

stakeholders. The types of assurances and the various levels of assurances include the following:

Table 3: Levels of Assurances

<u>First Level Assurance</u>	<u>Second Level Assurance</u>	<u>Third Level Assurance</u>
Senior Management Accounting Officers/ Authorities Executive Authorities	Internal Audit units Audit Committees Coordinating/ monitoring WCDoHs	Portfolio Committees SCOPAs

Source: (AGSA, 2015:17).

In my seven years' experience as SCOPA Committee Coordinator at the Western Cape Provincial Parliament (WCPP), I have realised that the members whom comprises SCOPA are all politicians. In most cases the Committee members have no experience whatsoever in financial management, accounting or economics. This poses a huge risk for oversight over the annual financial statements of the Department, due to the fact that the Department can "legally" (in a Committee meeting) talk its way out of difficult situations and the Committee members would be none the wiser.

Such a practise of conscientiously withholding information in annual reports, according to Khan and Hildreth (2004: 28) is called asymmetric information. The premise is based on the fact that one actor has more, or better, information than another actor in the exact same situation. The authors continues to elaborate that asymmetric information is when relevant information is known to some people (private or hidden) when decisions have to be made. Due to this, the third level assurers cannot make effective, efficient and economical decisions, due to the fact that these assurers are being denied vital information.

Coombs and Jenkins (2002: 83) argues that the reason for annual budgeting is that the process/ practise have an important influence on an Organisation, whereby although time consuming, can give financial effect to political decisions on the raising and distribution of resources. This has been the case in South Africa as well, whereby departments have been granted extra funding, or that funding has been shifted from

a non-functional to a lateral functional Department in another province that could spend the allocated money due to a well-documented budgetary plan. For example, through the *Western Cape Additional Adjustments Appropriation Bill* [B2-2015] the Department received funds for the implementation of the National Health Insurance from National Treasury. This was done due to the fact that the Limpopo Provincial Department of Health could not effectively spend the funds to the specific programme (National Health Insurance) within the 2014/15 financial year.

It is imperative that the assurance structures on all three levels, especially the third level, are competent to effectively provide oversight and analysis of the annual financial statements of public institutions.

In addition, the Department has been unable to obtain a clean audit outcome for a number of years- from the 2001/02 to 2014/15 financial years. During some years, the Department received an unqualified audit opinion with findings relating to predetermined objectives. In other years it received an unqualified audit opinion with findings relating to laws and regulations, and in some years with findings which relates to expenditure management. The specific details of these audit outcomes will be discussed in Chapter 5 of this mini-thesis. This mini-thesis will analyse the Department's annual financial statements, including why it has not yet moved towards obtaining a clean audit outcome from the Auditor-General of South Africa.

Financial reporting through the annual financial statements of the Department does not always contain all the desired information that would result in SCOPA formulating resolutions that would assist the Department in forging ahead with obtaining clean audits, as well as strengthening its hand at the functioning of its financial and expenditure management.

The WCDoH has, over the years, found itself obtaining findings on its compliance to laws and regulations. Most importantly, it found itself wanting by the AGSA and SCOPA on the implementation of financial management protocols. The findings from these protocols have most certainly have an impact on its financial reporting mechanism. For example, during the 2013/14 financial year annual report review, the WCDoH obtained an AGSA finding which related to material misstatements in the annual financial statements that were submitted to the AGSA (WCDoH, 2014:2). It obtained a finding in the area of expenditure management as well (WCDoH, 2014:2).

During the 2009/10 financial year, a material misstatement which totalled R106.7 million had to be corrected on instruction of the AGSA, before the Annual Report of the WCDoH could be submitted to WCPP for SCOPA to consider (WCDoH, 2010:14).

SCOPA has, thus far, not been able to pass resolutions which successfully speak to the financial management or financial reporting mechanism of the Department. For example, during the 2009/10 financial year, the Department incurred irregular expenditure which totalled R89, 4 million. The resolution that was passed by SCOPA to the WCDoH did not indicate a serious undertone, or even a stern instruction that would oversee the Department implementing a mechanism that would ensure eradication if the identified problem/s.

The reality in this study is that the WCDoH is the biggest Department in the WCG. It also receives the biggest allocation of the fiscal pie. However, measures have to be put in place that would see a radical decline and eventual eradication of irregular expenditure and findings on financial reporting and expenditure management.

1.4 Aims, Objectives and Significance of the study

This mini-thesis has importance in the public sphere, in the context of tighter annual budgetary constraint forces governmental departments to take account of how well they manage their finances. As the- then Provincial Minister of Health of the Western Cape, Theuns Botha, stated during his Department's 2014 budget speech: "*on one hand the quality of health services must become increasingly efficient to achieve greater value from every health rand*" (<http://www.health-e.org.za/wp-content/uploads/2014/07/Western-Cape-Health-Budget-Speech-2014-15.pdf>: accessed on 25 May 2015). The WCDoH had to come to a point of evaluating the value achieved for every rand spent.

In the same manner, the National Department of Health also tightened its belt for the 2015/16 financial year. Minister Nene, the national Minister of Finance, during his 2015 budgetary speech in Parliament stated that "*Our fiscal rebalancing has included cost containment measures and intensified efforts to improve efficiency in expenditure*" (<http://www.parliament.gov.za/content/speech~11.pdf>: accessed on 25 May 2015).

The primary and general objective of this study is to analyse the annual financial statements of the WCDoH from the 2000/1 to 2014/15 financial years, in order to determine whether it has improved, deteriorated or stagnated over the financial years which have been identified.

It will also be helpful to understand the Departmental peaks and lows, which will emanate from the data analysis of the annual financial statements, which will be conducted. In addition, the outcomes and recommendations made in Chapter 6 of this research report may assist departmental policy makers, or stakeholders, in drafting policies that will enable the WCDoH and other public institutions in obtain a clean audit opinion from the AGSA.

To achieve the aforementioned primary objective, this study is divided into more specific secondary objectives. The sub-objectives include:

1. Review literature financial management and reporting and outline a theoretical framework for analysing the annual financial statements;
2. Document the KPI trends from the AFS of the WCDoH for the period 2001-2014 as a retrospective long-term case study;
3. To analyse the KPI trends in terms of the sector minimum ratios, means and discuss peak and low performance;
4. To draw conclusions and make recommendations that will assist Department future analysers, oversight bodies and decision makers of the annual financial statements of public institutions.

1.5 Research methodology and limitations

The following methodology will be employed in order to ensure that the objectives are adhered to and achieved.

1.5.1 Type of research

This paper will comprise of a longitudinal quantitative research. According to Gerring (2007: 154), longitudinal research is whereby the researcher will hope for a reform to

occur over a specific period of time. Bless and Higson-Smith (2000: 66) explains that longitudinal research spreads data collection over a period of time. For the data to be reliable, the researcher must obtain data that has occurred over several years and at the same time, each year. The data to be obtained for this mini-thesis will originate from the time when the WCDoH had discussions with SCOPA with regards to the contents of its annual reports. These discussions take place religiously between October to November of each year. The sourced documents, which acts as supporting tools, include the WCDoH's annual reports, SCOPA resolutions documents and the AGSA's audit opinion reports.

This paper will employ the descriptive study method based on the fact that the data of the annual financial statements of the AGSA will be used to form a picture, or highlight a trend over 14 years.

No interviews will be conducted and no surveys will be distributed during the research period.

1.5.2 Research Design and Techniques

The aim of the research design is to develop a data set over a 14 year period for the Department with regards to the statement of financial performance, statement of financial position and cash flow statement.

Two primary research techniques will be used in this research. These will be 1) a scrutiny of relevant literatures and 2) document analysis.

For the literature review, documents to be consulted will include the topics of the research conducted by other scholars who have probed the financial affairs and annual financial reports of the departments of Health in South Africa. The research project will, in addition, review the relevant legislation such as the Constitution, 1996; Public Finance Management Act, 1999 and the Public Audit Act, 2004; including other official documents of government, which includes relevant budget documentation.

The second research technique which will be used in order to collect data will be the scrutiny of the annual reports of the WCDoH, annual appropriation bills and all annual adjustments appropriation bills.

The sample to be employed in the analysis of the annual financial statements of the Department spans from 2000 to 2014.

In addition, the following analytical tools will be used in order to scrutinise the annual financial statements of the WCDoH. According to Swanevelder (2005:24-27), these include:

1.5.2.1 Statement of Financial Performance:

1.5.2.1.1 Percentage net surplus for all services to revenue ratio;

1.5.2.1.3 Expenditure of net surplus/ deficit for all services to revenue ratio; and

1.5.2.1.4 Expenditure of capital assets to total revenue ratio.

1.5.2.2 Statement of Financial Position:

1.5.2.2.1 Current Ratio;

1.5.2.2.2 Acid Test or quick ratio;

1.5.2.2.3 Working Capital ratio; and

1.5.2.2.4 Debt to Assets ratio.

1.5.2.3 Cash Flow Statement:

1.5.2.3.1 Free cash flow ratio;

1.5.2.3.2 Debt to Cash ratio;

1.5.2.3.3 Cash to revenue ratio; and

1.5.2.3.4 Cash to fixed assets ratio.

The annual resolutions documents of SCOPA of WCPP will also be scrutinised to ascertain how their resolutions and recommendations have impacted on the performance of the WCDoH over the 14 years.

1.5.3 Limitation of the research methodology

There are a number of limitations to the research methodology being used in this research. Some of the limitations to this research include:

1. The annual financial statements' historic performance, whether negative or positive cannot be a determinant to future financial performance;
2. The annual financial statements does not indicate whether a change in Departmental leadership of the WCDoH has taken place- which might affect the outcome of the financial performance in any given financial year;
3. To sketch an overall scenario, the analysis of data is only limited to the financial periods from 2001 to 2014.
4. The specifically applied accounting principles will have to be applied in the period these have occurred, e.g. Generally Accepted Accounting Principles (GAAP) has been relevant from 2000-2004, while Generally Recognised Accounting Principles (GRAP) has been implemented from 2005-2014.

Regarding the limitation which relates to time-series analysis, the data represented will only apply to the WCDoH. The data cannot be used in cases which affect other public institutions or even institutions within the private sector. The goal of the analysis is to identify trends and patterns over a series of financial years, the result will only be applicable to the WCDoH.

In addition, the recommendations that will be made will also only be applicable to the WCDoH. This is due to the fact that the data which is utilised will be derived from the annual reports of the WCDoH, including the data derived therefrom.

1.6 Structure of the research report

Chapter 1 – Introduction and background

This chapter will serve as an introduction and background of the study, highlighting the development of this thesis and its motivation. Moreover, what will be covered are

the significance of study, preliminary review, research design and methodology as well as clarification of concepts.

Chapter 2 – Literature review

The literature review highlights public expenditure and the analysis thereof, especially applicable to the WCDoH, and provides an overview of relevant theories applicable thereto.

Chapter 3- Legislative Framework

This chapter will concentrate on the applicable legislation that relates to the prescripts which guides the expenditure and informs the financial management framework of the WCDoH.

Chapter 4 - Research design and methodology

This chapter provides an outline of the research design and methodology. It includes the research approach, sampling, data collection and research instruments. It also provides a statement of ethical consideration.

Chapter 5 – Analysis of results

This chapter provides analysis of research findings and interpretation of data.

Chapter 6 – Recommendation and conclusion

The summary of the research findings and recommendations is given, as well as solutions to research questions.



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1.7 Ethical Statement

The ethical norms associated with any research activity apply in the strictest fashion to the researcher. Rule and Vaughn (2011:111-113) states that the quality of any given research is dependent on the ethical relationship and practices of the researcher. Taking into account the fragile political state that South Africa finds itself, the researcher is cognisant of the possible public outcry which any erroneous or misstatements of outcomes of facts can have for the Department- this, even though, the data being analysed is found within the public domain. This research is executed in an objective manner, with the aim to only document the facts through qualitative analysis. This research is not intended to be malifence towards the WCDoH, or any other organisation or person. The aim of this research is to contribute towards the beneficence of society and diaspora within which this research is conducted (Rule and Vaughn, 2011:111-112).



Chapter 2: Literature Review

2.1 Introduction

The public sector in South Africa has a legislated obligation to report on its financial manner in an honest and transparent manner. Accompanying this phenomenon, one finds that the fundamental expectation which lies inherent in our society, namely accountability, is what is utmostly required.

This research project will focus on the reporting structure of the WCDoH, and in light thereof, it is important that literature be probed which highlights the following concepts:

- Principal- Agent relationship;
- Governance;
- Accountability;
- Financial management;
- Financial Reporting;
- Annual financial statements;
- Auditing;
- Accounting; and
- Financial ratios.



Through the concept of financial management, this chapter aims at defining this phenomenon. The practise of financial management is of importance in the public sector due to the various factors which are involved in this process. This practise has been legislated within South Africa in order to ensure the prevalence of standardisation and compliancy. Financial management is the most important concept within the public sphere. Without it, services cannot be rendered and policies cannot be implemented. This practise is important as a repeated action in order for a Department to be successful in its constitutional mandate, including its aims.

One of the branches of financial management is financial reporting. This mini-thesis will discuss the concept of financial reporting in- depth. The concept of financial reporting is the art of reporting a Department's financial data for a specific period to various stakeholders. The information presented by a Department should be in a

manner whereby the information makes sense to those who read it without any accounting or financial management experience. In addition, the information provided should be reliable and of a good quality standard. The documents that are presented in the reporting phase of a Department, in its annual reports, should include the following:

- The Statement of Financial Position;
- The Statement of Financial Performance; and
- The Cash Flow Statement.

These documents are important as these have specific purposes in reporting on the financial affairs of a Department over a specific timeframe, which in this case, spans over a financial year.

This chapter will also concentrate on the format of the financial reporting. Through this concept, this paper will focus on the applicable accounting prescripts. In this case, and as the matter of emphasis, over the duration of the 14 year historical overview. The Modified Cash Basis of Accounting is the chosen mode of accounting by the WCG. The main area of focus through this mode is how financial transactions are recorded in the books of the Department. This mode of accounting branches into two main divisions, which includes the 1) Logistical Information System (LOGIS), and 2) Basic Accounting System (BAS). While LOGIS concentrates on the procurement and control of all assets, BAS is utilised to control the budget of the Department on an on-going basis.

In conclusion, this chapter will also focus on the topics of 1) Auditing, 2) Accounting, and 3) Ratio Analysis. It is important to discuss these subject matters to understand how these impacts on the annual financial statements which are reported to the Legislature as the Principal by the WCDoH, who is the Agent. For example, the statements needs to be audited by the AGSA in order ensure reliability of information. Accounting is an important concept, because without it, the Government cannot implement the Modified Cash Basis of Accounting system. Ratio analysis is also an important concept to discuss as the applicable ratios will be applied to test the annual audited annual financial statements- in order to ascertain their statistical outcomes over a 14 year period.

2.2 The Principal- Agency Theory

The Principal- Agent theory is the primary preferred theory for this research due to the fact that it speaks to the relationship between two parties. In this specific instance the theory highlights the contract or agreement between the Legislature (WCPP), which represents the citizens, and the government, through the WCDoH.

Mulugeta (2014:28) provides a scenario of the Principal-Agent theory, including how it impacts on the concept of asymmetry of information. He states that auditing (which is still to follow in this chapter) aims to 1) reduce the asymmetry of information, and 2) reinforce trust between the Principal and Agent. Although I agree with the latter fact, I do not necessarily agree with the former statement of Mulugeta. SCOPA, during its meeting on 13 September 2017, questioned the oversight integrity of its predecessors, the 3rd and 4th Parliamentary SCOPAs of WCPP. This was due to the fact that the AGSA tabled a report in WCPP in 2014 which is entitled the *Report of the Auditor-General of South Africa on a performance audit of the use of consultants at selected Departments of the Western Cape Provincial Government* (AGSA, 2014). The report is a piece of a national audit project which took place between 2005 and 2009. The auditees included all departments of Healths' and Transport and Public Works. Despite the Report being used as a provincial political tool by the Democratic Alliance to blame the former-run African National Congress administration, under which the departments operated; one important question was raised on 13 September 2017 by SCOPA. The question that was raised questioned the activities of its SCOPA predecessors. More specifically, the question was posed to ascertain exactly over what the previous SCOPAs conducted oversight (contracts, etc) as the matters that were raised by the AGSA were never raised with the 3rd or 4th Parliamentary SCOPAs when these engaged the WCDoH (SCOPA, 2017). This reality speaks to the comment of Mulugeta which indicates that auditing should reduce the asymmetry of information. Auditing does not reduce the asymmetry of information by departments to SCOPA (<http://www.sabc.co.za/news/a/58399100429a26a4a5b9ffd9ab096a84/Fransman-appears-before-Scopa-20171309>: accessed on 14 September 2017).

The study of economics is believed to have been the birthing ground to the concept of the Principal- Agent theory (Khan and Hilderth, 2004: 103). The theory is believed to

address the problem of how the Agent can be used to act in the best interest of the Principal. The Principal- Agent theory has been used, in the field of public administration, to study the relationship between the following actors:

- The Auditors and Clients;
- Government and service providers;
- Actors in the budgetary process;
- City officials and city managers; and
- Elected Officials (Legislatures) and public managers (Government).

The relationship between the elected officials and public managers is what is being highlighted in this mini-thesis. It looks at the contract of expectancy that is determined at the start of each financial year. In this instance, the Legislature is responsible for oversight over the Department in order to establish that its performance is aligned to the approved strategic plans and budget (Madue, 2014: 860). Alexander and Britton (2004: 9) refers to this relationship as the user group, whereby the Agent should be aware whom the audience to whom it reports its financial position for a particular financial year. This is called the public user group.

The Principal- Agent theory is believed to be a managerial, or authoritative, accountability mechanism (Bandy, 2011:193). This mechanism allows the Principal, which is in this case the Legislature, the authoritative control over the action or behaviour of the Agent, which is the WCDoH. The Agent is expected to provide an account to the Principal on the activities to which were agreed.

The Principal can also direct a new directive to the Agent in order to assist it in meeting its annual “contractual agreement” with the Principal. The Principal also has the authority to place more pressure on the Agent with the aim of having greater control over the outcomes which are produced (Bandy, 2011: 193). Madue (2010: 862) states that Basheka and Mubangizi (2012: 61) argues that the Agent cannot always be trusted to make decisions that are in the best interest of the Principal. Therefore, the Principal needs to engage the Agent on a continuous basis over time. For example, it was observed during 2014 that the WCDoH had to obtain authorisation from SCOPA in order to use funds that were appropriated to it from the Western Cape Additional Adjustments Appropriation Bill. The Principal (SCOPA) authorised the use of the funds by the Department, but on condition that it accounts on a quarterly basis the use of

the funds for the specific programme to which the funds were appropriated (SCOPA, 2014).

The introduction of the new public management theory has also seen an impact on the dynamics of the relationship between the Principal and the Agent (Tippett, 2010: 46). The impact resulted in the accountability that is used in the private sector, is used in the public sector as well. This resulted in an outcome whereby a more “managerial-style” accountability is being exerted. The aim, through this, is to ensure that the Agent remains compliant to the relevant legislative pieces. The Constitution of South Africa, 1996, including the Public Finance Management Act, 1999 has played a major part in establishing the legal grounds on which the Agents should play. The AGSA has been established to be the referee on the field to ensure that the Department remains compliant while in play.

However, challenges have been identified by Madue (2014). The challenges that were identified included 1) the mightiness of the Executive and the weakness of the Legislature, and 2) parliamentary mandate vs party loyalty of the politicians. (Madue, 2014: 865). The researcher, as an employee and being privy of the activities of Parliament and Committees, has observed that party loyalty and the parliamentary mandate cannot co-exist (<http://www.iol.co.za/news/politics/cticc-sparks-row-in-provincial-meeting-1663021>: accessed on 3 may 2016). The Politician of a certain political party has to painfully choose between the two. In most cases the Politician will choose the political party line in order to be secured of a long-term stay in the Legislature. This activity poses a problem to the concept of oversight and, bigger yet, the Principal-Agent theory. Due to the choices made by the politicians, the Principal-Agent theory is negatively impacted (SCOPA, 2014). Concerning the mightiness of the Executive, I have witnessed, in my professional capacity, how a Minister directly attempts to impact the outcome of a highly controversial SCOPA meeting by directly contacting the Chairperson and forwarding a short message (sms) with direct instructions on how the meeting is to be directed. These activities tend to have a negative impact on the effective and efficient functioning of the Principal-Agent theory in the legislative/ public sector (<http://www.iol.co.za/news/politics/cticc-sparks-row-in-provincial-meeting-1663021>: accessed on 3 may 2016).

To further elaborate on the aforementioned example, the Eastern Cape Provincial Administration looked rather grim whereby all its departments received qualified and adverse audit opinions during the 2006/ 2007 financial year. This, despite SCOPA having actively engaged the departments on their financial reporting and expenditure of public funds. For example, the Eastern Cape Education Department could not account for R15 million that should have been used on its public feeding scheme. This was the reality of the impact of the non-effective utilisation of the Principal- Agent agreement and relationship. (Mile and Qwase, 2010: 408).

2.3 Governance

Governance is an important aspect to the effective and efficient management, but most importantly, control of the financial activities of a Department. Daviaud, Engelbrecht, Molefakgotla, Crisp, Collins and Barron (2000) states that a health Department functions well when there is good governance in place, as well as the proper allocation (financial) and the correct usage of resources that will cater to the needs of the citizens. It is important that, for a governmental Department to meet its objectives and to remain free of materiality, as well as meeting its annual target plans, it should have a fully functional governance system in place.

Agere (2000) provides a framework through which good governance can be achieved within a Department, as follows:

- Establishing a predictable framework of law, departmental behaviour and the rule of law;
- Prioritise activities that are consistent with the targets of the Department; thereby eliminating the misallocation of resources;
- Introducing a code of conduct that will manage the affairs of the Department in a transparent manner; and
- Define and oversight over the policies and targets of the Department.

From a departmental viewpoint, the Internal Audit and Audit Committees are responsible for the implementation and sustenance of good governance principles and practices. The Audit Committee of the WCDoH ensures that the Department complies with the best practice governance principles, accounting and audit standards and monitors that appropriate risk management arrangements are in place. In addition, the Audit Committee monitors the adequacy and reliability of the financial information provided to all users of such information (Audit Committee, 2017:2).

The basis, or characteristics, on which good governance is achieved within a Department can be viewed as the following:

- Improving communication and increasing contact, understanding and creating confidence between management, internal and external auditors;
- Increasing accountability by reviewing the performance of internal and external auditors;
- Strengthening the objectivity and credibility of financial reporting;
- Supporting Internal Audit, which is an important assurance provider to the Audit Committee; and
- Reducing the opportunity for fraud by continually recommending discipline and control improvement (Audit Committee, 2017:2).

It can be viewed that the Audit Committee within a Department can be instrumental when it “correctly” conducts oversight over the activities of the Department. What is meant with this is that, while working hand-in-hand with the Internal Audit component, as well as the AGSA; the Audit Committee serves as the 2nd level of assurance while it attends to the internal control risks of a Department. The emerging risks of a Department, for a particular financial year, are duly monitored and investigated to ensure that the necessary mechanisms are in place that would ensure good governance within the Department. Good governance is dependent on the work of the Internal Audit component and Audit Committee functions within the Department. Without these, there would be weak controls in place, if any, to address the constant annual emerging risks which arise to challenge the internal controls of the Department (Audit Committee, 2016: 5).

2.4 Accountability

Accountability is an obligation to answer for a decision or action when one party transfers authority to another party to act in the interest of the former (Bandy, 2011: 191). This example highlights the aforementioned Principal-Agent theory, where one can perceive that the Principal hands over power, or a significant level of authority, to the Agent to act on behalf of the Principal. To strengthen this argument, accountability can be stated as governments that have control over the formulation and implementation of policies. This is due to the fact that the citizenry basically forfeits its power through its vote to its government of choice. Legislatures therefore acts on behalf of the citizenry to oversee the machinery of government, as such behaviour cannot be handled appropriately through the private goods market (Barton, 2006: 259).

According to Bandy (2011:191), two types of accountability can be found. These include the following:

- Political Accountability- this occurs when the government is accountable to the Legislature for the authority that was granted to them; and
- Managerial accountability- when managers have to account for the responsibilities that were given to them.

In the public sector, one finds that there are some accountability mechanisms that can be used by the Legislatures to conduct oversight over government. Some of these include the following:

- Annual reports and statements of accounts;
- External and Internal audit reports;
- Public inquiries and reports which are in the interest of the public; and
- The right to inspect the prime accounting records. (Bandy, 2011: 191).

The aforementioned highlights the importance of what the Legislature should do, and could do, if they had the expertise to do these. Unfortunately, they only ensure that they comply with the various legislative pieces. I have found that within WCPP and

SCOPA, oversight conducted over the annual reports, including the annual financial statements of the WCDoH does take place. However I have observed, over the 7 years of being SCOPA Committee Coordinator, that the Committee hardly conduct oversight using the other tools which are aforementioned (Bandy 2011: 191).

When it comes to how accountability focuses on the budget process, one finds that the budget is prepared for accountability which includes the preparation, submission and approval, implementation and review and reporting to the Legislature (Swain and Reed, 2010: 3). The financial aspects of accountability are important in the oversight process. Here, one finds that the Legislature provides the authority of approval whereby a government Department should prepare, submit, implement, review and report on its strategic plans, but more importantly, its financial information.

Moreover, accountability can be seen as the people that still exercise control over the budget of a Department, through Parliament (Cloete, 1978: 116). As with the challenge of asymmetric information, Cloete argues that the supremacy of Parliament is taken for granted. This is due to fact that, as previously stated, the departments have internal and specialised knowledge that the oversight Committee, such as SCOPA, does not have- nor will it ever have in the near future. Here, once again, the point is made that an Auditor can still certify the annual financial statements of a Department as legal and in compliance with the relevant legislative prescripts while the finances of the same Department remains in a deplorable state (Cloete, 1978: 116). This is exactly what this mini- thesis is focused on. While the AGSA has expressed an audit opinion on the annual financial statements of the WCDoH, can it be that there is more in the financials that meets the eye?

According to the oversight and accountability model for South African Legislatures, the National Parliament of South Africa states that one finds various functions of accountability which includes the following (<https://webmail.parliament.gov.za/storage/app/media/oversight-reports/ovac-model.pdf>: accessed on 12 May 2016):

- *“To enhance the integrity of public governance in order to safeguard government against corruption, nepotism, abuse of power and other forms of inappropriate behaviour.*
- *An institutional arrangement, to effect democratic control.*

- *To improve performance, this will foster institutional learning and service delivery.*
- *In regard to transparency, responsiveness and answerability, to assure public confidence in government and bridge the gap between the governed and the government and ensure public confidence in government.*
- *To enable the public to judge the performance of the government by the government giving account in public”.*

2.5 Financial Management

Financial management comprises the art of managing the financial component of an organisation with the aim of remaining compliant and error free to the general expectations of stakeholders. According to Snyders (2007:19) the World Bank argues that seven components must be present in order to strengthen the public administration’s financial management system, which includes the following:

- Budget Formulation;
- Implementation;
- Accounting;
- Cash management;
- Aid and Debt management;
- Revenue Management; and
- Public Procurement.

The National Treasury of South Africa defined the aim of financial management of the public sector as: "to manage limited financial resources with the purpose to ensure economy and efficiency in the delivery of outputs required to achieve desired outcomes (effectiveness) that will serve the needs of the community (appropriateness)" (National Treasury, 2003: 4).

Although this mini- thesis will concentrate more closely on the revenue management aspect, it is deemed important to highlight its position within the sphere of public financial management. Mafunisa (2014:110) argues that one does not find a universal

definition that encapsulates public financial management. He does, however, highlight the fact that the Chartered Institute of Public Finance and Accountancy define public financial management as the system whereby the financial resources of an Institution is planned, directed and controlled in order to ensure the efficient and effective delivery of services by government (Mafunisa, 20014: 110).

The National Treasury (2003: 2) alludes to the fact that financial management is not an end in itself. However, the practise of financial management is crucial to the “successful” functioning of an organisation, including how the resources of that organisation will be used in order to ensure a positive outcome. Thus, financial management is of importance not only by ensuring a favourable outcome, but creating a stable annual financial repeating process within a Department. This creates a platform of stability from where the Department can focus on other avenues whereby it can enhance its performance. The Chief Financial Officer is operationally responsible for the day- to- day running of the financial management system of the Department. National Treasury affirms the authority of the Chief Financial Officer as "all decisions and activities of management that impact on the control and utilisation of limited financial resources entrusted to achieve specified and agreed strategic outputs" (National Treasury, 2003: 4.) The Head of Department, or Accounting Officer, ensures takes overall responsibility for the financial management system of the Department. Whenever the annual financial statements of the Department are reported to the various stakeholders, the Accounting Officer will take ultimate responsibility of the financial management system of the Department.

The importance of planning and budgeting in the financial management process is critical, especially with the scarcity of public funding and the distribution thereof. National Treasury is strict when it comes to the planning and budgeting of public funds within the public sector.

The role of the Chief Financial Officer of a Department is varied in nature. In order to align the role to this mini- thesis, only two core functions will be highlighted. These include:

1. Accounting and reporting key performance indicator; and
2. Revenue and expenditure key performance indicator.

The first indicator relates to the function of designing and implementing accounting system to reflect valid, accurate and timeous financial and non-financial information. The latter key performance indicator highlights the responsibilities that ensure that irregular fruitless and wasteful expenditure, as well as compliance to relevant legislative pieces takes place (National Treasury, 2003:5-6).

The former Chairperson of SCOPA at National Parliament, Mr Rob Tooley, indicated that: “Irregular expenditure is occurring with impunity, and no steps are being taken to implement consequences. There is a big hole in supply chain management too — do we know if we are getting value for our spend? We still have a challenge with assets. And the Department of Education is in chaos” (<http://mg.co.za/article/2015-02-20-00-scopa-Departments-not-compliant-not-enforcing-consequences>: accessed on 14 May 2016).

Although National Treasury issues departments with financial directives, it monitors the implementation of these directives to national and provincial departments and municipalities. Through this process, one finds that the actualisation of the circulars, policies and legislative pieces are being applied at a very slow pace. It seems as if the practise of financial management within the public sector is sluggishly administered. One also finds that departments are hesitant to implement a consequential management mechanism that would ensure that officials, who do not properly implement the financial management system of a Department, account for their actions. For example, the AGSA indicated that the leadership of departments and municipalities should ensure that, in order for good governance and effective, efficient and economical financial management processes to take place, the following should be implemented:

- Effective leadership- Political and administrative heads must ensure that there is a culture of honesty, ethical business practices and good governance mechanisms which enhances the interest of the municipality; and
- Consequent management mechanism- Leadership should ensure that such a mechanism is implemented in order to ensure that accountability is enforced. (AGSA, 2016:130).

As alluded to by the SCOPA Chairperson of Limpopo, including Snyders (2007: 20), one finds that the business model of financial management should ultimately ensure

that maximum value is derived from every cent spent by a Department. This information should be readily available, including that of the impact of the service rendered and the financial management process employed to ensure such a delivery.

2.6 Accounting

Accounting is the ability of a Department to process financial data into a meaningful financial report, including the ability to analyse and interpret such a report that would empower senior managers of a Department to make informed decisions (Velleman et al, 2007:3).

According to Elliott and Elliott (2007:3) accounting comprises the art of communicating financial information regarding a particular Department to internal and external stakeholders. These stakeholder can includes Departmental managers (from an internal stakeholder point of view), or the general public citizenry (from an external stakeholder point of view). The information is usually in the form of annual financial statements which provides an overview of the economical state of finances under the Department's leadership.

Accounting can incorporate the reporting of financial data in two manners. The first is on a quarterly basis, and the second is on an annual basis, according to Elliott et al (2007:10). In the case of the WCDoH, the financial reporting is done most importantly on an annual basis through the annual reporting period. In this case it is done annually during October and November. However, the quarterly financial reporting is also done on a quarterly basis. This is where Provincial Treasury, in the case of the WCPP, reports to the Budget Committee on the quarterly financial status of the Department. However, the information is presented on high-level basis. Therefore, no real and in-depth engagement takes place at this forum.

Accounting is useful, especially in the public sector, as it can assist the stakeholder with the abilities to 1) predict the future performance of a Department, and 2) to evaluate how the senior managers controls a Department and make financial decisions. Overall, the information provided by the discipline of accounting provides a space whereby stakeholders (e.g. policy analysts, SCOPA, etc) can historically

evaluate, presently monitor and futuristically predict the financial status of the Department. It should be noted that the success of policies, such as Operation Phakisa and the Western Cape Strategic Goals 2014-2019 (on a transversal provincial level), as well as programmes, Programme 8: Health Facilities Management, that are reported in the Annual Performance Plans of the WCDoH are reliant in the effective, efficient and economical usage of the financial resources of the Department. Thus, the study of the financial status of the Department is of utmost importance in this regard (Elliott et al, 2007:3).

Velleman et al (2007: 23-24) provides and highlights the cycle that the accounting process should follow in order to provide a reliable and quality output. The process is as follows:

1. The commencing point of the accounting cycle for the first day of the accounting period is the opening of the Department's Statement of Financial Performance (Balance Sheet);
2. All transactions that take place during the financial period are recorded in the books of the first entry;
3. Entries are posted from the books of first entry into the ledger accounts;
4. A trial balance is extracted at the end of the accounting period- the total debit balances must be equal to the total credit balances;
5. Adjustments are made by means of entries in the general journal, posted to the general journal and the trial balance is adjusted accordingly;
6. A Statement of Financial Position (Income Statement) is prepared at the end of the accounting cycle from the assets and liabilities listed in the trial balance; and
7. A Statement of Financial Performance (Balance Sheet) is prepared as at the end of the accounting cycle from the assets and liabilities that are listed in the trial balance.

Alexander and Britton (2004: 17-19) explains that there are traditional accounting conventions that must be adhered to in order for the accounting discipline to be effective and efficient. These conventions include the following:

2.6.1 Business Entity

The Department has an identity and existence that is separate from its owners and managers. Basically, the Department can be sued without the legal liability falling upon the managers in a personal capacity. The rights, possession, privileges and risks of the Department stands separate from the personal rights, possession, privileges and risks of the management in their personal capacities.

2.6.2 Duality

This is the formalisation of the double-entry practise, whereby any one transactional event has two recordings in the books of the Department, which includes 1) the source of the wealth and 2) the application of the wealth.

2.6.3 Monetary Measurement

Information is only recorded in the financial books of the Department where these are reflected in monetary terms. Facts and outcomes that cannot be expressed, although it may be regarded as an asset to the Department, are ignored due to the complexity in the reporting process.

2.6.4 Cost

Resources that were purchased by the Department are recorded in the financial books of the Department at their original purchasing price.

2.6.5 Accounting Period

The length of the accounting period needs to be properly and clearly define. The usual length of an accounting period is 1 year. This period is usually legislated for official purposes.

2.6.6 Continuity (Going Concern)

The Department will continue to exist for an indefinite period of time. In order to confirm this, the Department will, for example, devalue assets as a confirmation that there is a basis to its indefinite existence. The assumption of this convention is that the Department will operate for 10 years or longer and that it will manage itself in order not to collapse in the future. The Western Cape Department of the Premier (DotP), defines the preparation of annual financial statements as a going concern due to the fact that: “this basis presumes that revenue will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business” (DotP, 2017:185).

2.6.7 Conservatism (Prudence)

Through this accounting practise, the Department will concentrate on recognising all possible losses and not anticipate possible gains. This will lead to an understatement of profits, or in the case of a government Department, a financial misstatement (which will negatively impact on the programmes/ financial management reporting of the Department). Here the Department will ensure that its accounts provide an indication of the current position, including the degree of success, which has been achieved over the accounting period. In other words, the degree of success should not be overstated.

2.7 Financial Reporting

Financial reports are provided to meet the needs of those users who are not able, or empowered, to be privy to specific financial reports of a government Department.

Knechel et al (2007: 274) states that financial reporting comprises of the activities used by a Department to capture and communicate financial and other information in order to foster accountability within that Department. These activities, or processes, should be firmly embedded within the Institution. The primary purpose of the accounting system, including how it relates to financial reporting, is to identify record, classify, aggregate and report transactional information for a specific time period. In addition, the quality and reliability of the information presented should, and must, be able to assist senior management in its decision making abilities, as per the following illustration:

Table 4: Financial Reporting

<u>Management Assertions</u>
<p><i>Transactions</i></p> <p>Occurrence</p> <p>Completeness</p> <p>Accuracy</p> <p>Cut off</p> <p>Classification</p>
<p><i>Accounts</i></p> <p>Existence</p> <p>Completeness</p> <p>Valuation and Allocation</p> <p>Rights and Obligations</p>
<u>Presentation and Disclosure</u>

Occurrence and Rights and Obligations

Completeness

Classification and Understandability

Accuracy and Valuation

(Knechel et al, 2007: 275)

Some of the reasons why stakeholders may request financial reports includes, amongst others:

- To judge whether the Organisation is achieving its objectives;
- Evidence that the Organisation is operating economically and efficiently;
- Assurance that the Organisation can generate sufficient cash to pay its obligations to employees and creditors;
- Assurance that the Organisation can operate as a going concern and that it can continue to deliver services to its customers;
- To assess the adequacy of its financial reserves;
- Assurance that it is operating lawfully; and
- To decide which way to cast a vote. (Bandy, 2011:200)

Financial reports contains annual financial statements, including financial information, about potential or actual future events and non-financial information about the performance of the Organisation in meeting its objectives. These are subject to the following factors:

- A comparison of budget and actual amounts, either as a separate additional financial statement, or as a budget column in the annual financial statements; and
- Notes, comprising a summary of significant accounting policies and other explanatory notes. (Bandy, 2011: 200).

Audited annual financial statements are there to create and maintain a systematic means for disclosing information which enables decision makers to understand the financial implications for budgetary, policy and programme issues and for

strengthening agency accountability for sound management performance (Khan et al, 2004: 239).

2.8 Format of Reporting

Each Organisation should prescribe itself, and its reporting structure, to a certain financial accounting system. Within the public sector sphere of South Africa, departments and entities are prescribed to report according to the Modified Cash Basis of Accounting. This is the accounting framework which the WCDoH has been using since 2000. The Modified Cash Basis of Accounting contains a hybrid of the Accrual Accounting system, as well as the Cash Basis of Accounting system.

Although the system is changing due to GRAP 17 compliancy challenges, the financial year period which this mini-thesis will analyse, uses the Modified Cash Basis of Accounting (Van Wyk, 2007: 65).

The only GRAP compliance standards, which have been approved by Government, have been the following:

- GRAP 1- Presentation of annual financial statements;
- GRAP 2- Cash flow statements; and
- GRAP 3- Accounting policies, changes in errors and estimates. (Van Wyk, 2007: 66)

In the attempt to convert from the Modified Cash Basis of Accounting to the Accrual Basis of Accounting, the Basic Accounting System (BAS) has been introduced. The BAS was introduced to facilitate accrual accounting in government departments and to provide the necessary financial information to prepare financial reports in accordance to GRAP. However, the BAS system has been, and still is, used by government departments for the purposes of relevant and reliable financial reporting (Van Wyk, 2007:68).

2.9 Financial Statements

The purpose of annual financial statements is to present the four statements (financial position, financial performance, changes in net assets and cash flow) to the stakeholder for analysis and interpretations. These statements needs to indicate that due diligence has been taken by including the relevant applicable accounting policies, that the notes to the statements are accurate and correct and that the previous financial years' financial figures are included to provide a historic analysis of a Department (National Treasury, 2014:6).

In addition, the annual financial statements should ensure a fair presentation that is in line with GRAP, including all relevant accounting policies, as prescribed by the National Treasury.

The annual financial statements of a Department should also ensure transparency, including the promotion of accountability in the public sector. This would then equate to effective, efficient and economic stewardship in the sector. The annual financial statements assists management and strategic role players in executing effective, efficient and economical decision making techniques on future related events (National Treasury, 2014:10).

In essence, the overall purpose of annual financial statements are to assist the Department and its stakeholders in providing information which relates to the following:

- The utilisation of appropriated funds;
- The collection of departmental (own) revenue;
- The management of resources, as well the resources available to deliver goods and services (such as the capital assets held by a Department);
- Future commitments and/ or savings (including the roll-over of funds to the following financial year);
- How the funds have been used and to what extent funds have been made available to deliver goods and services; and
- The utilisation of donor funding (National Treasury, 2014: 11).

The statements should also comprise of the following four elements:

- Understandability- The information in the annual financial statements must be presented in a manner that can be understood by the ordinary layman. This is of importance to the oversight function, especially in this case, the oversight bodies of WCPP, which includes the Standing Committee on Community Development (which oversees the Department) and SCOPA.
- Relevance- The relevance factor is whereby the managing of the finances and assets of the Department are under the evaluation of relevant stakeholder/s. A historical analysis is conducted through the office of the AGSA (through a historical 2 year analysis) and is normally presented to the oversight bodies of WCPP. This element also identifies the nature and materiality of the presented information. This is important as the AGSA normally presents its opinion on the annual financial statements of the Department in the beginning of Section E of the Annual Report of the Department. Here the Department discusses the materiality of matters identified.
- Reliability- Transactions will reflect the substance thereof instead of the legality of the activity. The information presented should not contain errors and should be free from bias. There should be a faithful presentation of information which can be trusted.
- Comparability- Users of the presented information should be able to deduce historical trends as well as between similar departments. The accounting policies should reflect accounting policies which will indicate whether the presented information has been recorded and whether transactions have been undertaken in a compliant manner. (National Treasury, 2014: 12-13).

The annual financial statements of the Department will be the basis of analysis which comprises the main function of this mini-thesis. It is deemed necessary to highlight the academic definition of annual financial statements, in order to understand its function within the financial management space; including the importance thereof.

2.9.1 Statement of Financial Position (Balance Sheet)

The Statement of Financial Position recognises the assets, liabilities and ownership interests of the Department. This sheet also classifies the Department's assets so that users can access the nature, amounts and timing of obligations that require, or may require, liquidity of available resources. The balance sheet classifies the assets by function, e.g. show fixed assets and current assets separately, including the differences in the expenditure of these economic classifications (Elliot et al, 2007:176).

Gitman (2009:48) highlights the fact that the balance sheet is reflective of the financial position of a Department at any given point in time. This statement balances the Department's assets against either its debts or equity. The distinction that must be made is between the short-term and long-term assets and liabilities. Current assets or liabilities are meant to be paid within one year. Long term assets or liabilities are considered to be infinite or remain on the Department's books for more than one year.

This statement recognises gains and losses. It should classify items by its line functions. It should show separate amounts, which are affected in different ways, by economic or commercial conditions. (Elliot et al, 2007:176).

2.9.2 Statement of Financial Performance (Income and Expenditure sheet)

Within this statement, departmental revenue is recognised when it is received and is subsequently paid into the relevant revenue fund, unless stated otherwise (DotP, 2017:185). This statement, in essence, should reflect all revenue and expenses, unless a standard of GRAP requires or permits otherwise (National Treasury, 2014: 22).

2.9.3 Cash flow statement

According to Stickney and Paul (2007: 629) the cash flow statements was introduced in 1977 when International Accounting Standards 7 (IAS 7) was issued. Through this Standard, the onus was placed on organisations to publish a statement of the flow of funds for a specific time period. This statement indicated the changes between the opening and closing balances by classifying the changes in fixed assets and long-term capital under two headings, namely 1) source of funds, and 2) application of funds.

The cash flow statement highlights the Department's ability to use and generate cash and cash equivalents (National Treasury, 2014:27). This document ensures that information is disclosed in the historical changes in cash and cash equivalents during a financial year from operating, investing and financing various operations (National Treasury, 2014:3).

The Cash Flow Statement, in a South African context, is exclusively governed by GRAP 2, which was issued by National Treasury. The cash flow statement comprises the following elements:

- Disclosure of tax on surplus;
- Cash flows from operating activities;
- Cash flows from investing activities;
- Cash flows from financing activities;
- Cash flows from suppliers/ customers;
- Acquisition and/ or disposal of long term assets; and
- Cash flows from borrowings (National Treasury, 2014:5).

In the case of the Department, the cash flow statement should indicate cash receipts from charges for services. This includes patient care at its various hospital facilities. This statement would also indicate any funds that the Department received in terms

of grants by National Government or any stakeholder body. In addition, the statement should also reflect any liabilities as a result of litigation cases against the Department.

2.10 Auditing

Marx (2011:1) states that according to the Companies Act, 2008 (Act 71 of 2008) companies are requested to submit annual financial statements. However, in the South African diaspora, each government Department is obliged; through the PFMA, 1999; to prepare and submit it's audited annual financial statements through each Legislature- dependent in which jurisdiction the relevant Department reports.

Auditing is defined, according to Marx (2011: 2) as the examination of and verification of financial accounts. The ultimate objective, therefore, of the audit of the Department's annual financial statements is to ascertain whether the specific periodic transactions have been fairly prepared. This will enable the Auditor to raise an opinion on the state of the annual financial statements. The opinion is usually listed in the foremost part of the financial information ("section E") of the Annual Report of the Department. Here, the AGSA will raise certain matters, if any, which are important for the noting of SCOPA. It will then be the task of this Committee to support the AGSA in conducting oversight over the financial affairs of the Department by raising certain matters, and making suggestions, to improve the audit outcome of that Department for the following financial year. The AGSA is guided by the International Standards of Auditing, including the International Ethics Standards Board when auditing the financial information of the Department.

The AGSA is an independent body who investigates that financial performance and position of the Department in order to ensure reasonable assurance to the policy analyst, or stakeholder. This reasonable assurance includes assessing whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error (DotP, 2017: 153).

The practice of auditing dates back to the 17th century when the various Parliamentary oversight bodies of Britain had to ensure that the funds that were appropriated to the public service was accounted for and not misspent. In 1844 the Poor Laws Unions (the

British local authority) accounts had to be audited by the District Audit Service. In 1972, the British Parliament authorised the District Audit Service to choose and appoint auditors, even if from a private contractor. However, this practise was raised as a concern by the relevant authorities. After consideration, the British Parliament enacted the Local Government Finance Act (1982), whereby the responsibility of auditing solely rested with the District Audit Office. The British Exchequer and Audit Department were replaced by the National Audit Office through the enactment of the National Audit Act (1993). The duties of the National Audit Office include the following:

- To examine and certify the government departments' accounts;
- To execute value for money investigations;
- To examine the economical, efficient and effectiveness of public programmes; and
- To report on its annual financial statements to Parliament. (Trotman-Dickenson, 1996:271-272).

Trotman- Dickenson (1996:272) continues to argue that the allocation of the fiscus to departments needs to be controlled and properly managed. For this process to be realised, an audit exercise needs to be conducted to ensure that the evidence is present to correlate the expenditure that has been actioned. In addition to this exercise, management have to follow the following steps in order to ensure that it properly account for its expenditures, which includes:

- Identify the departmental and clients' needs;
- Establishment of relevant policy objectives;
- Preparation of forecasts; and
- Planning.

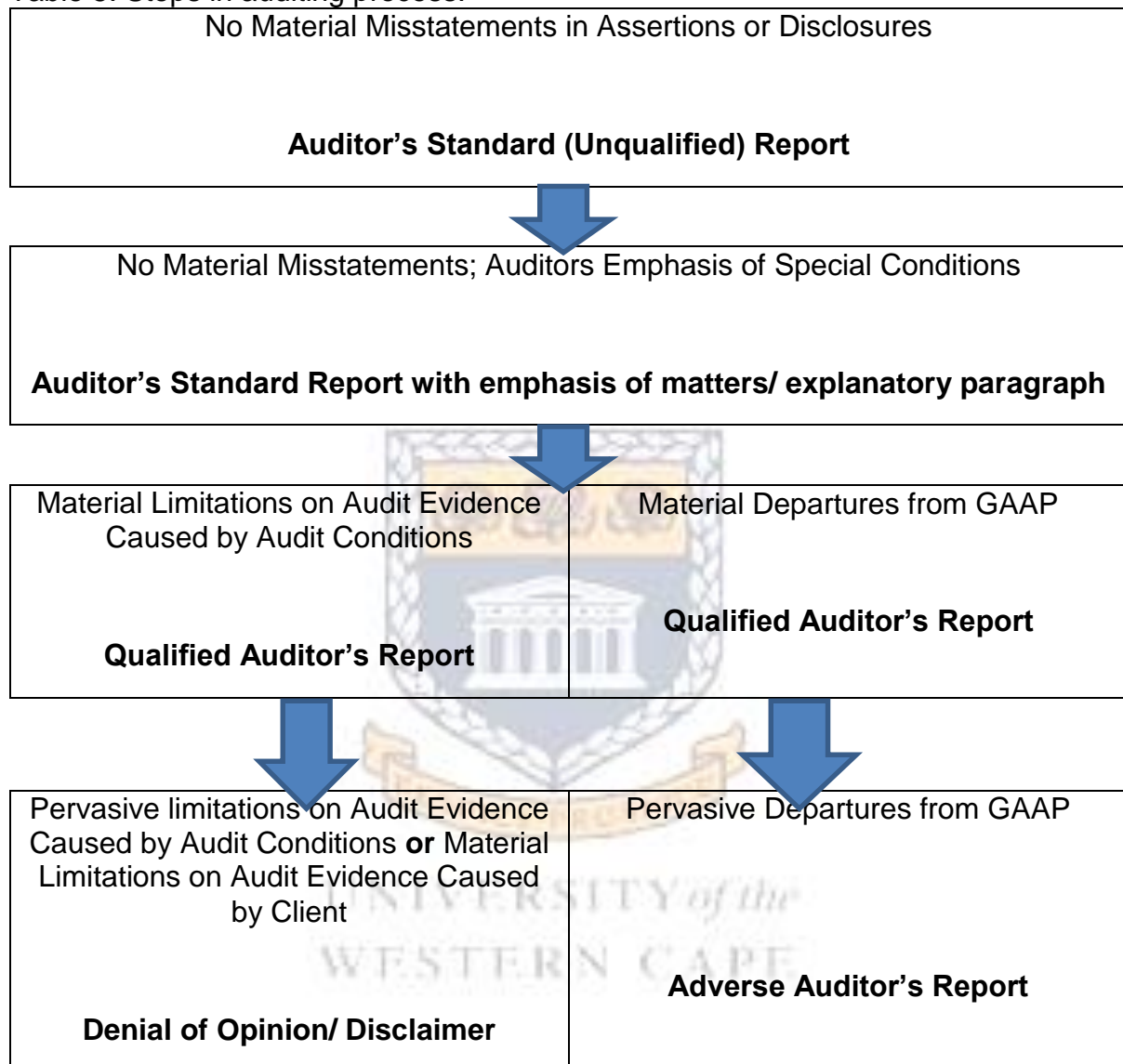
The benefits of auditing can be identified in the following outcomes for a Department:

- It improves the credibility of annual financial statements;
- It provides advice on the structure and operations of systems; and
- It promotes and assures good corporate governance. (Marx, 2011:4-5).

At the end of the auditing process, the auditors must raise and audit opinion as to the financial information in the Annual Report of a Department for each respective year. The audit opinion is of importance as it places emphasis on the financial performance

of the Department over a specific period of time. The options of the audit opinions can be in the following forms:

Table 5: Steps in auditing process:



(Knechel et al, 2007: 74)

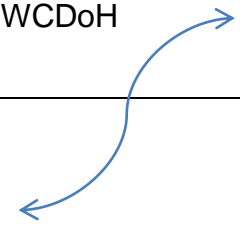
There is a link between auditing and accounting in the financial reporting process. As indicated by Cosserrat and Rhodda (2009: 41), accounting involves identifying the events and transactions that affects the annual financial statements of the Department. Once these events and transactions have been identified, only then are the items recorded, classified, measured and summarised in the Department's financial statements. The objective of the accounting practise is to communicate reliable financial information that will be useful towards effective and efficient stewardship of

current and future related financial transaction, including assisting the Department in its decision-making process.

The link with auditing in the financial reporting process is that information which are contained in the financial statements requires evidence to be produced by the Department. The evidence needs to be evaluated in relation to the decisions that the Accounting Officer and Senior Management took on each transaction. The audit opinions needs to be reliable and fair (Cosserat et al, 2009:41).

The link between auditing and accounting in the financial reporting process can be highlighted as follows:

Table 6: Impact of Financial Reporting on Accounting and Auditing

<u>Financial Reporting</u>	
<u>Accounting</u> (Guided by Financial Reporting Standard) Responsibility of Management	<u>Auditing</u> (Guided by Auditing Standards) Responsibility of Auditor
1. Analyse events and transaction	1. Obtain and evaluate evidence concerning the financial statements
2. Measure and record transaction data	2. Verify that financial information gives a true and fair view of the WCDoH
3. Classify and summarise recorded data	3. Express and opinion in the auditor's report
4. Prepare the financial statements in accordance with Financial Reporting Standards	4. Delivers auditor's report to the WCDoH
5. Distribute the Annual Report, including financial statements and the auditor's report, to the shareholders	

(Cosserat et al, 2009:41)

2.11 Ratio Analysis

2.11.1 Time series analysis

According to Gitman (2009:56), time series analysis comprises the function of evaluating a certain performance, or various performances, over a certain period of time. This entails using the current data available and evaluating this information over a period of past events using various ratios to establish a Department's progress. This can be done using a multi-year analysis of the selective data which is chosen by the Analyst. Through this, developing trends can be detected, as well as year- to- year significant changes which might be symptomatic of major problems in the Department that is being evaluated.



2.11.2 The importance thereof

Ratio analysis is of importance to stakeholders, creditors as well as the Department's own management. Gitman (2009:54) explains that the stakeholders, such as in this case SCOPA, AGSA, Provincial Treasury and the Department's management are interested in the historical, current and future levels of risk and return, which in the bureaucratic scenario, directly impacts on policy- and service delivery. To this extent, the Department's creditors have an interest in the short-term liquidity of the Department, including its ability to make principal payments. The principal objective is to ascertain whether the Department is in a healthy financial state or not. It is further believed that the management structure of a Department uses financial ratios to monitor its own performance from one period to another.

2.11.3 The usage of Financial Ratios

Gitman (2009:53-54) highlights the fact that the four basic annual financial statements are of importance to various stakeholders. These stakeholders need to have relative measures of a Department's financial performance. Gitman (2009:54) emphasises the

word “relativity” due to the fact that the analysis of the annual financial statements of a Department is based on the use of ratios or *relative values*. Through such an exercise financial ratios are used to analyse and constantly monitor the Department’s financial performance.

2.11.4 Why Financial ratios

Regarding the operations of National and Provincial Government departments, the Public Finance Management Act, 1999 requires that departments and entities submit their annual financial statements, which are contained in their annual reports, for oversight and scrutiny by its 3rd level assurer (namely, SCOPA and all respective standing committees). However, without a tool (or tools) to measure the performance of the financial health of the respective departments, the oversight mandate of SCOPA will not be effective in the first place. It should be noted that the respective standing committees, which conducts oversight over the departments, conducts oversight over the performance information of the departments; and NOT the annual financial statements.

SCOPA is entrusted with the specialist task to engage the AGSA and the internal audit committees of the WCG; where it thereafter engages the departments and their entities. It is here that financial ratios, including their usage, should play an important role in assisting the Committee to evaluate the financial performance of the Department. Not only is the usage of financial ratios important to determine the financial performance of a department important, but moreso, the trustworthiness of the presented annual financial statements as well (Du Toit & Vermaak, 2014:818).

Thus far, financial ratios have been used to predict whether an Institution could be heading towards a position of finding itself in financial distress in the future (Altman & Hotchkiss, 2006). Wells (1997:475) indicates that annual financial statements are not only useful in evaluating the financial health of an Institution, but also detecting any accounting irregularities. Through the usage of annual financial statements, stakeholders can evaluate and analyse line items within the 1) appropriations

statements and 2) all other statements (financial position, performance and cash flow statements).

Du Toit et al (2014:828) summarise the following on the usage of annual financial statements, which is based on their research, as follows:

- Annual financial statements are useful for decision-making and prediction purposes;
- Ratio analysis (interactions between financial statement items) can be useful when analysing a company's financial health; and
- Information, other than only financial information, from the annual financial statements needs to be considered when a company's financial health is analysed.

The key ratios to be used by SCOPA to ensure that the proper financial oversight is effected over the departments and entities of the Western Cape Government include the following:

• **Statement of Financial Performance:**

- Percentage net surplus for all services to revenue ratio;
- Expenditure of net surplus/ deficit for all services to revenue ratio; and
- Expenditure of capital assets to total revenue ratio.

• **Statement of Financial Position:**

- Current Ratio;
- Acid Test or quick ratio;
- Working Capital ratio; and
- Debt to Assets ratio.


• **Cash Flow Statement:**

- Free cash flow ratio;
- Debt to Cash ratio;
- Cash to revenue ratio; and
- Cash to fixed assets ratio.

2.12 Summary

This chapter concentrated on the following subject matters which impacts on the financial reporting of government departments. The subject matter included the following:

- Governance;
- Accountability;
- Financial management;
- Financial Reporting;
- Annual financial statements;
- Auditing;
- Accounting; and
- Financial ratios.



Departments have agreed to the implementation of the Modified Cash Basis of Accounting for the capturing of its financial transactions over a specific period of time. However, this has an impact on the concept of accountability of a Department. Through this notion, one finds that a Department has a duty, through the legislative prescripts, to be accountable to its jurisdictional Legislature. This is based on the concept of the Principal- Agency theory. The theory explains the relationship between a Principal, which is in this case the Legislature, and the Agent- which is the government Department. The Principal authorises the Agent to execute duties which it will not be able to execute on its own. In this scenario the Agent gets its annual budget approved by the Legislature, as well as allowing itself to be held accountable for the implementation and management of its budget and programmes.

The Department appears before the applicable Committee of the Legislature. Here, at these meetings, the Department have to answer for its actions during a specific financial year. The Department has to account on two levels of accountability that was bestowed upon them. The first level is political accountability. This is where the

Department accounts for the authority that was granted to it by the Legislature. The second level is managerial accountability, whereby the Department has to account for the responsibilities in terms of the month-to-month management of the finances, programmes and policies of the Department.

Financial management is of utmost importance in the public sector. This principle ensures that the Department should manage its financial affairs effectively, efficiently and economically. The Department should also ensure that, through the management of its finances, it remains compliant and error free in its operations. It should ensure that the finances is planned, directed and controlled as per the submission to the Legislature when it seeks approval of its funds, including the additional appropriation phase where it seeks approval from the Legislature to shift its funds between programmes. In essence, the practise of financial management is important to the successful functioning of a Department.

The WCDoH must report to the Legislature on its financial status on a quarterly and monthly basis. Knechel et al (2007: 274) states that financial reporting comprises of the activities used by a Department to capture and communicate financial and other information in order to foster accountability within the respective Department. This concept is important to the stakeholders as they can, amongst other, ascertain whether the Department is reaching its objectives. In addition, through the concept of financial reporting, the Department can also have the opportunity to show evidence to the stakeholders that it is executing its finances and programmes in an economical, effective and efficient manner.

The WCDoH is obliged to adopt the Modified Cash Basis of Accounting system. Through this system, financial transactions are only recognised when they arise form cash inflows or outflows. The Modified Cash Basis of Accounting also distinguishes between primary and secondary financial information. The primary financial information relates to the information which is recognised, presented and disclosed within the annual financial statements. The secondary information relates to only the recorded and disclosed information. The two primary systems which originate from this accountancy include 1) the Logistical Information System (LOGIS) and 2) the Basic Accounting System (BAS).

LOGIS is a mechanism which relates to the provisioning of goods and services, procurement of goods and services and all matters that are related to the control of items which are in the possession of a Department. It is the system that is primarily used in the supply chain management process of a Department. This mechanism is put in place to ensure that the assets of a Department are utilised in an effective, efficient and economical manner. The rationale is that the inventory is managed in order to ensure that the annual performance plans of a Department gets executed, in order to remain compliant with the applicable legislation. BAS is used by all national and provincial departments for the monitoring and reporting of the appropriated budgets. The system is also implemented to ensure that the Department takes responsibility for the management of its expenditure and revenue.

From the reports of LOGIS and BAS, the Department can populate its annual financial statements, in order to report on its financial performance, over a specific period of time. The annual financial statements are divided into the following pieces of information:

- Statement of Financial Position- recognising only assets, liabilities and ownership interests;
- Statement of Financial Performance- balances the Department's assets against either its debts or equity;
- Statement of the Changes in Net Assets- revenue or expenses which are directly recognised as a change in net assets; and
- Cash Flow Statement- the Department's ability to use and generate cash and cash equivalents.

Auditing is important in order to ascertain whether the information which has been produced by the Department is verifiable and reflects honest information. Auditing serves as a buffer between the Department and the Legislature in order to strengthen the oversight process. Through this action, the auditor is allowed to raise an audit opinion which will be forwarded to SCOPA for oversight purposes and further follow-up. The purpose includes whether value for money was derived through the management of the Department for the specific period under review. It provides a

sense of credibility to the annual financial statements of the Department when reporting to SCOPA.

It is important that one executes an analysis of the annual financial statements of the Department. Ratio analysis is of importance to stakeholders, creditors as well as the Department's own management. Gitman (2009:54) explains that the stakeholders, such as in this case SCOPA, AGSA, Provincial Treasury and the Department's management are interest in the historical, current and future levels of risk and return, which in the bureaucratic scenario, directly impacts on policy- and service delivery.



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Chapter 3: Legislative Framework

3.1 Introduction

Within any democratic state, legislation is of importance, especially when one concentrates on the public sector as a case study. The public sector is overwhelmed with legislation, which aims to ensure that it operates effectively, efficiently and economically. In this sphere, one observes that the various pieces of legislations which were adopted and implemented for government to operate under, should ensure that they are interrelated in most cases- if not at all. This chapter will concentrate on the seven legislative pieces which have the most significant impact on the financial management practise of the South African governmental Institution.

The Constitution of South Africa, 1996, is the most important legislative piece to have been established within the democratic South Africa. Through the establishment of the Constitution of South Africa, 1996, the foundation is set whereby the Constitution gives direction to the public sector in that departments should execute its functions according to a high standard and professional ethics. In addition, departments should ensure that it utilises its resources in an efficient, effective and economical manner. Departments are also directed to be transparent in its operations. This has a direct impact on the reporting of financial matters.

The Public Finance Management Act, 1999 (Act 1 of 1999) (PFMA) is the second most important legislative piece to give direction to national and provincial departments. Municipalities are not subjected to this Act. This Act is modern and advanced in its directives to government departments. Accounting Officers (e.g. Director-Generals and Heads of Departments) are the focus of attention as they are the authorities who should be, and is, responsible for the management of the funds of the institutions. The Accounting Officer of the WCDoH is responsible to ensure that the Department circumvents any unauthorised expenditure in order to realise the Constitution's mandate of the utilisation of the Department's resources in an efficient, effective and economical manner.

The Division of Revenue Act (DORA) is an Act which is subjected, on an annual basis, to each of the nine respective provincial Legislatures of South Africa, including National Parliament, for approval. It pertains to the approval of the Legislature in order for all departments to be authorised to use their funds for a specific timeframe, which is 1 financial year.

The Appropriations Act follows, in close succession, after the approval of the Division of Revenue Act. This Act, too, is legislation which must be approved in the Legislature or National Parliament (for national Departments) before the departments can utilise it to execute their function and duties for a specific financial year.

This chapter will also allude to the various legislations in order to create a framework against which the compilation and reporting of the annual financial statements of the Department will take place. The sections are as follows:

- Section 1: The Constitution of South Africa, 1996;
- Section 2: The Public Finance Management Act, 1999;
- Section 3: Division of Revenue acts;
- Section 4: Appropriations acts;
- Section 5: Treasury regulations; and
- Section 6: King III Report on Good Governance.

3.2 The Constitution of South Africa, 1996 (Act 108 of 1996)

The Constitution of the Republic of South Africa (1996:111) legislates for the overall financial and public administration management in government departments and entities. In Chapter 10 of the Act, one finds in Section 195, that the prescripts of professionalism are outlined. Here, one finds the directive to the Departments that must have the following qualities in order to be compliant with the Act. The following qualities are what should be striven for:

- A high standard and professional ethics to be promoted and maintained;
- The use of resources should be executed in an effective, efficient and economical manner;
- Services should be provided in an impartial, equitable, fairly and without bias;

- Public Administration should be held accountable; and
- Transparency must be encouraged whereby accessible and accurate information are provided to the public in a timely manner (The Constitution, 1996).

In relation to the aforementioned directives, a department is directed to use its resources, which includes financial resources, in a manner that will not only be beneficial to itself in terms of the good governance aspect, but to ensure that services are produced. Finances, including the management of finances by departments, affect the services that are produced by departments. Regarding the transparency directive given aforementioned, the PFMA does enhance and compliments the directive given by the Constitution. In this regard, the departments are legally obliged to produce quality reports in order to ensure that the factor of transparency is complied with.

Wilderman et al (2012: 12) discuss the concept of efficiency as two parts, namely, 1) allocative efficiency and 2) operational efficiency. Allocative efficiency in itself has two dimensions, namely 1) empirical and 2) philosophical efficiency. The empirical component concentrates on the actual shifts in spending. This category concerns more with the actual shifting of funds between main programmes within the vote. This is also known as virement. On the philosophical level, one finds that the departments should spend their funds in accordance to their policies. However, in most cases, the departments are given third assurance level oversight by SCOPA, not only over their financial affairs, but also monitoring whether the spending has been implemented according to the annual performance plans. In addition, the departments have to account for their medium- term budgetary and policy statements (MTBPS).

Chapter 13 of the Act refers to the general financial directives to all national and provincial departments and entities. Sections 213 to 217 provide clear directives on the allocation and management of finances, as allocated through the national and provincial revenue funds, as follows:

- The Division of Revenue Act (annually);
- The Division of Revenue Adjustments Act (annually- as required);
- The Western Cape Appropriations Act (annually); and
- The Western Cape Adjustments Appropriations Act (annually).

The aforementioned legislative pieces will be discussed in this Chapter, hereafter.

Lesidi Municipality (2011:10-11) opinionates that effectiveness relates to how the senior management should understand the mandate of the relevant legislations in order to remain compliant. This includes the execution of the correct actions that would ensure that the applicable legislations are upheld. To be compliant to the concept of efficiency, the senior management of a Department should understand the timeframes, techniques and skills to implement the various legislative pieces which govern the public sector in South Africa.

3.3 The Public Finance Management Act, 1999 (Act 1 of 1999)

The PFMA directs government departments and entities on instructions which relate to financial matters and the management thereof. The Act is modern in its approach by issuing directives which relates to the 1) Auditor-General of South Africa (AGSA), 2) Division of Revenue (DORA), 3) Medium-term expenditure framework (MTEF), 4) Departmental Annual Reports, 5) Accounting Officer's accountability which relates to financial management, and 6) the Adjustments Appropriation Bills which are passed bi-annually in the nine respective provincial Legislatures in South Africa.

The application of the PFMA is of importance and relevance to this mini-thesis, as it legally obliges Accounting Officers to manage and report on their financial management practices for each financial year. In addition, the PFMA acts as an oversight mechanism against which the financial performance of a department is measured against.

Luyinda, Herselman and Botha (2008:3) states that the PFMA is the principal Act which stipulates the rules and regulations which relates to the management of the public funds, by national and provincial departments, and through which such funds are allocated by National Treasury. This piece of legislation is applicable to all government departments and should be observed and executed accordingly.

Section 38 of the PFMA (1999:47) states that the Accounting Officer of a government Department should take responsibility of the following requirements:

- Take responsibility of the expenditure, including the vote and main divisions of the vote in that Department;
- Ensure that unauthorised expenditure is circumvented in the Department;
- Put mechanisms in place to prevent any overspending of the vote of the Department;
- Report to the Executive Authority and the relevant Treasury of any 1) under collection of revenue due to it, 2) shortfalls in the budgeted revenue and 3) overspending of the Department's vote or a main division in the vote; and
- Comply with any remedial measures as imposed by the relevant Treasury in order to prevent an overspending of the vote or main division within that vote.

In addition to the financial responsibility of the Accounting Officer, the following responsibilities reflected in Section 40 (1996:47-48), highlights the reporting responsibility of the Accounting Officer. The responsibilities include that the Accounting Officer:

- must keep full and proper records of the financial affairs of the Department, trading entity or constitutional institution in accordance with any prescribed norms and standards;
- must prepare annual financial statements for each financial year in accordance with generally recognized accounting practice;
- must submit those annual financial statements within two months after the end of the financial year to— (i) the Auditor-General for auditing; and (ii) the relevant Provincial Treasury to enable that Treasury to prepare consolidated annual financial statements in terms of sections 8 or 19; and
- must submit within five months of the end of a financial year to the relevant Provincial Treasury and, in the case of a Department or trading entity, also to the Executive Authority responsible for that Department or trading entity— (i) an annual report on the activities of that Department, trading entity or constitutional institution during that financial year; (ii) the annual financial statements for that financial year after those statements have been audited; and (iii) the Auditor-General's report on those statements.

The Act also instructs the Accounting Officer of the Department to report on the annual performance information of the Department, in the form of the Annual Report. This

process promotes transparency and accountability in the public space and amongst the citizens. The responsibilities, according to Section 40, comply with the following:

- In the case of a constitutional institution, submit to Parliament that Institution's Annual Report and annual financial statements referred to in paragraph (d), and the Auditor- General's report on those statements, within one month after the Accounting Officer received the Auditor-General's audit report; and
- Is responsible for the submission by the Department or constitutional institution of all reports, returns, notices and other information to Parliament, the relevant provincial Legislature, an Executive Authority, the relevant Treasury or the Auditor-General, as may be required by this Act.

The compliance to the PFMA by government departments is important to this mini-thesis; as such compliance would ensure that there remains a level of assurance that the departments have spent their finances in an efficient, effective and economical manner.

3.4 Division of Revenue Acts

The fiscus of the country is divided between the three spheres of government, which includes 1) national departments, 2) provincial departments and 3) municipalities for each financial year. The finances of the national and provincial departments are allocated through the DORA.

The Act provides for the determination of each province's equitable share and it provides for all matters connected with the identified determinations.

Section 214(1) of the Constitution requires that a Division of Revenue Act must be drafted which should determine the equitable division of finances that was raised on a national level and allocated between the three spheres of government. The Intergovernmental Fiscal Relations Act, 1997 (Act 91 of 1997) prescribes the process for determining the equitable sharing and allocation of revenue raised nationally.

3.5 Appropriations Acts

The Appropriations Acts provides funds to departments of a province for the requirements of that Province. The main aim of the Act is to release funds through the Provincial Treasury of that Province to departments in order to ensure that the execution of the provincial policies can be executed.

The funds are allocated for each vote (per Department) as per the projections of each Department. The departments submit their financial needs to the Provincial Treasury in order to ensure that funds are appropriated in order that their mandates can be fulfilled.

The Act also ensures that a Department execute its annual performance plans (APP). The Act is passed by the Provincial Legislature at two levels, namely 1) the relevant Standing/ Portfolio Committee and 2) by a debate and recommendation of the House. The Act is tabled before Parliament on an annual basis, usually before the start of the new financial year.

The Appropriations Act is important to this mini-thesis, as it is the fundamental mechanism against which the departments are accountable to their respective provincial Legislatures. This means that departments account for their annual allocated expenditure to SCOPA.

3.6 Treasury Regulations

3 6.1 Guide for the Preparation of the Annual Report

The guide for the preparation of the Annual Report is a document which has been drafted by National Treasury in the attempt to ensure that the reporting mechanism of national, provincial and municipalities are enhanced in the annual reports (National Treasury, 2012: 8-9).

The guideline somewhat instructs the Accounting Officers to describe in detail why it has under- and over performed, if any. The Department should also communicate

what measures it employed to keep to the agreed targets for the specific financial year; including the mechanisms developed and introduced to rectify future under-performance. The guideline is so instructive that it even directs a Department to report on the mechanisms that it has utilised in order to exceed in its performance (National Treasury, 2012: 16).

With relation to the annual financial statements (AFS) of departments, the directive is clear that the AFS should consist of:

1. Report of the Audit Committee;
2. Report of the Accounting Officer(s);
3. Report of the Auditor-General;
4. Appropriation Statement;
5. Notes to the Appropriation Statement;
6. Statement of Financial Performance;
7. Statement of Financial Position;
8. Statement of changes in Net Assets;
9. Cash Flow Statement;
10. Statement of Accounting Policies and Related Matters;
11. Notes to the Annual financial statements (including Accounting Policies);
12. Disclosure notes to the Annual financial statements;
13. Annexures (Unaudited supplementary schedules); and
14. Annual financial statements of other entities (if applicable).

The Guide for the Preparation of the Annual Report ensures that all relevant stakeholders, especially the public, are assured of the contents of its audited statements. It also discloses the finances to the public and therewith ensures that it remains compliant and accountable for its operations.

3.6.2. National Treasury Instruction No 6 of 2014/15

The Treasury Instruction No 6 of 2014/15 was written in order to ensure that the applicable financial framework needs to be implemented by departments.

The Instruction originates as a by-product of 1) section 40 (1) (b) of the PFMA, 1999 and 2) the GRAP standards as per paragraph 18.2 of National Treasury. The directive instructs how the Departments should prepare their annual financial statements in accordance with the requirements of the Modified Cash Basis of Accounting. The Modified Cash Basis of Accounting is the official agreed accounting system to which the departments should adhere. The instruction was effective 1 April 2014 to date.

3.6.3. Going Concern

The public sector departments are viewed as a going concern due to the life expectation and importance of service delivery. This means that departments are seen as operating into the future. An example of this is the Department of Health. The Department has a mandate to deliver critical services to citizens, and thus is viewed as operating as a going concern. The Government Motor Transport (GMT) entity of the Western Cape Government (2017:158) highlights the following factors as important to operate as an ongoing concern in the public sector:

- On 30 March (each year) the budget is tabled in the Provincial Legislature and accepted. The three-year Medium Term Revenue and Expenditure Frameworks (MTEFs) are formulated to support the ongoing delivery of services to clients.
- The budget is subjected to an assessment process. The budget is cash-backed.
- Strict daily cash management processes are embedded in the operations to manage and monitor all actual cash inflows and cash outflows in terms of the cash-flow forecast supporting the budget. The cash management processes are complemented with monthly reporting, highlighting the actual cash position, including the associated risks and remedial actions thereto.

- A Department has the power to levy fees, tariffs and charges, this will result in an ongoing inflow of revenue to support the ongoing delivery of services. Certain key financial ratios, such as liquidity and solvency, are closely monitored and the necessary corrective actions instituted.

3.7 King III Report on Good Governance

The King III Report strengthens the discussion on corporate governance in the South African diaspora. According to Engelbrecht (preface: 2009), one finds that one of the linkages that is being made is the concept of corporate governance and how it is affected by a financial crises. Similarly, one finds in the annual report of the Department of Health that it reports to SCOPA on its governance as per section C of its report, on an annual basis.

In addition, the report also speaks to the concepts of transparency and accountability, which are requirements for the publishing of the annual reports and annual financial statements. In relation to the discussion on the matters raised in relation to transparency and accountability, in Chapter 2, Engelbrecht (103:2009) discusses how a Department can strengthen its transparency and accountability mechanisms. These include the following:

- Proactive and transparent communication and engagement with stakeholders on all material matters affecting the company.
- Reporting should be integrated across all areas of performance, reflecting the choices made in the strategic decisions adopted by the board, and should include reporting on economic, social and environmental issues.
- The communication should be relevant and material.
- In order to effectively communicate and engage with stakeholders, information should be shared openly and transparently.
- The need for transparency includes the imperative for honest and open engagement and this requires communicating the positive and negative effect the company has had on the stakeholders.
- Communicating effectively about the goals and strategies of the company, as well as its performance with regard to economic, social and environmental

issues, also serves to align the company with the legitimate expectations of stakeholders, and at the same time, obtain stakeholder buy in and support for the objectives that the company is pursuing.

- Effective engagement and communication needs to take place on a more frequent basis than just once a year in an annual report.
- The audit committee should assist the board in reviewing the integrated reporting and disclosures.
- The board should be responsible for the accuracy and completeness of the sustainability reporting and disclosures and may place reliance on the opinion of a credible, independent assurance provider.
- Sustainability reporting should also be subject to a process of assurance and it should be designed to add value by providing a credible account of the company's economic, social and environmental impact.

Good governance is important within the public sector as it ensures that departments not only spend its annual funds in a responsible manner, but also ensures that the departments deliver on their mandates in terms of service delivery to the citizens. In addition, the King III Report identifies good governance principles which not only applies to the public sector, but the private sector in South Africa aswell.

The aforementioned speaks to, and strongly supports, the directives of the expectation of reporting which one derives from the PFMA, the National Treasury Instruction No 6 of 2014/15 and the Guide for the Preparation of the Annual Report. The guideline which is provided by Engelbrecht (2009) is currently being implemented by provincial departments within the Western Cape. The departments reports on their financial projects vis-à-vis policy priorities through the “appropriation period” mechanism. This is repeated with the bi-annual “adjustments appropriation period” which occurs each November at WCPP. One of the most important reporting mechanisms for the Province, which impacts on the concept of good governance, is the annual report period. Through this period, departments reports back to the respective Legislature on their annual reports, including all financial and performance information over a financial year (on a historical basis).

3.8 Summary

The legislation which were discussed in this chapter highlights and supports the concept of good governance in respect of financial management and financial reporting.

The Constitution highlighted as the most fundamental legislative piece, instructs the departments to be transparent in their operations. This concept strengthens the practise of financial reporting, which strengthens public confidence in the bureaucratic system. This legislative piece also highlights the practise of executing duties in an effective, efficient and economical manner. This chapter concentrated closely on the concept of efficiency. According to Wilderman et al (2012:12), one finds two types of efficiencies. These include allocative and operational efficiencies. Allocative efficiency is where the Department should exercise care when enabling a virement between programmes. In order to be operationally effective, the Department should report on whether or not it spent its funds according to its original projections prior to the commencement of the new financial year.

The most important piece of legislation that this Chapter concentrated on, was the Public Finance Management Act, 1999 (Act 1 of 1999). This Act is considered to be the most advanced and modern Act to be produced which impacts on the practice of good governance and financial reporting in the government departments. The Act directs the Accounting Officer to take responsibility of the expenditure of the Department. He/ she is the ultimate responsible person for any negative financial impact in the Department. The Accounting Officer should also ensure that he/ she develops and implement mechanisms which will ensure that all irregular or unauthorised expenditures are circumvented. The Department should ensure that all financial transactions are recorded and properly reported on in its Annual Report.

The Division of Revenue Act is the primary financial Act which highlights the allocation of finances to each respective Province. This Act is aligned to Section 214 (1) of the Constitution.

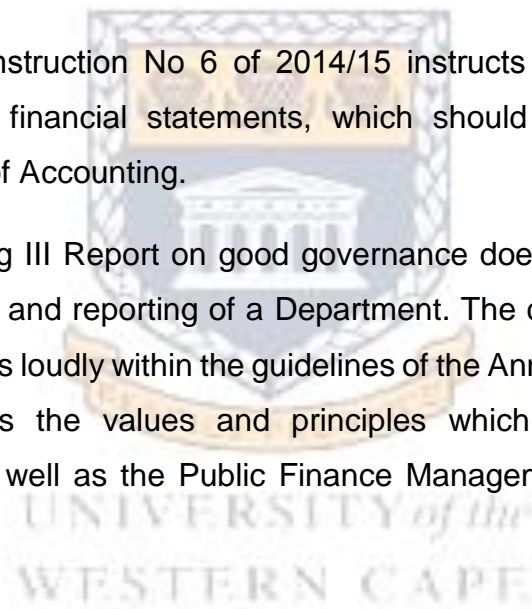
The Appropriations Act is a sub-division of the DORA which highlights the allocation of funds to each Department within a province. The allocation is in conjunction with

the projection of future needed funds for a financial year by the Provincial Treasury. The Department is accountable for the funds which it received from the approval of the respective Legislature or National Parliament, through the annual reporting process.

Departments are assisted in their financial management and reporting functions by directives from National Treasury. The Guide on the preparation of the Annual Report was implemented to assist Departments when it relates to the reporting on their financial statements for the relevant financial year. The directive is clear in the mechanisms that a Department must adopt in order to remain compliant to the Constitution, 1996; as well as the Public Finance Management Act, 1999 (Act 1 of 1999).

National Treasury's Instruction No 6 of 2014/15 instructs departments on how to prepare their annual financial statements, which should be in accordance with Modified Cash Basis of Accounting.

In conclusion, the King III Report on good governance does have an impact on the financial management and reporting of a Department. The concepts of transparency and accountability rings loudly within the guidelines of the Annual Report, which further serves to strengthen the values and principles which are strived for in the Constitution, 1996 as well as the Public Finance Management Act, 1999 (Act 1 of 1999).



Chapter 4: Research Methodology

4.1 Introduction

This Chapter highlights the type of research that this research project will employ in order to reach the stated objective in Chapter 1. The type of research that this project will make use of is qualitative research methods.

The reason for the choice is that this type of research will allow the researcher to, through data analyses, build a picture from the bottom up (Creswell, 2013:46-47). This will ensure that the phenomenon of enquiry is properly described once the data is analysed.

The purpose of the research is to evaluate the annual financial statements of the Department. Over the time period of analysis of this research, the Department has not been able to achieve a clean audit opinion. In addition, the Department received continuous findings, year-on-year, from the AGSA on matters which affects its annual financial statements. This research also concentrates on the role of SCOPA in conducting oversight over the Department through the linkage of the Principal-Agent principle. The question which comes to mind is, how effective the resolutions of the Committee are on the annual audit outcomes of the Department.

The evidence from the data that will be extracted includes various sources, such as the annual reports of the WCDoH, AGSA audit opinions and the resolutions of SCOPA which are derived from the annual reports of the Department. All documents were vetted by the AGSA for reliability and accuracy. This strengthens the validity of the reported information which is used for analysis.

4.2 Type of Research

The type of research that this study will embark upon will be located in the realm of qualitative research. Creswell (2009:43-44) defines qualitative research as the following:

“Qualitative research begins with the assumptions and the use of interpretive/ theoretical frameworks that inform the study of research problems addressing the meaning individuals or groups ascribe to a social or human problem. To study this problem, qualitative researchers use an emerging qualitative to inquiry, the collection of data in a natural setting sensitive to the people and places under study, and data analysis that is both inductive and deductive and establishes patterns and themes. The final written report or presentation includes the voices of participants, the reflexivity of the researcher, a complex description and interpretation of the problem, and its contribution to the literature or a call for change”.

One finds that there exist several characteristics that are required to complete a successful qualitative research project. According to Creswell (2013:46-47) researchers collect data at the site where an issue, or problem, is experienced. In addition, one of the ways through which the researcher can collect data, is through the examination of documents. Multiple forms of data are extrapolated from documents, than just to rely on a single data source. From there on the researcher will begin to build patterns from the bottom up, by organising the data inductively into increasingly abstract units of information. The research process for qualitative researchers is emergent. This means that the initial plan for research cannot be tightly prescribed, and that all the phases of the process might change, or shift, after the researcher enter the field and begin to collect data.

Qualitative research is mainly used when a problem or issue needs to be explored, to empower individuals; and to develop theories when partial or inadequate theories exists for certain populations and samples or existing theories do not adequately capture the complexity of the problem that we are examining (Creswell, 2009: 47).

4.3 Purpose of the Research

The purpose of this mini-thesis is to describe the subject matter at hand. According to Babbie (1998:90-92), Descriptive research is a by-product of qualitative research.

The descriptive research narrative allows me, as the researcher, to describe a situation or an event. I am allowed to describe what I have observed (Babbie, 1998:91-92). As mentioned in Chapter 1, I am currently the Coordinator for SCOPA since 2011. Since 2011 to date (2017), I have observed that the WCDoH has been the beneficiary of the biggest allocation of appropriated funds of the provincial budget, year-on-year. However, the Department struggles on an annual basis to achieve a clean audit outcome. This impacts on the status of the Department on a provincial, as well as a national level. In addition, taking into consideration the concept of asymmetric information whereby the Department has expert knowledge of its financial affairs, but chooses to only divulge certain, or portions, of information also strengthened the “purpose” factor of this research. It is common knowledge that the Accounting Officer, including the Minister, must first scrutinise and approve any information that is forwarded for SCOPA’s attention. In addition, there were already instances where I had telephonic requests from the Department to not disseminate information which was requested by the Committee. The telephonic requests relate to the fact that the Department has provided too much information to the Committee on some occasions.

In addition, the Department and SCOPA have a Principal- Agent relationship whereby the Committee acts as the Principal, who received its mandate from the general populous who elected the members into office, and the Department acts as the Agent. In this scenario, the Agent receives its mandate (in the annual and bi-annual approval of its appropriated budget) from the Legislature and must account for its annual expenditure and management of its budget, policies and programmes.

Babbie (1998:91-92) indicates that scientific descriptions are more accurate and precise than casual descriptions. This is correct in that this mini-thesis will utilise official documents and papers, which will validate the research undertaken. Through this mini-thesis, I will also attempt to examine the patterns which will emanate from the data presented.

4.4 Unit of Analysis

The researcher is aware that any subject matter can be researched in the qualitative research diaspora. A subject matter can then be studied in order to form a picture to assist the investigation. According to Babbie (1998:92-93) the Unit of Analysis is also the object of observation. It is the thing that will be examined in order to create summary descriptions of all such units and to explain differences among them.

One of the social science units of analysis can be an Organisation (Babbie, 1998:94). Yin (2003:76) strengthens the opinion of Babbie, whereby he states that a unit of analysis case study may be organisational, which is about an Organisation.

An Organisation can also be considered as a unit of analysis. One of the more in-depth studies of the Organisation, according to Babbie (1998:94) can be the gross assets and net annual profits of that Organisation.

Yin (2003:76) further elaborates that the data collection methods of the unit of analysis should be validated by the collection of official documents of the Organisation.

However, Yin (2003:24) warns that if the research objective does not lead to favouring to the one unit of analysis over another, then the research focus point is either too vague or too numerous, which may lead to challenges in the continuing of the research project.

The unit of analysis in this mini-thesis is the WCDoH.

4.5 Time Dimension

4.5.1 Longitudinal Study

This mini-thesis will be done as a longitudinal study. Hakim (2000:109) explains that a longitudinal study is initiated when regular surveys or other sources reveal new trends that they (the surveys) cannot fully describe or explain. In other words, regular surveys provide information on changes on a macro level, while longitudinal research

provides information on a micro level. Thus, the longitudinal research method probes the underlying issues of the unit of analysis.

The longitudinal study takes a sample and follows these up over a long period of time, with repeated data collections (Hakim, 2000:109). Moreover, this mini-thesis will conduct a quasi-longitudinal study. This study, which is a by-product of the longitudinal study, concentrates on the historical data of the unit of analysis over a certain period of time (Hakim, 2000:109). Longitudinal studies can vary in time duration. Some studies can take 30 years, while other can take one to two years (Hakim, 2000:109-113).

Gorard (2013:6-7) provides examples of longitudinal studies. The first example is where a study is following infants from birth to adolescents. The individuals are weighed on 1 January of each year- this is considered longitudinal in nature. The second example is where a study follows infants from birth to adolescents. The parents are interviewed to highlight the happiness that was experienced. This would also be considered longitudinal. The reason for the decision, is that the collection of data was taken over a period of time from the same unit of analysis in a repeated manner. Schulsinger (1981: 19-20) highlights that longitudinal studies applies to relationships and perspectives which concerns constructs, data measuring and describing longitudinal relations.

This mini-thesis will study the data of the WCDoH over a 14 year period. The data will be consistently extracted over certain periods of time. The points in time are October/ November- annually. The reason for the collection of the data at these exact points in time is that the annual reports, including annual financial statements, of the Department have been considered by SCOPA. The practise of WCPP is that all the departments of the WCG must account for the contents of their annual reports during the aforementioned months, each year. This allows WCPP to be consistent in its oversight responsibility. In addition, it is also during this time that SCOPA passes resolutions to the Department based on 1) the audit opinion of the AGSA, and 2) the contents of the annual report of the Department. It is also in this time that the audit opinions of the AGSA and Audit Committee of the Department are discussed in detail with SCOPA.

To support my decision on the type of study this mini-thesis will undertake, Babbie (1998:100-101) states that longitudinal studies are designed to permit observations over an extended period of time. Through this mechanism, an action can be analysed over a certain period of time, irrespective whether the researcher's actual observations and analyses were made at one time or over the course of the actual events under study. Such a research activity would still be considered a longitudinal study.

In this instance, the majority of the events have preceded me as the researcher of this project, while I only was observant only from the 2011/12 to 2014/15 financial years of the intended study.

More specifically, this research project will concentrate on the special type of longitudinal study which is called a trend study (Babbie, 1998:101-102). This type of study concentrates on changes which occurred within a population over a specific period of time. This is relevant as the specific timeline has been indicated, including the population, in this case, is the unit of study- which is the WCDoH.

As previously mentioned, Gerring (2007: 154) opinionated that longitudinal research is whereby the researcher will hope for a reform to occur over a specific period of time. Thereafter, the results will rest solely on the before- and- after comparison of a specific occurrence during the time under evaluation. Bless et al (2000: 66) explains that longitudinal research spreads data collection over a period of time. For the data to be reliable, the researcher must obtain data that has occurred over several years and at the same time, each year.

4.5.2 Data Collection

Creswell (2014:161) states that Fowler (2009) indicated that the researcher has available some measures of data collection for analysis. These include the following:

- Mail;
- Telephone;
- Internet;

- Personal Interviews; or
- Group Administration.

The aforementioned data collection mechanisms are mentioned, as these may be used in collecting data for research to be undertaken. However, this research will make use of primary historical data, including the following sources of data to authorise the longitudinal study. These include the following:

- Annual reports of the WCDoH of Health;
- SCOPA annual resolutions reports on the annual reports of WCDoHs; and
- Annual AGSA audit opinions on the financial statements of the WCDoH.

Prior (2003:63) indicates that official government documents can extend across time and place and can be pointed to and recruited as evidence. Such legitimate documents normally consist of performance indicators, amongst others. Prior further elaborates that action that are turned into action outputs, such as official figures and reports, can be evaluated long after the events have taken place.

4.5.3 Tools of Analysis

The following analytical tools will be used in order to scrutinise the annual financial statements of the WCDoH. According to Swanevelder (2005:24-27), these include:

1. Current Ratio;
2. Acid Test or quick ratio;
3. Financing to capital expenditure;
4. Cash to income ratio;
5. Cash flow ratios;
6. Asset liquidity ratios; and
7. Cash to total fixed assets

4.5.4 Content Analysis

Prior (2000:21) states that a document might function as the carrier of a message, or, as a tool for interaction. The contents that will be analysed will indeed be used as a tool for interaction, while yet looking intensively for the message over the intended timeframe.

Schulsinger (1981:292-293) suggests that researchers should be as flexible as possible seeing that some of the outcomes will only be evident after many years. In this research instance, a pattern should be identified over the timespan identified.

4.5.5 Validity

It is important to distinguish between good and bad forms of evidence. This source of ethical data collection is important in research practise (Prior, 2003:149). The reliability of the information sourced will have an impact on the outcomes and recommendations that will be made in this mini-thesis. The concept of validity in the research practise relates to whether the research findings have been based on the extrapolation of appropriate and valid evidence. Prior refers to Burgess (1984), who indicated that documents should be verified for authenticity.

In respect of the documents to be used, it should be noted that all the content of the annual financial statements that will be analysed has been authenticated and validated by 1) the AGSA, and 2) WCPP. The mandate of the AGSA is, amongst others, to assure the stakeholders of departments, such as WCPP, of the reliability of the information that is presented by the Department in its annual reports.

Creswell (2014:201) states that qualitative research validity indicates that the researcher has checked for the accuracy of the findings by employing certain procedures. In this instance, the research Supervisor will be the main authority that will validate the findings which emanates from this research project.

Babbie (1998:132) does state that one method of checking the reliability of the researcher's work is to request a sample of various pieces of information.

4.5.6 Scope

As mentioned in Chapter 1, there are a number of limitations to the research methodology being used. Some of the limitations include:

- The annual financial statements' historic performance, whether negative or positive cannot be a determinant to future financial performance;
- The research is only limited to the audit opinion on the annual financial statements of the Department over the 14 year period. This research will not evaluate the audit opinion on pre-determined objectives of the department over each respective financial year;
- The annual financial statements does not indicate whether a change in departmental leadership has taken place- which might affect the outcome of the financial performance in any given financial year;
- To sketch an overall scenario, the analysis of data is only limited to the financial periods from 2000 to 2014.
- The specifically applied accounting principles will have to be applied in the period these have occurred, e.g. Generally Accepted Accounting Principles (GAAP) has been relevant from 2000-2004, while GRAP has been implemented from 2005-2014.

Regarding the limitation which relates to time-series analysis, the data represented will only apply to the WCDoH over a 14 year period. The data cannot be used in cases which affect other public institutions or even institutions within the private sector. As the goal of the analysis is to identify trends and patterns over a series of financial years, the result will only be applicable to the WCDoH.

In addition, the recommendations that will be made will also only be applicable to the WCDoH. This is due to the fact that the data which is utilised will be derived from the annual reports of the Institution.

4.5.7 The role of the researcher

The researcher will analyse and present the information obtained through the previous highlighted data collection methods in an unbiased manner.

The researcher does not need the permission of the WCDoH, neither WCPP, in order to obtain and analyse the data from the various sources. The sources are in the public domain and available for public consumption, which includes the analysis of the information.

4.6 Summary

This Chapter highlighted the type of research that this min-thesis will concentrate on. The type of research that this project will make use of is a qualitative research project.

The reason for the choice is that this type of research will allow the researcher to, through data analyses, build a picture from the bottom up (Creswell, 2014:46-47). This will ensure that the phenomenon of enquiry is properly described once the data is analysed.

This research is restricted to the WCDoH over a 14 year period. The purpose of the research is to evaluate the annual financial statements of the Department. Over the time period of analysis of this research, the Department has not been able to achieve a clean audit opinion. In addition, the Department received continuous findings year-on-year from the AGSA on matters which affects its annual financial statements. This research will also concentrate on the role of SCOPA in conducting oversight over the Department through the linkage of the Principal-Agent principle. The question which comes to mind is how effective the resolutions of the Committee are on the annual audit outcomes of the Department.

The evidence from the data that will be extracted, includes various sources, such as the annual reports of the WCDoH, AGSA and Audit Committee audit opinions, as well as the resolutions of SCOPA which are derived from the annual reports of the

Department. All documents are vetted by the AGSA for reliability and accuracy. This strengthens the validity of the evidence which will be used for analysis.



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Chapter 5: Data Analysis

5.1 Introduction

National Treasury is clear in its instructions to public departments and entities on the presentation of their financial statements within their annual and quarterly reports. According to GRAP 1, which was issued by National Treasury in February 2010, departments and entities are to align the presentation of their annual financial statements to the Accrual Basis of Accounting (National Treasury, 2014:5).

However, this change is foreseen as not posing a risk with the unit of analysis that this mini-thesis is based on. The GRAP 1 instruction impacts the latter third of this study (2010/11, 2011/12, 2012/13, 2013/14 and 2014/15 financial years). This should not be considered to have a negative impact on this study, as the financial ratios that will be employed to analyse the financial statements, will not be affected by such a change of a basis of accounting.

This chapter will concentrate on the analysis of three statements of the WCDoH over 14 years. The following statements of the WCDoH will be analysed:

1. Statements of Financial Performance;
2. Statements of Financial Position; and the
3. Cash Flow Statements.

In addition to the analysis of the aforementioned statements, this Chapter will also concentrate on the analysis of what I deem “supporting annexures” to the financial statements. These include and are limited to the following:

1. AGSA opinions; and
2. SCOPA resolutions.

The aforementioned “supporting annexures” have an impact on the financial management practise of the WCDoH. From there on, the contents of the financial statements will be affected as the WCDoH proceeds with its financial reporting on a quarterly and annual basis to the WCPP.

The financial ratios which are used in the analysis of the aforementioned statements will assist in highlighting the trends (highs and lows) of financial management activities through the WCDoH's financial reporting structures.

As mentioned in Chapter 1, this Chapter will not explain the reasons as to why the patterns are as presented, due to the fact that it will need to take further investigation and analysis to draw conclusions to the data presented. This Chapter will be limited to presenting and explaining the data as reflected by the different ratios that will be applied to this study.

5.2 Financial Statements Analysis and Ratios

Walton (2000) iterates that the practice of financial statement analysis is as old as the formulation of the financial statements themselves. The development and upgrade of computers have assisted analysts to adopt complex statistical analysis, including financial models. The main purpose for the analysis of financial statements includes the answering of two important questions:

1. How well did the WCDoH perform?
2. How financially strong is the WCDoH?

These two questions form the basis for the analysis of financial statements, and are very important for stakeholders and creditors. The uses of ratios in the analysis of financial statements are thus helpful in obtaining a picture of the financial status of an Organisation over an extended period of time.

According to Weetman (2003), ratios are the tools that are used to analyse the financial statements of an Organisation. She continues to argue that analysts will use ratios in order to assess the performance of an Organisation. In addition, ratios highlight the changes in financial figures and therefore create a story which the analyst can follow, generate questions and probe further. Furthermore, Barnes (1987) explains that financial ratios have three purposes and two principal uses. The three purposes of financial ratios includes 1) the assessment of the ability of a Firm to pay its debts, 2) the evaluation of business and managerial success, and 3) the evaluation

of the statutory regulation of an Organisation's performance. The principal uses of financial ratios includes the comparison of the "standard" (industry) wherein the Organisation is located. Secondly, the ratios ensure the positive use by estimating relationships, which impacts predictions for future-related expenditures and/ or events.

This chapter will concentrate on two types of ratios, which are highlighted by Weetman (2003) as the following:

- Liquidity and current assets; and
- Analysis of management's financial performance.

The former ratios provide an indication of the liquidity of the Organisation as a means to survival. The latter ratios highlight how well the Organisation is run in terms of utilising its assets to generate revenue, as well as controlling its overall costs. Liquidity refers to the ability of an Institution to convert assets into cash. On-hand cash is deemed as the most liquid asset of any Institution.

However, Weetman (2003) cautions that ratios only highlights trends for the analyst. The ratios that are to be employed should not be taken in isolation, neither over a single period of time, as this will negatively impact on their usefulness. One of the main requirements is to ensure that a benchmark is identified against which to measure the performance of the Organisation.

Ratios, according to Walton (2000), assist the analyst in decoding the messages which are built into the financial statements and convey a picture as reflected from the ratio. What is further mentioned, and not covered by this chapter or mini-thesis, is the fact that the analyst should consider the macro- economic variables and the strategic plans of the WCDoH.

The industry against which the WCDoH is evaluated is the National and 8 Provincial departments' of healths'. The data for each of the ratios below have been extrapolated from the following provinces, which comprises the industry average, as follows:

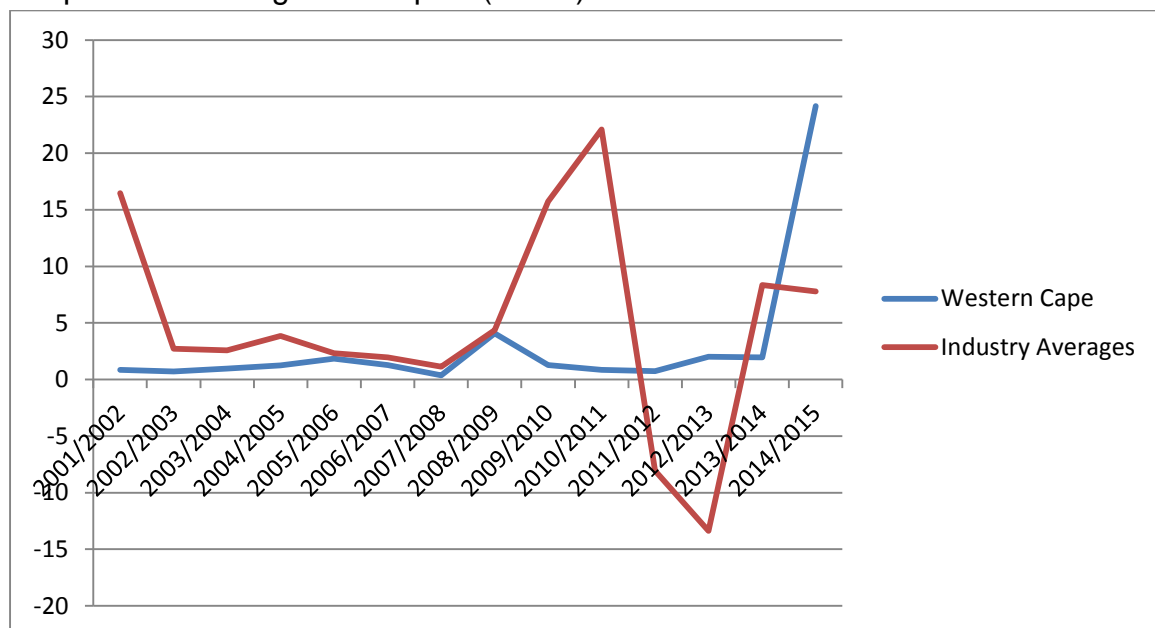
1. Limpopo;
2. Gauteng;
3. Eastern Cape;
4. Free State;

5. KwaZulu-Natal;
6. Northern Cape;
7. Mpumalanga; and
8. North West.

5.3. Statement of Financial Performance (Income Statement)

5.3.1 Percentage net surplus (deficit) for all services ratio

Graph 1: Percentage net surplus (deficit) for all services ratio



Formula= Goods and Services/ Surplus (deficit) X 100

The percentage net surplus/ deficit for all services ratio is a mechanism that is used to evaluate the financial performance of a government department. In financial terms, a surplus is defined as a financial saving, while a deficit is regarded as a financial loss. The ratio is indicative of the income (revenue) and expenditure trend within the WCDoH over a specific period of time. The indicator “0” is the acceptable level around which the financial management of the Department should be centred. Below “0” represents a negative decline in the expenditure of goods and services. The WCDoH and ministerial cabinet can use this ratio to ensure that it amend certain policies in order to ensure that the allocation of resources are done optimally, including the usage of goods and services within the WCDoH.

The graph indicates that the expenditure trend of the WCDoH has been quite conservative as opposed to the national industry average. The national average is viewed as being erratic in observation. However, there are some similarities between the WCDoH, as well as the national average industry trends of financial performance, which can be highlighted as follows:

- There is a decline in financial performance by the WCDoH in 2007/08, 2010/11 and 2012/13 financial years; and
- There has been an improvement of financial performance between the 2003/04, 2008/09 and 2013/14 financial years.

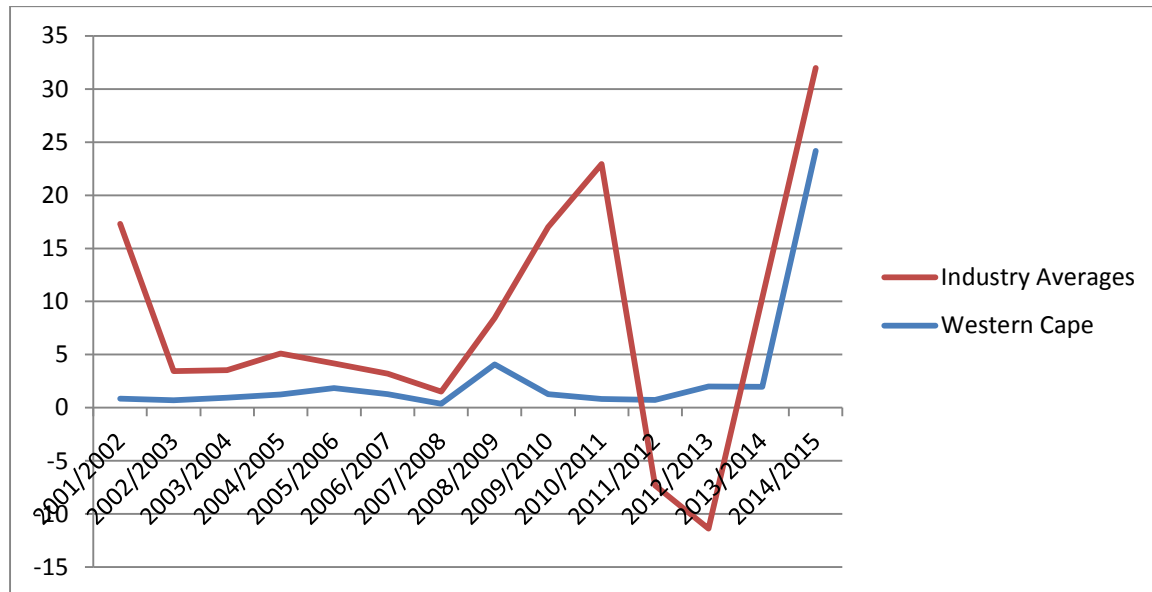
Goods and services were adversely affected during the 2007/08 financial year, due to the overall financial pressure on the WCDoH and the need to prioritise primary and secondary levels of care. During this financial year, the WCDoH decided to reduce the equitable share allocation of funds and to close 90 beds at Grootte Schuur Hospital and 30 at Tygerberg Hospital. In addition, the Department had to direct the focus of its expenditure on operational costs, which negatively impacted the WCDoH's expenditure on goods and services (WCDoH, 2008:3). During the 2012/13 financial year, the WCDoH was severely affected by the challenges experienced in ensuring goods and services, in order to promote effective and efficient service delivery. The factors that were negatively impacted included chronic medication dispensing and drug availability at the Cape Medical Depot (WCDoH, 2013: 30-32). For the 2010/11 financial year, the decline in expenditure of goods and services within the WCDoH were due to the delay in the Global Fund Rolling Continuation Channel (RCC-I) agreement that was only signed during September 2010, non-filling of posts, slow progress of the implementation of the Hospital Revitalisation Grant, late acceptance of the Infrastructure Grant to Provinces, late acceptance of tenders and the slower than anticipated construction progress of medical facilities within the Western Cape (WCDoH, 2011: 245-246).

The industry average has shown a sharp decline in its financial performance from the 2010/11 to 2012/13 financial years. This decline must have had a negative impact on 1) the mandate, and 2) the service delivery aspects of health on a macro- level. However, as aforementioned, the financial performance of the WCDoH has been quite conservative in a manner that indicates that although financial performance improved,

and at times, declined over the 14 years, the WCDoH was still in a position to deliver on its mandate and effect optimal service delivery. From the 2014/15 financial year, the ratio indicates that the WCDoH has seen an increase in its financial performance.

5.3.2 Expenditure net surplus/ deficit for all services to revenue

Graph 2: Expenditure net surplus/ deficit for all services to revenue



Formula= current expenditure + expenditure for capital assets/ surplus (deficit) X 100

The expenditure net surplus/ deficit for all services to the total income of the WCDoH reflect the expenditure management controls that it possesses. This ratio reveals whether the WCDoH spent all it appropriated funds during each respective financial year. Included in this definition, this ratio is an indication of the percentage of surplus or deficit that the WCDoH incurred when it spent all its funds on all the services within the WCDoH- both operational and capital.

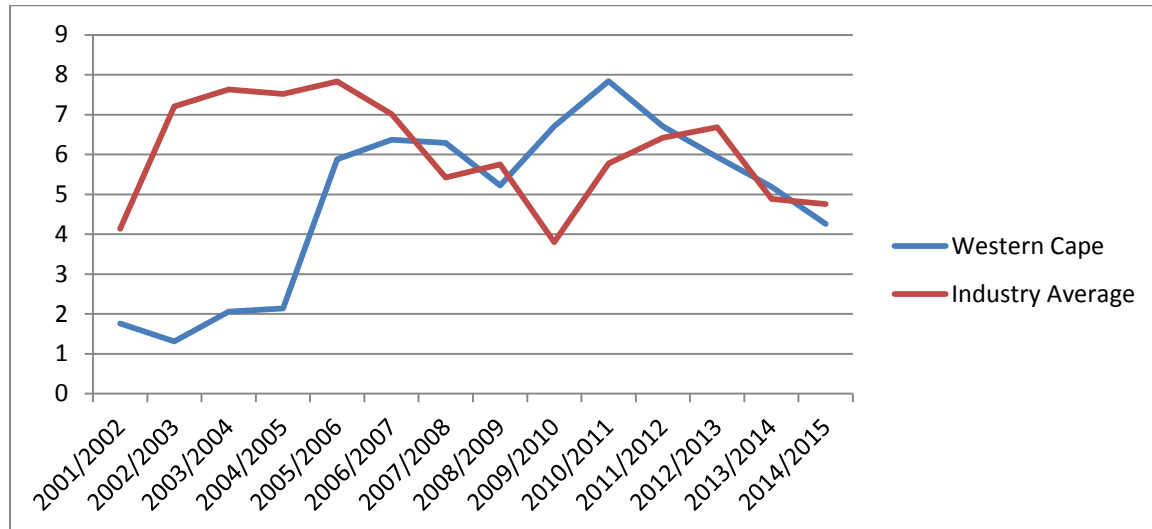
The ratio also indicates whether the WCDoH is able to successfully continue with its current and capital revenue mechanisms. The surplus of funds should be rendered to the provincial revenue funds- to be used for other public service delivery within the province or country. Another option is that the WCDoH can request that the surplus funds get rolled-over to the following financial year in order to meet, and possibly exceed, the mandate of the WCDoH.

It is worth noting that the spending trend of the WCDoH has been below the average national norms. However, while the national norms indicate erratic expenditure trends, the WCDoH has been consistent with its expenditure of funds for each respective financial year. This could have been due to new internal policies that were implemented to control the expenditure of the WCDoH. The general trend seen for the WCDoH would be that it would increase its expenditure over 1-3 financial years, and decline for 1-3 financial years. However, the ratio reveals that the WCDoH has seen a massive spike during the 2014/15 financial year. This is below the national norm, but it is busy catching up with the national norm.

During the 2006/07 to 2007/08 and 2009/10-2011/12, the WCDoH has seen a decline in its expenditure management function. In addition, this could be indicative of a culture to purposefully savings or under-expenditure of funds. This could have a negative effect on the service delivery of the WCDoH, and impact on its pre-determine objectives as set at the beginning of each financial year. However between these times, the WCDoH has increased its expenditure management functions. Over the 14 year analysis, the ratio has revealed that the WCDoH was not erratic in its expenditure management processes as per its national industry benchmark suggests. The under-expenditure between the 2006/07 to 2007/08 was due to the under-expenditure of capital assets; especially due to the erection and maintenance of buildings and other fixed structures (WCDoH, 2008: 171). For the 2009/10 financial year, the WCDoH underspend on its capital assets in all its programmes, except under programmes 3 (Emergency Medical Services) and 5 (Central Hospital Services). For the operational expenditure of the financial years under review, the WCDoH spent close, if not more in most instances, to 100% (WCDoH, 2010: 200).

5.3.3 Capital Asset Expenditure to total revenue

Graph 3: Capital Asset Expenditure to total revenue



Formula= expenditure for capital assets/ surplus (deficit) X 100

The Capital Assets Expenditure to total revenue ratio provides an indication of the degree of purchase of capital assets by the WCDoH in order to enhance its service delivery objectives.

The WCDoH started under par with the industry average. However, from the 2002/03 financial year, the WCDoH started to increase its expenditure of the purchase of capital assets. It was on par with the national industry average during the 2007/08 financial year. From thereon, the WCDoH increases spending on capital goods. However, from the 2011/12 financial year, the WCDoH decreased its expenditure on capital goods. The WCDoH had declined with the industry until 2008/09 where it started to appropriate funds on capital assets in order to expedite service delivery in the Province.

However, from the 2009/20 financial year, the WCDoH has seen a decline in the expenditure of capital goods, although the national average has indicated a consistent increase from the 2009/10 financial year. The WCDoH spent 80.5% (R493 617 million) of a budget of R613 435 million, and for the purchases of its machinery and equipment, it spent 89.9% (R210 361 million) of a budget of R233 874 million (WCDoH, 2010: 201). The under-spending related to the following factors:

- Not all invoices for infrastructure projects on the Global Fund were paid before the end of the financial year. This was due to funds being retained for possible defects;
- Delays in the placing of orders at Metro District Health Services due to the “unbundling” of this office into substructures;
- Delays in the approval of community based projects to be funded;
- The insolvency of contractors’ progress of mortuaries for the forensic pathology service component. New contracts had to be awarded to complete these projects;
- The late approval of the roll- over of funds on the Mitchell’s Plain Hospital and the late awarding of Worcester Hospital tender was due to a delay in the tendering process;
- The Infrastructure Grant to Provinces – a number of projects did not commence timeously due to capacity problems at the Departments of Health and Transport and Public Works;
- The under- expenditure on capital projects was due to the lack of availability and delayed acquisition of appropriate sites, delays in planning, poor performance of service providers, e.g. professionals and contractors, and the Department’s service delivery model.
- Somerset Hospital (FIFA upgrade) – the tender for the extension of the casualty unit coming in well below the estimated cost on which the budget was based; and
- The under-expenditure on maintenance was as a result of the implementation of changes to the tender process at the Department of Transport and Public Works. (WCDoH, 2011: 18, 210-211).

5.4 Statement of Financial Position (Balance Sheet)

5.4.1 Acid- Test Ratio

Graph 4: Acid- Test Ratio



Formula = (Cash + Receivables) / Current Liabilities.

The Acid- Test Ratio is a measuring tool which indicates whether the WCDoH has adequate funds to pay its debtors as these becomes due. This ratio is the same as the Current Ratio, except that the inventory of the WCDoH is not included in the ratio. This is because the WCDoH's inventory is considered the least liquid current asset. Gitman (2007) indicates that any outcome greater than "1" is deemed as acceptable. However, Gitman (2007) advises that the analyst should compare the outcome of the result of the Organisation to the industry within which it operates.

The WCDoH has consistently been below the "1" acceptable outcome. The closest that it got to "1" was in the 2002/03 financial year. From thereon, WCDoH has seen a decline in its ability to pay its debtors as they became due for payment. This places the overall financial management of the WCDoH in a very negative position. Although it made a turnaround in the 2011/12 financial year, this was, unfortunately, not adequate enough to show a healthy indication of an ability to rise to the outcome of "1".

The WCDoH should carefully concentrate on its ability to pay its debtors as they become due. At the 2014/15 financial year, it showed that it is even less able to pay its major debtors as they become due.

The industry average has nearly peaked towards the acceptable level of “1” during the first 10 years of this analysis, in the 2006/07 financial year. From thereon, the ratio indicates that the industry average declined between the 2008/09 to 2009/10 financial years. However, the industry accelerated to a level of above “3” in the 2011/12, thereby indicating that the expectation that the payments of debtors as they become due should be realised.

From the 2011/12 financial year, the industry has seen a steady decline in the ability to pay debtors as they become due. Albeit, the industry average has still indicated an overall higher ability to pay its debtors over the 14 year analysis, as these become due.

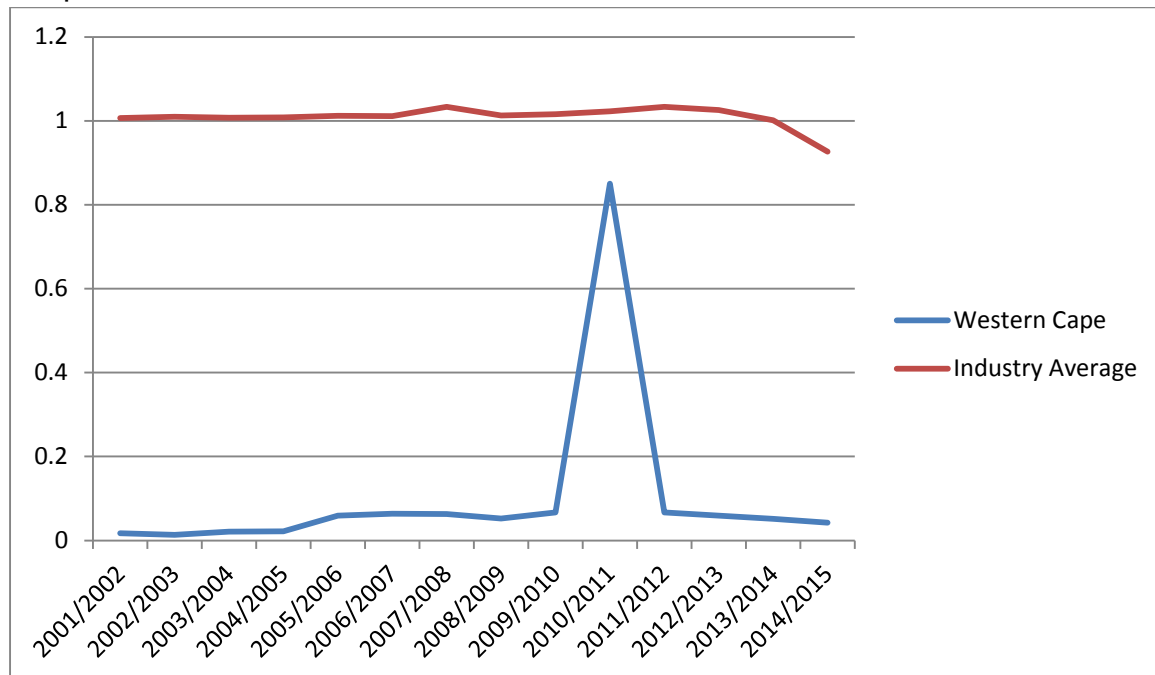
For the 2014/15 financial year, the WCDoH had cash on hand for the financial year to the value of R184 899 million. This amount comprised of deposits in the Paymaster General Account and cash- on- hand (WCDoH, 2015: 292). In addition, the receivables for the 2014/15 financial year amounted to R23 808 million. The Department would experience a challenge if debtors’ notes became due, due to the fact that the WCDoH’s overall liabilities amounted to R222 614 million. This would mean that the Department would have a shortfall of R3 061 million (WCDoH, 2015: 270). The following shortfalls would occur during the following financial years within the Department:

- 2003/04- R435 170million;
- 2004/05- R446 537million;
- 2005/06- R409 780million;
- 2006/07- R415 916million;
- 2007/08- R116 795million;
- 2008/09- R205 542million;
- 2009/10- R142 035million; and
- 2010/11- R56 846million.

(Source: WCDoH’s annual reports 2003/04 to 2010/11).

5.4.2 Current Ratio

Graph 5: Current Ratio



Formula= Current Assets/ Current Liabilities

The Current Ratio is similar to the Acid- Test Ratio. This ratio is an indication as to whether the WCDoH can pay its financial liabilities as they become due in the next 12 months. This ratio indicates the WCDoH's ability to meet its short-term obligations. Both Swanevelder (2005) and Gitman (2009) agree that an outcome of "2" or greater should be deemed as acceptable. Any outcome of "1" or below indicates that the WCDoH has no working capital available with which to complement its financial management processes.

The ratio indicates that the WCDoH has had a consistent amount of working capital available for the past 14 financial years. However, from the 2012/13 financial year it started to decline. Summised from the graph, the WCDoH has seen a slight regression in its ability to pay its short-term obligations.

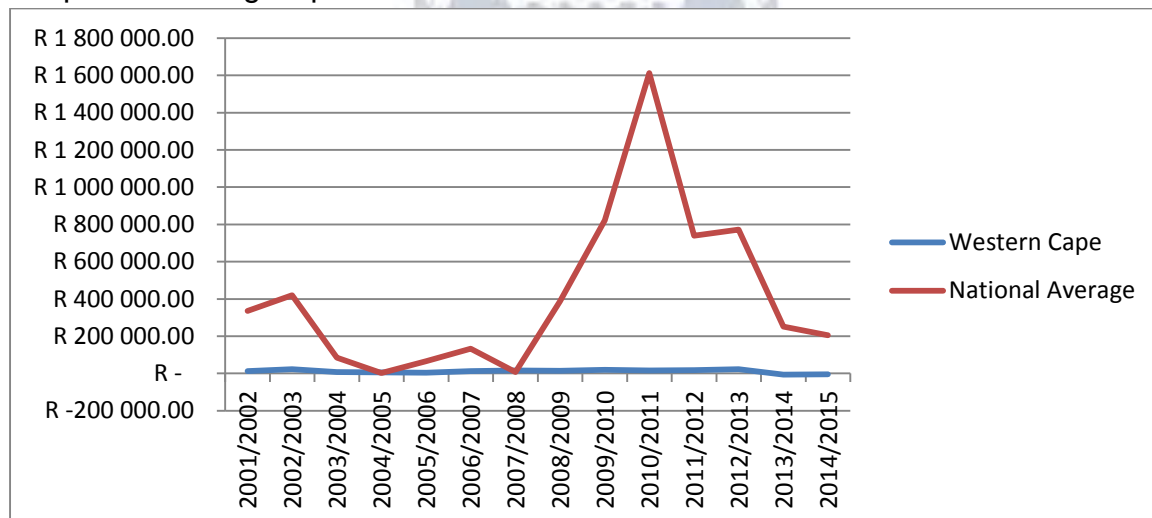
In contrast, the industry average has shown that it does not have a sufficient working capital on hand to pay its short term obligations, as these becomes due. From the 2004/15 financial year, the industry experienced a gradual move towards the "1" mark. Between 2009/10 it experienced a significant spike towards the "1" mark. However, from the 2010/11 financial year, the industry experienced a sharp decrease, and from

the 2011/12 financial year it gradually declined towards a “0”. This is indicative that the industry is not adhering to its supply chain management and financial management policies and processes. The reason for the decline could be due to the following factors:

- The Department had a balance on its books for R54 million due to unauthorised expenditure during the 2012/13 financial year, which was carried over to the 2013/14 financial year;
- The cash and cash equivalents decreased with R34 615 million from the 2012/13 to 2013/14 financial years;
- The staff debt of the Department increased between the 2012/13 and 2013/14 financial years with R1, 1 million (WCDoH, 2014: 356-359).

5.4.3 Working Capital Ratio

Graph 6: Working Capital Ratio



Formula= current assets –current liabilities

The Working Capital ratio is considered to be, as like the Acid-Test ratio, an alternate ratio of the Current ratio. This ratio is used to assess whether a WCDoH can pay its short-term obligations. The greater the amount of working capital, the more likely the WCDoH is able to pay its creditors as they become due. The higher the outcomes score of the Working Capital ratio, the greater the degree of protection for the WCDoH’s short-term creditors.

The WCDoH has indicated that it had liquidity to pay its creditors as invoices became due. The WCDoH showed an increase from 2001/02 up until the 2002/03 financial years. From thereon, the WCDoH somewhat of a slight decline in its ability to pay its creditors. The 2005/06 financial year saw a turnaround whereby the WCDoH became more liquid with the ability to pay creditors as and when credit notes became due.

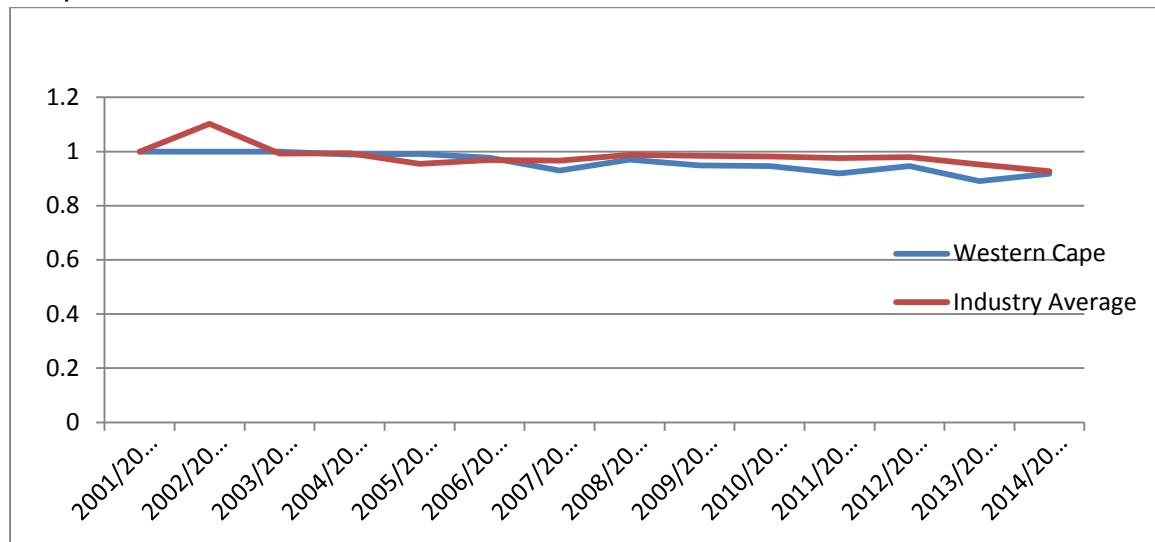
Of concern is the sharp decline of the working capital of the WCDoH in experiencing a continuous decline from the 2012/13 to 2014/15 financial years. This should be a concern to the creditors of the WCDoH, as well as the WCPP- especially SCOPA. At the end of the financial year of this mini-thesis, the WCDoH was not in a healthy liquid position to pay credit notes as they became due. It should be noted that an amount of R4, 923 million (392 invoices) for invoices older than 30 days were not paid at the end of the 2012/13 financial year (WCDoH, 2013: 380). As disclosed in note 18.1 to the annual financial statements, the department had a contingent liability of R221 million.

This includes an amount of R218 million (which relates to claims against the department), of which the majority were claims for medical negligence. In addition, material losses of R258 million were incurred during the 2014/15 financial year, as a result of the write-off of irrecoverable accrued departmental revenue. In note 23.3 to the annual financial statements, a material allowance for impairments of R226 million was provided for by the Department (WCDoH, 2015:228).

The industry average has indicated that it was in a favourable position to be liquid enough to pay all of its creditor notes as these become due. It was only during the 2004/05 to 2007/08 financial years, that the WCDoH has indicated that it was more liquid and able to pay its credit notes as these became due. Overall, the industry average has shown a higher liquidity rate that should be striven toward as credit notes become due. It should be noted that the industry average, in this instance, is a combination of various provincial departments of Health. Thus, the industry will yield a more favourable result in this ratio.

5.4.4 Debt to Assets Ratio

Graph 7: Debt to Assets Ratio



Formula= Total Liabilities/ Total Assets

The Debt to Assets ratio highlights the proportion of total assets which are financed by the WCDoH's creditors. If the outcome indicator is high, it is an indication that the assets of the WCDoH are used to generate an income for itself. In addition, the ratio also measures the level of financial distress or vulnerability that the WCDoH finds itself in.

The industry has shown consistency in that the WCDoH has used its assets to generate an income. This is of importance in that the WCDoH is one of the limited departments in the WCG that generates income through charging patient fees to patients. However, there has been a slight gradual decline from the 2003/04 to the 2014/15 financial years. The ratio indicates that the WCDoH has been conservatively consistent in the debt-to-assets within itself. Once again, as per the aforementioned ratios, the WCDoH has successfully indicated that it could be conservative when it relates to its debt management processes.

During the 2004/05 financial year, the Audit Committee of the WCDoH identified the following internal control weaknesses regarding the recording and use of assets, which could lead to a finding in the future financial years:

- Asset registers were not updated to reflect purchases, disposals and transfers of assets;

- Asset counts were not performed at certain hospitals visited; and
- A formal maintenance and repairs policy for medical equipment did not exist at various hospitals (WCDoh, 2005: 88).

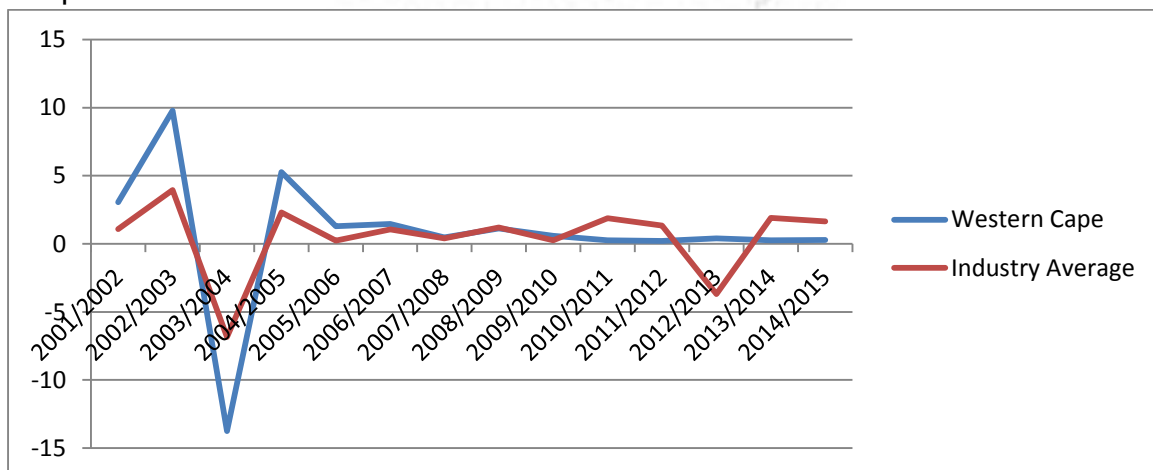
During the 2004/05 financial year, the WCDoh's assets yielded a small revenue (R6 024 million) in relation to its liabilities. This stabilised for the 2005/06 to the 2010/11 financial years. From the 2011/12 to the 2013/14 financial years, the Department indicated that that it can generate a surplus from its assets, in relation to its liabilities. However, in the 2014/15 financial year, it was still able to generate a surplus, but the surplus amount was less than the previous financial years. This was mainly due to its receivables for services rendered (WCDoh, 2015: 270).

The industry average percentage indicates that the industry was in a more favourable position, whereby the industry has shown that it can favourably generate revenue from its assets. The industry has indicated that it is not in a position of being financially distressed.

5.5 Cash flow statement

5.5.1 Debt to Cash Ratio

Graph 8: Debt to Cash Ratio



Formula = Net cash available from operating activities / current liabilities

The Debt to Cash ratio measures the long-term liquidity of the WCDoh. It indicates the flow of funds from the operations of the Organisation to the payment of the

WCDoH's debt. In addition, this ratio provides an estimation of the time that it take for the WCDoH to repay all its debt if it dedicated all its cash flow to debt repayment.

The ratio also provides the members of the public with a snapshot of the financial health of the WCDoH. It should be noted that if it has a high outcome then it is able to fund all its debts. An outcome of "1" is considered comfortable, whereby the Department can pay all of its liabilities from the cash flows of its operations- for each respective financial year.

The WCDoH will take a long time to pay off its debt in the long term, if any major notes become due. From the 2001/02 to the 2002/03 financial year, the WCDoH has shown that it was more than able to pay its long-term debts. However, from the 2003/04 financial years, the WCDoH has been in a position to not meet its long-term obligations as expected. Its recovered somewhat during the 2003/04 financial years to only reducing its liquidity for long-term debt.

The WCDoH made small, incremental positive strides during the 2006/07, 2008/09 and 2012/13 financial years. However, the liquidity level of the WCDoH, in terms of meeting its long term credit notes, is worrying. The snapshot that the ratio portrays of the financial health of the WCDoH is negative.

For the 2003/04 financial year, the Department could not pay off its debts as notes became due, due to the following challenges that were experienced:

- Assets that were purchased were not capitalised and depreciated;
- Income and expenditure were not accounted for in accordance with the Accrual Basis of Accounting; and
- The value of goods in transit was billed to hospitals, which resulted in debtors being raised before goods were delivered (WCDoH, 2004: 91).

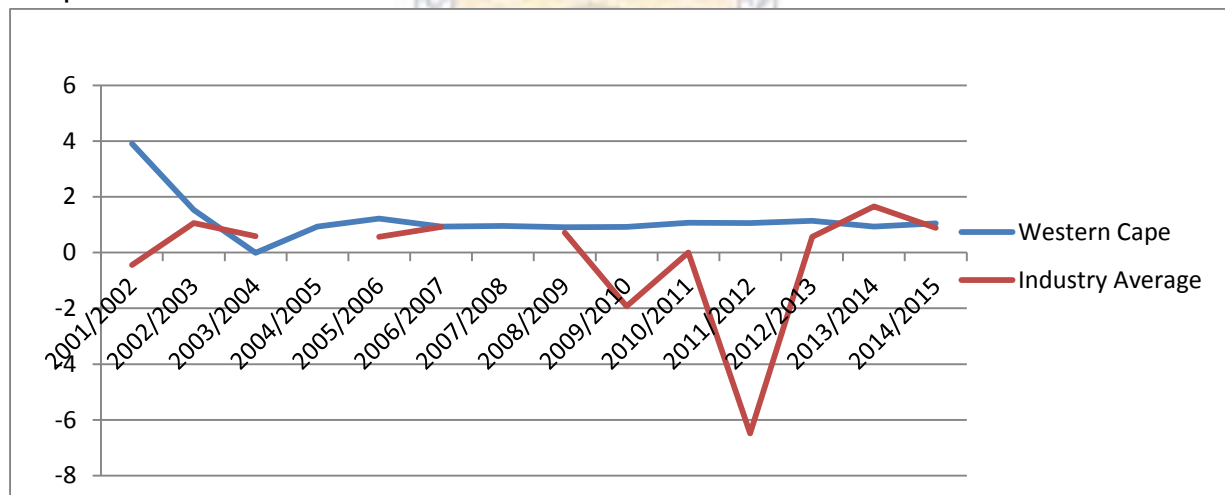
In addition, the receivables of the 2003/04 financial year (R37 mil) was grossly under-collected from the 2002/03 financial year (R214 million). Unauthorised, irregular, fruitless and wasteful expenditure resulted in a balance of R441 million. While the total liabilities for the 2003/04 financial year amounted to R465 million. The net cash flow amounted to R284 million, which resulted in a deficit of R166 million. (WCDoH, 2004). For the 2007/08 financial year, the cash that was on hand to pay debts was not enough to pay the liabilities for that financial year. In addition, invoices to the value of R

14,250,840 were not settled within 30 days of receipt of the invoices, as required by Treasury Regulation 8.2.3. Irregular expenditure of R 242 344 was incurred during the year under review, as a result of non-compliance with the financial delegations issued by the Accounting Officer in terms of section 44 of the PFMA (WCDoH, 2008).

The industry average indicates a similar picture as the WCDoH over the 14- year period of this study. However, at times, the industry indicated that it was more conservative in its approach to being liquid over the 14 years. In addition, the industry has indicated that it was less able to funds all its debts as the WCDoH.

5.5.2 Free Cash flow Ratio

Graph 9: Free Cash Flow Ratio



Formula= Operating cash flow/ revenue

The Free Cash Flow ratio provides the external stakeholder of the WCDoH with a picture of the revenue that the WCDoH can generate after spending the appropriated funds that are needed to run, and/or expand the operation of the Department.

The WCDoH showed a decline between the 2001/02 to 2003/04 financial years. From thereon it moved into a positive direction, and thereafter moved into the negative and plateaued from the 2005/06 financial year to the 2014/15 financial years.

During the 2003/04 financial year, the Department undertook savings initiatives, which saw it stagnating in expanding its operations. The savings initiatives included slow tender processes, the decreased use of tender process, reduction in workshops being

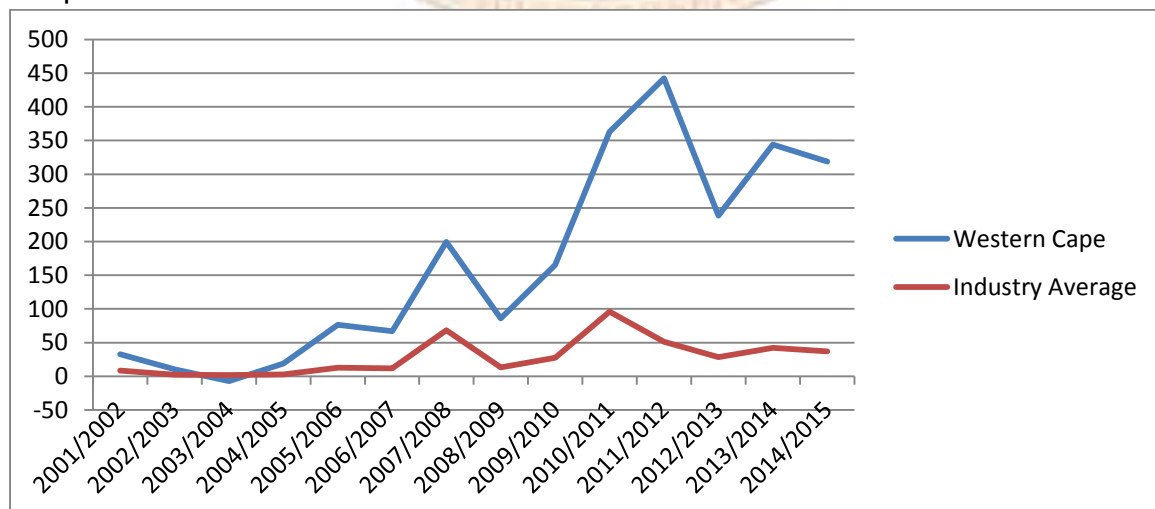
held, posts not filled and a reduction of subsistence and travelling expenditure (WCDoh, 2004: 68). In addition, the budget of programmes 3, 4 and 5 of the WCDoh were exceeded by R672 000; R278 000 and R19, 6 million respectively (total R20, 6 million). This could have been major factors in the declining of the WCDoh as per the graph indicated above.

For the 2006/07 financial year, the Department reflected more under-expenditure which prohibited it from fully expanding its operations and therefore meeting its constitutional service delivery obligation. It underspent on forensic pathology services, shortened tender process which impacted on the delivery of capital projects, and the WCDoh did not spend all its funds in relation to its community based carers (WCDoh, 2007: 168).

The national industry has indicated that it has been unable to render the services to its clients. In essence, the industry has shown that it is unable to generate its own revenue after the expenditure of funds for the individual financial years under review.

5.5.3 Cash to Fixed Assets Ratio

Graph 10: Cash to Fixed Assets Ratio



Formula= Net decrease/ (increase) in working capital/ total assets X 100

The Cash to fixed Assets ratio is used by analysts to evaluate the operating performance of the WCDoh. This is of importance as the operating expenditure is equally important as the capital expenditure of the WCDoh. This ratio is used to

measure the ability of the WCDoH to generate its income revenue from the fixed assets in its possession, namely, properties, plants, equipment, etc.

The ratio indicates that the WCDoH has done well in generating income in relation to its fixed assets. However, the ratio does indicate that there were instances, over the 14 years, that the WCDoH experienced some deficits- from the rise in WCDoH revenue over the years. It was only during the 2003/04 financial year that the WCDoH ran a loss in terms of revenue. However, from the 2009/10 financial years, the WCDoH was able to sustain a positive yield of revenue- up until the 2011/12 financial year. As at the 2014/15 financial year, the ratio indicates that the WCDoH was busy experiencing a decline in its revenue.

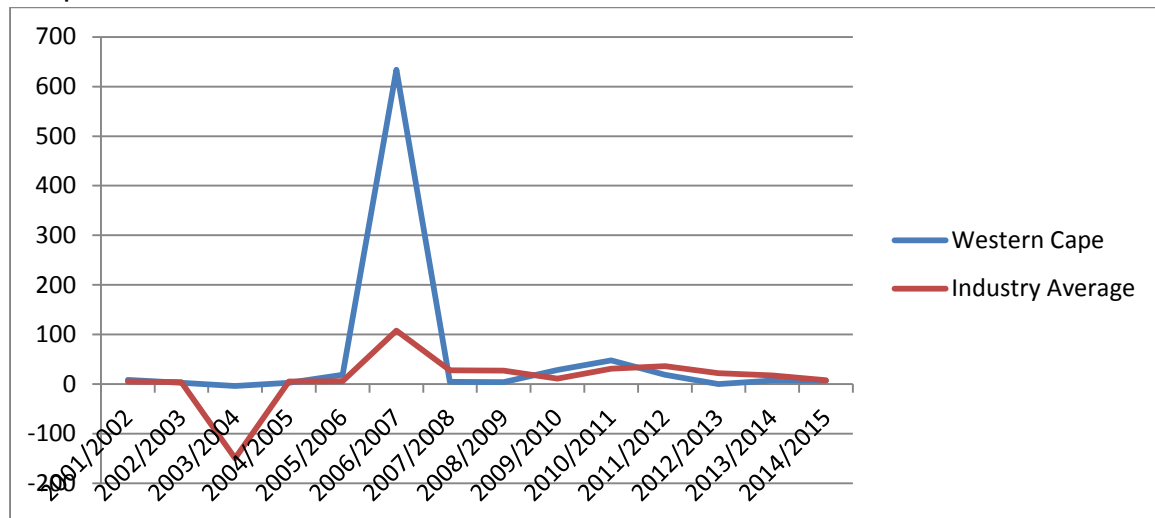
For the 2014/15 financial year, the WCDoH raised cash of R30 million in relation to its fixed assets which amounted to R747 million (WCDoH, 2015). During the 2011/12 financial year the Department only raised R59 million after spending R904 million on capital assets (WCDoH, 2012). In essence, and in general, when compared to the industry average, the Department has shown an ability to raise surplus from its capital assets.

Therefore, the ratio indicates that the WCDoH is unable to generate enough revenue from its fixed assets. There seems to be a belief in the public sector that a government department does not have to generate an income, as the responsible Provincial Treasury would be able to “carry” (financially bail out) the particular Department if it does fall into financial difficulties.

The national industry has illustrated that, through this ratio, it lags behind the WCDoH in terms of generating funds from fixed assets. There are only some instances where there were positive rises in the national average. From the 2005/06 to 2007/08 financial years, as well as the 2008/09 to the 2010/11 financial years, the national industry indicated positive trends in the ability of generating income from fixed assets.

5.5.4 Cash to Revenue Ratio

Graph 11: Cash to Revenue Ratio



Formula= Cash flow from Operations/ Current Liabilities

The Cash to Revenue ratio is used to compare the cash flow of the WCDoH vis-à-vis its revenue. The ratio provides analysts with a picture of the ability of the WCDoH to generate income in relation to its cash- on-hand.

The WCDoH has been unable to sustain a highly positive cash- to- income percentage. The WCDoH only showed a favourable turnaround between the 2005/06-2006/07 and 2008/09- 2010/11 financial years. From thereon, the ratio indicates, that the WCDoH has not been in a position to positively yield a cash- to- revenue percentage.

The industry average indicated that it can consistently generate income in relation to the cash-at- hand. The industry has only recorded a negative outcome during the 2004/05, 2007/08 and 2009/10 financial years. However, the WCDoH has indicated that it could achieve a higher percentage outcome than the national industry statistics.

The cash at hand to generate income for the 2009/10 financial year resulted in a deficit of R47 077 million. Compared to the surplus ability of the Department to reflect a positive yield of R63 296 million (WCDoH, 2012: 296). Similarly, the WCDoH reflected a deficit of R19 956 million, which acted as a disabler and disallowed the Department to record a positively yield in terms of income generated (WCDoH, 2010: 221).

5.6 SCOPA Resolutions

Table 7: SCOPA resolutions and AGSA audit opinions

<u>Financial Year</u>	<u>Audit Outcome</u>	<u>AGSA opinion</u>	<u>SCOPA resolutions</u>
2001/02	Unqualified with findings	Payments not recognised in the income statement: Revenue matters. Receivables. Reconciliation between the PERSAL and FMS Systems.	Action: Unauthorised expenditure (heard evidence). Resolution: That the unauthorised expenditure be referred to the Provincial Parliament for authorisation.
2002/03	Unqualified with findings	Deferred payments not recognised in the income statement Of R47.8 million. Revenue (Admission forms and Daycare fees). Receivables. Reconciliation between the PERSAL and FMS systems. Debt recovery services	Action: Unauthorised expenditure (heard evidence). Resolution: That the unauthorised ex be referred to the Provincial Parliament for authorisation. Expenditure (of programmes 3, 4 & 5).
2003/04	Qualified Audit	Staff debt. Leave entitlement. Employee benefits. Asset Management. Personnel expenditure. Contingent liabilities- housing guarantee. Transfer payments. Reconciliation between the PERSAL and FMS systems. Non-compliance with DORA.	Action: PERSAL and Overtime (heard evidence). Resolution: Adequate control measures should be implemented to ensure proper control over the recording and payment of overtime.
2004/05	Unqualified with findings	Unauthorised expenditure. Personnel Expenditure. Inventory value. Non-compliance with laws and regulation. Asset Management. Non-compliance with the National Treasury guide for preparation of financial statements.	Action: Unauthorised expenditure; Transfer and Subsidies; Compensation of employees; Overtime; Provincial Infrastructure Grant; (heard evidence). Resolution: Multiple Resolutions passed by the Committee on the abovementioned matters.
2005/06	Unqualified with findings	Unauthorised expenditure. Assets management. Compensation of employees. Transfers and Subsidies. Supply Chain Management. Non-compliance with laws and regulations.	Action: EMS Response times; Turnaround times at hospitals; Life support training (heard evidence). Resolution:

			Multiple Resolutions passed by the Committee on the abovementioned matters.
2006/07	Unqualified with findings	Matters of governance. Material corrections made to the financial statements submitted for auditing. Supply Chain Management. Non-compliance with laws and regulations.	Action: Unauthorised expenditure; Transfer and Subsidies; Compensation of employees; Provincial Infrastructure Grants; Actual versus budgeted expenditure on project; Changes to planned projects on the original budget.
2007/08	Unqualified with findings	Irregular expenditure. Unauthorised expenditure. Non-compliance with legislation.	None recorded.
2008/09	Unqualified with findings	Unauthorised expenditure. Irregular expenditure. Non-compliance with laws and regulations.	Resolution: Mechanism be introduced to deal with overspending over certain programmes and projects.
2009/10	Unqualified with findings	Unauthorised expenditure. Irregular Expenditure. Material under spending of the budget. Non-compliance with laws and regulations. Non-compliance with DORA.	No recommendations passed. (Only concerns raised).
2010/11	Unqualified with findings	Non-compliance with laws and regulations. Personnel expenditure. Asset Management. Irregular expenditure. Financial statements not submitted to the WCDoh Financial Reporting Framework. Financial and performance management.	Resolution: SLA between the WCDoh and T&PW should be amended. There must be a process in place to control the access of suppliers who do not meet the required PPPFA. Concern on the indication of a breakdown of internal control to the amount of R71m.
2011/12	Unqualified with findings	Receivables. Compliance with laws and regulations: Procurement and contract management; and Expenditure management.	Resolution: WCDoh to implement detection control ensuring that material misstatement does not occur. Increased audit coverage. WCIDMS. Mechanism to be implemented that would counter irregular expenditure. Policies be introduced how the HOD deals with gifts and awards.

2012/13	Unqualified with findings	Non-compliance with laws and regulations: Procurement and Contract Management; Expenditure Management; and Personnel expenditure. Financial and Performance Management.	Implementation of internal controls to avoid material misstatements. Increased audit coverage for future financial years. Implementation of a mechanism to avoid irregular expenditure. Implementation of a Heritage Asset policy.
2013/14	Unqualified with findings	Material losses/ impairments. Non-compliance with legislation: Annual Financial Statements; Expenditure Management; Financial and performance management.	Resolution: Consequential mechanism be introducing to deal with irregular expenditure.
2014/15	Unqualified with findings	Non-compliance with laws and regulations, Expenditure management, and Predetermined objectives.	Resolution: Audit Coverage in the WCDoH. Department to ensure reliable evidence to support performance indicators. Department to implement a mechanism to ensure that the evidence of its new targets are reliable. Limited use of consultant. Department to develop a system to minimise litigation in cases against it.

The resolutions of the SCOPA does not correlate with the audit opinions of the AGSA. The generic resolution of SCOPA that speaks to the audit outcome of the AGSA is that a mechanism be developed and instituted by the WCDoH to address the unauthorised expenditure within the WCDoH. This dominant resolution has been recorded from the 2001/02 to 2006/07 financial years. The collaboration between the SCOPA and AGSA has been very limiting in terms of the formulation of effective and efficient resolutions that would ensure that the WCDoH develop and implement mechanisms that would see it strive towards an unqualified audit opinion without any findings on pre-determined objectives or findings on compliance to laws or regulations.

During the 14 financial years under consideration, the AGSA raised some important deficiencies with the SCOPA in order that the Committee pass resolutions to the WCDoH in order to ensure a clean audit outcome. Some of the matters that were raised included the following:

- Revenue matters;
- Receivables;
- Reconciliation between the PERSAL and FMS Systems;
- Non-compliance with laws and regulations (DoRA and SCM legislation);
- Non-compliance with the National Treasury guide for preparation of financial statements;
- Procurement and contract management; and
- Expenditure management.

The comparison between the AGSA opinions, as well as the resolutions of SCOPA does relate, in principle, to each other. The resolutions of SCOPA seem somewhat conservative in nature in relation to the matters which are raised by the AGSA. This could be due to fact that the members of the Committee were not trained, or experts, in the analysis of financial statements. As an example, during a meeting of SCOPA on 4 November 2017, an alternate member of the Committee openly admitted that he did not have the ability, nor the skill, to analyse the Annual Report of the Department of Community Safety for the 2016/17 financial year. This could be a similar situation. In addition, during a SCOPA meeting on 13 September 2017, the Committee's members enquired as to why it is dealing with matters (now during the 5th Parliament) which the SCOPA of the 3rd- and 2nd Parliaments had to deal with (SCOPA, 2017). This is the challenge which the SCOPA, has been, and is currently faced with.

The resolutions of SCOPA should be implemented and effected by the WCDoH to ensure that it reaches a point where its audit opinions are unqualified with no findings.

The aforementioned matters that are raised by the AGSA are matters which affect the financial performance of the WCDoH, in terms of its status of financial management, as well as its annual position of liquidity.

For example, during the 2003/04 the WCDoH obtained a qualified audit from the AGSA. The AGSA raised various matters within the WCDoH for SCOPA to conduct oversight and formulate and pass resolutions that would ensure that the WCDoH move towards a clean audit opinion. Of the host of matters that the AGSA documented, SCOPA only passed resolutions that would ensure that the WCDoH's control over the payment of overtime be controlled. The Committee passed no resolutions that would

ensure that the WCDoH develop and implement mechanisms to address the key control deficiencies within the WCDoH.

5.8 Summary

This Chapter concentrated on the data analysis of the WCDoH as it applies to it following annual financial report documents:

1. Statement of Financial Performance;
2. Statement of Financial Position; and the
3. Cash Flow Statement.

The aforementioned statements have been analysed on an annual basis, through the annual reports of the WCDoH, to determine and find a “picture” of the financial health of the WCDoH over a 14 year period. In order to ascertain the determination of the financial health, I have utilised various ratios to assist in developing a picture of the financial health of the WCDoH.

The ratios were employed to assist in determining the financial performance, liquidity and ability of the WCDoH, in order to generate adequate income from its fixed/ capital assets.

Through the analysis of the Statement of Financial Performance, the WCDoH has been conservative in its expenditure management. Although the WCDoH has shown stability in its expenditure trends, it was consistently below the industry average of the country. Even with the purchase of capital assets between the 2002/03 to 2006/07 financial years, as well as the 2008/09 to 2010/11 financial years, it has seen a decline from thereon.

The Statement of Financial Position provides snapshots of the status of liquidity of the WCDoH. It provides an indication of the ability of the WCDoH to pay its credit notes as they become due. The ratios indicated that over the past 14 years, the WCDoH has seen a negative, or low, liquidity level in relation to the national industry average over the same time period. The current ratio indicates that the WCDoH has been liquid

under the “1” as prescribed by Swanevelder (1998) and Gitman (2007). The aforementioned is in contradiction to the national industry average of “1” over the same period of time.

The Cash Flow Statement afforded me the opportunity to evaluate the flow of funds towards the debt of the WCDoH, to run/ expand the business, as well as the ability to generate income from fixed assets. Through the application of four ratios, the results indicated that the WCDoH was consistent in running its operation. Even though the industry average came short in this the regard, the WCDoH indicated consistency. In addition, the WCDoH was able to generate a stream of income for the services that were rendered to its clients, from its fixed assets. However, the WCDoH showed a negative outcome, when compared to the industry average, when the debt-to-cash ratio was applied. The ratio indicated that the WCDoH were conservatively limited in the ability to service its debt.

In conclusion, this chapter compared the audit outcome of the AGSA to the resolutions of SCOPA. The AGSA and SCOPA are partners and act as a third-level assurer of the WCDoH. The AGSA has a presence in the WCDoH and reports to SCOPA, who in turn, is expected to pass appropriate resolutions that would enable the WCDoH to develop and implement mechanisms that will assist it in receiving a clean audit with no findings on pre-determined objectives, as well as compliance to its governing legislation.

The information presented indicates that the resolutions that are formed by SCOPA are limited in relation to the audit outcomes of the AGSA. The resolutions of SCOPA did not speak to all the key control outcomes of the AGSA- on an annual basis. Therefore, the study revealed that the AGSA and SCOPA were not in sync with each other as third level assurers when conducting oversight to the WCDoH. This indicates that there is a gap in the relationship of SCOPA and AGSA in the determination to ensure that the WCDoH move towards a clean audit outcome.

Chapter 6: Findings and recommendations

6.1 Introduction

The findings of this mini-thesis highlighted some facts about the financial management mechanism of the Western Cape WCDoH of Health over a 14 year period.

The findings which are highlighted below indicate the strategy of financial stewardship of the WCDoH, which emanates from the statements of 1) Financial Performance, 2) Financial Position and 3) Cash Flow statements.

It was important to obtain a long-term view of the financial management trends of the WCDoH, especially for the specific fact that the WCDoH is a crucial service delivery Department within the WCG. This means that if any finances are mismanaged, then it will result in negative consequences (outcomes) for the Western Cape Province.

6.2. Revisiting the research objectives

The primary and general objective of this study was to analyse the annual financial statements of the WCDoH from the 2000/1 to 2014/15 financial years, in order to determine whether it has improved, deteriorated or stagnated over the financial years which have been identified.

In addition, this mini-thesis commenced by focusing on core concepts along which it was constructed. These concepts are important in the management of finances within the WCDoH. The concepts included the following:

1. Principal- agency theory;
2. Governance;
3. Accountability;
4. Financial Management;

5. Accounting;
6. Financial reporting;
7. Financial Statements;
8. Auditing; and
9. Ratio analyses.

The aforementioned concepts were important in formulating a holistic viewpoint of the financial management, governance and accountability of the WCDoH. The Principal – Agent theory highlighted and gave meaning to the relationship between the Legislature and WCDoH in the ratification of funds for a particular financial year. Once ratified, the WCPP entrusted the WCDoH to manage its own funds according to its strategic and annual performance plans. From thereon, the WCDoH became accountable to the WCPP, reporting to it on the management of its funds through its annual financial statements.

The findings as emanated from the statements of Financial Position, Financial Performance and Cash Flow Statements are documented hereunder in order to finalise the analysis of the data as contained in Chapter 5.

6.3 Findings

Some of the theories, concepts and results that were highlighted in Chapters 2 and 5 are discussed below as follows:

6.3.1 Asymmetric Information

The mini-thesis concluded that the relationship between the WCDoH and Legislature did contain traces of asymmetric information. This means that the WCDoH consciously withheld information from the Legislature. This is on the level of the annual reporting period. It can be seen in Chapter 5, whereby there were no correlation between the

findings of the AGSA and the resolutions of SCOPA. This is a result of the information that was presented to the Committee during the reporting period.

6.3.2 Accountability

The mini-thesis found that the WCDoH has been accountable for the annual financial and programme management within its Vote to the WCPP, SCOPA and Standing Committee on Community Development.

6.3.3 Financial Management

The WCDoH has been compliant, in most financial years, with the financial prescripts of the PFMA, 1999 from the 2001/2002 to the 2014/15 financial years. This is evident in the reporting of the AGSA in the annual reports of the WCDoH.

6.3.4 Financial Statements

The financial statements of the WCDoH are GRAP compliant, including the presenting thereof on an annual basis in the annual reports of the WCDoH. Thus, the information contained in the financial statements have been verified by the AGSA as deemed as reliable by WCPP, as well as the relevant standing committees of the Institution.

6.3.5 Auditing

The information contained in the annual reports of the WCDoH are true as these have been verified and cross-checked by the AGSA- across programme and annual performance plans. The reliability verification is in line with the Public Auditing Act, 2004.

The following recommendations are for the attention of SCOPA, as well as the Standing Committee on Community Development for further deliberations, and can be used to assist these committees to strengthen its oversight function as per the Principal- Agent relationship. The recommendations on the oversight of the financial statements of the WCDoH include the following:

6.3.6 Statement of Financial Performance

- The WCDoH has indicated a steady expenditure mechanism for its operations over the 14 years.
- During 2001/02 to 2004/05 it invested little revenue into its capital assets.
- During 2005/06 to 2011/12 it had a higher spending rate into its capital assets.
- From 2012/13 to 2014/15 it has reduced its spending into its capital assets.
- This can be due to austerity measures and political intervention in the WC Province.
- Overall, the WCDoH's free cash flow (4.83) has been under that of the national average indicators (6.06).
- A possibility is that the WCDoH might have had a higher spending rate on its capital expenditure, in the future, due to its decreased current spending rate.

6.3.7 Statement of Financial Position

- The WCDoH has maintained a stable liquid status over the 14 years.
- It has the capacity of meeting its obligations that may become due in the following period- if so required.
- Between the 2001 – 2006 financial years, the WCDoH kept a steady liquidity rate of around 1.02.

- However, between the 2007-2012 financial years, the WCDoH was in a position of being more liquid to meet its obligations as becoming due.
- The national industry average indicated a norm of 1.01 over the 14 years, whereas the WCDoH has indicated a norm of 1.03.
- A concern is raised from 2013 to the 2015 financial years, whereby the WCDoH has experienced a sudden drop in liquidity to achieve a liquidity outcome of 0.97 (2013) and 0.98 (2014). This is in contrast to the 1.07 liquidity rate recorded in 2012.
- If not addressed, the WCDoH could be in position in the near future where it will not be in a position to meet its obligations when becoming due.

6.3.8 Cash Flow Statement

- The WCDoH is not in a good state to pay off its long term debt.
- During 2001-2002 it was in a position to meet its long term obligations as these became due.
- In 2003 it was totally unable to meet its long term obligations.
- From 2004-2006 the WCDoH improved its long term liquidity position favourably.
- However, from 2007-2014 its long term liquidity status has seen a steady decline.
- Currently, it is not in a state to meet its long term obligations.
- The national industry averages have shown favourable annual rates of just above 1.0.
- The average annual rate of the WCDoH has been constantly below the annual national average.

6.4 Specific recommendations for SCOPA in its oversight function:

- SCOPA engages the AGSA and the Audit Committee of WCDoH on a quarterly basis to ensure that the WCDoH's financial management and legislative compliance practices are in order, and that minimal material misstatements are present in order to enhance its financial management practise.
- SCOPA to engage the management reports of the WCDOH on a quarterly basis. It was noted that the Department reflected its management report in the Accounting Officer's overview during the 2003/04 financial year. The contents of the report can greatly assist the Committee in conducting oversight over the Department in terms of strengthening any weaknesses which are highlighted in the report. However, the management reports have been omitted from the annual reports of recent years, due to reasons which are unknown to the mini-thesis.
- SCOPA to engage the WCDoH on a quarterly basis in order to assist it in its financial management and legislative compliance processes; including its financial reporting structure.
- SCOPA to meet with the WCDoH to ensure that mechanisms be put in place to deal with the disability of the WCDoH to meet its short-and long term obligations as these may become due in the upcoming financial periods.
- SCOPA to ensure that its recommendations address the financial management challenges which may impact on the WCDoH's annual audit outcomes.
- SCOPA needs to be properly trained in order to engage the contents of the management report of the WCDoH.
- SCOPA be trained to utilise the various ratios which relates to the statements of Financial Position, Financial Performance and Cash Flow Statement in order to effect in-depth oversight which will result in an enhancement of the

good governance mechanism within the WCDoH, and in the oversight mechanism.

- Training to be given to SCOPA with regards to LOGIS and BAS. These are the financial systems which are utilised by the WCDoH. Findings have been raised by the AGSA, but were not dealt with effectively by the Committee.
- National Treasury should oversee the financial reporting templates which are used by the National- and Provincial departments of Health, including the contents thereof.
- The WCDoH to develop and implement a provincial electronic mechanism that would ensure that its financial management activities are uploaded to and audited for correctness- on a weekly, monthly and quarterly basis (this will address the matter of validity and reliability of information from an auditing perspective).

On 8 February 2017, SCOPA had a meeting with the Chairperson of the Audit Committee, who is responsible for the WCDoH. In the presentation to the Committee on the emerging risks which were identified during the 1st and 2nd quarters of the 2016/17 financial years, the Chairperson of the Audit Committee raised two emerging risks, which are the following:

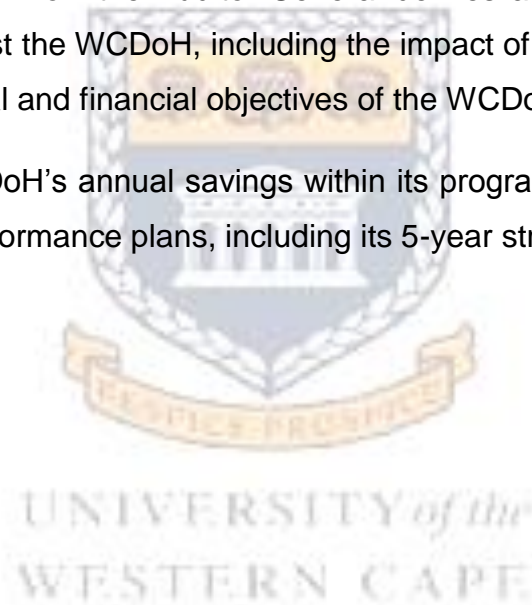
- Ageing Infrastructure- emerging risk identified by the WCDoH; and
- Ageing Medical Equipment- Director of Health Technology appointed in 2016 and is busy with implementing manual controls. (Burton, 2017:2).

The above-mentioned emerging risks are confirmation to the findings as highlighted from the data analysis of the Statement of Financial Performance (mentioned under heading 2.6 within this Chapter) and highlighted under bullets 2, 4 and 7 of that particular financial statement.

6.5 Recommendations for future studies

It is recommended that future studies be undertaken in areas that includes, but not limited to, the following:

- The impact that the financial management practice of the WCDoH have on the delivery of health projects within the Province.
- The extent and impact of the implementation and maintenance of SCOPA and Standing Committee on Community Development resolutions within the WCDoH.
- An analysis on how the Auditor-General derives and raise an annual audit opinion against the WCDoH, including the impact of such an audit opinion on the operational and financial objectives of the WCDoH.
- How the WCDoH's annual savings within its programmes have impacted on its annual performance plans, including its 5-year strategic plans.



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