

## **Expenditure Tracking Report**

**2012/13**

### **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 2012/13 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, air quality, waste 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 and Tourism Agency (formerly the Eastern Cape Parks Board) during the period covered by this report, and was responsible for monitoring and evaluating the Agency's work. Over the five financial years from 2008/09 to 2012/13 the Agency accounted for an average of 65,5% of the Chief Directorate's annual budget.<sup>3</sup>

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

Table 1 overleaf provides an overview of the Chief Directorate's expenditure relative to its respective budgets for the 2008/09 to 2012/13 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. Under-spending on a significant scale (9,3%) only occurred in 2010/11, with the 1,3% underspend for the last financial year being of the same order as that of the other four financial years covered by the table.

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<sup>2</sup> DEDEAT 2013/14 *Annual Performance Plan*, p. 68.

<sup>3</sup> DEDEAT *Annual Reports 2008/2009, 2009/2010, 2010/2011, 2011/2012, 2012/13*.

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

<b>Financial Year</b>	<b>Total Budget R'000</b>	<b>Expenditure R'000</b>	<b>Variance: under expenditure R'000</b>	<b>% under expenditure</b>
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
2012/13	270 226	266 632	3 594	1,3
Total	927 044	888 615	38 429	-

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

Table 2 shows budgets and expenditure for the same five-year period at sub-programme level. The Department's funding of the Eastern Cape Parks and Tourism Agency (ECPTA) is funneled to it via Sub-Programme 3.4, and the table distinguishes between this item and expenditure on the biodiversity management function performed by the Chief Directorate *per se*. This distinction is important not only because it provides a clearer reflection of Chief Directorate expenditure on its own environmental protection activities rather than those outsourced to an agency which falls under its auspices, but also because the ECPTA's mandate in any case spans more than biodiversity conservation, embracing as it does the responsibility of promoting tourism in the Province. Over and above this, the protected areas managed by the Agency only comprise a minor geographical portion (3%) of the Province, hence the distinction sheds light on biodiversity management expenditure across the bulk of the Province.

Moreover, given that the Department's funding of the ECPTA constituted more than two-thirds of Programme 3's 2012/13 budget and in excess of 97% of that of Sub-Programme 3.4, that this cost amounts to a simple transfer of funds, and that accordingly expenditure over the past five years against this item was consistently but unsurprisingly 100% of the allocated amount, a failure to make the distinction results in a skewed reflection of Programme 3 and especially Sub-Programme 3.4 expenditure. Hence the extent of the Chief Directorate's underspend is altered notably, albeit not drastically, when it is viewed in isolation of the transfer to the ECPTA, viz. from 1,3% to 4,5% of its budget. On the other hand Sub-programme 3.4's underspend amounts to 17% of its budget if the ECPTA allocation is excluded from it, but only 0,4% if it is included.

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<sup>4</sup>DEDEAT Annual Reports 2008/2009, 2009/2010, 2010/2011, 2011/2012, 2012/13.

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

	2008/9			2009/10			2010/11			2011/12			2012/13		
	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	38961	38862	99,7	45607	45000	98,7	72469	56834	78,4	31260	31260	100	16604	15826	95,3
3.2	1200	1049	87,4	1210	1739	143,4	11314	8496	75,1	27262	27262	100	37613	37156	98,8
3.3	2877	2374	82,5	3417	3338	97,7	6279	5482	87,3	9014	8866	98,3	12885	11672	90,6
3.4 (excl. ECPTA)	4635	3792	81,8	4428	4032	91,1	7749	3855	49,7	3247	3129	96,4	5005	4155	83,0
3.5	2350	1343	57,1	2431	2278	93,7	413	499	120,8	4054	3927	96,9	7035	6739	95,8
Transfer to ECPTA under sub-progr 3.4	100000	100000	100	102500	102500	100	148470	148470	100	144011	144011	100	191084	191084	100

**Abbreviations:** FA: final appropriation; AE: actual expenditure; ECPTA: Eastern Cape Parks & Tourism Agency

<sup>5</sup> DEDEAT Annual Reports 2008/2009, 2009/2010, 2010/2011, 2011/2012, 2012/13.

The Sub-Programme 3.4 underspend of 17% is the most sizeable at Chief Directorate sub-programme level in 2012/13. The same sub-programme also accounted for 2011/12's largest underspend, although in that year it only amounted to 3,6%. While no account of the basis for this increase is provided, it is noted that underspending by the sub-programme features prominently over the five-year period, it having amounted to 51,3%, in 2010/11, 18,2% in 2008/09 and 8,9% in 2009/10.

While both Sub-Programme 3.1 (Policy Coordination and Environmental Planning) and Sub-Programme 3.2 (Compliance and Enforcement) exhibited expenditure of 100% of their budgets in 2011/12, both have underspent in 2012/13, to the extent of 4,7% and 1,2% respectively. In 2010/11 Sub-Programme 3.1 underspent by 21,6%, but otherwise its median expenditure for 2008/09 and 2009/10 was 99,2%; hence its 2012/13 expenditure represents a discernable drop relative to recent years (with the notable exception of 2010/11), but not one on a scale which is of particular concern. At the same time, Sub-Programme 3.2's marginal 2012/13 underspend together with its 2011/12 100% spend appears to reflect a measure of expenditure stability after it had been somewhat erratic from 2008/09 to 2010/11, at 87,4%, 143,4% and 75,1% respectively.

Sub-programme 3.3 (Environmental Quality Management) has alternated between relatively marked underspending (between 9,4% and 17,5%) and almost total budget expenditure (averaging 98%) over the past five financial years. In this sense its 2012/13 expenditure appears to be within character, but given especially that the sub-programme covers the critical environmental impact management function, the underspending tendency is nonetheless disturbing. 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, with which its 2012/13 expenditure of 95,8% is consistent. Its 2010/11 overspend and Sub-Programme 3.2's 143% expenditure in 2009/10 constitute the only sub-programme overspends between 2008/09 and 2012/13.

It should be noted that there are slight discrepancies between some of the expenditure figures in the Department's 2012/13 appropriation statement,<sup>6</sup> which figures were utilized in the course of compiling Table 2, and the sub-programme expenditure table contained in the Chief Directorate's performance report.<sup>7</sup> However given the minor scale of the discrepancies they do not elicit further comment here.

### **Expenditure by economic classification**

Table 3 reflects the 2012/13 Chief Directorate budget and expenditure by economic classification, as detailed in the Department's appropriation statement.

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<sup>6</sup> DEDEAT *Annual Report 2012/2013*, p. 112.

<sup>7</sup> *Ibid*, p. 46.

**Table 3: Environmental Affairs 2012/13 budget and expenditure by economic classification<sup>8</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	61 466	-	(500)	60 966	59 526	1 440	97,6
Goods & services	14 685	(1 372)	-	13 313	11 161	2 152	83,8
<b>Transfers &amp; subsidies</b>							
Provinces & municipalities	4 000	(1 000)	-	3 000	2 998	2	99,9
Departmental agencies & accounts	190 426	-	-	190 426	190 426	-	100
Public corporations & private enterprises	-	2 234	-	2 234	2 234	-	100
Non-profit institutions	144	-	-	144	144	-	100
Households	5	138	-	143	143	-	100
<b>TOTAL</b>	<b>270 726</b>	<b>-</b>	<b>(500)</b>	<b>270 226</b>	<b>266 632</b>	<b>3 594</b>	<b>98,7</b>

The expenditure level against four of the seven economic sub-classes in which funds were allocated to the Programme was 100%, but since these sub-classes all pertain to transfers and subsidies this should not be cause for surprise, as already pointed out in relation to the ECPTA transfer.

Expenditure on compensation of employees amounted to 97,6% of the budget provided for it, but there was a 16,2% underspend on goods and services. Both these classes exhibit enhanced underspend relative to 2011/12, which was the Chief Directorate's most exemplary expenditure performance in five years. In that financial year overall expenditure amounted to 99,8% of the Programme budget, with expenditure levels of 99,6% and 99,0% respectively for the quoted economic classes.<sup>9</sup>

<sup>8</sup> DEDEAT *Annual Report 2012/2013*, p. 112.

<sup>9</sup> DEDEAT *Expenditure Tracking Report 2011/12*, Public Service accountability Monitor, p. 5.

It is indicated in the Chief Directorate's performance report that the under-expenditure on goods and services was *due to payments relating to Environmental Awards and Greenest Municipality Competition (GMC) for 2011/12, which were held in February. The invoices for these events were submitted late, and as a result, the payment run of 2012/13 was missed.*<sup>10</sup> This is however puzzling, in that significant costs associated with these events fall within the transfers and subsidies expenditure class, and not goods and services, as alluded to in some detail further on in this report. It is of course possible that expenses which were incidental to the events could have fallen within the goods and services class, and that invoices for these may have been submitted late. But it is inconceivable that such expenses could amount to or even approach the R2,152 million underspend which occurred. Notes to the Department's appropriation statement shed no additional light on the matter, and are in fact even less explicit than the performance report, merely stating that *the under expenditure is due the invoices for some events were submitted late by the service providers (sic).*<sup>11</sup> The facts involved should be clarified by the Department.

Curiously, notwithstanding the appropriation statement's denoting of a 2,4% underspend on compensation of employees, the Chief Directorate's performance report states that *there was a slight over-expenditure of approximately 0,1% on this item, which is ascribed to a combination of factors which include: Senior Management Services (SMS) bonuses, Performance Management Development Service (PMDS) and ICS adjustment effected in the current financial year. These were catered for in the adjustment budget of the 2012/13 financial year (sic).*<sup>12</sup> On the other hand notes to the appropriation statement affirm that underspending occurred, and attribute this to a *combination of factors which includes; SMS bonuses and Performance assessment adjustments and lastly the implementation of some environmental post as per the National circular (sic).*<sup>13</sup> The contradiction in these accounts speaks for itself, and constitutes a further matter which should be clarified by the Department. In the absence of the necessary clarity it is presumed that the appropriation statement contains the correct information, and that the Chief Directorate has erred in its account. According to the appropriation statement expenditure against the item was within budget even after a virement reduced the adjusted appropriation for it by R500 0000 (see Table 3).

On the matter of the virement, the report of the accounting officer indicates that it was made *to defray excess expenditure in Programme 2*<sup>14</sup> (Economic Development). Although not stated as such, it is tempting to view the virement as a form of *quid quo pro* for one of the same amount which occurred in the reverse direction in the 2011/12 financial year, when Programme 2 surrendered funds for the purpose of *covering cost*

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<sup>10</sup> DEDEAT Annual Report 2012/2013, pp. 46-47.

<sup>11</sup> *Ibid*, p. 114.

<sup>12</sup> *Ibid*, p. 46.

<sup>13</sup> *Ibid*, p. 114.

<sup>14</sup> *Ibid*, p. 87.

pressures in Programme 3. These were due to an environmental initiative to promote environmental awareness within schools, which cost the department R500 000.<sup>15</sup>

The quoted 2012/13 virement is the only one which occurred from the Programme 3 budget. The report of the accounting officer indicates that the affected compensation of employees funds were drawn from the budget of Sub-Programme 3.5 (Environmental Empowerment Services),<sup>16</sup> but in fact R385 000 was drawn from this sub-programme, with the balance of R115 000 coming from Sub-Programme 3.4 (Biodiversity Management). The circumstances giving rise to the sub-programmes being in a position to release these amounts are unknown.

The respective sub-programme budget reductions to accommodate the virement is evident from Table 4 below, which provides 2012/13 sub-programme budgets and expenditure by primary economic classification. The table also indicates how funds were shifted within Programme 3. The reasons for the shifts are however unknown.

**Table 4: Environmental Affairs sub-programme 2012/13 budget and expenditure by primary economic classification**<sup>17</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	11 790	670	-	12 460	11 684	776	93,8
Transfers & subsidies	4 144	-	-	4 144	4 142	2	100
<b>Sub-programme 2</b>							
Current payments	37 713	(100)	-	37 613	37 156	457	98,8
<b>Sub-programme 3</b>							
Current payments	12 949	(783)	-	12 166	10 953	1 213	90,0
Transfers & subsidies	-	719	-	719	719	-	100
<b>Sub-programme 4</b>							
Current payments	6 013	(893)	(115)	5 005	4 155	850	83,0
Transfers & subsidies	109 431	653	-	191 084	191 084	-	100
<b>Sub-programme 5</b>							
Current payments	7 686	(266)	(385)	7 035	6 739	296	95,8
<b>TOTAL</b>	<b>270 726</b>	<b>-</b>	<b>(500)</b>	<b>270 226</b>	<b>266 632</b>	<b>3 594</b>	<b>98,7</b>

<sup>15</sup> DEDEAT Annual Report 2011/2012, p. 21.

<sup>16</sup> *Ibid*, p. 87.

<sup>17</sup> DEDEAT Annual Report 2012/2013, p. 113.

## **Transfer payments**

In its 2012 Expenditure Tracking Report PSAM drew attention to anomalies associated with Programme 3 transfer payments, in particular for the *Enviro Awards* competition. The virement of funds from Programme 2, apparently for the purpose of covering a shortfall in Programme 3 funding for the awards, as already alluded to, was dealt with in an imprecise manner in the 2011/12 Annual Report, and there was a discrepancy between the accounts in the report of the accounting officer and an annexure to the annual financial statements in relation to the transfer of funds to schools in association with the competition.<sup>18</sup>

The 2012/13 Annual Report contains a similar discrepancy. *Unaudited Annexure 1 K* to the *Annual Financial Statements*,<sup>19</sup> which is described as a *Statement of Gifts, Donations and Sponsorships made and Remissions, Refunds and Payments made as an Act of Grace* details the allocation of a total of R998 000 to thirty-five schools. But the report of the accounting officer excludes the transfer of R6 500 to Unathi Mfeka Junior Secondary School, and in so doing presents a correspondingly incorrect total cost (of R998 000) for all the school transfers it lists.

Over and above this, *Unaudited Annexure 1 E* effectively deems the schools to be *private enterprises*, by virtue of its inclusion under this category of a transfer of R1 million for *Enviro Awards*.<sup>20</sup> Apart from this categorization appearing at face value to be incorrect, it is at odds with the report of the accounting officer, in which the schools are excluded from a list of beneficiaries of transfers to private enterprises,<sup>21</sup> and listed rather under transfers to *other entities*.<sup>22</sup> This aside, the amount transferred totaled R998 000 as mentioned above, and not the budgeted amount of R1 million as indicated in Annexure 1 E, the summary of financial information in the Annual Report stating clearly that the reason for the under-expenditure was *no new trophies purchased*.<sup>23</sup> Finally, it should be noted that the total amount for all Departmental transfers and subsidies as reflected in *notes to the annual financial statements*<sup>24</sup> appears to be incorrect, it having been calculated on the basis of the inclusion of the *Enviro Awards* expenditure under both Annexures 1 E and 1 K.

In keeping with the uncohesive reporting on the *Enviro Awards* expenditure, there are inconsistencies surrounding the Chief Directorate's 2012/13 transfer payments in

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<sup>18</sup> DEDEAT *Expenditure Tracking Report 2011/12*, Public Service accountability Monitor, pp. 6-8.

<sup>19</sup> DEDEAT *Annual Report 2012/2013*, pp. 153-154.

<sup>20</sup> *Ibid.*, p. 150.

<sup>21</sup> *Ibid.*, p. 92.

<sup>22</sup> *Ibid.*, p. 93.

<sup>23</sup> *Ibid.*, p. 48.

<sup>24</sup> *Ibid.*, p. 133.

general. A payment of R144 000 to the Institute for Waste Management is correctly reflected as a transfer to a non-profit organisation in the summary of financial information,<sup>25</sup> which accords with its inclusion in *Unaudited Annexure 1 G* (termed a *Statement of Transfers to Non-Profit institutions*).<sup>26</sup> But again no basis is provided for the transfer – under *purpose for funds used*, the summary simply indicates *R144 (sic) for the Institute of Waste Management*.

On the other hand the same transfer category (i.e. non-profit organization) in the financial information summary also itemizes *R1 million used for EPWP* (Expanded Public Works Programme) *project Lambasi Wetland Rehabilitation*.<sup>27</sup> But this transfer does not appear in *Unaudited Annexure 1 G*, and the appropriation statement includes the transfer within the *provinces and municipalities* economic sub-class.<sup>28</sup> And in the financial information summary the combined *amount transferred* to non-profit organisations reflects the sum of R1,144 million, but the *amount spent* is indicated to be only R144 000. Simultaneously though, under *reasons for funds underspent* there is an entry of *N/A*, which suggests that a typographical error is responsible for the omission of R1 million, a conclusion which tends to be affirmed by the fact that no mention is made of this amount in the account for under-expenditure contained within the Chief Directorate's performance report.

Annexure 1 E also categorizes the Wildlife and Environmental Society of South Africa (WESSA) and *Maloti-Drankensberg (sic)*<sup>29</sup> as private enterprises. But again this is inconsistent with the report of the accounting officer, which not only omits these entities from its list of transfers to private enterprises, but in fact fails to mention them at all. By deduction from the appropriation statement and notes to it, WESSA received R719 000 from Sub-Programme 3.3's budget, while the latter organization, which is presumed to be the Maloti Drakensberg Transfrontier Project (MDTP), obtained R515 000 from Sub-Programme 3.4. The appropriation statement is consistent with Annexure 1 E in categorizing the entities as private enterprises, but a business dictionary characterizes the latter as *business units established, owned and operated by private individuals for profit, instead of by or for any government or its agencies*.<sup>30</sup> In this respect WESSA describes itself as a *Section 21 company registered as an Incorporated Association not for gain*,<sup>31</sup> while the MDTP is a *collaborative initiative between the Kingdom of Lesotho and the Republic of South Africa*.<sup>32</sup> Clearly therefore neither of these recipients constitute

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<sup>25</sup> DEDEAT *Annual Report 2012/2013*, p. 48.

<sup>26</sup> *Ibid*, p. 151.

<sup>27</sup> *Ibid*, p. 48.

<sup>28</sup> *Ibid*, p. 112.

<sup>29</sup> *Ibid*, p. 150.

<sup>30</sup> <http://www.businessdictionary.com/definition/private-enterprise.html>

<sup>31</sup> <http://www.wessa.org.za/who-we-are/about-wessa.htm>

<sup>32</sup> <http://www.maloti.org.za/>

private enterprises. But in any event, regardless of their categorization, again no basis or explanation is provided for any of the transfers.

Further deduction indicates that in addition to covering the Enviro Awards and Institute for Waste Management expenditure, Sub-Programme 3.1's budget makes provision for the transfer of R3 million to municipalities. Of this amount, R1 million was split between the Umzimvubu, Inkwanca and Senqu Municipalities, to the extent of R500 000, R300 000 and R200 000 respectively, in association with the Greenest Municipality Competition.<sup>33</sup> While not stated as such, it is presumed that this constituted prize money. As with the Enviro Awards, the transfers are included in Annexure 1 K as *gifts, donations and sponsorships made and remissions, refunds and payments made as an act of grace*. Another R1 million was allocated to the Lambasi Wetland Rehabilitation project, although as already noted, the summary of financial information anomalously lists this transfer as being to a non-profit organization. Lastly, the balance of another R1 million pertains to another EPWP project, termed *Lapesi Eradication* in the summary of financial information.<sup>34</sup>

Both transfers for the EPWP appear to have been to Chris Hani District Municipality, but while one of them is indicated to have been a conditional grant, the other seems to have been unconditional. The report of the accounting officer includes a reference to the former,<sup>35</sup> but neither the disclosure notes nor the unaudited annexures to the financial statements appear to make mention of it. While the summary of financial information purports to "describe" a single conditional grant of R1 000,<sup>36</sup> it is unclear whether this is actually meant to reflect the R1 million EPWP transfer, *inter alia* because no details are provided in a table which is supposed to include information relating to the grant's beneficiary, purpose and expected and actual outputs. But since the annual report does not appear to contain any other mention of a R1 000 conditional grant, it is presumed that this entry was supposed to relate to one of the two EPWP projects.

In contrast, neither the report of the accounting officer nor the summary of financial information make reference to an unconditional grant, meaning that deduction is again necessary in an effort to obtain insight to it. In this regard it is noted that *Annexure 1 B*, entitled *Statement of Unconditional Grants and Transfers to Municipalities* reflects a R1,5 million transfer to Chris Hani Municipality.<sup>37</sup> Since in addition to the conditional EPWP transfer the report of the accounting officer includes reference to an unexplained transfer of R500 000 to the same municipality, it is presumed that the Annexure reflects a combination of the (unconditional) EPWP grant and the unexplained transfer (conceivably from the budget of a Programme other than Environmental Affairs). Either

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<sup>33</sup> DEDEAT *Annual Report 2012/2013*, p. 154.

<sup>34</sup> *Ibid*, p. 48.

<sup>35</sup> *Ibid*, p. 92.

<sup>36</sup> *Ibid*, p. 51.

<sup>37</sup> *Ibid*, p. 149.

way, as with the Enviro Awards, the total 2012/13 Departmental transfer expenditure appears to have been determined erroneously, in that the conditional grant seems to have been omitted from calculations.<sup>38</sup> Ironically however, the double factoring of the Enviro Awards and the omission of the conditional grant appear to have cancelled each other out, since each item is of the same magnitude, viz. R1 million.

Finally, the appropriation statement reflects a R143 000 transfer from Sub-Programme 3.4 within the *households* economic sub-class.<sup>39</sup> This transfer does not receive mention in either the summary of financial information or the report of the accounting officer, but since *Annexure 1 H* includes an amount of R1, 058 million for *leave gratuity*,<sup>40</sup> it is deduced that this was the purpose of the sub-programme transfer.

In concluding these observations it is stressed that the deductions are just that, and that given more consolidated information the Department's account of Programme 3's 2012/13 transfer expenditure could have a more favorable complexion. At the same time it is acknowledged that responsibility for the lack of cohesion in the information may not lie wholly or even partially with the Chief Directorate.

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

Whereas for the 2011/12 financial year the Department's Audit Committee concluded that internal accounting controls were *not adequately designed and ineffective to ensure completeness, accuracy and reliability of financial records for preparing the annual financial statements*,<sup>41</sup> the same Committee members found that for 2012/13 the controls were *partially adequate and partially effective*.<sup>42</sup> Because they point towards a lack of financial administrative rigor, the anomalies which have been described in relation to transfer expenditure reporting could be consistent with the perception that although there may have been improvements in internal controls, they remain less than satisfactory.

As regards the internal audit function, for 2011/12 the Committee was *not satisfied that (it) is operating effectively and that it has addressed the risks pertinent to the Department in its audit*,<sup>43</sup> but for 2012/13 the Committee has effectively pronounced that this is no longer the case.<sup>44</sup>

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<sup>38</sup> DEDEAT *Annual Report 2012/2013*, p. 133.

<sup>39</sup> *Ibid*, pp. 112-113.

<sup>40</sup> *Ibid*, p. 151.

<sup>41</sup> DEDEAT *Annual Report 2011/2012*, p. 47.

<sup>42</sup> DEDEAT *Annual Report 2012/2013*, p. 82.

<sup>43</sup> DEDEAT *Annual Report 2011/2012*, p. 47.

<sup>44</sup> DEDEAT *Annual Report 2012/2013*, p. 83.

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

For 2012/13, as was the case for 2011/12, the Auditor-General expressed the opinion 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>45</sup> Again though numerous findings were 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. Amongst others the non-compliance pertained to the annual financial statements and annual report, procurement and contract management and expenditure management.<sup>46</sup> In the light of these findings the transfer expenditure reporting anomalies outlined in this report become more readily understandable.

Findings were also made in relation to internal control and performance against predetermined objectives. Internal control was considered by the Auditor-General to be relevant to his audit of the financial statements, annual performance report and compliance with laws and regulations. It was found that *senior management members did not exercise their oversight responsibility over financial reporting, compliance and internal controls. This was the result of them not adequately monitoring the functioning of internal controls, in-year reporting and adherence with action plans.* Furthermore, the Department *did not have adequate processes and assignment of responsibilities to ensure compliance with all applicable (financial) laws and regulations. As a result there were instances of non-compliance with the Public Finance Management Act and National Treasury Regulations.*<sup>47</sup>

Unlike for 2012/13 there were no material findings concerning the usefulness and reliability of information presented in the Department's reported performance against predetermined objectives, but attention was drawn to the fact that *of the total number of 113 targets planned for the year, 57 were not achieved.*<sup>48</sup> Reference to the Chief Directorate's reported performance reveals that out of a total of 38 targets, 22 were not met, while 16 were met or exceeded.<sup>49</sup> Hence the Chief Directorate's target achievement rate of 42% was lower than that of the Department as a whole, for which the achievement rate was 50%. The Auditor-General found that the Department's low target achievement rate *was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process.*<sup>50</sup> This resonates with PSAM's findings

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<sup>45</sup> DEDEAT *Annual Report 2012/2013*, p. 100.

<sup>46</sup> *Ibid*, pp. 102-103.

<sup>47</sup> *Ibid*, p. 103.

<sup>48</sup> *Ibid*, p. 101.

<sup>49</sup> *Ibid*, pp. 43-45.

<sup>50</sup> *Ibid*, p. 101.

in its analysis of the Chief Directorate's 2010/11-2014/15 Strategic Plan and 2012/13 Annual Performance Plan.<sup>51</sup>

### **Key findings and conclusions**

1. While the Chief Directorate's 2011/12 expenditure performance was its most exemplary in five years, its 2012/13 performance remains commendable, although it should be noted that when viewed in isolation of the transfer of more than two-thirds of the Programme budget to the ECPTA, its underspend appears less favorable.
2. The Sub-Programme 3.4 underspend for biodiversity management outside of protected areas in 2012/13 is again the most sizeable at Chief Directorate sub-programme level, and is consistent with the prominent underspending by the sub-programme over the past five years.
3. The Department should clarify the facts surrounding the Chief Directorate's underspend on goods and services, which is attributed to the late submission of invoices in respect of the Enviro Awards and the Greenest Municipality competition, despite the fact that significant costs associated with these events do not fall within this expenditure class, and moreover that it is inconceivable that such invoices could amount to or even approach the total underspend which occurred.
4. The Department's expenditure reporting in relation to transfer payments is fraught with anomalies, inconsistencies and errors, which point to a lack of financial administrative rigor. It is trusted that these imperfections are confined to reporting, and do not extend to the disbursement of funds.
5. Whereas the Department's Audit Committee concluded that internal accounting controls were inadequate and ineffective in 2011/12, it found them to be partially adequate and partially effective in 2012/13, while the internal audit function was found to have been operating effectively in 2012/13, which it was not in 2011/12.
6. The 2012/13 report of the Auditor-General made numerous findings of material non-compliance with key legal and regulatory requirements, including in relation to the annual financial statements and annual report, procurement and contract management and expenditure management. In the light of these findings the transfer expenditure reporting anomalies outlined in this report become more readily understandable.

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<sup>51</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.*  
<http://www.psam.org.za/outputs/Strategic%20Plan%20Evaluation%202009%202012-13.pdf>

7. The Auditor-General also drew attention to the low achievement rate of predetermined performance targets, which was attributed mainly to the fact that indicators and targets were not suitably developed during the strategic planning process. This resonates with PSAM's findings in its analysis of the Chief Directorate's 2010/11-2014/15 Strategic Plan and 2012/13 Annual Performance Plan.