



*Thursday, 5 December 2019]*

No 63 - 2019] FIRST SESSION, SIXTH PARLIAMENT

# PARLIAMENT OF THE PROVINCE OF THE WESTERN CAPE

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## ANNOUNCEMENTS, TABLINGS AND COMMITTEE REPORTS

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THURSDAY, 5 DECEMBER 2019

### COMMITTEE REPORT

The Public Accounts Committee (PAC), having considered, as part of its oversight role, the 2018/19 annual reports of the 13 departments of the Western Cape Government (WCG), including their entities, wishes to report as follows:

#### 1. Introduction

The core functions of the PAC comprises of the following mandate (according to Standing Rules 99-102 of the Western Cape Provincial Parliament (WCPP):

- 1.1 The Committee on Public Accounts must examine:
  - 1.1.1 The financial statements of provincial departments and provincial public entities;
  - 1.1.2 Any audit reports issued on the statements;
  - 1.1.3 Any reports issued by the Auditor-General on the affairs of any provincial department or provincial public entity; and
  - 1.1.4 Any other financial statements or reports referred to it by the House.
- 1.2 may report on any of those financial statements or reports to the House;
- 1.3 may initiate any investigation in its area of competence as stated in paragraph 1.1.1; and
- 1.4 must perform any other functions assigned to it by legislation, the Standing Rules of WCPP or resolutions of the House.

When the PAC examines the financial statements and reports of departments and their entities, it must take into account the previous annual financial statements and reports, including all governance matters which could impact on the audit outcomes of departments and entities and report on the degree to which shortcomings have been rectified.

## 2. Departments that reported to the Public Accounts Committee

The financial statements included in the annual reports of the following provincial departments for the financial year ending 31 March 2019 were examined –

- 2.1 Department of the Premier;
- 2.2 Provincial Treasury;
- 2.3 Department of Community Safety;
- 2.4 Western Cape Education Department;
- 2.5 Department of Health;
- 2.6 Department of Social Development;
- 2.7 Department of Human Settlements;
- 2.8 Department of Environmental Affairs and Development Planning;
- 2.9 Department of Transport and Public Works;
- 2.10 Department of Economic Development and Tourism;
- 2.11 Department of Cultural Affairs and Sport;
- 2.12 Department of Agriculture; and
- 2.13 Department of Local Government.

## 3. Entities that reported to the Public Accounts Committee

The financial statements included in the annual reports of the following public entities for the financial year ending 31 March 2019 were examined -

1. Western Cape Gambling and Racing Board;
2. Government Motor Transport (GMT);
3. Western Cape Tourism, Trade and Investment Promotion Agency (WESGRO);
4. Western Cape Liquor Authority;
5. Saldanha Bay Industrial Development Zone Licensing Company (SOC) Ltd;
6. Casidra;
7. CapeNature;
8. Heritage Western Cape;
9. Western Cape Cultural Commission; and
10. Western Cape Language Committee.

## 4. Transversal departmental resolutions

The Committee has formulated transversal resolutions for the attention of all departments and entities of the WCG. These resolutions originate from the discussions the Committee had with the departments and entities, while conducting oversight over the annual reports for the 2018/19 financial year. The resolutions does resonate under some of the departmental votes hereunder. However, it should be noted that these resolutions are transversal in nature and requests the attention of the entire WCG, which includes all departments and entities, as follows:

Matter	Resolutions	Due date
<p><b>Broad-based Black Economic Empowerment:</b></p> <p>Paragraph 13(G) of the Broad-Based Black Economic Empowerment Act, 2013, (BBBEE) requires all spheres</p>	<p>The Committee requests that all departments and entities of the WCG report on their compliance with broad-based black economic empowerment in its audited annual financial statements.</p>	<p>To be implemented by all departments and entities of the WCG, within their future annual reports.</p>

<p>of government, public entities and organs of state to report on their compliance with broad-based black economic empowerment in their audited annual financial statements and annual reports required under the Public Finance Management Act, 2009. This requirement was audited for the 2018/19 financial year and a non-compliance finding was raised in the management report. Progress in meeting the requirements of the B-BBEE Act must be monitored as it may be escalated to material non-compliance in the audit report in future.</p>	<p>Some departments and entities, including the Auditor-General of South Africa (AGSA), will be requested to brief the Committee on the status of their BBBEE compliance during the 2019/20 and 2020/21 financial years.</p>	
<p><b>Predetermined objectives:</b></p> <p>In the matter between the Department of Agriculture, CASIDRA and the AGSA; the Committee notes that there is a litigation case currently pending between the Department and AGSA in the Western Cape High Court on the interpretation of the classification of goods and services versus transfers and subsidies.</p> <p>The Committee notes that various departments and entities have raised concerns around the verification of predetermined objective information between themselves and the AGSA.</p> <p>One of the Departments, the Western Cape Education Department, raised a similar concern in this regard.</p>	<p>That the AGSA briefs the Committee on the scope of the audit of predetermined objectives of departments and entities for the 2019/20 financial year.</p>	<p>Briefing date to be determined by the Public Accounts Committee.</p>
<p><b>Deviations:</b></p> <p>The AGSA informed the Committee that the following risks has been raised with the departments and entities of the WCG, which may lead a</p>	<p>That the departments and entities note the risks associated with the deviations raised by the AGSA, and adhere to the Treasury Instruction and where it is impossible to accommodate the</p>	<p>Treasury Instruction to be implemented by all departments and entities of the WCG with immediate effect.</p>

<p>deterioration of the audit outcomes if not adhered to, as follows:</p> <p><b>Deviations:</b> In terms of Treasury Regulation 16A6.4 and National Treasury Instruction 3 of 2016/17, an accounting officer may deviate from competitive bidding procurement processes, provided that such deviation is properly approved and justifiable. The AGSA's audits at departments have brought to light that this regulation is increasingly being used by departments and approved by the accounting officer even though it was not impractical to invite competitive bids. Future audits will continue to focus on evaluating whether the deviations are appropriately justified and/or that the justification can be appropriately supported through adequately documented reasons, to confirm that this regulation is not being used to circumvent competitive bidding. The department is advised to ensure that, where deviations are unavoidable, such cases are properly motivated/justifiable and documented and that the requirements of section 217 of the Constitution of the Republic of South Africa, 1996, i.e. fair, equitable, transparent, competitive and cost-effective, are considered throughout.</p>	<p>Instruction, properly motivate in this regard.</p>	
<p><b>Procurement of legal services through the State Attorney:</b></p> <p>Even though the State Attorney is mandated to represent the government in</p>	<p>That the departments and entities notes the risks associated with the deviations raised by the AGSA, adhere to the risk raised and where it is impossible to</p>	<p>Instruction to be implemented by all departments and entities of the WCG with immediate effect.</p>

<p>any court of law, there are instances where the departments (client departments) specifically request the State Attorney to appoint a specific external legal services provider to represent them in a court of law in relation to certain cases they are facing. The client departments would do so via an instruction letter to the State Attorney which would include details of the external legal service provider to be appointed by the State Attorney on their behalf or to represent them in a particular case. Where the above arrangement takes place, the departments (both the client departments and the Department of Justice and Constitutional Development) enter into a principal-agent relationship through a binding arrangement. Such relationship requires disclosure in the financial statements of both parties in terms of MCS 16.</p> <p>Furthermore, the request for a specific external legal services provider is considered a deviation from competitive procurement processes. Client departments are advised to ensure that the deviation is properly motivated and approved by them to prevent/safeguard them against irregular expenditure. At present the Department of Justice and Constitutional Development does not motivate and approve any deviations in this regard, which could therefore result in irregular expenditure for all client departments who requested specific external</p>	<p>accommodate the instruction, properly motivate in this regard.</p>	
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<p>legal service providers. Irregular expenditure will definitely be incurred if the client department pays the external legal services provider directly.</p>		
<p><b>Material irregularities:</b></p> <p>In terms of section 1(g) of the Public Audit Amendment Act, 2018 (Act No. 5 of 2018) a material irregularity is defined as any <i>non-compliance</i> with, or contravention of, legislation, <i>fraud, theft or a breach of a fiduciary duty</i> identified during an audit performed under this Act that resulted in or is likely to result in a <i>material financial loss, the misuse or loss of a material public resource or substantial harm to a public sector institution or the general public.</i></p> <p>Accounting officers have a legal obligation to prevent all irregularities and take action if it occurred. The AGSA's focus is only on material irregularities. Accounting officers commit financial misconduct if they:</p> <ul style="list-style-type: none"> <li>• Wilfully or negligently contravene sections 38 to 42 of the PFMA which deal with their responsibilities; and</li> <li>• Incur or permit unauthorised, irregular or fruitless and wasteful expenditure misconduct. Officials commit financial misconduct if they wilfully or negligently fail to exercise duty or power assigned by the accounting officer.</li> </ul> <p>Financial misconduct must be investigated and appropriate</p>	<p>That the accounting officers of all departments and entities notes the risks associated with the non-compliance to the Act, and put measures in place whereby they will mitigate any non-compliance with, or contravention of, legislation, fraud, theft or a breach of a fiduciary duty.</p>	<p>To be implemented by all accounting officers of departments and entities of the WCG with immediate effect.</p>

action taken. Auditors will take the following action upon detection of known or suspected material irregularities:

- The accounting officer will be notified without delay of the material irregularity in writing;
- The content of the notification and the response required from the Accounting Officer are prescribed in the material irregularity regulations; and
- The notification will provide all the relevant information on the material irregularity and will request written feedback, substantiating documents and other forms of proof within 20 working days that appropriate steps are being taken to:
  - Stop the irregularity (if ongoing);
  - Prevent any loss, misuse or harm, or recover any losses; and
  - Determine who the responsible person or entity (e.g. supplier or implementing agent) is and take appropriate action.

The material irregularity will be reported in the audit report. A certificate of debt can be avoided by implementing the directive to quantify the financial loss and take steps to recover the losses.

The commencement date agreed with the president is 1 April 2019. For the 2018/19 financial year a phased in approach was implemented on selected auditees only, but the



<p>requirements of the Act will be applicable to all auditees for the 2019/20 financial year's audit process.</p>		
<p><b>Information and Communication Technologies (ICT):</b></p> <p>The Committee raised a concern when it engaged CASIDRA, that there was a breach in its IT security protocol; which negatively impacted on its audit outcome when it submitted information to the AGSA for verification of its predetermined objectives.</p>	<p>That the Department of the Premier briefs the Committee on the mechanism which is in place to protect the ICT information of the departments of the WCG; including any mechanism which it has in place should a security threat occur through an external threat.</p>	<p>Briefing date to be determined by the Public Accounts Committee.</p>
<p><b>Assets:</b></p> <p>While discussing the value and status of its heritage assets with the Department of Cultural Affairs and Sport, the Department provided an explanation on how it preserves and account for its heritage assets through the process of amortisation and depreciation.</p> <p>The Committee notes that some departments could not provide an adequate explanation on how they preserve their heritage assets.</p>	<p>That the departments of the WCG briefs the Committee on the mechanism implemented which allows for the preservation of their heritage assets, where applicable, through amortisation and depreciation.</p>	<p>Briefing departments and dates to be determined by the Public Accounts Committee.</p>

## 5. General Findings

Having considered the reports of the AGSA and the Audit Committees, and having heard evidence from the Executive Members (the Premier and Ministers), the Heads of Department (Director-General and Heads of Department (HODs), the Chief Executive Officers and Board members of the Public Entities and members of the public in attendance at the discussions on the 2018/19 annual reports of the departments and public entities of the Western Cape Provincial Government, the Committee wishes to report as follows:

The Committee acknowledges the assurances that were provided by the first level (departmental management and leadership), second level (internal independent assurance and oversight), and the third level (standing committees) providers. These three levels of assurances were instrumental in ensuring that risks were mitigated and that the departments and entities strive towards an improved audit outcome.

During the financial year under review, the movement in audit outcomes of the different departments and entities have resulted in an overall regression in the audit outcomes of the WCG. The regressed audit outcomes included those departments and entities that regressed from clean audit outcomes to unqualified audit outcomes with findings on either compliance with key legislation, predetermined objectives, or internal control deficiencies.

Two entities (Western Cape Gambling and Racing Board and the Western Cape Liquor Authority) and one Department (Western Cape Education Department) regressed in their audit opinion, while one Department (Department of Health) and one Entity (WESGO) improved their audit outcomes from the 2017/18 financial year.

The PAC would like to bring to the attention of the departments and entities of the WCG the following emerging risk for noting during the 2019/20 financial year:

- **Componentisation of assets:** Departments are encouraged to componentise assets in their asset registers as it will become a requirement in future. The effective date to componentise assets has not been determined yet; and
- **Inventory:** Departments are encouraged to develop their inventory management systems as the inventory disclosure note will become a requirement in future. The effective date to disclose inventory is still to be determined by the Accountant-General.

The PAC aims to, in the 2020/21 financial year, engage the AGSA on any performance audits reports on issues, if such reports becomes available.

The recommendations of the PAC to the departments and entities of the WCG are stated below, including any requests for information, as follows.

## 6. The Premier

The Committee noted the audit opinion of the AGSA regarding the annual financial statements for the 2018/19 financial year of the Department, having obtained a clean audit outcome. This audit opinion remains unchanged from the 2017/18 financial year.

### 6.1 Audit Opinion

The AGSA raised no findings with the Department on compliance with laws and regulations, predetermined objectives nor internal control deficiencies.

### 6.2 Financial Management

The Department of the Premier spent R1,450 billion of an appropriated budget of R1,496 billion, which resulted in an under-expenditure of R46,599 million (3,1% underspending). The under-expenditure of R46,599 million occurred under the following programmes:

- Programme 1: Executive Support (R5,108 million)
- Programme 2: Provincial Strategic Management (R1,309 million)
- Programme 3: People Management (R5,498 million)
- Programme 4: Centre for e-Innovation (R30,704 million) and
- Programme 5: Corporate Assurance (R3,980 million).

The underspending within the programmes were mainly due to staff exits for programmes 1, 2, 3 and 5 due to a shift from capital expenditure to operating expenditure on the server side to the

cloud-based services platform and delays in the delivery of network equipment. Savings on goods and services is due to credits received from the service provider relating to Broadband services as well as delays in Public Wi-Fi roll-out (Programme 4).

In addition, the total estimated departmental revenue budget of R1,798 million was over-collected by R157 000, which resulted in total departmental receipts of R1,955 million. This 2018/19 collection was less than the departmental receipts that was collected during the 2017/18 financial year, which reflected a collection amount of R4,080 million.

The revenue over-collection occurred under the following line items:

- Sale of the Departmental capital assets (R4 000); and
- Financial transactions in assets and liabilities (R361 000)

The revenue under-collection occurred under the following line items:

- Sale of goods and services other than capital assets (R198 000); and
- Interest, dividends and rent on land (R10 000).

### 6.3 Resolutions

BACKGROUND/ CONCERNS	RESOLUTIONS	ACTION DATE
<p>Page: 91 of the Annual Report of the Department</p> <p>Heading: “3. Fraud and Corruption”</p> <p>Description: The Committee notes that for the year under view, two Provincial Forensic Services (PFS) cases were opened and closed.</p> <p>In one case the investigation was concluded with no adverse findings, but recommendations were made. The other case contained allegations of fraud and/or corruption which were substantiated. The case was reported to the South African Police Services for further investigation.</p>	<p>That the PFS brief the Public Accounts Committee on the two cases when it briefs the Committee on the quarterly forensic investigation statistics for the Western Cape Government.</p> <p>(A report is required by the PAC from the Department on the matters of the two PFS cases prior to the briefing taking place).</p>	<p>To be scheduled by the Public Accounts Committee.</p>

### 6.4 List of Information Requested

The Committee requested that the Department of the Premier provides it with the following:

- 6.4.1 A report on the procurement of external legal advice services, as indicated on pages 183 and 184 of the Annual Report.
- 6.4.2 A report on the claim against the Department, as indicated on pages 134 and 191 of the Annual Report.
- 6.4.3 A copy of the research reports which were undertaken by the Cape Higher Education Consortium, as indicated on page 207 of the Annual Report.

## **7. Provincial Treasury**

The Committee noted the audit opinion of the AGSA regarding the annual financial statements for the 2018/19 financial year of the Department, having obtained an unqualified audit report with no findings on pre-determined objectives. This audit opinion remains unchanged from the 2017/18 financial year.

### **7.1 Audit Opinion**

The AGSA raised no findings with the Department on compliance with laws and regulations, predetermined objectives nor internal control deficiencies.

### **7.2 Financial management**

For the 2018/19 financial year, Provincial Treasury spent R303,106 million of a budget of R306,833 million, which resulted in an underspending of R3,727 million (1, 2%).

The material under-expenditure of R3,727 million occurred, which is indicated hereunder and which highlights the variances, was incurred within the following programmes:

- Programme 1: Administration (R607 000);
- Programme 2: Sustainable Resource Management (R1,844 million);
- Programme 3: Asset Management (R611 000); and
- Programme 4: Financial Governance (R665 000).

In addition, the total estimated departmental revenue budget of R65 000 was over-collected by R6,720 million. This resulted in an actual collected receipt of R6,785 million.

The revenue over-collection occurred under the following line items:

- Sale of goods and services other than capital assets (R25 000);
- Sale of the capital assets (R114 000); and
- Financial transactions in assets and liabilities (R6,582 million).

### 7.3 Resolutions

BACKGROUND/ CONCERNS	RESOLUTIONS	ACTION DATE
<p>Page: 4 of the briefing document of the Auditor-General to the PAC.</p> <p>Heading: “5.1: Risks that require continuous monitoring (Local Content)”</p> <p>Description: The Committee notes that according to the Department of Trade and Industry, the local content of a product is the tender price less the value of imported content, expressed as a percentage. It is, therefore, necessary to first compute the imported value of a product to determine the local content of a product.</p> <p>The categories of content are indicated hereunder as follows:</p> <ul style="list-style-type: none"> <li>• Imported Content; and</li> <li>• Local Content.</li> </ul> <p>Local Content is local value added in South Africa by South African recourses. Where a tender response contains a combination of local and imported goods and/or services, the tender price must be separated into its local and imported components. The bidder will be contractually required to maintain records to certify imported content, for example, invoice of materials, expenditure records and income statements. There is an increase in the drive from National- as well as provincial governments to promote local content. Within the South African context, the purchase of local content is seen as the preferred preference, as it stimulates the growth of the South African economy.</p>	<p>That the Department, National Treasury and a municipality from the Western Cape brief the Committee on the challenges in terms of the implementation of the local content requirement, including providing guidance on the best way forward on successfully addressing this risk for all future years.</p>	<p>To be determined by the Public Accounts Committee</p>

#### **7.4 List of Information Requested**

The Committee requested that Provincial Treasury provide it with a report which provides guidance on the Broad-Based Black Economic Empowerment (BBBEE) emerging risk for departments and entities of the WCG, as indicated on page 4 of the briefing document of Auditor-General of South Africa.

### **8. Community Safety**

The Committee noted the audit opinion of the AGSA regarding the annual financial statements for the 2018/19 financial year of the Department, having obtained an unqualified audit report with no findings on pre-determined objectives. This audit opinion remains unchanged from the 2017/18 financial year.

#### **8.1 Audit Opinion**

The AGSA raised no findings with the Department on compliance with laws and regulations, predetermined objectives nor internal control deficiencies.

#### **8.2 Financial Management**

The Department of Community Safety spent R335,8 million of an appropriated budget of R343,4 million, which resulted in an under-expenditure of R7,5 million (2,2% underspending). The under-expenditure of R7,5 million occurred under the following programmes:

- Programme 1: Administration (R933 000)  
The underspending is due to the lead time in the filling of posts, promotions and attrition rate within the programme.
- Programme 2: Civilian Oversight (R5 million)  
The underspending was due to the delay in the finalisation of the technical specifications and lack of market response to the Wi-Fi Neighbourhood Watch project.
- Programme 3: Provincial Policing Functions (R387 000)  
The underspending is due to the lead time in the filling of posts, promotions and attrition rate within the programme.
- Programme 4: Security Risk Management (R1,2 million)  
The underspending is due to the lead time in the filling of posts, promotions and attrition rate within the programme.

#### **8.3 Resolutions**

None

#### **8.4 List of Information Requested**

The Committee requested that the Department of Community Safety provides it with a report which highlights the progress made in terms of the implementation of the Broad-Based Black Economic Empowerment risk, as identified by the Auditor-General, as indicated on page 4 of the AGSA briefing document to the Committee.

## 9. Education

The Committee noted the audit opinion of the AGSA regarding the annual financial statements of the Department for the 2018/19 financial year, having obtained an unqualified audit report with findings on pre-determined objectives and internal control deficiencies. This audit opinion reports a regression from the 2017/18 financial year, where the Department achieved a clean audit outcome.

### 9.1 Audit Opinion

The AGSA raised findings with the Department on pre-determined objectives and internal control deficiencies.

#### 9.1.1 Finding on pre-determined objectives

The findings which relates to the pre-determined objectives of the Department relates to the following:

*Programme 2 – Public ordinary school education*

*PPM 218: Percentage of learners provided with required textbooks in all grades and in all subjects per annum*

The AGSA was unable to obtain sufficient appropriate audit evidence for the reported achievement of the target. This was due to limitations on the scope of the AGSA's work. In addition, the AGSA was unable to confirm the reported achievement by alternative means. Consequently, it could not be determined whether any adjustments were required to the reported achievement of 100% of learners provided with required textbooks in all grades and in all subjects per annum.

##### 9.1.1.1 Various indicators

The reported achievements in the annual performance report did not agree to the supporting evidence provided for the indicators listed below. The supporting evidence provided indicated that the achievements of these indicators were as follows:

Indicator description	Reported achievement	Audited value
PPM 205: Learner absenteeism rate	5,87%	7,03%
PPM 206: Teachers absenteeism rate	2%	3%

#### 9.1.2 Finding on internal control deficiencies

The findings which relates to the internal control deficiencies of the Department relates to the following:

- Management did not have appropriate record-keeping processes in place to ensure that reported performance information was supported by credible supporting evidence.

- The reviewing and monitoring controls implemented by management to ensure that the annual performance report was accurate and complete in compliance with the reporting framework were not adequate, as internal review procedures did not identify and correct material misstatements in the annual performance report and the underlying records.

## 9.2 Financial Management

The Western Cape Education Department spent R22,112 billion of a budget of R22,149 billion, which resulted in an overall under-expenditure of R37,346 million (0,17%).

The overall under-spending within the Department occurred under the following programmes:

- Programme 1: Administration (R6,2 million);
- Programme 2: Public Ordinary School Education (R4,4 million);
- Programme 4: Public Special School Education (R685 000);
- Programme 6: Infrastructure Development (R25,1 million); and
- Programme 7: Examination and Education Related Services (R831 000).

In addition, the Department's estimated revenue budget of R27,046 million was under- collected by R3,2 million, which resulted in a Departmental receipt of R23,754 million.

The revenue under-collection was collected under the following line items:

- Interest, dividends and rent on land (R1,021 million); and
- Financial transactions in assets and liabilities (R3,906 million).

The Department over-collected under the following line items in terms of departmental receipts:

- Sale of goods and services other than capital assets (R708 000); and
- Fines, penalties and forfeits (R927 000).

## 9.3 Resolutions

BACKGROUND/ CONCERNS	RESOLUTIONS	ACTION DATE
<p>Pages: 167- 168 of the Annual Report.</p> <p>Heading: "Internal control deficiencies"</p> <p>Description: The Committee notes the internal control deficiencies which were highlighted by the AGSA which contributed to the unqualified audit outcome of the Department with findings.</p>	<p>That the Department provide a bi-annual update to the Public Accounts Committee, as well as the Standing Committee on Education, in relation to how the Department addressed the internal control matters which led to findings on its audit outcomes.</p>	<p>Bi-annual update report to PAC.</p>



## **9.4 List of Information Requested**

The Committee requested that the Western Cape Education Department provides it with the following:

- 9.4.1 A report which highlights the Provincial Forensic Service cases which were closed for the 2018/19 financial year, including an indication of the recommendation made and sanctions posed, as indicated on page 117 of the Annual Report.
- 9.4.2 A report which highlights the plans in place to address the internal control deficiencies as highlighted by the Auditor-General of South Africa for the 2018/19 financial year, as reflected on pages 167-168 of the Annual Report.
- 9.4.3 A detailed report which indicates the schools in the rural districts which owes outstanding funds to municipalities for services rendered, as reflected under Note 4.6 on page 213 and page 241 of the Annual Report.
- 9.4.4 A report on the foreign travel of the Department, including the value which was derived for the Western Cape. The report should indicate the duration of the travels, whether the entire delegation travelled together to and from the identified destinations, as reflected under Note 4.7 and reflected on page 214 of the Annual Report.
- 9.4.5 A report which highlights the payments which were made to the various Sector Education and Training Authority (SETAs), as reflected on page 236 of the Annual Report.

## **10. Health**

The Committee noted the audit opinion of the AGSA regarding the annual financial statements for the 2018/19 financial year of the Department, having obtained an unqualified audit report with no findings on pre-determined objectives and internal control deficiencies. This audit represents an improvement from the 2017/18 financial year where the Department obtained an unqualified audit opinion with findings on predetermined objectives and internal control deficiencies.

### **10.1 Audit Opinion**

The Department received a clean audit outcome for the 2018/19 financial year.

### **10.2 Financial Management**

The Department of Health spent R23,043 billion of an appropriated of budget of R23,099 billion, which resulted in an under-expenditure of R56,386 million (0,2% underspending). The under-expenditure of R56,386 million occurred under the following programmes:

- Programme 1: Administration (R1,9 million);
- Programme 2: District Health Services (R13,014 million);
- Programme 3: Emergency Medical Services (R3,813 million);
- Programme 4: Provincial Hospital Services (R7,399 million);
- Programme 5: Central Hospital Services (R598 000);
- Programme 6: Health Sciences And Training (R6,973 million);
- Programme 7: Health Care Support Services (R7,040 million); and
- Programme 8: Health Facilities Management (R15,599 million).

In addition, the total estimated departmental revenue budget of R563,068 million was over-

collected by R114,323 million, which resulted in a departmental receipt of R677,391 million. The revenue over-collection occurred under the following line items:

- Sale of goods and services other than capital assets (R65, 02 million);
- Interest, dividends and rent on land (R1,968 million);
- Sale of capital assets (R10 000);
- Financial transactions in assets and liabilities (R47 million); and
- Transfer received (R235 000).

Moreover, it should be noted that, as disclosed in Note 22.3 to the financial statements, the accrued departmental revenue was significantly impaired. The impairment allowance amounted to R230,6 million. The impairment was the projected irrecoverable amount in respect of hospital fees debt. This amount is much lower than the impairment which occurred during the 2017/8 financial year in respect of R241 million.

In terms of monies owed to the department, R230,6 million was deemed irrecoverable and account for the bulk of the impairment, as per the following categories and reasons:

- The Road Accident Fund (R127 million);
- Medical Aid Debt (R1,8 million);
- Debt owed by individuals due to unaffordability and prevailing economic climate (R73,7 million); and
- Debt older than 3 year (R28 million).

### 10.3 Resolutions

BACKGROUND/ CONCERNS	RESOLUTIONS	ACTION DATE
<p>Page: 137 of the Annual Report Heading: "Progress with the Management of Risk"</p> <p>Description: The Committee notes that during the 2018/19 financial year, the Department has made significant progress with the management of its risks. The risks included the following:</p> <ul style="list-style-type: none"> <li>• Budget Constraints;</li> <li>• Staff related security incidents;</li> <li>• Stock-outs of essential pharmaceutical goods;</li> <li>• Fraud;</li> <li>• Service delivery pressures;</li> <li>• Water shortage; and</li> <li>• Aging infrastructure and Health Technology.</li> </ul>	<p>That the Department brief the Standing Committee on Health on the progress made in addressing and mitigating the potential impact of the risks identified by the Audit Committee.</p>	<p>To be scheduled by the Standing Committee on Health.</p>

## **10.4 List of Information Requested**

The Committee requested that the Department of Health provides it with the following:

- 10.4.1 A report on the plans to address the risks, especially the water shortage and electricity risks, which was identified on page 137 of the Annual Report.
- 10.4.2 The Accounting Officer's submission to Provincial Treasury regarding the budget cuts of the Department over the 2019/20-2021/22 Medium Term Expenditure Framework (MTEF) period.
- 10.4.3 A detailed report on how the Department handled the conflict of interest which occurred during the financial year under review, as reflected on pages 139 of the Annual Report.
- 10.4.4 A copy of the User Asset Management Plan (UAMP) for the 2018/19 financial year.

## **11. Social Development**

The Committee noted the audit opinion of the AGSA regarding the annual financial statements for the 2018/19 financial year of the Department, having obtained a clean audit report. This audit opinion remains unchanged from the 2017/18 financial year.

### **11.1 Audit Opinion**

The AGSA raised no findings with the Department on compliance with laws and regulations, predetermined objectives nor internal control deficiencies.

### **11.2 Financial Management**

During the 2018/19 financial year, the Department of Social Development spent R2,231 billion of a budget of R2,246 billion, resulting in an overall under-expenditure of R15,312 million (0,68%).

The overall under-spending within the Department relates to the underspending for compensation of employees due to not finding suitable candidates in the recruitment process, delays in DPSA approval of Organisation Development processes, internal promotions and staffs exists, and non-compliant NPO's in ECD and Partial Care in the following programmes:

- Programme 1: Administration
- Programme 2: Social Welfare Services; and
- Programme 3: Children and Families.

The Committee further notes that the Department collected R1, 381million, from an estimated collection target of R1,070 million, which resulted in an over-collection of R311 000.

The revenue over-collection occurred under the following line-items:

- Sale of goods and services other than capital assets;
- Interest, dividends and rent on land; and
- Financial transactions in assets and liabilities.

The Committee notes that the Department did not incur any fruitless and wasteful expenditure for the 2018/19 financial year.

### **11.3 List of Information Requested**

The Committee requested that the Department of Social Development provide it with the following information:

- 11.3.1 A copy of the Social Relief Policy.
- 11.3.2 A report explaining how municipalities' action its disaster relief plans in cases of an emergencies. This should include the timeline as to when the Department of Social Development would setup the internal Disaster Management Committee.
- 11.3.3 A list of the Remunerative Work outside the Public Service (RWOP) applications. The list should indicate what was approved and not approved for the financial year under review.
- 11.3.4 A list of all the payments that were not paid within 30 days, including the reason for any deviations from the 30 day practice.
- 11.3.5 A breakdown of the assets which amounted to R4,636 million, as reflected under Note 4 on page 201 of the Annual Report.
- 11.3.6 A list which provides a breakdown of the number of employees (per salary level) who received bursaries from the Department.
- 11.3.7 A cost breakdown of any of the programmes that was 100 percent achieved.
- 11.3.8 A report which provides an update on the underspending of the Department, with specific reference to the vacant posts that were not filled during the 2018/19 financial year, including an action plan of the filling of these vacant posts.

## **12. Human Settlements**

The Committee noted the audit opinion of the Auditor-General regarding the annual financial statements of the Department for the 2018/19 financial year, having obtained a clean audit report with no findings. This audit opinion remains the same as audit outcome for the 2017/18 financial year, where the Department obtained a clean outcome.

### **12.1 Audit opinion**

The Auditor-General of South Africa raised no findings with the Department on compliance with laws and regulations, predetermined objectives nor deficiencies in its internal controls.

### **12.2 Financial management**

The Department of Human Settlements spent R2,352 billion of a budget of R2,441 billion, resulting in an overall under-expenditure of R88,950 million (3,6 %).

In addition, the total estimated departmental revenue budget of R60 million was over-collected by R195,556 million, which resulted in a departmental receipt of R255,556 million. The revenue over-collection occurred under the following line items:

- Sale of goods and services other than capital assets (R93 000);
- Interest, dividends and rent on land (R688 000);
- Sale of the Departmental capital assets (R7 000); and
- Transactions in financial assets liabilities (R194,768 million).

The Committee noted that the overall under-spending within the Department occurred under the following programmes:

**Programme 1: Administration (R1,191 million):**

The under-expenditure on “Machinery and equipment” was due to a delay in the modernisation of office accommodation, and the under-expenditure on “Goods and services” was due to cost containment measures.

**Programme 3: Housing Development (R87,759 million):**

The under-expenditure on “Compensation of Employees” of R3,986 million was due to retirements and the non-filling of funded vacant senior management posts. The non-spending of the “Provincial Emergency Housing Grant” of R83,773 million was due to the fact that it was only appropriated on 12 March 2019, therefore resulting in a delay in finalising the tender processes.

### 12.3 Resolution

None

### 12.4 List of Information Requested

The Committee requested that the Department of Human Settlements provide it with the following:

- 12.4.1 A report on the internal control non-significant weaknesses, which were identified by the Audit Committee in terms of Grant Management and Construction Procurement, including the mechanisms which were developed to ensure assurance coverage on these matters, as reflected on pages 4 to 7 of the Audit Committee Briefing Document.
- 12.4.2 A report on the “Key Emerging Risks” that was identified for the 2018/19 financial year, relating to the erosion of mandates, as reflected on page 100 of the Annual Report.
- 12.4.3 A report on the Provincial Forensic Services cases which were opened and closed, as reflected on page 101 of the Annual Report.
- 12.4.4 A copy of the legislation which allows for the payment of an exit gratuity owing to provincial ministers, as reflected on page 205 of the Annual Report.
- 12.4.5 A report in respect of the matter of the Hawston Sea Farms Foundation vs the Premier and Minister of the Department of Human Settlements, which is currently in its final stages of settlement negotiations.

## 13. Environmental Affairs and Development Planning

The Committee noted the audit opinion of the Auditor-General regarding the annual financial statements of the Department for the 2018/19 financial year, having obtained a clean audit report with no findings. This audit opinion remains unchanged from the 2017/18 financial year.

### Audit opinion

The Auditor-General of South Africa raised no findings with the Department on compliance with laws and regulations, predetermined objectives nor deficiencies in its internal controls.

## 13.2 Financial management

The Department of Environmental Affairs and Development Planning spent R575,512 million of a budget of R585,536 million, resulting in an overall under-expenditure of R10,024 million (1,7 % underspending).

In addition, the total estimated departmental revenue budget of R4 million was under-collected by R1,152 million, which resulted in a departmental receipt of R2,848 million. Although the Department over-collected on most line items, it under-collected on the line item of “fines, penalties and forfeits” by R1,356 million.

It should be noted that the revenue over-collection occurred under the following line items:

- Sale of goods and services other than capital assets (R68 000);
- Transfers received (R50 000)
- Interest, dividends and rent on land (R3 000);
- Sale of the Departmental capital assets (R38 000); and
- Financial transactions in assets and liabilities (R45 000).

The Committee noted that the overall under-spending within the Department occurred under the following programmes:

➤ **Programme 2: Environmental Policy, Planning and Coordination (R871 000);**

The underspending reflected against this Programme mainly relates to the completion of the Biodiversity Bill and Climate Change contracts that were valued lower than anticipated during the 2018/19 financial year. An unexpected resignation and the delay in filling a vacant post also resulted in underspending on “Compensation of employees”.

➤ **Programme 4: Environmental Quality Management (R 5,155 million)**

The underspending relates to Compensation of employees and projects related to the Berg River Improvement Plan and Water for Sustainable Growth and Development which was not finalised by the end of the financial year. Delays, such as bid evaluation processes, were not finalised as planned and cancellations of bid advertisements due to insufficient responses resulted in an underspending in the Programme.

➤ **Programme 7: Development Planning (R2,371 million)**

The underspending was incurred against “Compensation of employees: R473 000 as a result of delays in filling of posts. Further underspending, as part of the Regional Socio-Economic Project, relates to the withholding of a transfer of R1,5 million to the Saldanha Bay Municipality, due to slow spending by the Municipality.

### 13.3 Resolutions

BACKGROUND/ CONCERNS	RESOLUTIONS	ACTION DATE
<p><u>Page:</u> 80 of the Annual Report</p> <p><u>Heading:</u> “GOVCOM RESPONSIBILITY”</p> <p><u>Description:</u></p> <p>The Committee is cognisant that the Department’s Governance Committee (GOVCOM) reports that it has complied with its responsibilities arising from Section 38(1)(a)(i) of the Public Finance Management Act (PFMA), Treasury Regulation 3.2.1 and Public Service Regulations of 2016, Chapter 2, Part 1, 2 and 3.</p> <p>The GOVCOM also reports that it has adopted the appropriate formal Terms of Reference, approved by GOVCOM Chairperson on 8 May 2018, and regulated its affairs in compliance with this Terms of Reference and has discharged all its responsibilities as contained therein.</p>	<p>That the Department brief the standing committees on Agriculture, Environmental Affairs and Development Planning and the Premier and Constitutional Matters on the Department’s compliance to the national prescripts in terms of the Western Cape Commissioner for the Environment.</p>	<p>To be scheduled by the relevant standing committees.</p>

### 13.4 List of Information Requested

None

## 14. Transport and Public Works

The Committee noted the audit opinion of the Auditor-General regarding the Annual financial statements of the Department for the 2018/19 financial year, having obtained a clean audit report with no findings. This audit opinion remains unchanged from the 2017/18 financial year.

### 14.1 Audit opinion

The Auditor-General of South Africa raised no findings with the Department on compliance with laws and regulations, predetermined objectives nor deficiencies in its internal controls.

### 14.2 Financial management

The Department of Transport and Public Works spent R7,854 billion of a budget of R7,869 billion, resulting in an overall under-expenditure of R14,713 million (0,2%).

In addition, the total estimated departmental revenue budget of R1,699 billion was over-collected by R135,466 million, which resulted in a departmental receipt of R1,835 billion.

The revenue over-collection occurred under the following line items:

- Motor vehicle licences (R83,174 million);
- Sale of goods and services (R21,455 million);
- Transfer funds that were received (R7 million);
- Interest, dividends and rent on land (R142 000);
- Fines, penalties and forfeits (R2,151 million);
- Sale of the Departmental capital assets (R6,283 million); and
- Financial transactions in assets and liabilities (R15,261 million).

The Committee noted that the overall under-spending within the Department occurred under the following economic classifications:

- Current payments:  
Compensation of employees (R32 000); and  
Goods and services (R11,054 million).
- Transfers and subsidies:  
Provinces and municipalities (R1,866 million); and  
Departmental agencies and accounts (R67 000).
- Payments for capital assets:  
Machinery and equipment (R1,694 million).

### **14.3 Resolutions**

None

### **14.4 List of Information Requested**

The Committee requested that the Department of Transport and Public Works provides it with the following:

14.4.1A report which highlights the progress made in terms of the implementation of the Broad-Based Black Economic Empowerment risk, as identified by the Auditor-General and as indicated on page 168 of the Annual Report.

14.4.2 A report on the meeting that took place between Ministers' Grant, Bredell and Meyer on the George Link matter, as indicated on pages 172 of the Annual Report.

## **15. Agriculture**

The Committee noted the audit opinion of the Auditor-General regarding the annual financial statements of the Department for the 2018/19 financial year, having obtained a qualified audit opinion with findings on predetermined objectives and internal control deficiencies. This audit opinion remains unchanged from the 2017/18 financial year. The Committees does note that the Department improved its 2017/18 financial year findings on predetermined objectives. However, the Department received a finding on material misstatements.



## **15.1 Audit opinion**

The Auditor-General of South Africa raised findings with the Department on material misstatements in the annual financial statements which were submitted, as well as deficiencies in its internal controls.

### **15.1.1 Qualified opinion**

#### **15.1.1.1 Transfers and subsidies:**

The Department did not account for payments made to implementing agents in accordance with the requirements of the Modified Cash Standard (MCS) prescribed by the National Treasury. The Department budgeted and accounted for these payments as transfers and subsidies, instead of either expenditure for capital assets or goods and services, as required by the MCS. Consequently, transfers and subsidies was overstated by R475,602 million (2017/18: R259,1 million), as indicated on page 298 of the Annual Report, and the following components of the financial statements are understated, or not disclosed:

- Expenditure for capital assets or goods and services classified according to the nature of the expense incurred;
- Capital assets that belong to the Department acquired or created under these arrangements;
- Prepayments representing advance payments provided to implementing agents that were unspent as at year-end;
- Appropriate adjustments to the appropriation statement to reflect the correct classification of transactions as required by the MCS; and
- Principal-agent relationships were not disclosed.

#### **15.1.1.2 Irregular expenditure:**

The Department entered into contracts with implementing agents without applying Treasury Regulations. When implementing agents are contracted by the Department, this does not release the Department from ensuring that funds spent on its behalf by the agents comply with the requirement for an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective. Supply chain management (SCM) practices utilised by these implementers were not consistent with the principles of the PFMA and the Treasury Regulations. The Department did not identify and disclose any irregular expenditure resulting from non-compliance with applicable SCM prescripts by implementing agents as required by section 40(3)(b)(ii) of the PFMA. Consequently, irregular expenditure is understated. The AGSA was not able to determine the full extent of the understatement as it was impracticable to do so. These and the prior year misstatements, remained unresolved.

#### **15.1.1.3 Internal control deficiencies**

The modified audit outcome is as a result of a difference in interpretation of the Modified Cash Standard by the Department, which consequently resulted in a misclassification of the funds transferred by the department to the entities.

## High Court litigation

The Minister of Economic Opportunities in the Western Cape lodged a dispute at the Western Cape High Court on 22 October 2018, with the aim to request the Court to review and set aside the Auditor-General qualified opinion and the following findings:

- That the Department of Agriculture did not account for payments in accordance with the Modified Cash Standard;
- That the Department incorrectly budgeted for payments as transfers instead of goods and services;
- That the Department irregularly entered into contracts with “implementing agents” without applying the National Treasury Regulations; and
- That the principal-agent relationships were not disclosed.

## 15.2 Financial management

The Department of Agriculture spent R1,108 billion of a budget of R1,102 billion, resulting in an overall under-expenditure of R12,103 million (1,1 %).

In addition, the estimate Departmental revenue budget of R30,440 million was over-collected by R22,916 million, which resulted in a Departmental receipt of R53,356 million. The revenue over-collection occurred under the following line items:

- Sale of goods and services other than capital assets (R7,245 million);
- Interest, dividends and rent on land (R8,022 million);
- Sale of the Departmental capital assets (R381 000); and
- Financial transactions in assets and liabilities (R7,298 million).

The Committee noted that the overall under-spending within the Department occurred under the following programmes:

- Programme 1: Administration (R3,490 million),
- Programme 2: Sustainable Resource Management (R28 000);
- Programme 4: Veterinary Services (R3,691 million);
- Programme 5: Research and Development (R2,472 million); and
- Programme 7: Structured Agricultural Education and Training (R2,422 million).

## 15.3 Resolutions

None

## 15.4 List of Information Requested

The Committee requested that the Department of Agriculture provides it with the following:

- 15.4.1 The Risk Register which was considered by the Audit Committee for the 2018/19 financial year, as there was no risks included in the briefing document to the Public Accounts Committee on 22 August 2019.
- 15.4.2 A report which highlights the value for money for the Western Cape Province for foreign travel undertaken by the Department, as indicated under Note 4.6 on page 272 of the Annual Report.
- 15.4.3 The Memorandum of Understanding between the Western Cape Agriculture Research Trust and the Department, as alluded to under Note 26 on page 287 of the Annual Report.

## 16. Economic Development and Tourism

The Committee noted the Auditor-General's audit opinion regarding the Department's annual financial statements for the 2018/19 financial year, having obtained an unqualified audit report with no findings on pre-determined objectives. This audit opinion remains unchanged from the 2017/18 financial year.

### 16.1 Audit Opinion

The Auditor-General of South Africa raised no findings with the Department on compliance with laws and regulations, predetermined objectives nor internal control deficiencies.

### 16.2 Financial Management

The Department of Economic Development and Tourism spent R424,396 million of a budget of R428,942 million, resulting in an overall under-expenditure of R4,546 million (1,1%), as reflected on page 193 of the Department's Annual Report.

The following departmental programmes were affected by the under-expenditure, as follows:

- Programme 1: Administration (R793 000);
- Programme 2: Integrated Economic Development Services (R58 000);
- Programme 3: Trade and Sector Development (R455 000);
- Programme 4: Business Regulation and Governance (R47 000);
- Programme 5: Economic Planning (R1,940 million);
- Programme 6: Tourism, Arts and Entertainment (R331 000); and
- Programme 7: Skills Development and Innovation (R922 000).

The Committee notes that the Department's departmental receipts was exceeded by R829 000, by collecting R1,144 million from an estimation or revenue of R315 000 for the financial year under review. The over-collection occurred under the following line items:

- Sale of goods and services other than capital assets (R168 000);
- Interest, dividends and rent on land (R27 000);
- Sale of capital assets (R19 000); and
- Financial transactions in assets and liabilities (R615 000).

### 16.3 Resolutions

BACKGROUND/ CONCERNS	RESOLUTIONS	ACTION DATE
<p>Page: 250 of the Annual Report of the Department</p> <p>Heading: "Note 12 [Investments] &amp; Note 12,1 [Impairment of investments]"</p> <p>Description: The Committee notes that for the year under view, the Provincial Government of the Western Cape had a shareholding of 23,24%</p>	<p>That the Department brief the Public Accounts Committee in detail on its Investments &amp; Impairment of investments for the 2018/19 financial year.</p> <p>That the Department provide a footnote, in all future annual reports, which highlights the impact of the impairments of</p>	<p>To be scheduled by the Public Accounts Committee.</p> <p>To be included in all future annual reports of the Department.</p>

<p>(2018: 23,2%) in the Cape Town International Convention Centre Company (Pty) Ltd. The shareholding would be finalised at a percentage of 23,93% upon the conclusion of the transaction.</p> <p>In addition, the Committee notes that the Department assesses at each reporting date whether there is any indication that the impairment loss may no longer exist or has been reversed. The indicators for the impairment is a recoverable value lower than carrying value.</p> <p>The impairment above is calculated based on the revised assessment by the CTICC taking the following information into account some factors, such as:</p> <ul style="list-style-type: none"> <li>• An overall increase will be experienced upon completion of CTICC 2 in the contribution to GDP through the spend of tourists/visitors attending conferences;</li> <li>• The value in use of the centre has been used to determine whether the building's carrying value may not be recoverable;</li> <li>• The value in use of the centre can only be attributed to the present value of the future cash flows generated within the centre itself and excludes any value which it generates for other entities or business sectors; and</li> <li>• The investment in the CTICC reflects an impairment loss and the Department's portion of the impairment is calculated at 23,24%.</li> </ul>	<p>investments on the economy of the Western Cape.</p>	
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#### 16.4 List of Information Requested

None

#### 17 Cultural Affairs and Sport

The Committee noted the audit opinion of the Auditor-General regarding the annual financial

statements of the Department for the 2018/19 financial year, having obtained a clean audit report with no findings. This audit opinion remains unchanged from the 2017/18 financial year.

### 17.1 Audit Opinion

The Auditor-General of South Africa raised no findings with the Department on compliance with laws and regulations, predetermined objectives nor deficiencies in its internal controls.

### 17.3 Financial Management

The Department of Cultural Affairs and Sport spent R732,338 million of a budget of R739,202 million, resulting in an overall under-expenditure of R6,864 million (0,09%). The under-expenditure occurred under the following programmes:

- Programme 1: Administration (R503 000);
- Programme 2: Cultural Affairs (R1,969 million);
- Programme 3: Library and Archive Services (R1,684 million); and
- Programme 4: Sport and Recreation (R2,708 million).

In addition, the total projected departmental receipts of R2,779 million was over-collected by R1,010 million, which resulted in a departmental receipt of R3,789 million. The revenue over-collection occurred under the following line items:

- Sale of goods and services other than capital assets (R741 000);
- Fines, penalties and forfeits (R68 000); and
- Financial transactions and assets and liabilities (R201 000).

### 17.3 Resolutions

BACKGROUND/ CONCERNS	RESOLUTIONS	ACTION DATE
<p>Page: 250 of the Annual Report</p> <p>Heading: “Note 25.4: Minor Capital Assets under investigation”</p> <p>Description: The Committee notes that during the financial year under review, the Department undertook an investigation into stock in terms of library material. The Department noted that physical assets that were not found during the 2018/19 annual asset verification is in the process of being further investigated by the Internal Control Unit. In terms of the library material asset management policy, the library service points are given twelve (12) months to search for lost library material.</p>	<p>That the Department briefs the Committee on the outcome of the investigation that was undertaken in terms of its minor capital assets.</p>	<p>To be scheduled by the Public Accounts Committee.</p>

The Department commissioned the investigation of 112 829 assets to the value of R8,271 million.		
<p>Pages: 224 and 225 of the Annual Report</p> <p>Heading: “Note 16: Capital Assets”</p> <p>Description: The Committee notes the explanation of the Department that movable capital assets are subsequently carried at cost, and are not subject to depreciation or impairment. Similarly, intangible assets are subsequently carried at cost, and are not subject to depreciation or impairment.</p> <p>The Committee engaged various departments of the PGWC and could not establish a definitive definition regarding the amortisation and depreciation of assets across departments and entities.</p>	That the Department brief the Committee on its self-insurance model of heritage assets, as well as its preservation model and associated costs which impacts on the amortisation and depreciation of assets within the Department.	To be scheduled by the Public Accounts Committee.

#### **17.4 List of Information Requested**

The Committee requested that the Department of Cultural Affairs and Sport provide it with a list of the Enterprise Risk Management and Ethics Committee (ERMECO) risks for the 2018/19 financial year, as reflected on page 137 of the Annual Report.

### **18. Local Government**

The Committee noted the audit opinion of the AGSA regarding the annual financial statements for the 2018/19 financial year of the Department, having obtained a clean audit report. This audit opinion remains unchanged from the 2017/18 financial year.

#### **18.1 Audit Opinion**

The AGSA raised no findings with the Department on compliance with laws and regulations, predetermined objectives nor internal control deficiencies.

#### **18.2 Financial Management**

The Department of Local Government spent R278,3 million of a budget of R279,8 million, which resulted in an under-expenditure of R1,5 million (0,5%). The under-expenditure of R1,5 million occurred under the following programmes:

- Programme 2: Local Governance (R1,213 million);
- Programme 3: Development and Planning (R267 000); and
- Programme 4: Traditional Institutional Management (R1000).

In addition, the total departmental revenue budget of R56 000 was over-collected which resulted in a departmental receipt of R2,781 million.

The revenue over-collection occurred under the following line-items:

- Sale of goods and services (R67 000); and
- Financial transactions in assets and liabilities (R2,658 million).

### **18.3 Resolutions**

None

### **18.4 List of Information Requested**

The Committee requested that the Department of Local Government provides it with the following:

- 18.4.1 A list of all the awareness campaigns that were held by the Department. This should include the areas, the cost and the impact made in the areas.
- 18.4.2 A copy of the succession plan policy relating to the organisational structure, including the employment equity plan for the next 5 years.
- 18.4.3 A copy of the Provincial Electricity Emerging Plan.
- 18.4.4 A copy of the report that was provided to Provincial Treasury regarding the impact of the budget cuts on the Department of Local Government.
- 18.4.5 List of the areas in the Greater Karoo where boreholes were installed.
- 18.4.6 An update report after the Employee Relations Unit has finalised the investigations of 10 cases of non-compliance, in respect of Supply Chain Management regulations, within the Department.
- 18.4.7 The list of projects that was approved by the Grant Funding Committee, including the expenditure breakdown thereof.

## **Part B: Findings which relates to Entities**

### **19. Western Cape Gambling and Racing Board (WCGRB)**

The Committee noted the audit opinion of the AGSA regarding the annual financial statements of the Entity for the 2018/19 financial year, having an unqualified audit outcome with findings relating to findings on compliance with key legislation and internal control deficiencies. This audit opinion represents a regression from the 2017/18 financial year.

#### **19.2 Audit opinion**

The AGSA raised findings with the Entity on its compliance with laws and regulations, including deficiencies within the scope of its internal controls.

#### **19.3 Financial management**

The WCGRB spent R55,939 million of a budget of R57,487 million. This resulted in an overall under-expenditure of R1,547 million.

The Committee notes the following emphasis of matters, which was raised by the AGSA as follows:

**Restatement of corresponding figures:**

As disclosed in Note 33 to the financial statements, the corresponding figures for 31 March 2018 were restated as a result of an error in the financial statements of the entity at, and for the year ended, 31 March 2019.

**Taxes and levies collected:**

As disclosed in Note 24 to the annual financial statements, taxes and levies are collected and distributed to other entities and institutions.

In addition, the Entity over-collected by R7,714 million, which resulted in a departmental receipt of R70,174 million, from an estimated departmental collection of R62,459 million.

The over-collection occurred under the following line items:

- Application fees (R618 234);
- Investigation fees (R1,240 million);
- (Loss) or gain on actuarial valuations (R559 000);
- Interest (R38 562);
- Inspector charge outs (R1,155 million);
- Services in- kind (R2,985 million); and
- Miscellaneous (R1,116 million).

**19.3 Resolutions**

<b>BACKGROUND/ CONCERNS</b>	<b>RESOLUTIONS</b>	<b>ACTION DATE</b>
<p>Page: 52 of the Annual Report.</p> <p>Heading: "4. Risk Management"</p> <p>Description: The Committee notes that the WCGRB has not documented any key risks that were identified and considered during the 2018/19 financial year. Normally, departments and entities document their key risks identified during a financial year, including the steps that was taken to minimise such risks.</p>	<p>That the Entity brief the Committee on the key risks identified and considered during the 2018/19 financial year, and that all future annual reports of the Entity reports on such risks.</p>	<p>Briefing date to be determined by the Public Accounts Committee.</p> <p>To be included in all future Annual reports of the Entity.</p>
<p>Page: 100 of the Annual Report.</p> <p>Heading: "Note 7. Trust funds "</p> <p>Description: The Committee notes that the Entity disclosed trust funds to the total of R20,719 million for the financial year under review.</p>	<p>That the Entity implements a long-term sustainability plan to include various communities or stakeholders in the trust plans of the Entity, and that it briefs the Committee on such a sustainability plan.</p>	<p>Briefing date to be determined by the Public Accounts Committee.</p>



<p>Page: 112 of the Annual Report.</p> <p>Heading: “Note 26. Risk Management”</p> <p>Description: The Committee notes that trade receivables comprise a widespread customer (licensees) base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board.</p>	<p>That the Entity brief the Committee on the terms and conditions which relates to application of licensees of the WCGRB.</p>	<p>Briefing date to be determined by the Public Accounts Committee.</p>
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#### 19.4 List of Information Requested

The Committee requested that the Western Cape Gambling and Racing Board provide it with the following information:

- 19.4.1 A report which highlights the value which was derived for the Western Cape, in respect of the international conferences which were attended by the Board members, as reflected on pages 46-51 of the Annual Report.
- 19.4.2 The Board Charter, which informs the different board meetings, reflected on page 36, as well as pages 43-44 of the Annual Report.
- 19.4.3 The Risk Register which informs the risks that were addressed for the 2018/19 financial year.
- 19.4.4 A report on the payment to the external auditing companies by the Entity for the 2017/18, as well as the 2018/19 financial year, as indicated on pages 52 and 108 of the Annual Report.

## 20. The Western Cape Liquor Authority

The Committee noted the audit opinion of the AGSA regarding the annual financial statements for the 2018/19 financial year of the Entity, having obtained an unqualified audit report with findings on its internal control deficiencies. This audit opinion represents a regression from the 2017/18 financial year, whereby the Entity received a clean audit outcome.

### 20.1 Audit Opinion

The AGSA raised no findings with the Entity on compliance with laws and regulations, predetermined objectives. However, the AGSA did raise findings in respect of the internal

control deficiencies of the Entity, as follow:

## **20.2 Financial and performance management**

### **20.2.1 Regular, accurate and complete financial and performance reports**

- Management did not ensure that the financial statements submitted were prepared on the basis of the Generally Recognised Accounting Practices.
- Management did not adequately review the financial statements submitted for audit as it contained misstatements identified during the audit.

### **20.2.2 Review and monitor compliance with applicable laws and regulations**

- Management did not ensure that procurement processes were followed as stipulated in regulation 6.1 of the Treasury Regulations.

## **20.3 Financial Management**

As disclosed on page 74 of the entity's annual report, the Western Cape Liquor Authority spent R49,2 million of an operating budget of R49,3 million, resulting in an overall under-expenditure of R94 037 or 0,2% (2017/18: 2,2% underspent) and underspending of R1,5 million on its capital budget of R4,3 million.

As disclosed on page 74 of the entity's annual report, the entity's total revenue budget of R53,6 million was under-collected by R338 133 or 0,6% (2017/18: 4,3% under-collected).

In addition, as disclosed on page 41 of the entity's annual report, the total departmental estimated revenue budget of R36,9 million was over-collected by R2,5 million, which resulted in a departmental receipt of R39,5 million. The over-collection on revenue occurred under the following line items:

- License issuing fee (R200 000);
- License fee temp and special (R977 000);
- Auto renewal (R1,4 million); and
- Application fee temp and special (R207 000).

## **20.4 Resolutions**

None

## **20.5 List of Information Requested**

The Committee requested that the WCLA provide it with a report which provides a breakdown of the costs of the investigations which related to the fitting out of the Sunbel Building, including all the investigative reports associated with the matter.

## **21. CapeNature**

The Committee noted the audit opinion of the Auditor-General regarding the annual financial statements of the Entity for the 2018/19 financial year, having obtained a clean audit. This audit opinion remains unchanged from the 2017/18 financial year.

### **21.1 Audit opinion**

The Auditor-General of South Africa raised no findings with the Entity on compliance with laws and regulations, predetermined objectives nor deficiencies in its internal controls.

### **21.2 Financial management**

CapeNature spent R371,887 million of a budget of R384,479 million, resulting in an overall under expenditure of R12,592 million or 3,28 % (2017/18: 7,16 % underspent).

The Entity's revenue budget of R384, 479 million was under collected by R11,382 million or 2,9% (2017/18: 6,7% over-collected).

- In addition, the Entity occurred over- expenditure under the following programmes:
- Programme 1: Administration and Governance (R4,827 million);
- Programme 2: Biodiversity Support (R1,423 million); and
- Programme 3: Conservation Management (R14,583 million);

However, the Entity underspent on Programme 4: Marketing and Eco-Tourism by R7, 748 million. The source of the underspending occurred within the Tourism Marketing and Communication, as well as the Special Projects: Marketing and Eco-tourism line items.

In addition, the total estimated revenue budget of the CapeNature of R384,480 million was over-collected by R15,429 million, which resulted in a departmental receipt of R369,051 million. The over-expenditure occurred under the line item Government Grant, Own Revenue and Special projects.

### **21.3 Resolutions**

None

### **21.4 List of Information Requested**

A report on the mechanisms implemented by the Entity to avoid a recurrence of the fuel syphoning fraud and corruption matter, which was investigated by the PFS and concluded during the 2017/18 financial year, as reflected on page 51 of the Annual Report.

## **22. Government Motor Transport**

The Committee noted the audit opinion of the Auditor-General regarding the annual financial statements of the Entity for the 2018/19 financial year, having obtained a clean audit. This audit opinion remains unchanged from the 2017/18 financial year.

### **22.1 Audit opinion**

The Auditor-General of South Africa raised no findings with the Entity on compliance with laws and regulations, predetermined objectives nor deficiencies in its internal controls.

## 22.2 Financial management

Government Motor Transport spent R594,472 million of a budget of R660,550 million, which resulted in an overall under-expenditure of R66,078 million (10%). The under-expenditure occurred under the following line items:

- Administrative expenses (R1,3 million);
- Employee costs (R8,6 million);
- Operating expenditure (R9,3 million);
- Depreciation (R108 000);
- Amortisation (R369 000);
- Accidents and Impairment losses (R1 000)
- Grants and subsidies (R46,1 million); and
- Operating leases (R81 000).

In addition, the total estimated revenue budget of the Government Motor Transport of R707 million was over-collected by R49 million, which resulted in a departmental receipt of R756,5 million. The collection of revenue occurred under the following categories of revenue:

- Daily-, kilometre tariffs and interest earned on finance lease receivables (R53,9 million);
- Government grants and other subsidies received (funding received from clients for additional vehicles) (R1,5 million); and
- Services in-kind (R2,7 million).

## 22.3 Resolutions

None

## 22.4 List of Information Requested

The Committee requested that the Government Motor Transport provide it with Broad-Based Black Economic Empowerment risk as identified by the Auditor-General, as highlighted under Note 4 on page 59 of the Annual Report.

## 23 Cape Agency for Sustainable Integrated Development in Rural Areas (CASIDRA)

The Committee noted the audit opinion of the Auditor-General regarding the annual financial statements of the Entity for the 2018/19 financial year, having obtained an unqualified audit opinion with findings on compliance with key legislation, predetermined objectives and internal control deficiencies. This opinion remains unchanged from the 2017/18 financial year.

### 23.1 Audit opinion

The Auditor-General of South Africa raised findings with the Entity which relates to compliance with key legislation, predetermined objectives and deficiencies in its internal controls.

### 23.2 Financial management

CASIDRA spent R35,514 million from a budget of R35,941 million, resulting in an overall under-expenditure of R1,307 million (1 %).

## 23.2 Resolution

BACKGROUND/ CONCERNS	RESOLUTIONS	ACTION DATE
<p>Pages: 42- 44 of the Annual Report of the Entity.</p> <p>Heading: “Director’s profile”</p> <p>Description: The Committee noted that there was very few females who served as Directors on the Board of the Entity.</p>	<p>That the Department, through the assistance of the relevant Standing Committee device a mechanism which would ensure that more females be represented on the Board of the Entity, when nominations are called for future Board vacancies.</p>	<p>To be noted by the Standing Committee on Agriculture, Environmental Affairs and Development Planning.</p>

## 23.4 List of Information Requested

The Committee requested that CASIDRA provide it with the following:

- 23.4.1 A report on the four supply chain complaints which were received during the 2018/19 financial year, including the complaint which was escalated to the Offices of the Minister and Public Protector, as indicated on page 46 of the Annual Report.
- 23.4.2 A report on the underlying issues which prevented the AGSA to not provide adequate assurances on Programme 3, in the sub-programmes 3.2.2 (number of households food security projects delivered in current), and 3.3.4 (number of farmers trained in accredited courses facilitated), as indicated on page 52 of the Annual Report.

## 24. The Western Cape Tourism, Trade and Investment Promotion Entity (WESGRO)

The Committee noted the Auditor-General’s audit opinion regarding the Entity’s annual financial statements for the 2018/19 financial year, having obtained an unqualified audit report with no findings. This audit opinion represent an improvement from the 2017/18 financial year, where the Entity received an unqualified audit report with findings relating to compliance with key legislation and internal control deficiencies.

### 24.1 Audit Opinion

The Auditor-General of South Africa raised no findings with the Entity on compliance with laws and regulations, predetermined objectives or internal control deficiencies.

### 24.2 Financial Management

WESGRO spent R71,310 million of a budget of R71,816 million, which resulted in an underspending of R506 000 (0,69 %).

Furthermore, the Entity spent R929 000 of a capital budget of R2,226 million, resulting in an overall underspending of R1,297 million.

The agency’s final adjusted revenue budget of R68,479 million was exceeded by R1,632 million, which resulted in a total end-of year revenue of R70,111 million.

In addition, the total Entity's projected receipts of R106,898 million was over-collected by R22,574 million, which resulted in a departmental receipt of R129,472 million. The revenue over-collection occurred under the following line item of Project funding (R23,858 million).

#### 24.2.1 Significant emphasis of matters

**Investments (put option):** As disclosed in Note 8 to the annual financial statements, a fair value gain of R1,647 million (2017/18: R2,535 million) was realised during the year on the Entity's investment through its shares held in the Cape Town Film Studies (Pty) Ltd, bringing the value of the investment to R24,786 million (2017/18: R23,139 million) as at 31 March 2019.

**Deferred income:** As disclosed in Note 12 to the annual financial statements, the deferred income as at 31 March 2019 was R41,767 million (2017/18: R37,986 million), representing the balance of the funding of the various sponsored projects as administered by the Entity.

### 24.3 Resolution

BACKGROUND/ CONCERNS	RESOLUTIONS	ACTION DATE
<p>Page: 74 of the Annual Report</p> <p>Heading: "Remuneration of board members"</p> <p><u>Description:</u> The Committee notes the remuneration which were paid to the various board members for the 2018/19 financial years, for attending various board meetings.</p> <p>However, the Committee could not establish the travel expenses which were paid to the board members in respect of the attendance to the various board meetings.</p>	<p>That the Entity, in all future annual reports, provide a column under "remuneration of board members" whereby the Entity will indicate the amounts that were paid per board member in respect of travel and preparation time for the various board meetings.</p>	<p>To be included in all future annual reports of the Department.</p>

### 24.4 List of Information Requested

The Committee requested that WESGRO provide it with a report which provide an in-depth breakdown which relates to Note 35: Fruitless and wasteful expenditure, as indicated on page 129 of the Annual Report.

## 25. Saldanha Bay Industrial Development Zone (SOC) Ltd (SBIDZ)

The Committee noted the Auditor-General's audit opinion regarding the Entity's annual financial statements for the 2018/19 financial year, having obtained a clean audit. This audit opinion remains unchanged from the 2017/18 financial year.

## 25.1 Audit Opinion

The Auditor-General of South Africa raised no findings with the Entity on compliance with laws and regulations, predetermined objectives nor internal control deficiencies.

### 25.1.1 Significant emphasis of matters

**Work-in-progress:** As disclosed in Note 4 to the annual financial statements, the cost of work-in progress on buildings and infrastructure increased from R28,4 million and R19,9 million at 31 March 2018 to R64 million and R81,1 million as at 31 March 2019, respectively and is recognised in the carrying value of property, plant and equipment.

**Unspent conditional grants and receipts:** As disclosed in Note 15 to the annual financial statements, the unspent conditional grants and receipts as at 31 March 2019 amounted to R460,3 million (2017/18: R559,4 million), representing the funding previously received from government grants that will be utilised in the future against the respective projects, as detailed in Note 19.

## 25.2 Financial Management

As disclosed on page 81 of the Entity's annual report, the SBIDZ spent R59,405 million of its operating expenditure budget of R65,290 million, resulting in an underspending of R5,884 million or 9% (2017/18: 23,59% underspending).

Furthermore, the Entity's capital expenditure budget of R191,278 million was underspent by R9,647 million or 5%, which resulted in an actual expenditure of R181,630 million (2017/18: 63% underspending).

The Entity's revenue budget of R107,409 million was under- collected by R34 015, which resulted in an overall collection of R107,375 million. The under-collection occurred under the line item "government grants and subsidies for the 2018/19 financial year" with an amount of R4 551.

## 25.3 Resolutions

BACKGROUND/ CONCERNS	RESOLUTIONS	ACTION DATE
<p>Page: 49 of the Annual Report of the Entity.</p> <p>Heading: "Linking Performance with Budget"</p> <p>Description: The Committee notes that under the Entity's Programme of Administration an under-expenditure occurred of R15,521 million for the financial year under review. In addition, the Committee takes cognisance of the fact that the</p>	<p>That the Entity present to the Public Accounts Committee on the Funding Model when the Committee conducts an oversight visit to the SBIDZ jointly with the Standing Committee on Finance, Economic Opportunities and Tourism.</p>	<p>To be scheduled by the Public Accounts Committee.</p>

<p>Programme is funded by various shareholders, which includes the following:</p> <ul style="list-style-type: none"> <li>• The Department of Trade and Industry's Special Economic Zone Infrastructure Fund;</li> <li>• The Western Cape Government's Operations Expenditure;</li> <li>• The Western Cape Government's Saldok Purchase;</li> <li>• The Department of Trade and Industry's Enterprise and Supplier Development and Supplier Development; and</li> <li>• SETAs.</li> </ul>		
<p>Page: 111 of the Annual Report of the Entity.</p> <p>Heading: "Note 19. Government grants and subsidies"</p> <p>Description: The Committee notes that the Entity received grants and/or subsidies from the Department of Trade and Industry and Department of Economic Development and Tourism to the total value of R1, 545 million. The Entity informed the Committee that a feasibility Study was done in respect to the Innovation Campus. The concept of the Innovation Campus is to establish capacity and support research, and sophisticated training, intended to build national capabilities in the arena of Oil, Gas and Marine Fabrication &amp; Repair Services, as a national industrial priority sector, and to develop the scale and focus necessary for South Africa to achieve international standing in these areas.</p>	<p>That the Entity supply the Public Accounts Committee with the Feasibility Study Report which was undertaken with respect to the Innovation Campus Department of Trade and Industry (DTI) and Department of Economic Development and Tourism (DEDAT) grants and subsidies, which were received during the 2018/19 financial years.</p> <p>That the Entity present the Feasibility Study Report which was undertaken with respect to the Innovation Campus (DTI &amp; DEDAT) grants and subsidies which were received during the 2018/19 financial years.</p>	<p>Deadline of submission to be communicated by the Public Accounts Committee.</p> <p>To be scheduled by the Public Accounts Committee.</p>

#### 25.4 List of Information Requested

None



## **26. Heritage Western Cape**

The Committee noted the audit opinion of the Auditor-General regarding the annual financial statements for the 2018/19 financial year of the Entity, having obtained an unqualified audit report with no findings on pre-determined objectives. This audit opinion remains unchanged from the 2017/18 financial year.

### **26.1 Audit Opinion**

The Auditor-General of South Africa raised no findings with the Entity on compliance with laws and regulations, predetermined objectives nor deficiencies in its internal controls.

### **26.2 Financial Management**

Heritage Western Cape spent R4,647 million of a budget of R4,079 million, resulting in an over-expenditure of R568 000.

The over expenditure relates to the GRAP 23 adjustments made for salaries, “Employee cost of R590 000, of the financial management staff of the department as services in-kind received.

In addition, the estimated departmental revenue budget of R4,079 million was over-collected by R641 000, which resulted in a departmental receipt of R4,720 million. The revenue over-collection occurred under the following line items:

- Transfers and Subsidies (R500 000); and
- Other operating costs (R177 000).

### **26.3 Resolutions**

None

### **26.4 List of Information Requested**

None

## **27. The Western Cape Cultural Commission**

The Committee noted the audit opinion of the Auditor-General regarding the annual financial statements for the 2018/19 financial year of the Entity, having obtained an unqualified audit report with no findings on pre-determined objectives. This audit opinion remains unchanged from the 2017/18 financial year.

### **27.1 Audit Opinion**

The Auditor-General of South Africa raised no findings with the Entity on compliance with laws and regulations, predetermined objectives nor deficiencies in its internal controls.

### **27.2 Financial Management**

The Western Cape Cultural Commission spent R4,803 million of a budget of R4,265 million, resulting in an over-expenditure of R538 000. The over expenditure relates to the GRAP 23 adjustments made for salaries, “Employee cost of R590 000, of the financial management staff

of the Entity.

The revenue collection budget of the Entity of R4,265 million was over-collected by R1,086 million which resulted in an end-of-financial year departmental receipt of R5,351 million. The revenue over-collection occurred under the following line items:

- Other operating income (R1,057 million); and
- Interest (R29 000)

### 27.3 Resolutions

BACKGROUND/ CONCERNS	RESOLUTIONS	ACTION DATE
<p>Page: 41 of the Annual Report Heading: “Key risks considered and addressed during the year”</p> <p>Description: The Committee notes that during the financial year under review, one of the key risks that was considered and addressed is the risk of a newly elected committee which may lack the required competencies in terms of their mandate.</p>	<p>That the Entity brief the Committee on the selection criteria when interviewing and selecting committee members.</p>	<p>To be scheduled by the Public Accounts Committee.</p>
<p>Page: 41 of the Annual Report Heading: “Key risks considered and addressed during the year”</p> <p>Description: The Committee notes that during the financial year under review, one of the key risks that was considered and addressed is the risk of inadequate safeguarding of cultural/facilities’ infrastructure.</p>	<p>That the Entity brief the Committee on the mechanism which has been put in place to mitigate this risk.</p>	<p>To be scheduled by the Public Accounts Committee.</p>

### 27.4 List of Information Requested

None

## 28 The Western Cape Language Committee

The Committee noted the audit opinion of the Auditor-General regarding the annual financial statements for the 2018/19 financial year of the Entity, having obtained an unqualified audit report with no findings on pre-determined objectives. This audit opinion remains unchanged from the 2017/18 financial year.

### 28.1 Audit Opinion

The Auditor-General of South Africa raised no findings with the Entity on compliance with laws and regulations, predetermined objectives nor deficiencies in its internal controls.

## **28.2 Financial Management**

Western Cape Language Committee spent R848 000 of a budget of R267 000, resulting in an over-expenditure of R581 000. The over expenditure relates to the GRAP 23 adjustments made for salaries, "Employee cost of R590 000, of the financial management staff of the Entity.

In addition, the total estimated departmental revenue budget of R267 000 was over-collected by R590 000, which resulted in a departmental receipt of R857 000. The over-collection relates to GRAP 23 under the line item of "Other income".

## **28.3 Resolutions**

None

## **28.4 List of Information Requested**

The Committee requested that the Western Cape Language Committee provide it with a report on which departments of the WCG is not fully implementing the Western Cape Language Policy, including the mechanisms in place by those departments to fully implement the Western Cape Language Policy, as reflected on page 20 of the Annual Report.

## **29. Conclusion**

The Committee thanked the Premier, Ministers, Director-General and Heads of Department, the Auditor-General of South Africa, the Audit Committees and all other role players for the information provided towards ensuring efficient and productive oversight outcomes in terms of this process.

The Committee is of the view that in order to increase public interest, knowledge and participation in this important oversight process, that more community organisations and members of the public should be invited to engage in this important process. Hereto, the Committee thanks the community organisations and members of the public who made the effort to attend the annual reporting process and proactively engaged the departments and entities on the content of the annual reports for the 2018/19 financial year.

The Committee also acknowledged the important role that the administrative staff embarked on for this Committee to have achieved its set goal, during this season of annual reporting.

Report to be considered.