

## **Expenditure Tracking Report**

**2011/12**

### **Chief Directorate: Environmental Affairs**

**Eastern Cape Department of Economic Development,  
Environmental Affairs & Tourism (DEDEAT)**

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#### **Introduction**

The Constitution of the Republic of South Africa provides *inter alia* in relation to the environment that everyone has the right to have it protected, for the benefit of present and future generations, through reasonable legislative and other measures.<sup>1</sup> Hence the performance of the State in implementing and maintaining such measures is cardinal to the realization of this right.

The PSAM defines social accountability as the obligation by public officials and private service providers to justify their performance in addressing constitutionally-enshrined rights via the provision of effective public services. In order to effectively realize these rights through the delivery of public services, state departments and private service providers responsible for the management of public resources must implement effective accountability and service delivery processes. These include planning and resource allocation processes, expenditure management processes, performance monitoring processes, integrity management processes and oversight processes. Together these processes combine to form a social accountability system, which acts as the central pillar of a responsive democratic state. The effectiveness of these processes can be established by monitoring their information outputs. To evaluate the social accountability system, the PSAM has developed a set of evidence-based tools for monitoring the information produced annually by each process.

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<sup>1</sup> *Constitution of the Republic of South Africa, 1996, Section 24.*

In accordance with its title, this report focuses on the expenditure by the Chief Directorate: Environmental Affairs of the Eastern Cape Department of Economic Development, Environmental Affairs and Tourism of its budget for the 2011/12 financial year. This focus aligns with PSAM's specific interest in accountability for environmental governance in the Province. However, given that the Chief Directorate's expenditure processes are obviously conducted within the context of those of the Department as a whole, aspects of the latter are also covered where appropriate in the report.

### **Functional scope of Chief Directorate**

The Chief Directorate *administers environmental policies that are cascaded from national level, and regulates environmental management through instruments such as ... environmental impact assessments, compliance and enforcement and biodiversity management tools.*<sup>2</sup>

Its services are delivered under the auspices of the following sub-programmes within Environmental Affairs (Programme 3):

- Sub-programme 3.1 Policy Coordination and Environmental Planning
- Sub-programme 3.2 Compliance and Enforcement
- Sub-programme 3.3 Environmental Quality Management
- Sub-programme 3.4 Biodiversity Management
- Sub-programme 3.5 Environmental Empowerment Services.

The Chief Directorate additionally acted as a funding conduit for the Eastern Cape Parks Board during the period covered by this report, and was responsible for monitoring and evaluating the Board's work. Over the five financial years from 2007/08 to 2011/12 the Board accounted for an average of 64,5% of the Chief Directorate's annual budget.<sup>3</sup>

### **Overview of recent Chief Directorate expenditure**

Table 1 below provides an overview of the Chief Directorate's expenditure relative to its respective budgets for the 2007/08 to 2011/12 financial years.

The table shows that the Chief Directorate consistently under-spent on its budget during this period, and did not overrun it at any stage. Only 2007/08 and 2010/11 show under-spending on a significant scale, while for the last year financial year the under-spend was the most insignificant in the five-year span.

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<sup>2</sup> DEDEAT 2012/13 *Annual Performance Plan*, p. 49.

<sup>3</sup> DEDEAT *Annual Reports 2008/2009, 2009/2010, 2010/2011, 2011/2012*.

**Table 1: Environmental Affairs Expenditure over the last five years<sup>4</sup>**

Financial Year	Total Budget R'000	Expenditure R'000	Variance: under expenditure R'000	% under expenditure
2007/08	151 186	140 169	11 017	7,3
2008/09	150 023	147 420	2 603	1,7
2009/10	160 293	158 925	1 368	0,9
2010/11	246 694	223 646	23 048	9,3
2011/12	218 848	218 455	393	0,2
Total	927 044	888 615	38 429	-

### **Recent sub-programme expenditure**

Table 2 below shows budgets and expenditure for the same five-year period at sub-programme level. The table distinguishes between Sub-programme 3.4 expenditure directed to the Eastern Cape Parks Board, and expenditure on Chief Directorate biodiversity conservation *per se*. Expenditure on the Parks Board is in any case consistently 100% of the allocated amount. In line with the marginal overall 2011/12 Chief Directorate under-spend of 0,2%, the most sizeable sub-programme under-spend for that financial year is the 3, 6% ascribed to Sub-Programme 3.4. For the same period Sub-Programmes 3.1 and 3.2 exhibit expenditure of 100% of their budgets

Over the five-year period Sub-programme 3.1 (Policy Coordination and Environmental Planning) has under-spent significantly twice, viz. in 2007/08 and 2010/11 (by 21,3% and 21,6% respectively). In the remaining three years its median expenditure was 99,5% of the allocated budget. On the other hand the expenditure of Sub-programme 3.2 (Compliance and Enforcement) has been erratic, ranging from 59,5% of its budget in 2007/08 to 143,4% in 2009/10. It did however achieve 100% expenditure in 2011/12.

Sub-programme 3.3 (Environmental Quality Management) under-spent to a relatively consistent extent (between 12,7% and 17,5%) for three of the financial years, but averaged a 98% spend for the other two. Sub-programme 3.4 (Biodiversity Management) only spent 49,7% of its 2010/11 budget for its responsibilities other than that pertaining to the Parks Board, and under-spent by 18,5% and 18,2% respectively in 2007/08 and 2008/09. Lastly, Sub-Programme 3.5 (Environmental Empowerment Services) over-spent by 20,8% in 2010/11, and under-spent by 42,9% in 2008/09, but averaged 95,3% for 2009/10 and 2011/12 (it was not yet established in 2007/08).

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<sup>4</sup>DEDEAT Annual Reports 2008/2009, 2009/2010, 2010/2011, 2011/2012.

**Table 2: Environmental Affairs sub-programme expenditure over the last five years<sup>5</sup>**

	2007/8			2008/9			2009/10			2010/11			2011/12		
	FA	AE	AE as % of FA	FA	AE	AE as % of FA	FA	AE	AE as % of FA	FA	AE	AE as % of FA	FA	AE	AE as % of FA
Sub-progr.	'000	'000	%	'000	'000	%	'000	'000	%	'000	'000	%	'000	'000	%
3.1	42729	33646	78,7	38961	38862	99,7	45607	45000	98,7	72469	56834	78,4	31260	31260	100
3.2	1393	829	59,5	1200	1049	87,4	1210	1739	143,4	11314	8496	75,1	27262	27262	100
3.3	3129	2596	83,0	2877	2374	82,5	3417	3338	97,7	6279	5482	87,3	9014	8866	98,3
3.4 (excl. ECPB)	4528	3691	81,5	4635	3792	81,8	4428	4032	91,1	7749	3855	49,7	3247	3129	96,4
3.5	-	-	-	2350	1343	57,1	2431	2278	93,7	413	499	120,8	4054	3927	96,9
Transfer to ECPB under sub-progr 3.4	99407	99407	100	100000	100000	100	102500	102500	100	148470	148470	100	144011	144011	100

*Abbreviations:* FA: final appropriation; AE: actual expenditure; ECPB: Eastern Cape Parks Board (now Eastern Cape Parks & Tourism Agency)

<sup>5</sup> DEDEAT Annual Reports 2008/2009, 2009/2010, 2010/2011, 2011/2012.

### **Expenditure by economic classification**

Table 3 reflects the 2011/12 Chief Directorate budget and expenditure by economic classification. Given that overall expenditure amounted to 99,8% of the Programme budget, it is unsurprising but commendable that the expenditure level against three of the five economic classes in which funds were allocated was 100%. For the other two classes the expenditure levels were 99,6% and 99,0% respectively. As previously noted, this is the Chief Directorate's most exemplary expenditure performance in the last five financial years.

**Table 3: Environmental Affairs 2011/12 budget and expenditure by economic classification<sup>6</sup>**

<b>Economic classification</b>	<b>Adjusted appropriation</b>	<b>Shifting of funds</b>	<b>Virement</b>	<b>Final appropriation</b>	<b>Actual expenditure</b>	<b>Variance</b>	<b>Expenditure as % of final appropriation</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>%</b>
<b>Current payments</b>							
Compensation of employees	55 387	-	-	55 387	55 148	239	99,6
Goods & services	15 152	(5)	184	15 331	15 177	154	99
<b>Transfers &amp; subsidies</b>							
Provinces & municipalities	3 952	-	-	3 952	3 952	-	100
Departmental agencies & accounts	143 857	-	-	143 857	143 857	-	100
Households	-	5	316	321	321	-	100
<b>TOTAL</b>	<b>218 348</b>	<b>-</b>	<b>500</b>	<b>218 848</b>	<b>218 455</b>	<b>393</b>	<b>99,8</b>

Finally, sub-programme 2011/12 budgets and expenditure by primary economic classification are shown in Table 4. Virements occurred within all the sub-programmes, but ultimately expenditure was consistent with the final appropriations for all primary economic classes. Once again, this is in keeping with the Chief Directorate's overall expenditure to allocation ratio for the financial year.

<sup>6</sup> DEDEAT *Annual Report 2011/2012*, p. 80.

**Table 4: Environmental Affairs sub-programme 2011/12 budget and expenditure by primary economic classification<sup>7</sup>**

	Adjusted appropriation	Shifting of funds	Virement	Final appropriation	Actual expenditure	Variance	Expenditure as % of final appropriation
DETAILS PER SUB-PROGRAMME	R'000	R'000	R'000	R'000	R'000	R'000	%
<b>Sub-programme 1</b>							
Current payments	26 703	105	(2 450)	24 358	24 307	51	99,8
Transfers & subsidies	3 952	-	2 950	6 902	6 953	(51)	100,7
<b>Sub-programme 2</b>							
Current payments	27 003	254	(251)	27 006	27 006	-	100
Transfers & subsidies	-	5	251	256	256	-	100
<b>Sub-programme 3</b>							
Current payments	9 378	(364)	(952)	8 062	7 914	148	98,2
Transfers & subsidies	-		952	952	952		100
<b>Sub-programme 4</b>							
Current payments	3 401	-	(154)	3 247	3 129	118	96,4
Transfers & subsidies	143 857	-	154	144 011	144 011	-	100
<b>Sub-programme 5</b>							
Current payments	4 054	-	(157)	3 897	3 770	127	96,7
Transfers & subsidies	-	-	157	157	157	-	100
<b>TOTAL</b>	<b>218 348</b>	<b>-</b>	<b>500</b>	<b>218 848</b>	<b>218 455</b>	<b>393</b>	<b>99,8</b>

### **Environmental Affairs expenditure issues raised in Annual Report**

Over and above providing data as per that reflected in the above tables and discussions, the DEDEAT 2011/12 Annual Report does not deal expressly with Environmental Affairs expenditure issues, with the notable exception of the matter of expenditure related to the *Enviro Awards* project. The matter is however dealt with in an imprecise manner.

In section 2.1 of the Annual Report, which covers the Department's overall performance within the context of predetermined objectives, it is indicated that *funds were shifted between programmes and economic categories to offset spending pressures*. It is further noted that *the major net decrease of R5,7 million in Programme 2 (Economic Development) was as a result of the cost pressures in Programme 3. These were due to*

<sup>7</sup> DEDEAT Annual Report 2011/2012, p. 79.

*an environmental initiative to promote environmental awareness within schools, which cost the department R500 000.*<sup>8</sup> Reference to Table 4 of this report and Programme 2's budget detail in the Annual Report verifies that a virement to the extent of R500 000 was effected from Programme 2 to Programme 3, and that Programme 2's final appropriation was diminished to the same extent, relative to the adjusted appropriation.<sup>9</sup> But no basis is evident for the statement about a nett decrease of R5,7 million in Programme 2's budget.

The account of the virement in the *Report of the Accounting Officer*<sup>10</sup> contained within the *Annual Financial Statements* in the Annual Report is a garbled one, and provides little by way of insight to its circumstances. It notes that *one of the key functions of the department is to promote the utilization of the natural resources within the province in a sustainable way that is also raising an environmental awareness programme* (sic), and describes *the provincial environmental awards and greenest municipality competition* as components of this function. Other than justifying the virement in terms of the Public Finance Management Act, the account merely states that in hosting the events *the programme has encountered budgetary constraints, although budgeted to host two (2) events needed more funds* (sic).

Section 6 of the *Report of the Accounting Officer* provides details of transfers to 43 schools, totaling R991 500. Individual transfer amounts ranged from R6 500 to R100 000.<sup>11</sup> There is a discrepancy between this version of the transfers and *Unaudited Annexure 1K* to the *Annual Financial Statements*.<sup>12</sup> The latter indicates that an amount of R7 000 was transferred to Fumisikoma Primary School, whereas the *Report of the Accounting Officer* places the amount at R6 500. The discrepancy is carried through to the total transfer amount for all schools, which is given as R992 000 in the Annexure. The higher total appears to have been utilized in the preparation of the Appropriation Statement.<sup>13</sup>

Although not stated as such in the Annual Report, it is reasonable to presume that the transfers to the schools were made in association with the *Enviro Awards*. Section 6 of the *Report of the Accounting Officer* also indicates that an amount of R155 000 was transferred to the Amathole District Municipality, and in this case does specify that the transfer was for the purposes of the Awards. The total transfer amount for the Awards therefore appears to be R1,147 million, if the higher school transfer amount of R992 000 is utilized for calculation purposes.

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<sup>8</sup> DEDEAT *Annual Report 2011/2012*, p. 21.

<sup>9</sup> *Ibid*, p. 78.

<sup>10</sup> *Ibid*, p. 53.

<sup>11</sup> *Ibid*, p. 58.

<sup>12</sup> *Ibid*, p. 139.

<sup>13</sup> *Ibid*, p. 80.

The same section of the *Report of the Accounting Officer* indicates that a total of R1 million was transferred to three municipalities in terms of the *Greenest Municipality Awards 2011/12*, while a total of R1,805 million was transferred to Chris Hani District Municipality for the *Expanded Public Works Programme*.<sup>14</sup> These transfers accord with the *Appropriation Statement*, which reflects an amount of R3,952 million under *transfers and subsidies to provinces and municipalities*.<sup>15</sup>

However this accord does not extend to section 2.1.9 of the Annual Report (*Transfer Payments*), which indicates that *total other transfers for Enviro Awards projects* were effected at a cost of R4,75 million.<sup>16</sup> The same section also indicates an anomalous transfer amount for the *Expanded Public Works Programme* (R1,76 million versus R1,805 million as detailed above). And there is also variance between the total *Appropriation Statement* amount specified for transfers and subsidies and the amount indicated in the table of *spending trends per programme* under the general review of the state of financial affairs in section 1 of the *Report of the Accounting Officer*. Including the transfer to the Eastern Cape Parks Board, the *Appropriation Statement* provides for a total transfer amount of R1,4813 million,<sup>17</sup> while the table reflects an amount of R1,5239 million.<sup>18</sup>

### **Report of the Audit Committee**

The above anomalies could be consistent with the complexion associated with key findings in the *Report of the Audit Committee* and the *Report of the Auditor-General* in the *Annual Financial Statements*. The Audit Committee concluded that departmental *internal controls are not adequately designed and are ineffective to ensure completeness, accuracy and reliability of financial records for preparing the annual financial statements*. The Committee was also *not satisfied that the Department's internal audit function is operating effectively and that it has addressed the risks pertinent to the Department in its audit*.<sup>19</sup>

### **Report of the Auditor-General**

The opinion expressed by the Auditor-General was that the *Annual Financial Statements* present the Department's financial position, financial performance and cash flows fairly and in accordance with the prescribed financial reporting framework.<sup>20</sup> A litany of

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<sup>14</sup> DEDEAT *Annual Report 2011/2012*, p. 57.

<sup>15</sup> *Ibid*, p. 80.

<sup>16</sup> *Ibid*, p. 22.

<sup>17</sup> *Ibid*, p. 80.

<sup>18</sup> *Ibid*, p. 52.

<sup>19</sup> *Ibid*, p. 47.

<sup>20</sup> DEDEAT *Annual Report 2011/2012*, p. 65.



findings was however made in relation to material non-compliance with key legal and regulatory requirements, albeit that these findings were not reported for the purpose of expressing an opinion. The findings concern, among others, multiple omissions on the part of the Audit Committee, the Accounting Officer, the internal audit function and internal control.<sup>21</sup>

Of particular relevance to Environmental Affairs are the findings as regards the Department's performance against predetermined objectives.<sup>22</sup> In the first instance it was noted that 21% of reported departmental performance indicators are not consistent with the indicators contained in the approved Annual Performance Plan as required in terms of the relevant Treasury Regulation. However scrutiny reveals that only two of 62 Environmental Affairs indicators fall within this category.<sup>23</sup> On the other hand the Auditor-General reported being *unable to obtain all the information and explanations I considered necessary to satisfy myself as to the validity and accuracy of the actual reported performance relevant to.....71% of Programme 3: Environmental Affairs*. Precisely the same finding was made in relation to *the completeness of the actual reported performance relevant to 66% of the Programme*. Both of these omissions are in conflict with the National Treasury *Framework for Strategic Plans and Annual Performance Plans*.

It was also found that *only 76% of the total planned (Departmental) targets were achieved during the year under review*. Reference to Environmental Affairs' reported performance in the Annual Report in fact indicates a target achievement level of only 63%.<sup>24</sup> The Auditor-General attributed the below-par target achievement rate to *the fact that indicators and targets were not suitably developed during the strategic planning process, as well as to the institution not considering relevant systems and evidential requirements during the annual strategic planning process*. These findings resonate with those contained in PSAM's recent analysis of the Chief Directorate's 2010/11-2014/15 Strategic Plan and 2012/13 Annual Performance Plan.<sup>25</sup>

## **Conclusions**

1. The expenditure performance of Environmental Affairs for the 2011/12 financial year was exemplary in that the Chief Directorate spent 99,8% of its budget, with two sub-programmes exhibiting 100% expenditure, and a maximum under-spend of 3,6% for the other three sub-programmes.

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<sup>21</sup> *Ibid*, pp. 68-70.

<sup>22</sup> *Ibid*, pp. 66-68.

<sup>23</sup> *Ibid*, pp. 41-44.

<sup>24</sup> *Ibid*.

<sup>25</sup> *Analysis of 2010/11-2014/15 Strategic Plan & 2012/13-2014/15 Annual Performance Plan, Chief Directorate: Environmental Affairs, DEDEAT, Public Service Accountability Monitor, pp. 18-22.*

2. Hence the primary challenge associated with the Chief Directorate's budget at this stage appears not to be the unit's ability to spend it, but rather the fact that it is "wholly" insufficient, as conceded by the Department itself,<sup>26</sup> and expounded on in PSAM's analysis of the Programme's 2012/13 budget.<sup>27</sup>
3. While the Department's annual report does not generally provide information other than baseline data on the Chief Directorate's expenditure, attention is afforded to the R500 000 virement which was required in order to cover costs associated with the *Enviro Awards* competition. It is logical to deduce that the Chief Directorate over-committed itself in relation to this event, but the account offered for the virement does not provide insight to the circumstances which necessitated it.
4. References to the transfer of Environmental Affairs funds to other entities in association with the *Enviro Awards* and other initiatives do however include factual inconsistencies, which suggest a lack of rigor in departmental financial administration and reporting.
5. This cannot be unexpected in view of the Auditor-General's litany of findings of material non-compliance by the Department with key legal and regulatory requirements, including, but not limited to, multiple omissions on the part of the Audit Committee, the Accounting Officer, the internal audit function and internal control.
6. The Auditor-General's findings of significant inadequacy in the validity, accuracy and completeness of information provided on Environmental Affairs' reported performance against predetermined objectives are cause for concern, and raise questions about whether or not the performance can be taken to represent effective use of public resources.

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<sup>26</sup> DEDEAT *Annual Report 2011/2012*, p. 20.

<sup>27</sup> DEDEAT *Budget Analysis 2012/2013*, Public Service Accountability Monitor.  
<http://www.psam.org.za/departments.php?output=1&did=9&year=2012-13>