons historically disadvantaged (PSR, III, D.2)

The following tables describe changes in the composition of the department for employees below the level of SMS (Table 1 and Table 2), and other key target groups in terms of race, gender and disability.

**TABLE 1 – Progress made with respect to affirmative action, 2001/ 02 [Employees at levels below the SMS]**

	Progress – 2001/ 02			
	1 April 2001	Target set for 31 March 2002	Actual number at 31 March 2002	Variance
<b>African</b>	122	182	124	-31.9 %
<b>Male</b>	60	94	64	-31.9 %
<b>Female</b>	62	88	60	-31.8 %
<b>Asian</b>	30	28	28	0.0 %
<b>Male</b>	6	18	4	-77.8 %
<b>Female</b>	24	10	24	140.0 %
<b>Coloured</b>	12	4	10	150.0 %
<b>Male</b>	2	2	2	0.0 %
<b>Female</b>	10	2	8	300.0 %
<b>White</b>	79	27	77	185.2 %
<b>Male</b>	19	16	19	18.8 %
<b>Female</b>	60	11	58	427.3 %
<b>Employees with a disability</b>	1	4	1	-75.0 %
<b>TOTAL</b>	<b>243</b>	<b>241</b>	<b>239</b>	<b>0.0 %</b>

Very few appointments were made as the department established its evaluating committee late in the year following National's capacity building workshop.

**TABLE 2 – Progress made with respect to affirmative action, Senior Management Service, 2001/ 02**

	Progress – 2001/ 02			
	1 April 2001	Target set for 31 March 2002	Actual number at 31 March 2002	Variance
<b>African</b>	5	12	11	-8.3 %
<b>Male</b>	4	6	10	66.7 %
<b>Female</b>	1	6	1	-83.3 %
<b>Asian</b>	5	2	4	-100.0 %
<b>Male</b>	3	1	2	100.0 %
<b>Female</b>	2	1	2	100.0 %
<b>Coloured</b>	-	-	-	0.0 %
<b>Male</b>	-	-	-	0.0 %
<b>Female</b>	-	-	-	0.0 %
<b>White</b>	6	2	6	200.0 %
<b>Male</b>	5	1	5	400.0 %
<b>Female</b>	1	1	1	0.0 %
<b>Employees with a disability</b>	1	2	1	-50.0 %
<b>TOTAL</b>	<b>16</b>	<b>16</b>	<b>21</b>	<b>31.25 %</b>

The achievement of specific targets was limited as the department was reliant on a centralised evaluation committee and a retrenchment tool is not presently available. However, as indicated in the table, progress is being made as we exceeded our target in many instances.

#### **5. Performance Rewards**

To encourage good performance the department has granted the following performance rewards (both merit awards and personal profiles) during the year under review:

1 white male @ R22 000  
 3 white females @ R19 000

These awards clearly indicate a need to build capacity in targeted groups in order to ensure more representative participation in such rewards.

**TABLE 1 – Performance Rewards by salary level, 1 April 2001 to 31 March 2002**

Salary Level	Beneficiary Profile			Cost	
	Number of beneficiaries	Number of employees	% of total within group	Cost (R'000)	Per capita cost
Levels 1-2	-	6	-	-	-
Levels 3-5	1	115	0.9	7	7
Levels 6-8	2	79	2.5	11	5.5
Levels 9-12	1	32	3.1	22	22
SMS	-	21	-	-	-
<b>TOTAL</b>	<b>4</b>	<b>253</b>	<b>1.6</b>	<b>40</b>	<b>10</b>

**6. Foreign Workers**

The department employs two foreign nationals at salary levels 11 and 13.

**7. Sick Leave**

The Public Service Commission identified the need for careful monitoring of sick leave within the public service. The following tables provide an indication of the use of sick leave (Table 1) and disability leave (Table 2). In both cases, the estimated cost of the leave is also provided.

**TABLE 1 – Sick leave, 1 April 2001 to 31 March 2002**

Grade (Salary Band)	Total days ('000)	Percent certification	Number of Employees using sick leave	% of total employees using sick leave	Avg per employee	Est. Cost (R'000)
Levels1-2	48	14.59%	5	2.6 %	9.6	5
Levels 3-5	555	44.29%	54	27.0 %	10.3	253
Levels 6-8	958	33.30%	102	52.3 %	9.4	799
Levels 9-12	191	51.36%	25	12.8 %	7.6	423
SMS	43	50.84%	9	4.6 %	4.8	157
<b>TOTAL</b>	<b>1 795</b>	<b>194.38</b>	<b>195</b>	<b>100.0 %</b>	<b>9.2</b>	<b>1 637</b>

The newly established requirements in terms of doctor's certification should see a decline in the sick leave taken.

**TABLE 2 – Disability leave (temporary and permanent), 1 April 2001 to 31 March 2002**

<b>GRADE (SALARY BAND)</b>	<b>Total days taken ('000)</b>	<b>Percent certification</b>	<b>Number of Employees using disability leave</b>	<b>% of total employees using disability leave</b>	<b>Avg per employee</b>	<b>Est. Cost (R'000)</b>
<b>Levels 1-2</b>	-	-	-	-	-	-
<b>Levels 3-5</b>	37	32.5 %	2	33.3 %	18.5	7
<b>Levels 6-8</b>	77	67.5 %	4	66.7%	19.3	38
<b>Levels 9-12</b>	-	-	-	-	-	-
<b>SMS</b>	-	-	-	-	-	-
<b>TOTAL</b>	<b>114</b>	<b>100.0 %</b>	<b>6</b>	<b>100.0 %</b>	<b>19.0</b>	<b>45</b>

Table 3 summarises the utilisation of annual leave. The wage agreement concluded with trade unions in the PSCBC in 2000 requires the management of annual leave to prevent high levels of accrued leave being paid at the time of termination of service.

**TABLE 3 – Annual Leave, 1 April 2001 to 31 March 2002**

<b>GRADE (SALARY BAND)</b>	<b>Total days taken ('000)</b>	<b>Number of Employees in grade</b>	<b>Average per employee</b>
<b>Levels 1-2</b>	129	6	21.5
<b>Levels 3-5</b>	1 190	60	19.8
<b>Levels 6-8</b>	2 460	126	19.5
<b>Levels 9-12</b>	725	33	22.0
<b>SMS</b>	400	21	19.0
<b>TOTAL</b>	<b>4 904</b>	<b>246</b>	<b>19.9</b>

The average leave taken per employee clearly indicates the improvement or reduction in the accrual of leave.

**TABLE 4 – Leave payouts**

The following table summarises payments made to employees as a result of leave that was not taken.

<b>REASON</b>	<b>Total Amount (R'000)</b>	<b>Number of Employees</b>
<b>Non-utilisation of leave for current cycle</b>	15	11
<b>Leave accrued before 30 June 2001</b>	140	12
<b>TOTAL</b>	<b>155</b>	<b>23</b>

\* *Leave payouts are as a result of resignation, death and cash in lieu of long service awards.*

## 8. Labour Relations

No collective agreements were entered into during the year under review. The following table summarises the outcome of disciplinary hearings conducted within the department for the year under review.

**TABLE 1 – Misconduct and discipline**

<b>Outcomes of disciplinary hearings</b>	<b>Number</b>	<b>% of total</b>
<b>Verbal warning</b>	2	40 %
<b>Dismissal</b>	3	60 %
<b>TOTAL</b>	<b>5</b>	<b>100 %</b>

## 9. Skills development

This section highlights the efforts of the department with regard to skills development. Table 1 summarises the development of skills by salary band, including costs incurred in skills development.

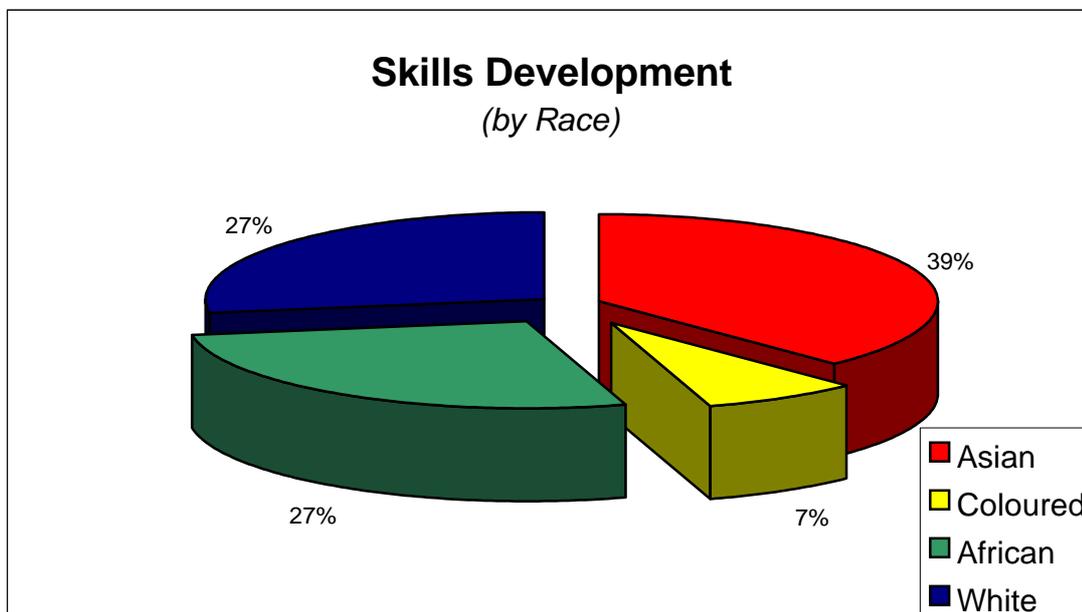
Skills development is directly focused at middle to lower levels in order to build a foundation of skills, which are then available for promotion, as indicated in the table below:

**TABLE 1 – Skills development by salary band, 1 April 2001 to 31 March 2002**

<b>Grade (Salary Band)</b>	<b>External Training</b>
	<b>Training day equivalents</b>
<b>Levels 3-5</b>	41
<b>Levels 6-8</b>	49
<b>Levels 9-12</b>	5
<b>TOTAL</b>	<b>95</b>

Expenditure of R19 000 relates directly to computer courses attended by staff. However, the table above reflects courses presented by the Office of the Premier, for which there are no cost implications.

The following chart indicates the focus on capacitating the targeted groups for further development and in-house promotion:



The following table provides a summary of the various training areas where staff were provided with skills training:

**TABLE 2 – Skills development by type of training, 1 April 2001 to 31 March 2002**

Type of training	Training		
	Number of beneficiaries	Training day equivalents	Average days per person
Formal training	32	107	3.3
Computer training	33	65	2.0
Management development	4	10	2.5
<b>TOTAL</b>	<b>69</b>	<b>182</b>	<b>2.6</b>

The following table summarises actual expenditure on training for the year under review. The table also provides a comparison with the initial estimate published in the Estimate of Expenditure.

**TABLE 3 – Total expenditure on skills development by programme, 2001/ 02**

Programme	Expenditure – 2001/ 02			Medium-term expenditure estimates		
	Original estimate	Actual Exp.	Variance	2002/ 03	2003/ 04	2004/ 05
Transverse Support	290	274	(16)	488	507	531
Budget Mgt	56	57	1	170	179	186
Accounting Control	94	27	(67)	321	340	352
Internal Audit	547	65	(482)	141	148	155
<b>TOTAL</b>	<b>987</b>	<b>423</b>	<b>(564)</b>	<b>1 120</b>	<b>1 174</b>	<b>1 224</b>

A substantial portion of the training by Accounting Control was to be on the revised Debtors and Creditors systems and Practice Notes. The implementation thereof was much revised and hence the underspending. Future trends reflect the need to capacitate internally on the new accounting and stores system. The Internal Audit Unit will require training as new personnel are employed and as the new audit software is introduced.

Finally, the following tables summarise the bursaries granted to employees during the last financial year by salary level (Table 4) and race, gender and disability (Table 5).

**TABLE 4 – New Bursaries granted by salary level, 1 April 2001 to 31 March 2002**

Salary Level	Beneficiary Profile			Cost	
	Number of beneficiaries	Number of employees in salary band	% of total in salary band	Cost (R'000)	Per capita cost
Levels 1-2	-	9	-	-	-
Levels 3-5	3	60	5.0 %	7	9
Levels 6-8	7	126	5.6 %	35	39
Levels 9-12	1	33	3.0 %	10	10
Professionals (levels 13-14)	-	17	-	-	-
SMS (levels 15-16)	-	4	-	-	-
<b>TOTAL</b>	<b>11</b>	<b>249</b>	<b>4.4 %</b>	<b>52</b>	<b>58</b>

**TABLE 5 – Bursaries granted by race and gender, 1 April 2001 to 31 March 2002**

	<b>Number of beneficiaries</b>
<b>African Male</b>	6
<b>African Female</b>	1
<b>Asian Female</b>	2
<b>White Male</b>	2
<b>TOTAL</b>	<b>11</b>

**10. Injury on duty**

There were two instances of injury that required basic medical attention only.

In compliance with the Treasury Regulation 3.1.13 read in conjunction with the Public Finance Management Act, the Audit Committee hereby submits this report covering the fiscal year 2001/2002.

The responsibility to implement sound systems of internal control, risk management and governance lies with the management of this department. Our responsibility is to review such systems for adequate design and effective operation and issue assurance and guidance to management on how to effect improvements.

This report serves to communicate our overall impression of the systems of internal control and management employed by this department during the period under review. This duty is being carried out in terms of the Treasury Regulations.

### Scope

The Audit Committee acts as a source of advice to the Head of Department and its functions are discharged by utilizing the services of the Internal Audit Unit. Its key responsibilities are to:

- Assess and comment on the department's corporate governance, including its systems of internal control incorporating the internal audit function and risk management processes;
- Review and comment on the adequacy and reliability of financial information provided to management and other users of such information;
- Assess the department's compliance with the legal and regulatory provisions.

The Audit Committee, supported by the Internal Audit Unit, is a vital element in helping the department in meeting its corporate governance objectives. It provides advice and support to:

- Head of Department – about the department's effectiveness and efficiency;\
- Senior Management – about the risks that threaten the achievement of their objectives, and their internal control systems designed to mitigate risks.

During the 2001/2002 fiscal year, the Audit Committee, through the Internal Audit Unit, conducted a wide range of audits and investigations as outlined in the Unit's Annual Audit Report. The Committee, in its first full year of functionality undertook to gain an understanding of the processes and functions undertaken by this Department. A risk assessment exercise was undertaken during the current year. The final risk assessment report led to the development of a Three Year Rolling Strategic Plan as well as an Annual Audit Plan for the Department. The audit plans focused on the more critical areas that required corrective action.

In particular, the Internal Audit Unit undertook:

- 3 compliance and business improvement audits,
- 1 forensic investigation

In addition, the Internal Audit Unit developed the department's fraud prevention and ethical awareness strategies.

## **Opinion**

It is our view, as the Audit Committee, from the reports submitted for our attention and the recommendations made by the Internal Audit Unit, that improvements in the systems of internal control, risk management and corporate governance are still necessary and that improvements are being undertaken by the management of Provincial Treasury and are to be reviewed by the Internal Audit Unit.

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**Mr J T M Edwards**  
**Chairperson of the Audit Committee**

**15 August 2002**

### **Other Audit Committee Members:**

Mr B P Campbell  
Adv B S Khuzwayo  
Mr R Morar  
Mr D S D Shabalala  
Adv R K Sizani  
Prof R W Green-Thompson

**REPORT OF THE AUDITOR-GENERAL TO MEMBERS OF KWAZULU-NATAL PROVINCIAL LEGISLATURE ON THE FINANCIAL STATEMENTS OF VOTE 6 – THE DEPARTMENT OF FINANCE FOR THE YEAR ENDED 31 MARCH 2002**

**1. Audit Assignment**

The financial statements, as set out on pages 72 to 98 for the year ended 31 March 2002, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 3 and 5 of the Auditor-General Act, 1995 (Act No. 12 of 1995). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

**2. Nature and Scope**

The audit was conducted in accordance with Statements of South African Auditing Standards. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations, which came to my attention and are applicable to financial matters.

I believe that the audit provides a reasonable basis for my opinion.

**3. Unqualified Audit Opinion**

In my opinion, the financial statements fairly present, in all material respects, the financial position of the Department of Finance at 31 March 2002 and the results of its operations and cash flows for the year then ended in accordance with prescribed accounting practice.

**4. Emphasis of Matter**

Without qualifying the audit opinion expressed above, attention is drawn to the following matters:

**4.1 Matters not affecting the financial statements**

**4.1.1 Personnel Appointments**

The Head of Department of Housing was re-deployed to the Department of Finance, Pietermaritzburg, from the Department of Housing in Durban. A letter signed by the Premier of the Province states that the official:

- will retain his head of department allowance, and
- will be placed on the second notch of his salary scale to compensate for traveling costs from Durban to Pietermaritzburg.

No regulation or authority could be submitted in support of the notch increase to compensate for the traveling costs. In terms of the Public Service Co-ordinating Bargaining Council Resolution No. 13 of 1998 and the Department of Public Service and Administration Circular No. 2 of 1999, dated 6 December 1999 "second and third notches are no longer applicable to senior managers once they have signed a performance agreement".

Furthermore, a memorandum from the Head of the Department of Finance, states that the Executive Assistant has to be transferred as part of the former Head of Department of Housing's conditions of service.

The Executive Assistant's contract was not with the former Head of Department of Housing but with the Department of Housing and therefore she is not part of his conditions of service and the letter from the Premier made no mention of her transfer.

The total amount paid by the Department of Finance to the Executive Assistant is deemed irregular expenditure.

#### 4.1.2 *KwaZulu-Natal Provincial Audit Committee*

Contrary to the provisions of paragraph 3 of the Audit Committee Charter, the Audit Committee did not hold quarterly meetings. No meetings were held during the period July 2001 to February 2002 and only 2 instead of 4 meetings were held during the financial year 1 April 2001 – 31 March 2002. Furthermore, in evaluating the role and functioning of the Audit Committee in terms of the Audit Committee Charter it was found that the Audit Committee did not function as contemplated by paragraph 5 of the Charter. As a consequence, the Audit Committee did not fulfill their statement of policy as detailed in paragraph 2 of the Audit Committee Charter.

In the response the accounting officer advised that they are currently in the process of renewing the charter to be in line with the requirements of current legislation. It is of utmost importance that the Audit Committee fully complies with the Audit Committee Charter in order to facilitate the reliance on the control environment.

#### 4.1.3 *Official name of the Department*

The Department of Finance is utilising the name Provincial Treasury on their letterheads, vehicle decals and other aspects associated with the Department.

Cabinet directed that the use of the new name "Provincial Treasury" be held in abeyance until after the publication of the proclamation signed by the President.

There could be legal implications as the Department of Finance is operating under an unapproved name. Furthermore, the costs involved in printing letterheads and logos on documentation and vehicle decals could prove to be fruitless expenditure should the change in name not be approved.

## 5. **Appreciation**

The assistance rendered by the staff of the Department of Finance during the audit is sincerely appreciated.

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**B.R. WHEELER**  
**for AUDITOR-GENERAL**  
**PIETERMARITZBURG**  
**30/07/02**

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## **STATEMENT OF ACCOUNTING POLICIES AND RELATED MATTERS FOR THE YEAR ENDED 31 MARCH 2002**

The financial statements have been, unless otherwise indicated, prepared in accordance with the following policies, which have been applied consistently in all material respects. However, where appropriate and meaningful, additional information has been disclosed to enhance the usefulness of the financial statements and to comply with the statutory requirements of the Public Finance Management Act, Act 1 of 1999 (as amended by Act 29 of 1999) and the Treasury Regulations for Departments and Constitutional Institutions issued in terms of the Act, as well as the Division of Revenue Act, Act 1 of 2001.

### **1. Basis of preparation**

The financial statements have been prepared on the cash basis of accounting, except where stated otherwise. Under the cash basis of accounting transactions and other events are recognised when cash is received or paid. This basis of accounting measures financial results for a period as the difference between cash receipts and cash payments.

### **2. Revenue**

Voted funds are the amounts appropriated to a department in accordance with the final budget, known as the adjustment estimate. Interest received is recognised upon receipt of the funds and no accrual is made for interest received after the reporting period. Unexpended voted funds are surrendered to the Provincial Revenue Fund.

### **3. Expenditure**

Capital and current expenditure is recognised in the income statement when the payment is made.

### **4. Unauthorised, irregular and fruitless and wasteful expenditure**

Unauthorised expenditure means:

- the overspending of a vote or a main division within a vote, or
- expenditure that was not made in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

Unauthorised expenditure is treated as a current asset in the balance sheet until such expenditure is recovered from a third party, authorised by Parliament, or funded from future voted funds.

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

- the Public Finance Management Act,
- the State Tender Board Act, or any regulations made in terms of this Act, or
- any provincial legislation providing for procurement procedures in that provincial government.

Irregular expenditure is treated as expenditure in the income statement until such expenditure is disallowed by the KwaZulu-Natal Central Procurement Committee, at which point it is treated as a current asset until it is recovered from a third party.

Fruitless and wasteful expenditure means expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is treated as a current asset in the balance sheet until such expenditure is recovered from a third party.

## STATEMENT OF ACCOUNTING POLICIES AND RELATED MATTERS FOR THE YEAR ENDED 31 MARCH 2002

### 5. Debt write-off policy

Debts are written off when identified as irrecoverable. The value of debts considered to be irrecoverable but not yet written off are disclosed as a note to the financial statements. These amounts are not recognised in the balance sheet as a liability or as expenditure in the income statement.

### 6. Assets

Physical assets (fixed assets, moveable assets and inventories) are written off in full when they are paid for and are accounted for as expenditure in the income statement. The value of assets are not accounted for on the balance sheet.

### 7. Receivables

Receivables are not normally recognised under the cash basis of accounting. However, receivables included in the balance sheet arise from cash payments that are recoverable from another party.

### 8. Payables

Payables are not normally recognised under the cash basis of accounting. However, payables included in the balance sheet arise from cash receipts that are due to either the National Revenue Fund or another party.

### 9. Recoverable Revenue

Recoverable revenue represents payments made and recognised in the income statement as an expense in previous years, which have now become recoverable from a debtor due to non-performance in accordance with an agreement. Repayments are transferred to the Revenue Fund as and when the repayment is received.

### 10. Subsequent payments

Payments made after the accounting date that relates to goods and services received before or on the accounting date are disclosed as a note to the financial statements. These payments are not recognised in the balance sheet as a liability or as expenditure in the income statement as the financial statements are prepared on the cash basis of accounting.

### 11. Lease commitments

Lease commitments for the period remaining from the accounting date until the end of the lease contract are disclosed as a note to the financial statements. These commitments are not recognised in the balance sheet as a liability or as expenditure in the income statement as the financial statements are prepared on the cash basis of accounting.

### 12. Employee benefits

#### 12.1 Short-term employee benefits

The cost of short-term employee benefits is expensed in the income statement in the reporting period that the payment is made. Short-term employee benefits, that give rise to a present legal or constructive obligation, are deferred until they can be reliably measured and then expensed. Details of these benefits and the potential liabilities are disclosed as a note to the financial statements and are not recognised in the income statement.

## **12.2 Termination benefits**

Termination benefits are recognised and expensed only when the payment is made.

## **12.3 Retirement benefits**

The department provides retirement benefits for its employees through a defined benefit plan for government employees. These benefits are funded by both employer and employee contributions. Employer contributions to the fund are expensed when money is paid to the fund. No provision is made for retirement benefits in the financial statements of the department. Any potential liabilities are disclosed in the financial statements of the National Revenue Fund and not in the financial statements of the employer department.

## **12.4 Medical benefits**

The department provides medical benefits for its employees through defined benefit plans. These benefits are funded by employer and employee contributions. Employer contributions to the fund are expensed when money is paid to the fund. No provision is made for medical benefits in the financial statements of the department.

Retirement medical benefits for retired members are expensed when payment is made to the fund.

## **13. Comparative figures**

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year. The comparative figures shown in these financial statements are limited to the figures shown in the previous year's audited financial statements and such other comparative figures that the department may reasonably have available for reporting.

In the prior year two separate sets of financial statements, one for Department of Finance and one for the Main Control Responsibility, were prepared. In the current year a combined set of financial statements have been prepared as it is operated as one entity. The comparatives have therefore been restated to consolidate the Department of Finance and the Main Control Responsibility.

## INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2002

	Notes	2002 R'000	2001 R'000
<b>REVENUE</b>			
Voted funds		144,834	211,382
- Portion of Equitable Share		141,209	204,495
- Conditional Grants	1	3,099	6,400
- Statutory Appropriation	2	526	487
Non-voted Funds		270,026	193,072
- Sale of goods and services	3	259,364	175,514
- Other Receipts	4	10,662	17,558
<b>TOTAL REVENUE</b>		<b>414,860</b>	<b>404,454</b>
<b>EXPENDITURE</b>			
Personnel Expenditure	5	33,001	32,392
Administrative expenditure		5,676	4,956
Stores and Livestock		952	784
Equipment	6	2,482	1,926
Land and Buildings	7	0	5,344
Professional and Special Services	8	45,072	55,919
Transfer Payments	9	0	251
Miscellaneous	10	5,194	4,638
Special functions: authorised losses	11	8,467	61
<b>TOTAL EXPENDITURE</b>		<b>100,844</b>	<b>106,271</b>
<b>NET SURPLUS FOR THE YEAR</b>		<b>314,016</b>	<b>298,183</b>
<b>ANALYSIS OF NET SURPLUS FOR THE YEAR</b>			
Voted funds to be surrendered to Revenue Fund	17	43,990	105,111
Revenue to be surrendered to Revenue Fund	18	270,026	193,072
		<b>314,016</b>	<b>298,183</b>

## BALANCE SHEET AS AT 31 MARCH 2002

	Notes	2002 R'000	2001 R'000
<b>ASSETS</b>			
<b>Current assets</b>			
		<b>2,033,826</b>	<b>3,207,571</b>
Unauthorised, irregular, fruitless and wasteful expenditure	12	131,370	1,358,615
Cash and cash equivalents	13	1,259,696	1,631,864
Receivables	14	40,499	107,156
Provincial Treasury	16	602,261	109,936
<b>Total assets</b>		<b>2,033,826</b>	<b>3,207,571</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
		<b>1,957,444</b>	<b>3,177,733</b>
Voted funds to be surrendered	17	1,357,686	1,731,377
Revenue to be surrendered	18	281,516	84,802
Bank overdraft	19	146,504	394,463
Payables	20	171,738	967,091
<b>Total liabilities</b>		<b>1,957,444</b>	<b>3,177,733</b>
<b>NET ASSETS/EQUITY</b>			
Recoverable Revenue		76,382	29,838
<b>Total net assets/equity</b>		<b>76,382</b>	<b>29,838</b>

STATEMENT OF CHANGES IN NET ASSETS/EQUITY FOR THE YEAR ENDED 31 MARCH 2002

	2002 R'000	2001 R'000
<b>Recoverable Revenue</b>		
Opening balance	29,838	17,943
Movements	<u>46,544</u>	<u>11,895</u>
Closing Balance	<u><u>76,382</u></u>	<u><u>29,838</u></u>

**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2002**

	Note	2002 R' 000	2001 R' 000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net cash flow from operating activities excluding capital items	21	316,034	298,749
Cash utilised to increase working capital	22	(728,599)	274,608
Unauthorised expenditure approved in the current year		1,227,148	687,051
Voted funds surrendered	17	(43,990)	(105,111)
Revenue funds surrendered	18	(270,026)	(193,072)
<b>Net cash flow utilised in operating activities</b>		<b>500,567</b>	<b>962,225</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of plant and equipment	21	(2,018)	(566)
<b>Net cash flows from operating and investing activities</b>		<b>498,549</b>	<b>961,659</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Voted funds to be surrendered		(373,691)	1,153,003
Revenue funds to be surrendered		196,714	(508,018)
Increase in recoverable revenue		46,544	11,895
<b>Net increase in cash and cash equivalents</b>		<b>368,116</b>	<b>1,618,539</b>
<b>Cash and cash equivalents at beginning of period</b>	23	1,347,337	(271,202)
<b>Cash and cash equivalents at end of period</b>	23	<b>1,715,453</b>	<b>1,347,337</b>

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2002**

**1. Conditional grants received**

Received from	Purpose	<b>2002 Total Allocation</b>	<b>2002 Actual Expend</b>	<b>2002 Variance</b>
National Treasury	LOGIS Implementation	1,667	366	1,301
National Treasury	Internal Audit Capacity Building	1,432	830	602
		<u>3,099</u>	<u>1,196</u>	<u>1,903</u>

		<b>2001 Total Allocation</b>	<b>2001 Actual Expend</b>	<b>2001 Variance</b>
National Treasury	LOGIS and Vulindlela Implementation	4,740	4,740	0
National Treasury	Internal Audit Capacity Building	1,660	228	1,432
		<u>6,400</u>	<u>4,968</u>	<u>1,432</u>

**2002  
R'000**      **2002  
R'000**

**2. Statutory Appropriation**

Appropriation for remuneration and other payments of Executive Authority and Legislature not under the control of the department	526	487
	<u>526</u>	<u>487</u>

**3. Sale of goods and services**

Commission	22,069	21,857
Illegal Gambling fees	0	51
Educational activities/Registration/Tuition Fees	0	401
Interest on cash and equivalents	237,266	153,173
Road Traffic Act	0	32
Game licenses	29	0
	<u>259,364</u>	<u>175,514</u>

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2002:**

	<b>2002</b>	<b>2001</b>
	<b>R'000</b>	<b>R'000</b>
<b>4. Other Receipts</b>		
Cheques written back	10,348	11,718
Housing rent recoveries	73	120
Loss control	0	109
Other	88	5,330
Refunds previous year	0	151
Rent for parking	13	0
Salaries overpaid financial year	43	0
Study loans	92	70
Subsidised motor scheme and subsidised transport	5	60
	<u>10,662</u>	<u>17,558</u>
<b>4.1 Gifts, donations and sponsorships received in kind</b>		
<u>Received from</u>	<u>Purpose</u>	
Corporate Network System	Printer	
	2	0
	<u>2</u>	<u>0</u>
<b>5. Personnel Expenditure</b>		
Appropriation Executive and Legislature	526	487
Basic salary costs	21,248	19,153
Pension contributions	3,215	2,920
Medical aid contributions	1,538	1,409
Other salary related costs	6,474	8,423
	<u>33,001</u>	<u>32,392</u>
Average number of employees	<u>253</u>	<u>272</u>
<b>6. Equipment</b>		
Current (Rentals, maintenance and sundry)	464	1,360
Rentals	464	1,360
Capital	2,018	566
Computer equipment	1,248	390
Furniture and office equipment	376	176
Other machinery and equipment	25	0
Transport	369	0
	<u>2,482</u>	<u>1,926</u>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2002:

	Note	2002 R' 000	2001 R' 000
<b>7. Land and Buildings</b>			
Current expenses		0	5,344
- Maintenance		0	15
- Leasehold Improvements		0	2,462
- Rental		0	2,867
		<b>0</b>	<b>5,344</b>
<b>8. Professional and Special Services</b>			
	<b>Current</b>	<b>Capital</b>	
Auditors' remuneration	3,210	0	19,993
Contractors	4,896	0	687
Consultants and advisory services	16,155	0	19,894
Commissions and committees	394	0	635
Computer Services	20,177	0	14,311
Other	240	0	399
	<b>45,072</b>	<b>0</b>	<b>55,919</b>
<b>9. Transfer payments</b>			
<u>Transferee</u>	<u>Purpose</u>		
KwaZulu Catering Services	Ulundi Canteen Subsidy	0	251
		<b>0</b>	<b>251</b>
<b>10. Miscellaneous</b>			
Bank Charges	0	0	208
Stabilisation fund	5,194	0	4,430
	<b>5,194</b>	<b>0</b>	<b>4,638</b>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2002

	Current	Capital	Notes	2002 R'000	2001 R'000
<b>11. Special functions : Authorised Losses</b>					
Debts written off	8,375	0	11.1	8,375	2
Other material losses written off in income statement	92	0	11.2	92	59
	<b>8,467</b>	<b>0</b>		<b>8,467</b>	<b>61</b>

**11.1 Debts written off**

Arrear pension	3	0		3	0
Breach of contract	5	0		5	0
Cheque Fraud	5,040	0		5,040	0
Housing Debts	5	0		5	0
Interest	381	0		381	0
Interface persal transactions	27	0		27	0
Leave without pay	3	0		3	0
Other staff related write offs	4	0		4	0
S & T	2,877	0		2,877	0
Salary overpayment	27	0		27	2
Tax debt	3	0		3	0
<b>TOTAL</b>	<b>8,375</b>	<b>0</b>		<b>8,375</b>	<b>2</b>

**11.2 Other material losses written off**

Supplies & Equipment	13	0		13	26
Other	9	0		9	0
Vehicle Collision and Damages	10	0		10	27
Vehicle Theft	60	0		60	6
	<b>92</b>	<b>0</b>		<b>92</b>	<b>59</b>

**12. Unauthorised, irregular and fruitless and wasteful expenditure**

Unauthorised expenditure in respect of previous years not yet approved			12.2	131,114	1,358,262
Thefts and losses awaiting approval			12.3	256	353
			12.1	<b>131,370</b>	<b>1,358,615</b>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2002

	Notes	2002 R'000	2001 R'000
<b>12.1</b>	<b><i>Reconciliation of movement in account balance</i></b>		
Opening balance		1,358,615	1,358,615
Transfer to income statement		(97)	0
Prior years expenditure allowed during current year		(1,227,148)	0
Closing balance		<u>131,370</u>	<u>1,358,615</u>
<b>12.2</b>	<b><i>Unauthorised expenditure in respect of previous years not yet approved</i></b>		
Agriculture & Environmental Affairs		0	71,840
Economic Affairs & Tourism		0	4,082
Education and Culture		852	507,722
Finance		0	130,543
Former Government		0	14,046
Health		0	284,705
Main Responsibility		38,863	101,173
SA Revenue Service Interest		18,733	18,733
Traditional and Local Government Affairs		0	4,901
Transport		3,218	76,645
Welfare & Population Development Works		69,448	128,085
		<u>131,114</u>	<u>1,358,262</u>
<b>12.3</b>	<b><i>Thefts and losses awaiting approval</i></b>		
Vehicle collisions and damage		49	25
Vehicle thefts and losses		185	244
Supplies and equipment losses		22	79
Subsistence and transport		0	5
		<u>256</u>	<u>353</u>
<b>13.</b>	<b><i>Cash and cash equivalents</i></b>		
Exchequer Account		1,259,695	556,863
Cash on hand		1	1
Short-term investments	13.1	0	1,075,000
		<u>1,259,696</u>	<u>1,631,864</u>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2002

	Notes	2002 R'000	2001 R'000
<b>13.1</b>	<b>Short-Term Investments</b>		
	<b><u>Financial Institution</u></b>		
	<b><u>Period of investment</u></b>		
	ABSA	0	100,000
	BOE Bank	0	40,000
	Nedcor Bank	0	250,000
	Rand Merchant Bank	0	350,000
	Saambou Bank	0	35,000
	Standard Bank	0	300,000
		<b>0</b>	<b>1,075,000</b>

**14. Receivables – current**

Staff debts	14.3	583	724
Other debtors	14.4	39,916	106,432
	14.2	<b>40,499</b>	<b>107,156</b>

Amounts totaling R2, 489,901 (2001: R2, 972,000) included in the above figures may not be recoverable and will be written off in the forthcoming year. These debts refer to services rendered between departments (either Nationally or Provincially) and do not represent a loss of income the State.

**14.2 Age analysis – receivables current**

Less than one year	6,457	10,598
One to two years	6,746	696
More than two years	27,296	95,862
	<b>40,499</b>	<b>107,156</b>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2002

	Notes	2002 R'000	2001 R'000
<b>14.3</b>	<b>Staff Debtors</b>		
Contract Breach: Study		216	273
Debt: BOC 100% Housing		37	50
Debt Control Persal Other		0	3
Debt Control Tax Debt		0	7
Debt: Employee Miscellaneous		10	75
Debtor debt		245	0
Debts: Personal		10	79
Deduction Disallowance Accounts		0	2
Deduction Code Missing Account		0	18
Disallowance Control Account		10	10
Housing Guarantee Payment		5	4
Persal Disallowance Control: Current		2	4
Persal Disallowance Control: Previous		10	7
Loan: Subsidised Motor Transport New		13	9
S & T Control Account		16	166
Salary reversal control account		9	17
		<b>583</b>	<b>724</b>
<b>14.4</b>	<b>Other debtors</b>		
Cheque Fraud		16,484	21,700
Claims Recoverable		10,365	13,963
Cancelled Cheques – Reissued		15	23
Disallowance Implementation		36	36
Dishonoured Cheques		222	202
Health Special Nutrition Programme		0	55,073
Insurance		0	1
Journal suspense		360	4
Medical Aid		6,608	6,084
National Treasury		0	0
Official Association		76	9
Other		7	13
Pension Receipts		0	2,852
Post Office Savings Bank		0	3
Receipts Suspense		0	14
Regional Services Account		4,924	0
Savings Account Deduction		0	259
Small Funds		18	0
Suppliers Disallowance Control		801	6,196
		<b>39,916</b>	<b>106,432</b>

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2002**

	Notes	2002 R'000	2001 R'000
<b>15. Inventories</b>			
Inventories totaling R73 000 which consists of stationery and consumable stores has not been included in the above balance, as it has been expensed in the period when paid for.			
<b>16. Provincial Treasury</b>			
This balance represents the Department's portion of the centrally controlled accounts		602,261	109,936
		<u>602,261</u>	<u>109,936</u>
<b>17. Voted Funds to be Surrendered</b>			
Opening balance		1,731,377	881,168
Transfer from income statement		43,990	105,111
Other departments voted funds to be surrendered		463,487	745,098
Paid during the year		(881,168)	0
Closing balance		<u>1,357,686</u>	<u>1,731,377</u>
<b>18. Revenue to be Surrendered</b>			
Opening balance		84,802	0
Transfer from income statement for revenue to be surrendered		270,026	193,072
Other departments to surrender		719,902	714,898
Paid during the year		(793,214)	(823,168)
Closing balance		<u>281,516</u>	<u>84,802</u>
<b>19. Bank Overdraft</b>			
Paymaster General Account	19.1	146,504	394,463
		<u>146,504</u>	<u>394,463</u>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2002

	Notes	2002 R'000	2001 R'000
<b>19.1</b>	<b><i>Paymaster General Account</i></b>		
Balance per bank statement		(380,960)	(192,865)
Add:			
-Outstanding deposits		7,954	3,167
Sub total		(373,006)	(189,698)
Deduct		519,510	584,161
-Orders payable		412,341	584,200
-ACB		107,008	(200)
-Electronic funds transfer		161	161
Balance per cashbook		<b>146,504</b>	<b>394,463</b>
<b>20.</b>	<b><i>Payables - Current</i></b>		
Advances received	20.1	7,560	7,560
Other payables	20.2	164,178	959,531
		<b>171,738</b>	<b>967,091</b>
<b>20.1</b>	<b><i>Advances received</i></b>		
LOGIS		7,500	7,500
Asset Management		60	60
		<b>7,560</b>	<b>7,560</b>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2002

	Notes	2002 R'000	2001 R'000
<b>20.2 Other payables</b>			
Advances Received from other departments		0	2,380
Bond payment deductions/Home owners		0	202
Claims payable Paymaster General Account		0	21,989
Continuous members		0	7
Contract Deposits		0	2
Deduction code missing account		803	0
Deduction disallowance account		333	0
Emolument attachment orders		25	5
Housing installment Suspense		0	122
Inter Responsibility Clearing Account		0	3
National Treasury		158,404	909,419
Other sundry creditors		5	14
PAYE		3,619	17,776
Pension		960	7,254
Receipt/Journal Suspense		0	84
Regional Services Account		0	97
Stabilisation Fund Deduction		0	119
UIF		29	58
		<b>164,178</b>	<b>959,531</b>
<b>21. Net Cash Flow from Operating Activities excluding Capital Items</b>			
Net surplus as per Income Statement		314,016	298,183
Add to net surplus:			
Purchase of capital items	6	2018	566
<b>Net cash flow from operating activities excluding capital items</b>		<b>316,034</b>	<b>298,749</b>
<b>22. Cash Utilised to Increase Working Capital</b>			
Decrease in receivables		66,657	4,640
Increase in payables		(795,353)	270,022
Decrease in Thefts & Losses Awaiting Approval		97	(54)
Net funds utilised to increase working capital		<b>(728,599)</b>	<b>274,608</b>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2002

	Notes	2002 R'000	2001 R'000
<b>23. Cash and Cash Equivalents end of Period</b>			
Overdraft		(146,504)	(394,463)
Cash and bank balances		1,259,696	1,631,864
Provincial Treasury		602,261	109,936
		<u>1,715,453</u>	<u>1,347,337</u>

**24. Subsequent Payments**

These are payments made after 31 March 2002 which relates to goods and services received prior to 31 March 2002. These items have not been included in expenditure in the income statement.

**24.1 Listed by standard item**

Personnel		1515	0
Administration		35454	0
Stores and Livestock		1414	0
Equipment		25555	0
Professional and special services		99090	0
Miscellaneous		666	0
		<u>1,63434</u>	<u>0</u>

Information not provided for the previous year as it was not a reporting requirement.

**24.2 Listed by programme level**

Transverse Support		244	0
Budget Control		31	0
Accounting Control		524	0
Internal Audit		835	0
		<u>1,634</u>	<u>0</u>

Information not provided for the previous year as it was not a reporting requirement.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2002

	Notes	2002 R'000	2001 R'000
<b>25. Lease Commitments</b>			
Payable within 1 year		2,457	0
Payable between 1 year and 2 years		2,604	0
Payable after 2 years		23,502	0
		<u>28,563</u>	<u>0</u>

Information not provided for the previous year as it was not a reporting requirement.

<b>26. Short-Term Employee's Benefits</b>			
Leave entitlement		7,242	0
Thirteenth cheque		384	0
Performance bonus		0	0
		<u>7,626</u>	<u>0</u>

Information not provided for the previous year as it was not a reporting requirement

<b>27. Contingent Liabilities</b>			
Housing loan guarantees	27.1	800	697
		<u>800</u>	<u>697</u>

<b>27.1 Housing loan guarantee</b>			
ABSA Bank		253	227
BOE Bank		93	93
First National Bank		89	75
Ithala Bank		0	15
Permanent Bank		126	80
Saambou Bank		88	92
Standard Bank		151	115
		<u>800</u>	<u>697</u>

**28. Controlled Entities**

The Department does not have any controlled entities.

**29. Related Party Transactions**

The Department does not have any related party transactions

**30. Key Management Personnel**

*Remuneration per Senior Management Category*

<u>Level</u>	<u>No of Staff</u>	<u>R'000</u>
Minister	1	526
Head of Department	1	653
Senior General Managers	2	931
General Managers	4	902
Managers	15	4,791
		<hr/>
		<u>7,803</u>

**APPROPRIATION STATEMENT FOR YEAR ENDED: 31 MARCH 2002**

	2002				2001			
	Adjustment	Expenditure	Savings	%	Amount Voted	Expenditure	Savings	%
	Estimate R'000		(Excess) R'000			(Excess) R'000		
<i>Programmes</i>								
Transverse Support	8,103	7,081	1,022	13	16,077	15,827	250	2
Budget Control	4,241	3,803	438	10	113,006	11,819	101,187	90
Accounting Control	106,524	60,994	45,530	43	60,603	57,217	3,386	6
Internal Audit	25,440	19,973	5,467	21	21,209	20,860	349	2
Special Functions	0	8,467	(8,467)	0	0	61	(61)	0
Salary Minister	526	526	0		487	487	0	
<b>TOTAL EXPENDITURE</b>	<b>144,834</b>	<b>100,844</b>	<b>43,990</b>	<b>30</b>	<b>211,382</b>	<b>106,271</b>	<b>105,111</b>	<b>50</b>
<i>Economic Classification</i>								
Current	139,373	98,826	40,547	29	210,272	105,705	104,567	50
- Personnel	35,640	33,001	2,639	7	32,156	32,392	(236)	-1
- Other	103,733	65,825	37,908	37	178,116	73,313	104,803	59
Capital	5,461	2,018	3,443	63	1,110	566	544	49
- Acquisition of capital assets	5,461	2,018	3,443	63	1,110	566	544	49
<b>TOTAL EXPENDITURE</b>	<b>144,834</b>	<b>100,844</b>	<b>43,990</b>	<b>30</b>	<b>211,382</b>	<b>106,271</b>	<b>105,111</b>	<b>50</b>
<i>Standard Items</i>								
Personnel	35,640	33,001	2,639	7	32,156	32,392	(236)	-1
Administrative	8,489	5,676	2,813	33	5,075	4,956	119	2
Inventories	1,196	952	244	20	721	784	(63)	-9
Equipment	5,177	2,482	2,695	52	2,398	1,926	472	20
Land & Building	0	0	0	0	5,451	5,344	107	2
Professional & special services	88,438	45,072	43,366	49	160,660	55,919	104,741	65
Transfer payments	0	0	0	0	280	251	29	10
Miscellaneous	5,894	13,661	(7,767)	(13 2)	4,641	4,699	(58)	-1
<b>TOTAL EXPENDITURE</b>	<b>144,834</b>	<b>100,844</b>	<b>43,990</b>	<b>30</b>	<b>211,382</b>	<b>106,271</b>	<b>105,111</b>	<b>89</b>

## NOTES TO THE APPROPRIATION STATEMENT FOR YEAR ENDED: 31 MARCH 2002

### 1.1 Per Programme :

#### Transverse Support

The savings relate to personnel and administrative expenditure being unspent as a result of vacant positions not being as originally anticipated during the budgeting process. The cost of advertising vacancies is controlled centrally under this programme.

#### Budget Management

The savings relate to personnel and administrative expenditure relating to firstly, the delay in filling vacant posts and secondly, due to delay in receiving invoices for services rendered at year-end in relation to budget statements.

#### Accounting Control

Several unanticipated staff changes resulted in a saving under personnel expenditure, as well as the decision not to fill certain vacant posts. A significant portion of the savings reflected related to the provincial reserve of R37m.

Accounts payable totaling R2m related to a pool vehicle, standardisation of computer software and outstanding FinMIP fee notes.

Funds had been budgeted for the purchase of computer equipment to assist the departments in the roll out of LOGIS, however the implementation of LOGIS was put on hold as further investigations and enhancements were being performed on the system. LOGIS will recommence in the 2002/2003 financial year.

#### Internal Audit

Several appointments were made later in the year than was anticipated, resulting in savings in personnel expenditure and related administrative costs e.g. subsistence and travel costs.

Savings under professional services relates to a decrease in Integritas fees, which are linked directly to the increase in capacity in the internal unit.

#### Special Functions

There was a large volume of debts that were older than 3 years and efforts were made to recover these funds however, due to prescription period expiring, a decision was taken that it would be uneconomical to pursue these debts further and therefore the debts were written off in accordance with the department's debt write off policy.

Furthermore, supporting documentation relating to transactions in 1994/95 could not be located and therefore a decision was taken that it would be uneconomical to pursue these debts and therefore the debts were written off in accordance with department's debt write off policy.

## 1.2 Per Standard Item :

### Personnel

Posts were not filled in the planned months due to the fact that the posts had to be evaluated and there was a shortage of skills to perform job evaluations in the department. Posts were also not filled as appropriate candidates were not identified, resulting in posts having to be re-advertised. This has resulted in savings in personnel expenditure.

### Administrative expenditure

Subsistence and travel costs have been lower as not all the vacant posts have been filled. The department was not in a position to fill all the vacant posts and this resulted in savings on advertisement costs. There has been a saving on telephone expenditure as cell routers have been installed, which reduces the costs of cell phone calls. The telephone management system led to a further reduction in costs.

### Inventories

The savings relate to invoices for the printing of the 2002/2003 budget statements not having been received prior to 31 March 2002 and there has been improved management and stricter control over stationery.

### Equipment

The savings are due to an order that has been placed for 1 motor vehicle prior to 31 March 2002 which was only delivered by the Department of Transport in April 2002.

The Department has planned to standardise the computer software from Corel to Microsoft, however the matter was not finalized by SITA.

Orders have been placed for the upgrading of the servers but they were only received after 31 March 2002.

Funds were budgeted for the purchasing of computer equipment to assist the departments in the roll out of LOGIS, however the implementation of LOGIS was put on hold as further investigations and enhancements were being performed on the system. The roll out of LOGIS will recommence in the 2002/2003 financial year.

### Professional and special services

The Financial Management Improvement Programme recommenced in January 2002 and the consultants have not yet invoiced the department for work completed from 22 February 2002 until 31 March 2002. There has been better management on the use of Integritas as more in-house staff are utilised for audits as they acquire the necessary skills through capacity building.

The contingency reserve of R37m, which was budgeted for financial management support within the province, has not been utilised.

### Miscellaneous

There was a large volume of debts that were older than 3 years. Efforts were made to recover these funds, however due to the prescription period expiring and the fact that no supporting documentation relating to transactions in 1994/95 could not be located, a decision was taken that it would be uneconomical to pursue these debts further and therefore, the debts were written off in accordance with the department's debt write off policy.

**2. Reconciliation of appropriation statement to income statement**

	<b>2002</b> <b>R'000</b>	<b>2001</b> <b>R'000</b>
Total revenue per income statement	414,860	404,454
Less: Non voted funds	(270,026)	(193,072)
Amount voted per appropriation statement	<u><b>144,834</b></u>	<u><b>211,382</b></u>
Total expenditure per income statement	100,844	106,271
Total expenditure per appropriation statement	<u><b>100,844</b></u>	<u><b>106,271</b></u>

## Annexure A

### Response to the Report of the Auditor-General

#### 4.1.1 *Personnel Appointments*

The department attempted to recruit an official from National Treasury who unfortunately was unable to accept the offer of appointment. In terms of Public Service Regulations Section C3 an Executing Authority may set the salary for a post above the minimum notch of a salary range if he cannot recruit or retain an employee with the necessary competencies at the salary indicated by the job weight. The department therefore appointed Prof.Kusi who not only had been in the position in this department previously but had the necessary scarce competencies for the position and needed to be retained in provincial government. The required approval was obtained as stated in the Audit Report, it is therefore unclear as to the issue raised in the audit report.

A contractual agreement was entered into between the independent contractor and this department on 1 May 2001 to render specific services to this department. An offer of employment was then made on 1 September 2001 for full-time employment with the department of finance. In terms of public service regulations, appointments can be made without advertising for a post where the department wishes to fill the post as part of a programme of laterally rotating / transferring skills to enhance organisational effectiveness and skills. The independent contractor had the knowledge of the public sector, internal procedures and policies and was considered essential in retaining.

#### 4.1.2 *KwaZulu-Natal Provincial Audit Committee*

The fourth meeting, which was scheduled for March 2002, was postponed until April 2002 due to the non-availability of members to constitute a quorum. The fourth meeting was intended to be a workshop for the induction of newly appointed members. Furthermore, whilst the prescripts require the Committee to sit quarterly, it is prudent to assess whether there is a need for such sittings. The holding of such meetings incurs substantial costs and one would be cautious as to assessing the need for such meetings, as this could be regarded as fruitless expenditure incurred on a meeting that did not have agenda items for discussion.

In terms of non-compliance, in Section 5 of the charter, compliance is dependent on many variables. The Audit Committee which was approved in 1998, a long and very detailed charter that was not in line with the governing legislation, ie. the PFMA and its accompanying regulations. There is a need for one to assess which takes precedence, the charter or the governing legislation. Much of the charter was drawn from the Institute of Internal Auditors (IIA) Standards (1978). Other parts are detailed operational instructions which one would not expect to find in a high-level authority document. The IIA has provided excellence up-to-date guidance on Audit Charters and KwaZulu-Natal will be revisiting its Audit Committee charter. It is important to note that internal audit and the functionality of internal audit in the public sector is a dynamic evolving function which requires appropriate structures to be put into place. It is the belief of the Internal Audit Unit never to assume that private sector practice always equals best practice, without thinking through why things are the way they are in the public sector. In the private sector, internal audits are centralised, but then so are governing bodies. Ministerial accountability is a feature unique to government.

There is an argument to be made that internal audit accountability should reflect the governance structure of the organisation it serves. Bearing in mind these structures and the evolution of the financial management within the public sector, certain provisions have deliberately been delayed to instil confidence or avoided, so as to not impinge on the issues of accountability and compromise the role of internal audit, being a management tool, as defined by the IIA.

The Internal Audit Act is viewed as the overriding legislation. It is very clear on the issue of authorities and responsibilities and outlines much of what a charter would normally cover (eg. access to information) is in the legislation. At present, a new charter is in the process of being drafted for approval by the MEC and the Head of the Provincial Treasury.

#### 4.1.3 *Departmental Name*

In terms of the gazetting the proclamation required by the President of South Africa to formally change the name of the department to Provincial Treasury, this is clearly out of the hands of this department. Several unsuccessful attempts have been made to gain insight in terms of the progress. In terms of the PFMA, reference is made throughout to provincial treasuries and instils specific powers and responsibilities to a provincial treasury based on this and further to an instruction by the Minister of Finance, we have operated under the name of Provincial Treasury to facilitate the implementation of the PFMA. There are no contractual implications for the department at this point in time.