

SCOPA BRIEFING NOTE



PFMA audit outcomes of the 2017-18 financial year for

**Western Cape
Provincial Treasury**

11 October 2018

*Issued under embargo until
SCOPA is briefed on the audit outcome*



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence

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1. Introduction**1.1 Reputation promise of the Auditor-General of South Africa**

The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

1.2 Purpose of document

The purpose of this document is to provide an executive summary of the audit outcomes of the financial audit, audit of performance information and compliance with key legislation of the Western Cape Provincial Treasury for the 2017-18 financial year.

1.3 Overview

The aim of the department is to monitor compliance with applicable legislation for provincial departments, provincial entities, municipalities and municipal entities. Furthermore, the department strive to improve financial governance. The department is also the custodian of the provincial budget.

1.4 Organisational structure

Designation	Incumbent
MEC	Dr I Meyer
Head of department (accounting officer)	Mr Z Hoosain
Chief financial officer	Ms A Smit
DDG: Fiscal and economic services	Mr H Malila
DDG: Governance and asset management	Vacant
Chief Director: Public policy services	Vacant
Chief Director: Local government public finance	Vacant
Chief Director: Provincial government public finance	Ms J Gantana
Chief Director: Asset management	Mr I Smith
Chief Director: Financial governance and accounting	Mr A Hardien

1.5 Funding

As disclosed on page 13 of the department's annual report, the Western Cape Provincial Treasury spent R278,5 million of a budget of R288,1 million, resulting in an overall under-expenditure of R10,4 million or 3,6% (2016-17: 2,6% underspent).

As disclosed on page 12 of the department's annual report, the department's revenue budget of R499,4 million was exceeded by R105,4 million or 21,1% (2016-17: 33,7% over-collected).

Detailed explanations for the underspending on the expenditure budget and over-collection on the revenue budget are set out on pages 13 to 14 of the department's annual report.

2. Audit opinion history

Details	2017-18	2016-17	2015-16
Audit opinion			
Findings on compliance with laws & regulations	No	No	No
• Material misstatements in financial statements submitted	No	No	No
• Procurement and contract management	No	No	No
• Expenditure management	No	No	No
• Revenue management	No	No	No
• Strategic plan and performance management	No	No	No
• Utilisation of conditional grants	N/A	N/A	N/A
• Consequence management	No	No	No
Findings on predetermined objectives	No	No	No
Internal control deficiencies	No	No	No

Audit opinions

	CLEAN AUDIT OPINION (no findings on PDO or compliance with laws & regulations)
	UNQUALIFIED with findings on PDO and/or compliance
	QUALIFIED AUDIT OPINION (with or without findings)
	DISCLAIMER/ADVERSE AUDIT OPINION

PDO = Predetermined objectives (audit of performance information/service delivery/annual performance report)

2.1 Significant emphasis of matter

Material underspending of the vote: As disclosed in note 4.1 to the appropriation statement, on page 161 of the department's annual report, the department materially underspent its overall budget by R10,4 million (3,6%). The explanations of material variances from amounts voted per programme and the standard classifications are set out in notes 4.1 and 4.2 to the appropriation statement.

2.2 Significant other matter

Unaudited supplementary schedules: The supplementary information set out on pages 205 to 211 of the department's annual report does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

3. Key focus areas

3.1 Compliance focus area

No material findings were raised on any of the compliance focus areas indicated in paragraph 2 of this document.

3.2 Predetermined objectives

I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected programmes presented in the annual performance report of the department for the year ended 31 March 2018:

Programmes	Pages in the annual performance report
Programme 2 – sustainable resource management	48 to 60
Programme 4 – financial governance	69 to 75

No material findings were raised on the selected programmes.

Other matters relating to predetermined objectives

I draw attention to the following matter:

Achievement of planned targets: Refer to the annual performance report on pages 51 to 60 and 71 to 75 for information on the achievement of planned targets for the year and explanations provided for the under/over achievement of a number of targets.

4. SCOPA resolutions

Pages 92 to 94 of the department's annual report details two resolutions or matters of concern as well as transversal resolutions included/raised in the *Report of the Standing Committee on Public Accounts*. All of these resolutions/matters of concern have been finalised or addressed.

5. Emerging risks and risks that require continuous monitoring

5.1 New pronouncements

Modified cash standards

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.

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.

5.2 New legislation

National instruction notes: Instruction notes are issued by the National Treasury on a continuous basis in terms of section 76 of the PFMA. The arrangement in the Western Cape is that the Provincial Treasury reviews these instruction notes and re-issue them to the various departments and entities on a selective basis. The risk exists that material non-compliance could arise if certain national instruction notes are not complied with, where the necessary approval from the National Treasury to depart from them was not obtained as required by section 79 of the PFMA.

Treasury regulations: The treasury regulations are currently being revised, which may introduce a number of new requirements once effective.

5.3 Risks that require continuous monitoring

Local content: The compliance requirements of local content for commodities within designated sectors are applicable for all tenders. The term tender in terms of the Preferential Procurement Regulations of 2017 is attributed to all awards above R30 000.

B-BBEE certificates: Footnote 3 in Treasury Instruction 4A of 2016-17 noted that the Central Supplier Database (CSD) does not verify B-BBEE status level and set a future date for verification of B-BBEE status (1 October 2016). The office of the chief procurement officer (OCPO) failed to achieve this deadline and up to now the CSD does not verify the B-BBEE status of suppliers. The instruction did not exempt institutions from complying with the PPPF Act requirements for obtaining a valid evidence of B-BBEE level status (e.g. sworn affidavits).

B-BBEE Act: Paragraph 13G requires all spheres 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 PFMA. Discussions are ongoing between the AGSA and B-BBEE Commission to scope this requirement into the audit for the 2018-19 financial year.

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Central Supplier Database: The OCPO introduced the Central Supplier Database on 1 September 2015 accessible on www.csd.gov.za, which will reduce the administrative burden on both the supplier and the administrator. The system verifies and validates information with the South Africa Revenue Service (SARS), Companies and Intellectual Property Commission (CIPC), and Department of Home Affairs amongst others. The system was mandatory from 1 April 2016 for all suppliers to national and provincial government and entities at these two spheres of government.

Permission was granted for the Western Cape Government to run the Western Cape Supplier Database (WCSD) concurrently with the CSD for a year (up to 31 March 2017), provided that the CSD is the master of supplier information and such information cannot be modified by the WCSD and suppliers registered on the CSD should not be excluded or disadvantaged in any way by the existence of the WCSD.

eTenders Portal: Suppliers who meet all compliance requirements can access opportunities on www.eTenders.gov.za. The portal enables suppliers to have access to tenders published on the platform. The compulsory implementation of this portal was from 1 April 2016.