

# Public Expenditure and Financial Accountability Assessment

PEFA Report  
Republic of South Africa  
Northern Cape Province

*Final Report*

31 March 2015



**national treasury**

Department:  
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REPUBLIC OF SOUTH AFRICA



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This is the final version of the PEFA Report of the province of Northern Cape. This version of the report includes comments received from the Northern Cape Provincial Treasury as well as comments from the National Treasury and from the PEFA secretariat.

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The information contained in this report does not necessarily reflect the position or opinion of the National Treasury and/or the Provincial Treasury. Responsibility for the views expressed and for any remaining factual errors stays with the team leader who is accountable for providing an accurate assessment of events, opinions and comments.

## List of abbreviations and acronyms

ABET	Adult basic education and training
AFS	Annual financial statements
AG	Auditor-General
AGA	Autonomous government agencies
AGSA	Auditor-General of South Africa
AO	Accounting officer
APP	Annual performance plans
BAS	Basic accounting system
BACS	Biometric access control system
COFOG	Classification of the functions of government
Com AF	Communication of audit findings
CPD	Corporate provincial deposits
DI	Donor indicators
DORA	Division of Revenue Act
DGRC	Departmental grievance review committee
ECD	Early childhood development
ENE	Estimates of national expenditure
EPRE	Estimates of provincial expenditure and revenue
EPs	Public companies
FY	Fiscal year
GFS	Government financial statistics
GN	Government notice
GNR	Gross national revenue
GRAP	General recognised accounting practice
HLG	Higher level of government
HR	Human resources
IDP	Integrated development plan
ICT	Information and communications technology
IMF	International Monetary Fund
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISA	International Standards on Auditing
IFMS	Integrated financial management system
IYM	In-year monitoring
LGES	Local government equitable share
LOGIS	Logistical information system
M	Scoring method
MDA	Ministries, departments and agencies
MEC	Member of executive council
MFMA	Municipal Finance Management Act
MPLs	Members of the Provincial Legislature
MTBPS	Medium-term budget policy statement
MTEC	Medium-term expenditure committee
MTREF	Medium-term revenue and expenditure framework
MTSF	Medium-term strategic framework
MTEF	Medium-term expenditure framework
NA	Not applicable
NC	Northern Cape
NCEDA	Northern Cape Economic Development, Trade and Promotion Agency
NCP	Northern Cape province
NCPG	Northern Cape provincial government
NCPL	Northern Cape Provincial Legislature

NCPT	Northern Cape Provincial Treasury
NCPSCMG	Northern Cape provincial supply chain management
RGC	Review grievance committee
NR	Not rated – information not available
NRF	National reserve fund
PAA	Public Audit Act
PEC	Provincial executive council
PEFA	Public expenditure and financial accountability
PERSAL	Personnel and salary administration system
PFM	Public financial management
PFMA	Public Finance Management Act
PI	Performance indicator
PIAU	Provincial internal auditing unit
PMG	Paymaster-General account
PMTEC	Provincial medium-term expenditure committee
PRF	Public revenue fund
RSA	Republic of South Africa
SALGA	South African Local Government Association
SARB	South African Reserve Bank
SCM	Supply chain management
SCOPA	Standing committee on public accounts
SDBIP	Service delivery and budget implementation plan
SIFS	Supporting and interlinked financial systems
SN	Sub national
TCF	Technical committee on finance
USD	United States Dollars
ZAR	South African Rand

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## **Summary assessment**

### **1. Integrated assessment of PFM performance**

Annual deviation of actual total HLG transfers (equitable share and conditional grants) from the original total estimated amount provided by the National Treasury to the Northern Cape provincial government for inclusion in the latter's budget is very low (FY2011/12 through FY2013/14). That means that amounts budgeted have been disbursed.

Overall National Treasury has complied with timetables for in-year distribution of disbursements agreed prior to the start of the period (FY2011/12 through FY2013/14). Delays have occurred but they are due to the departments not fulfilling the conditions for disbursements.

### **Credibility of the budget**

Within the Northern Cape the PEFA evaluation has shown that the budget is realistic and is implemented as intended. In fact, both aggregate expenditure out-turn and the composition of expenditure out-turn compare well to original approved budget (FY2011/12 through FY 2013/14). In addition, the aggregate revenue out-turn compares fairly well to the original approved budget for the same period. Moreover the stock of expenditure payment arrears is low (2013) and the latter are regularly (annually) monitored.

### **Comprehensiveness and transparency**

Overall the budget of Northern Cape and the fiscal risk oversight are comprehensive and fiscal and budget information is accessible to the public.

In Northern Cape, the budget formulation and execution meet international standards. Both are based on administrative, economic, programme and sub-programme classification that can produce consistent documentation according to GFS/COFOG standards. In addition the information included in budget documentation is comprehensive and there are no unreported government operations.

Intergovernmental fiscal relations are fully transparent. The horizontal allocation of almost all transfers from the Northern Cape to its municipalities is determined by transparent and rules based systems. In addition municipalities are provided with reliable information on the allocations to be transferred to them two months before completing their budget proposals, so that significant changes to the proposals are still possible. Moreover complete ex-ante and ex-post fiscal information that is consistent with provincial government fiscal reporting is collected for all municipalities (by value) expenditure and consolidated into annual reports within three months of the end of the fiscal year

All public entities submit quarterly fiscal reports to their respective ministries as well as annual audited accounts to the Northern Cape Treasury Department. The latter consolidates the report, which is part of the annual financial statements. Fiscal risk issues, if any, are always emphasised in the reports. Municipalities cannot generate fiscal liabilities for provincial and national government. In addition the Provincial Treasury collects monthly revenue and expenditure statements from municipalities, indicating actual borrowings, and is in a position to identify fiscal risks, which could inform remediation or interventions. The Provincial Treasury publishes quarterly a consolidated budget outcomes report on the individual and consolidated annual municipal budget execution reports in terms of revenue per source and expenditure per vote, broadly in terms of the national economic and functional classification system.

Overall, in Northern Cape, the public has very good access to key fiscal information.

### **Policy-based budgeting**

A clear and fixed budget calendar is elaborated by the Northern Cape Provincial Treasury (Provincial Treasury) to all provincial departments, their entities and municipalities. Provincial departments have at least six weeks from receipt of the budget circular to complete their detailed budget estimates (for FY 2014/15 and the 2015 MTEF). The budget circular issued by Provincial Treasury to provincial departments is clear and comprehensive, and reflects ceilings approved by the province's executive council prior to the circular's distribution to these departments. In all the three years reviewed (FY2012/13 through FY2014/15), the budget was signed into law

after more than two months after the start of the fiscal year.

Detailed multi-annual revenue and expenditure forecasts for each provincial department up to the programme level are provided in the province's EPRE 2012, 2013 and 2014, disaggregated in terms of economical and functional classifications. These forecasts are directly linked to the MTEF forecasts of national government.

Four provincial departments representing more than 80 per cent of the total provincial expenditure estimates, were tabled alongside the budget documentation each year in the Northern Cape Provincial Legislature. The fiscal forecasts contained in the province's main budget document mirrors the EPRE. These forecasts are by law required to be aligned to the respective departmental Strategic plans. Annual performance plans (APP) detail the reconciliations between multi-year financial projections and performance information (including output and outcome) targets up to at least the programme level for each vote (sector), and are therefore considered costed sector strategies.

province's EPRE 2012, 2013 and 2014 contain the medium-term infrastructure expenditure (capital as well as maintenance expenditure) estimates for individual service delivery facilities (e.g. schools and clinics), with four departments accounting for close to 80 per cent of the total expenditure of the province. These departments' APPs reconcile the MTEF budget estimates with the investment projects planned for in departmental Strategic Plans.

### **Predictability and control in budget execution**

In the Northern Cape, a cash flow forecast is prepared for the fiscal year, and is updated monthly on the basis of actual cash inflows and outflows. The exercise is rigorous and it allows departments to plan and commit expenditure for at least six months in advance in accordance with the budgeted appropriations. An in-year adjustment to budget allocations (5 per cent to 7 per cent of the original budget) takes place (only once in a year) and is carried out in a transparent and predictable way.

The Northern Provincial Government has no debt (and/or no loans). The Northern Cape has 70 accounts. All cash balances are calculated daily and consolidated. This exercise excludes the Provincial Legislature (2nd department). Provincial government's contracting of loans and issuance of guarantees are always approved by a single responsible government entity, but are not decided on the basis of clear guidelines, criteria or overall ceilings.

The legal framework for procurement is fairly good although it does not systematically make key procurement information available to the public. Data on contracts awarded by methods other than open competition are not available and it is impossible to establish whether they are justified in accordance with the legal requirements. Only two procurement elements - bidding opportunity and contract awards - are accessible to the public. In addition the procurement complaint system does not involve representatives of the public sector and civil society. Moreover the processes for submission and resolution of complaints are not clearly defined.

Control systems for salary expenditures are of good quality. Overall expenditure commitment controls are in place in Northern Cape. These controls effectively limit commitments to actual cash availability and approved budget allocations for most types of expenditures. In addition to commitment controls the current legislation considers other internal control rules and procedures. However there is doubt whether these procedures are widely understood and followed, given the results of the external audit. Rules are complied with in a significant majority of transactions, but there are several cases of use of simplified/emergency procedures in unjustified situations.

In the Northern Cape, the function of internal audit is operational for all provincial government entities, and generally meets professional standards. It is focused on systemic issues (at least 50 per cent of staff time). All audit reports adhere to a fixed schedule and are distributed to the audited entity, Provincial Treasury and the supreme audit institution (which is the AGSA). Based on recommendations formulated in the reports, prompt and comprehensive action is taken by many (but not all) managers.

### **Accounting, recording and reporting**

In Northern Cape, bank reconciliations for all provincial government bank accounts is a routine exercise, taking place at least monthly at aggregate and detailed levels. Reconciliation is usually carried out within four weeks of



end of the period. As far as reconciliation and clearance of suspense accounts and advances are concerned, this is a daily exercise. It should be mentioned, however, that a significant number of accounts have uncleared balances brought forward.

In-year budget execution reports are prepared quarterly and issued within a maximum of six weeks of end of quarter. In the reports, only comparison to the adjusted budget is possible (for administrative and economic headings). Reported expenditures in the reports are captured at payment stage only. Overall the reports are considered to be very useful although there are some concerns about the integrity of the data.

In Northern Cape a consolidated provincial government statement is prepared annually. It includes full information on revenue, expenditure and financial assets and liabilities. The statement is consolidated for external audit on time and in conformity with the current legislation (within three months of the end of the fiscal year). IPSAS or corresponding national standards are consistently applied for all yearly financial statements.

## **External scrutiny and audit**

In Northern Cape, all entities of provincial government are audited annually with the audit exercise covering revenue, expenditure, assets and liabilities. A full range of financial audits and some aspects of performance audit are regularly performed. These generally adhere to auditing standards, focusing on significant and systemic issues. Audit reports are submitted to the legislature on time and in conformity with the current legislation (within eight months of the end of the period covered and in the case of the financial statements from their receipt by the audit office). As far as the audit recommendations are concerned a formal response is made in a timely manner, but overall there is little evidence of systematic follow up.

Simple procedures exist for the legislature's budget review and are respected. They include internal organisational arrangements, such as specialised review committees, and negotiation procedures.

Clear rules exist for in-year budget amendments by the executive. There are strict limits on the extent and nature of amendments that are consistently respected.

## **2. Assessment of the impact of PFM weaknesses**

Aggregate fiscal discipline is well supported by the absence of extra-budgetary operations and by the very good oversight of aggregate fiscal risk from other public sector entities. Aggregate fiscal discipline is also supported by the existence of costed sector strategies and by the good linkages between investment budgets and forward expenditure estimates, and to some extent by relatively low expenditure arrears and by aggregate expenditure out-turn that compares well to original approved budget. To a minor degree, in-year budget execution reports are of acceptable quality and by aggregate revenue out-turn that compares fairly well to the original approved budget.

Strategic allocation of resources is well supported by a budget classification that meets international standards and by comprehensive budget documentation. Strategic allocation of resources is also supported by a very good preparation of multi-year fiscal forecasts and functional allocations, by the existence of costed sector strategies and by the good linkages between investment budgets and forward expenditure estimates. A good budget preparation process is also present, although supported to a lesser extent.

Efficient service delivery is well supported by a good cash flow planning, by effective payroll controls and by good internal and external audit. However efficient service delivery is very much affected by weak procurement systems.

The above are well influenced by the integrity of fiscal information. Annual financial statements are of very good quality. In addition external audit is performing well and reconciliation of accounts is timely.

Overall PFM systems and sub-systems in the Northern Cape are performing well (some very well). The only problem remains with procurement systems that still need to improve. The provincial authorities are aware that this is an area where improvement is possible.

## **3. Prospect for reforms**

Overall institutional arrangements within the Northern Cape with functioning entities strongly support timely, adequate and smooth reform planning and implementation

#### 4. PEFA performance indicators (2014)

Scoring is assigned based on best international practices and corresponds to a scale of four (4) points: A (best performance) to D, with the possibility of intermediate scoring (+).

**Table 1: Summary of PEFA Assessment Scores, 2014**

PFM performance indicator		Scoring method	D	D	D	D	Overall rating
			(i)	(ii)	(iii)	(iv)	
<b>A. PFM Out-turns: Credibility of the budget</b>							
HLG-1	Predictability in high level government transfer	M1	A	C	A	-	C+
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	B	-	-	-	B
PI-2	Composition expenditure out-turn compared to original approved budget	M1	B	A	-	-	B+
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	C	-	-	-	C
PI-4	Stock and monitoring of expenditure payment arrears	M1	A	B	-	-	B+
<b>B. Key cross-cutting issues: Comprehensiveness and transparency</b>							
PI-5	Classification of the budget	M1	A	-	-	-	A
PI-6	Comprehensiveness of information included in budget documentation	M1	A	-	-	-	A
PI-7	Extent of unreported government operations	M1	A	NA	-	-	A
PI-8	Transparency of intergovernmental fiscal relations	M2	A	B	A	-	A
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	A	A	-	-	A
PI-10	Public access to key fiscal information	M1	A	-	-	-	A
<b>C. Budget cycle</b>							
<b>C(i) Policy-based budgeting</b>							
PI-11	Orderliness and participation in the annual budget process	M2	A	A	D	-	B
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	NA	A	A	A	A
<b>C (ii) Predictability and control in budget execution</b>							
PI-13	Transparency of taxpayer obligations and liabilities	M2	B	A	NA-	-	B+
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	C	B	D	-	C
PI-15	Effectiveness in collection of tax payments	M1	NR-	B	NR	-	NR
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	A	A	A	-	A
PI-17	Recording and management of cash balances, debt and guarantees	M2	NA	B	C	-	C+
PI-18	Effectiveness of payroll controls	M1	A	B	A	A	B+
PI-19	Competition, value for money and controls in procurement	M2	B	D	C	D	D+
PI-20	Effectiveness of internal controls for non-salary expenditures	M1	B	B	C	-	C+
PI-21	Effectiveness of internal audit	M1	A	A	B	-	B+
<b>C (iii) Accounting, recording and reporting</b>							
PI-22	Timeliness and regularity of accounts reconciliation	M2	A	C	-	-	B
PI-23	Availability of information on resources received by service delivery units	M1	B	-	-	-	B
PI-24	Quality and timeliness of in-year budget reports	M1	C	B	B	-	B+
PI-25	Quality and timeliness of annual financial statements	M1	A	A	A	-	A
<b>C (iv) External scrutiny and audit</b>							
PI-26	Scope, nature and follow-up of external audit	M1	A	B	B	-	B+
PI-27	Legislative scrutiny of the annual budget law	M1	A	B	B	A	B+
PI-28	Legislative scrutiny of external audit reports	M1	A	A	B	-	B+
<b>D Donor practices</b>							
D-1	Predictability of direct budget support	M1	N/A	N/A	-	-	N/A
D-2	Financial information provided by donors for budgeting and reporting on project and programme aid	M1	N/A	N/A	-	-	N/A
D-3	Proportion of aid that is managed by use of national procedures	M1	N/A	-	-	-	N/A



## 1. Introduction

South Africa has a unitary system of government but with strong features of decentralisation (through provincial and municipal sub-national levels of government). Some functions are performed exclusively by one sphere of government with central government<sup>1</sup> largely providing leadership, formulating public policies, setting the legal and regulatory framework including minimum standards and norms, and monitoring implementation. Central government in South Africa is also in charge of the collection of national taxes, of national defence, the criminal justice systems, higher education, water and energy resources and administrative functions such as home affairs<sup>2</sup>.

Despite the centralised functions mentioned above, most functions in the RSA are shared. The provincial sphere<sup>3</sup> performs functions such as basic education, health services, social welfare services (excluding social grants), human settlements (housing), roads and transport, and agriculture<sup>4</sup>. These functions at the provincial level account for a large part of national spending but do not lend themselves to significant revenue raising<sup>5</sup>. In order to address this fiscal imbalance provision is made for the sharing of revenue raised by central government<sup>6</sup>.

Each of the three spheres of government (central, provincial and municipal) is entitled to an equitable share of the nationally revenue raised by central government, which enables it to perform its functions and provide the services allocated to it. In addition to the equitable share, conditional or unconditional grants from the national revenue are also part of the intergovernmental fiscal system<sup>7</sup>.

### 1.1 Objectives

The first objective of the PEFA assessment of the Northern Cape is to provide an exhaustive and overall evaluation of the performance of the public financial management of the province under review of the applicable PEFA indicators. The assessment will help identify the main PFM weaknesses in the province, and evaluate to what extent the existing institutional mechanisms contribute to planning and implementation of the reforms of public financial management. This PEFA assessment and the impact of PFM weaknesses are of highest importance to the central government and donors. In addition it is an important part of the basis of future reform discussions;

The second objective of the PEFA assessment is to provide a shared information pool of information for donors with regards to overall public finance management performance in the country (provincial government in particular). In addition the assessment should lead to increased donor coordination, as well as representing a basis for policy dialogue in the PFM sector.

### 1.2 Process

The PEFA assessment of nine provinces of South Africa is the initiative of the National Treasury of South Africa in Pretoria (under the responsibility of the Ministry of Finance). The entity for intergovernmental relations (provincial government budget analysis) in the National Treasury has the direct responsibility for PEFA work.

The PEFA initiative at the provincial level was initiated in 2013 with a first round of assessments of four provinces, Western Cape, Free State, Limpopo and KwaZulu-Natal. The current PEFA assessment of the Northern Cape is the first assessment of the second round of PEFA assessments, which will cover the remaining five provinces (Eastern Cape, Gauteng, Mpumalanga and North West in addition to Northern Cape).

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<sup>1</sup> In South Africa, the central government is known as the national government.

<sup>2</sup> The Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) (The Constitution)

<sup>3</sup> There are nine provinces in the RSA : The Northern Cape Province, which is the SN entity covered by the present evaluation: Eastern Cape, Free State, Gauteng, KwaZulu-Natal, Limpopo, Mpumalanga, North West and Western Cape (source: The Constitution, section 103).

<sup>4</sup> *Ibid*

<sup>5</sup> Therefore, although provinces are allowed to raise certain taxes, levies and duties, their overall ability to independently raise revenue is nevertheless limited. In FY 2013/14, provinces own revenue covered less than 4 per cent of their expenditures.

<sup>6</sup> *Op cit*

<sup>7</sup> In FY2013/14, the equitable share portion of provinces' revenue financed about 80 per cent of provinces' expenditure and conditional grants about 16 per cent (actual). Expenditures (actual) of the provinces were financed up to 96 per cent-97 per cent by transfers received from the central government (source: Central Government Budget for FY2014/15, FY2015/16 & FY2016/17). These percentages apply to the Northern Cape Province as well (Source: Audited figures provided by the Northern Cape Provincial Treasury).

The work in Kimberley (the capital of the Northern Cape) started with an introductory PEFA workshop held by an international consultant. The 19 participants were mainly officials from the various departments of Northern Cape provincial government (NCPG).

Simultaneously, a detailed table with a request of information (quantitative and qualitative) was forwarded to the Provincial Treasury to prepare for the field work.

The field work started on 13 October 2014 in Kimberley and continued to 31 October 2014. On 13 October 2014, the PEFA team met with the staff of the budget management directorate (chief directorate sustainable resource management, programme 2) to present the main elements of the PEFA exercise and the type of collaboration needed. The meeting was headed by the manager Mr Bakang Moea, and Ms Noxolo Mbambo of the National Treasury in Pretoria was also present at this meeting. Two debriefing meetings took place after the beginning of the field work: on 16 October, and on 23 October 2014, where with the same staff members of the budget management directorate.

During the period of the field work the team members met with experts of all the key entities of the Northern Cape Provincial Treasury departments as well as with experts of the other departments and the private sector.

### 1.3 Methodology

Since 2008 (and until 2012) the PEFA methodology has evolved and this evolution was reflected during the 2014 PEFA assessment of the province. In this context, the revision of three indicators in January 2011 must first be highlighted: Indicators PI-2, PI-3 and PI-19 (on public procurement). As a result, the new version of these indicators, which are to be found in the 2011 framework (dated January 2011)<sup>8</sup> were used. The information note on good practice in applying the framework was also taken into consideration in the present evaluation<sup>9</sup>. As a key methodological change, the introduction in 2012 of a new strengthened mechanism of quality control, the PEFA check should be mentioned<sup>10</sup>. The 2014 PEFA evaluation of the province did not follow the procedure of the PEFA check and only three stakeholders are expected to review the PEFA assessment report: representatives of the National Treasury; representatives of the Northern Cape Provincial Treasury and the PEFA secretariat.

In addition to the above considerations, it should be mentioned that the field guide<sup>11</sup> was a key reference during the PEFA assessment of the province.

Regarding the indicators to be covered, the indicator assessing performance transfers from higher levels of government (from the central government in Pretoria) will be taken into consideration (HLG-1). In addition the guidelines for the application of the PEFA framework to sub-national governments will be referred to during the evaluation<sup>12</sup>.

In addition the standard indicators were evaluated: PI-1 through PI-28 (except for PI-13 through PI-15 because in the Northern Cape, the province collects mainly users' fees and charges that do not exceed the costs of the service. The donor indicators (D1, D2 and D3) were not evaluated because the province does not deal directly with any donor (this is carried out by the central government). On balance, only 26 indicators (out of 32 for the SN level) have been covered.

As far as the dimensions of the 26 applicable indicators are concerned, it should be noted that the (ii) dimension of PI-7 does not apply because there are no donor activities in Northern Cape. In addition, the (ii) dimension of PI-12 and the (i) of PI-17 do not apply either because the province has no debt. On balance only 62 dimensions out of 79 for the SN level have been evaluated<sup>13</sup>.

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<sup>8</sup> PEFA secretariat, *Public expenditure and financial accountability, PEFA framework*, Washington DC, January 2011;

<sup>9</sup> PEFA secretariat, *Good practices in applying the PFM performance measurement framework, guidance for assessment planners and managers*, Washington DC, 7 June 7 2012;

<sup>10</sup> PEFA secretariat, *Enhanced Quality Assurance Mechanism for PEFA assessments-PEFA check*, Washington DC, March 2012;

<sup>11</sup> PEFA secretariat, *Field guide for undertaking an assessment using the PEFA performance measurement framework*, Washington DC, May 2012.

<sup>12</sup> PEFA secretariat, *Supplementary guidelines for the application of the PEFA framework to sub-national governments*, Washington DC, January 2013.

<sup>13</sup> From a total of 79 (76+3) dimensions for the SN level, the nine dimensions for PI-13, PI-14, the one dimension for PI-12, the one dimension for PI-17 and the five dimensions for D1, D2 & D3 have been deducted (79-16=63)

Years covered in each of the above indicators and dimensions will be those foreseen in the methodology (for example last completed three fiscal years for PI-1 through PI-3, last two completed years for PI-4; last completed fiscal year for PI-5, etc.)<sup>14</sup>. Critical periods for the evaluation are presented below:

**Table 2: Critical periods for the evaluation**

Critical period	Years
Last three fiscal years completed (prior to the evaluation).	2011/12 2012/13 2013/14
Last fiscal year before assessment	2013/14
Last budget presented to the Legislative Council.	2014/15
Last budget approved by the Legislative Council.	2014/15
At the time of evaluation	October-November 2014

### Stakeholder involvement and process of quality control

The PEFA process in Northern Cape Provincial Government involved no aid agency.

As mentioned CPG, particularly of the provincial government, will also review the report.

The PEFA Secretariat has reviewed the report for methodological consistency (the present exercise is not following the procedures of the PEFA check) and all comments were taken into consideration.

#### 1.4 Scope

The Northern Cape Provincial Government includes the budgetary provincial (central) government and eight public entities (or autonomous agencies). The operations of the latter are fully reported in the annual financial statements (public entities consolidated financial statements).

This PEFA evaluation covers essentially the budgetary provincial (central) government as required by the methodology (HLG-1, PI-1, PI-2, PI-3, PI-4, PI-5, PI-6, PI-10, PI-11, PI-12, PI-16, PI-20, PI-21, PI-22, PI-24, PI-25 & PI-27) as well as elements of provincial (central) governments and PFM elements with other coverage (PI-7 i, PI-17, PI-18, PI-19, PI-23, PI-26 & PI-28).

Budgetary provincial (central) government includes thirteen departments (votes) that are ministries or equivalent:

- Office of the Premier;
- Provincial Legislature;
- Transport, Safety and Liaison;
- Education;
- Roads and Public Works;
- Economic Development;
- Sports, Art and Culture;
- Provincial Treasury;
- Co-operative Government, Human Settlement and Traditional Affairs;
- Health;
- Social Development;
- Agriculture, Land Reform and Rural Development; and
- Environment and Nature Conservation.

The eight public entities are:

- Housing Fund;<sup>15</sup>

<sup>14</sup> PEFA Secretariat, *Field guide for undertaking an assessment using the PEFA performance measurement framework*, Washington DC, May 2012.

<sup>15</sup> This entity does not fall under the scope of the PFMA (National Treasury, Public Finance Management Act (PFMA), No. 1 of 1999, Schedule 3C, p48.

- The Northern Cape Gambling Board;
- The Kalahari Kid Corporation;
- The Northern Cape Liquor Board;
- The Northern Cape Fleet Management Trading Entity;<sup>16</sup>
- The Northern Cape Tourism Authority;
- The Northern Cape Economic Development Agency; and
- McGregor Museum<sup>17</sup>.

In FY 2013/14 total real expenditures of the budgetary provincial (central) government amounted to R13 130 million<sup>18</sup>. This is the amount mainly covered during the PEFA Evaluation. In FY 2013/14, expenditures of public entities (autonomous agencies) amounted to R182.7 million. When the provincial (central) government is the scope, the amount covered is then R13 312.7 million (R13 130 million + R182.7 million).

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<sup>16</sup> *Ibid.*

<sup>17</sup> *Ibid.*

<sup>18</sup> Northern Cape Provincial Government, Estimates of Provincial Revenue and Expenditure 2014/15-2016/17



## 2. Background to the province

Section 2 paves the way for sufficient understanding of the wider context to PFM reforms in the Northern Cape as well as the core characteristics of the PFM system employed by the province.

### 2.1 Northern Cape Province: Socio-economic background

This section describes the economic situation within the Northern Cape and is predominantly informed by the annual socio-economic review produced by the Provincial Treasury and tabled alongside the other budget documentation in the Northern Cape Provincial Legislature<sup>19</sup>.

The Northern Cape is South Africa's largest of the nine provinces in terms of geographical size, but the most sparsely populated with a population share of 2.2 per cent of the national population in 2013, even though its total population increased from 1,058,060 in 2007 to 1,162,100 in 2013. Furthermore, the province faced negative net migration of 2 238 people for the period of 2006 to 2011, albeit a decrease from -2 692 for the 2001 to 2006 period<sup>20</sup>.

The economic activity of the Northern Cape trended in close correlation with the national economic activity of the last decade. The Northern Cape economy contributed the lowest among all the provinces to the national economy at 2.2 per cent for both 2002 and 2012<sup>21</sup>. Northern Cape's tertiary sector lead the contribution to its economic activity over the 2002 to 2012 period with an average of 50.3 per cent, followed by the primary sector by 33 per cent. With the mining industry continuing to be a main driver of economic growth, the province was projected to grow by 3.3 per cent in 2014. It is hoped that the recent upswing in economic activity will bring a halt to the deteriorating unemployment rate, which averaged 24.6 per cent for the 2002 to 2012 period, the same as the national level of unemployment<sup>22</sup>.

Citing the macroeconomic research firm, Global Insight (2013), the Provincial Treasury reports that 35.4 per cent of the Northern Cape population lived in poverty by 2012, down from 45.5 per cent in 2002. This positive development mirrors improvement in the province Human Development Index (HDI) and is in unison with the improvements in the national statistics for poverty and HDI. The province's small poverty gap of R1 185 million by 2012 is attributed to its low total population. The province established in 2012 that more than 25 per cent of the households in the province earned between R18 000 and R42 000 and less than 1 per cent of the households earned above R1.2 million per annum<sup>23</sup>. With an average national headline inflation rate of 5.7 per cent for 2013 and a forecasted rate of 6.3 per cent for 2014 by the South African Reserve Bank (SARB), the disposable income of households will continue to be under pressure.

In conclusion, the province acknowledges that the key development challenges that the province faces include the socio-economic and demographic disparities between regions and districts in the province, widespread poverty and income inequality, and structural unemployment<sup>24</sup>. It acknowledges that there was an overall improvement of public infrastructure roll-out in the province, but that many residents lack access to basic services, especially formal dwellings.

#### Development and poverty reduction strategies

This sub-section discusses the province's poverty reduction strategies and the main trends in fiscal aggregate discipline for the last three years, based on the province's budget documentation.

The province aims to reduce poverty through social development and to achieve this it defined three poverty alleviation focus areas<sup>25</sup>: Intersectoral collaboration, food security, social research, material assistance, and socio-economic initiatives.

In terms of sectoral sub-strategies, the province undertook to ensure that within the Northern Cape:

- Municipalities provide basic services, especially water and sanitation;

<sup>19</sup> NCPG, Provincial, district and local municipalities socio-economic review 2014, 12 March 2014, page XXII.

<sup>20</sup> Statistics South Africa (STATSSA), Mid-year population estimates 2013, February 2013.

<sup>21</sup> Statistics South Africa (STATSSA), Third quarter 2013, Statistical release P0441, 26 November 2013.

<sup>22</sup> Statistics South Africa (STATSSA), Quarterly labour force survey, Quarter 4, Statistical release P0211, 11 February 2013.

<sup>23</sup> Statistics South Africa (STATSSA), mid-year population estimates 2013, February 2013.

<sup>24</sup> NCPG, Provincial, district and local municipalities socio-economic review 2014, 12 March 2014, page III.

<sup>25</sup> NCPG, Northern Cape provincial growth and development strategy (NCPGDS), abridged 2011 version, July 2011, page 43.

- Households have decent human settlements, i.e. dwellings and houses;
- Eligible people living in poverty receive social grant assistance;
- The expanded public works programme (EPWP) is rolled out to improve employment;
- Effective education to adults and children is provided to improve skills development;
- Effective health services are provided; and
- Crimes are prevented<sup>26</sup>.

The sub-section on allocation of resources briefly assesses whether the province allocated sufficient budgetary resources to bring about poverty reduction.

### Fiscal policy and fiscal development

This sub-section reports on the main trends in fiscal aggregate discipline for the last three fiscal years. The province does not have any debt as the budget is balanced primarily by:

- Roll-overs of unspent funds from previous years;
- Own revenue or
- A charge on the following financial year's allocation from the national tax authorities.

The province's budget is mainly financed through transfers from national government in the form of the equitable share and conditional grants and to a much smaller extent by provincial own revenue. The fiscal framework for the period under review was characterised by above-inflationary growth in both the equitable share (average year-on-year growth of close to 7.5 per cent from FY2011/12 to FY2013/14) and conditional grants (average year-on-year growth of close to 13.1 per cent for the same period)<sup>27</sup>. However, both funding streams decreased again for FY2014/15: by 7 per cent for the equitable share and by 4 per cent for conditional grants.

The budgetary outcomes are provided in table 3 below. By all accounts, the province maintained a fair degree of aggregate fiscal discipline over the period under review. The deficit of R88.2 million for FY2013/14 was about 0.75 per cent of total expenditure for that year, although on average the surplus, i.e. under- expenditure, for the period under review averaged at about R255.8 million per fiscal year, which was about 0.83 per cent of the average total expenditure for this period.

**Table 3: Total provincial budget**

R'000	FY 2011/12	FY 2012/13	FY 2013/14
<b>Total revenue and grants</b>	<b>10 838 254</b>	<b>11 590 358</b>	<b>12 886 327</b>
Own revenue	225 664	269 908	270 501
Grants	10 612 590	11 320 450	12 615 826
<b>Total expenditure</b>	<b>9 498 324</b>	<b>9 820 951</b>	<b>11 536 096</b>
Current expenditure (***)	7 991 951	8 402 620	10 018 269
Of which			
Interest	2 431	1 568	2 479
Capital expenditures	1 506 373	1 418 331	1 517 827
Aggregate deficit (including grants, special programmes and unidentified financing)	-10 369	354 371	-88 209

Sources: NCPG, EPRE 2014, March 2014, page 10.

(\*) Estimates; (\*\*) Projection; (\*\*\*) excluding special programmes

<sup>26</sup> NCPG, Northern Cape Provincial Growth and Development Strategy (NCPGDS), abridged 2011 version, July 2011, pages 43 – 49.

<sup>27</sup> NCPG, EPRE 2014, March 2014, page 10.

## 2.2 Allocation of resources

This sub-section reports on the trends in sectoral and economic allocation of the the province's resources.

**Table 4: Actual budgetary allocations**

I. Main sub-functions (total provincial estimates of expenditure)	FY 2014/15 budgeted	FY 2013/14 revised estimate	FY 2012/13 actual outcome	FY 2011/12 actual outcome
Education	36%	35%	38%	38%
Health	28%	27%	28%	28%
Social Development	5%	5%	5%	5%
Provincial Legislature	1%	1%	1%	1%
Office of The Premier	1%	1%	1%	1%
Transport, Safety and Liaison	3%	2%	3%	2%
Roads and Public Works	9%	10%	9%	10%
Economic Development And Tourism	2%	2%	2%	2%
Sport, Arts and Culture	2%	2%	2%	2%
Provincial Treasury	2%	2%	1%	1%
Cooperative Governance, Human Settlements and Traditional Affairs	5%	5%	5%	5%
Agriculture, Land Reform and Rural Development	5%	6%	4%	3%
Environment and Nature Conservation	1%	1%	1%	1%
Total all sectors	100%	100%	100%	100%

Sources: NCPG, EPRE 2014, March 2014, page 17

**Table 5: Actual budgetary allocations (continued)**

II. Economical classification (total provincial estimates of expenditure)	FY 2014/15 budgeted	FY 2013/14 revised estimate	FY 2012/13 actual outcome	FY 2011/12 actual outcome
Current payments	82%	77%	75%	74%
Compensation of employees	56%	52%	54%	51%
Goods and services	26%	25%	21%	22%
Interest and rent on land	0%	0%	0%	0%
Transfers and subsidies to:	10%	11%	13%	12%
Provinces and municipalities	1%	1%	1%	1%
Departmental agencies and Accounts	1%	1%	1%	1%
Higher education institutions	0%	0%	0%	0%
Foreign governments and international organisations	0%	0%	0%	0%
Public corporations and private Enterprises	1%	1%	1%	1%
Non-profit institutions	5%	5%	6%	5%
Households	3%	4%	4%	4%
Payments for capital assets	8%	12%	13%	14%
Buildings and other fixed Structures	6%	10%	11%	12%
Machinery and equipment	1%	2%	2%	2%
Heritage Assets	0%	0%	0%	0%
Specialised military assets	0%	0%	0%	0%
Biological assets	0%	0%	0%	0%
Land and sub-soil assets	0%	0%	0%	0%
Software and other intangible Assets	0%	0%	0%	0%
Payments for financial assets	0%	0%	0%	0%
<b>Total economic classification</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Sources: NCPG, EPRE 2014, March 2014, page 17.

Two key statements typically contain the priorities and public commitment of the province: Its provincial growth and development strategy (NCPGDS) and the annual state of the province address. The NCPGDS (2011 abridged version) define two primary development objectives: a) promoting the growth, diversification and transformation of the provincial economy, and b) poverty eradication through social development. The strategy rests on the following pillars<sup>28</sup>:

- Promoting and facilitating economic growth, diversification and transformation;
- Efficient and effective infrastructure network;
- Poverty eradication through social development;
- Improving governance efficiency and effectiveness;
- Comprehensive rural development; and
- Spatial development.

The Northern Cape state of the province address by the Premier in March 2013 highlighted the following ruling party manifesto priorities for 2009 to 2014<sup>29</sup>:

- Creation of decent work and sustainable livelihoods;
- Education;
- Health;
- Crime; and
- Rural development, including land reform, and food production and security.

<sup>28</sup> NCPG, Northern Cape Provincial Growth and Development Strategy (NCPGDS), abridged 2011 version, July 2011

<sup>29</sup> Premier of the Northern Cape Provincial Government, state of the province address, 1 March 2013, page 12

A cursory view of the relative weights of the budgetary allocations per functional areas in table 4 indicates that the province's budgets over the period under review reflected the importance that health and education occupy in the manifesto. The relative weights stayed more or less the same. In the EPRE 2014 the Provincial Treasury noted that an outcomes based approach to budgeting was introduced in 2009 to ensure "that resources are grouped together and aligned appropriately to facilitate proper planning"<sup>30</sup>. In the EPRE 2013, the province reported on the implementation of a monitoring and evaluation tool to assess the alignment of expenditure with predetermined outcome targets, although no mention was made in the EPRE 2014 on the effectiveness of this tool.

While most expenditure in terms of the economic classification has remained stable over the period under review, table 5 indicates that the compensation of employees' bill has been increasing from 2011/12, making up close to 55 per cent of total provincial expenditure for the 2014/15 budget and compensated mostly by a decrease over the period in the payment for the construction of buildings and other fixed structures.

## **Decentralisation and local governments**

Municipalities received minimal monetary resources (no more than 1 per cent of total provincial expenditure) from the province for the period under review, due to the architecture of intergovernmental fiscal relations, which includes an extensive revenue assignment to local government and the direct fiscal transfers from the national tax authorities, namely the equitable share and conditional infrastructure-related grants. That being said, many of the activities of the province's departments focus extensively on supporting municipalities with financial governance and service delivery.

### **2.3 Legal and institutional framework for PFM**

This sub-section describes the salient legal provisions that determine the fundamental rules that are guiding the NCPG PFM system, as well as the institutions tasked with upholding the provisions and rules.

#### **Legal framework**

##### **The Constitution of the Republic of South Africa (Act No. 108 of 1996, as amended)**

The functions of government are provided for in chapter 2 and schedules 4 and 5 of the Constitution. The fiscal relations of various spheres of government are provided for in chapters 3 and 13 of the Constitution, the annual Division of Revenue Act and the Intergovernmental Fiscal Relations Act.

South Africa is a unitary state with three spheres of government: national government, provincial government and local government represented by municipalities. There are nine provincial governments, namely in Eastern Cape, Free State, Gauteng, Kwa-Zulu Natal, Limpopo, Mpumalanga, Northern Cape, North West and Western Cape. Each provincial government has legislative powers vested in a provincial legislature and executive powers vested in a provincial premier and exercised together with other members of a provincial executive council (PEC). Provincial governments have limited revenue-raising powers: they can impose only taxes other than those listed in section 228(1)(a) of the Constitution, therefore in practice, provinces typically only impose motor vehicles licensing fees and gambling fees and collect user charges for provincial services such as patient fees.

##### **The annual Division of Revenue Act (DORA)**

The annual Division of Revenue Amendment Bill provides for the equitable division of revenue raised nationally among the three spheres of government, as required by section 214 (1) of the Constitution. It stipulates the roles, accountability measures and reporting requirements for each sphere. The province's departments are required to report diligently on their utilisation of both unconditional equitable share and conditional grants to both Provincial Treasury and the National Treasury. Whereas the vertical division of nationally collected revenue between the national, provincial and local government spheres is policy-driven, the division of the provincial share among the nine provinces is formula-driven.

##### **The Public Finance Management Act (PFMA) (Act No. 1 of 1999, as amended)**

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<sup>30</sup> CPG, EPRE 2014, March 2014, page 10.

The legislative mandate of the PFMA with regards to provincial PFM is derived from constitutional provisions:

- (a) Section 215 provides for the national, provincial and municipal budgets and budgetary processes and the promotion of transparency, accountability and the effective financial management of the economy, debt and the public sector;
- (b) Section 216 requires the introduction of uniform reforms on expenditure controls and transparency measures; and
- (c) Section 217 provides for the public procurement of goods and services in accordance with systems that are fair, equitable, transparent, competitive and cost-effective. The PFMA assigns limited borrowing powers to provinces.

Section 18(1) of the PFMA provides for the responsibilities of the provincial treasury, including

- (a) the preparation of the provincial budget;
- (b) exercising control on the implementation of the provincial budget; and
- (c) enforcement of transparency and effective management in respect of revenue, expenditure, assets and liabilities of provincial public entities.

In terms of budgeting, section 27 (2) requires the MEC for finance in a province table the provincial annual budget for the financial year in the provincial legislature not later than two weeks after the tabling of the national annual budget – the Minister of Finance may approve an extension of time for the tabling of a provincial budget.

In terms of controls, section 38 (1)

- (a) (i) of the PFMA requires an accounting officer to operate and maintain an effective, efficient and transparent system of financial and risk management and internal control.  
(ii) stipulates that the accounting officer must ensure that the department has and maintains systems of internal audit under the control and direction of an audit committee, complying with and operating in accordance with Section 76 and 77 of the Act and the relevant Treasury Regulations. Furthermore, Section 39 states that the accounting officer must ensure fiscal discipline by a) only spending on voted main divisions (programmes) within the department's voted budget,
- b) Actively prevent unauthorised expenditure and overspending,
- c) Report such occurrence when they occur, and d) comply with any remedial measures imposed by the relevant treasury in terms of this Act to prevent overspending of the vote or a main division within the vote.

In terms of reporting, section 32 (2) requires quarterly by the provincial treasury to the National Treasury on revenue and expenditure with regard to the Provincial Revenue Fund. Furthermore, section 40 requires monthly and annual reporting, including the submission of annual financial statements two months after the end of a financial year.

In terms of the audit function, section 77 provides for the establishment of departmental or shared Audit committees. Audit units within departments are expected to submit audit reports to the audit committee on a continual basis.

National Treasury issued detailed regulations based on the PFMA in terms of national, provincial and PFM and guide the implementation of the PFMA. The regulations cover planning, budgeting, accounting arrangements, corporate management, internal controls, financial misconduct, revenue management, expenditure management, asset management and liability management. The Regulations also provide frameworks on banking, cash management, investments, public private partnerships and supply chain management. National Treasury regularly issues circulars to provincial governments on best practice and legislatively-compliant PFM procedures.

### **Municipal Financial Management Act (MFMA) (Act No. 56 of 2003)**

The MFMA broadly replicates the spirit and requirements of the PFMA for local government. It requires considerable technical oversight and guidance by provincial treasuries over the PFM at municipalities. Specifically, Section 5(3) requires provincial treasuries to assist the National Treasury in enforcing legislative compliance at municipalities. Section 5(4) requires provincial treasuries to monitor the preparation by municipalities in the province of their budgets and the monthly outcome of those budgets, the submission of revenue and expenditure reports by municipalities.

### **Supply chain management framework**

Section 217 of the Constitution read together with section 38 (1) of the PFMA requires accounting officers of departments and public entities to operate and maintain an “appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective.” Procurement has continually been decentralised: national and provincial government tender boards were phased out and departments and public entities took over responsibility for procurement through the National Treasury’s supply chain management framework. Provincial treasuries oversaw the establishment of supply chain management units in provincial departments.

Various guides and regulations to SCM practice and procedures have been issued by National Treasury to national departments and provincial departments and they are available on the National Treasury’s website. For example, the guide for accounting officers on SCM (2004) outlines the different types of procurement systems and the conditions under which each may be used. Provincial and National Treasuries monitor monthly reporting by supply chain management units to report all transactions and demonstrate compliance with the relevant public procurement legislative framework.

### **Preferential Procurement Policy Framework Act (Act No. 5 of 2000) and related regulations**

This Act provides for public procurement processes based on positive discrimination for historically disadvantaged people in South Africa, specifically with regards to projects falling under the reconstruction and development programme (RDP). It provides for a preferential points system of evaluation of contracts, based on threshold contract values, e.g. for contracts with a value above R500 000, the “90 per cent price-related/10 per cent specific goals-related” point system applies and for contracts equal to or less than R500 000, the “80 price-related/20 per cent specific goals-related” system applies. The specific goals may include contracting with historically disadvantaged people on the basis of race, gender or disability.

### **The Intergovernmental Fiscal Relations Act (Act No. 97 of 1997)**

This Act gives effect to the Constitution by setting out the process of intergovernmental consultation in enacting the annual Division of Revenue Bill. It provides for the establishment of the budget council and the budget forum and the sequences of the nationally representative and consultative intergovernmental forums for the annual budget process. Section 9 and 10(4) of the Act sets out the consultation process to be followed with the Financial and Fiscal Commission (FFC), which must recommend the equitable division of the nationally fiscus to government.

### **Public Audit Act (Act No. 25 of 2004)**

This Act gives effect to the Constitutional provisions on the establishment of the Auditor-General, her or his responsibilities in the auditing of public institutions, and the required accountability arrangements.

### **Institutional framework**

The institutional framework for PFM in South African is for all practical purposes fully reliant on the legislative framework described above. Government in South Africa is divided into three spheres, namely the national, provincial and local spheres. This means that each sphere can develop policy and make laws and implement them. According to Section 40(1) of the Constitution, these spheres are distinctive, interdependent and interrelated. Within the context of separation of powers, the government has three distinct branches, namely legislative, executive and judiciary.

The responsibilities of each sphere of government are not separated by strict boundaries. Both the national and the provincial spheres of government can legislate on, for example, health and education matters. These matters are called concurrent functions and are listed in schedule 4 of the Constitution. Section 125 (b) of the Constitution reads: “The Premier exercises the executive authority, together with the other members of the executive council, by implementing all national legislation with the functional areas listed in schedule 4 or 5 except where constitution or an Act of Parliament provides otherwise”. This means that when the national Parliament passes legislation dealing with health, provinces will be expected to implement it.

The legislative branch in the Northern Cape provincial government is represented by the Northern Cape Provincial Legislature. This consists of 30 elected public representatives called members of the provincial legislature (MPLs). They are elected for a five-year term. The legislature’s primary role is oversight over

governance in the province. In particular, it effects oversight over public finance management through the following mechanisms:

- Dealing with and approving tabled budgets, including medium-term budget statements in the form of the MTBPS and in-year adjustments budgets;
- Interrogating tabled annual plans of departments and entities; and
- Dealing with tabled quarterly expenditure reports and tabled annual reports (including audit reports and annual financial statements).

The executive branch is made up of the all the departments and their entities, including the office of the Premier and the Provincial Treasury. There is no judicial branch at the provincial and local government spheres.

Section 27(4) of the PFMA requires the accounting officer to submit measurable objectives for each main division of the vote each time the budget is introduced in the provincial legislature. Although the PFMA does prescribe organisation design for provincial governments, the National Treasury generally requires departments to organise themselves in terms of the main divisions of the budget vote.

The primary entity responsible for the soundness, effectiveness and control over PFM in the province is the Provincial Treasury. The PFMA and MFMA provide the Provincial Treasury with its legislative mandate and prescribe its specific PFM responsibilities. Notwithstanding the key role the Provincial Treasury plays in provincial PFM, each provincial department (including the legislature) is responsible to maintain efficient, economical and effective PFM systems and ensure this is the case within the entities under their control. Provincial Treasury's notable PFM responsibilities are<sup>31</sup>:

- Accurate and legislatively compliant provincial annual and adjustment budget compilation;
- Providing fiscal control over budget execution at all provincial departments;
- Monitoring of local government budget compilation;
- Capacitating local governments on MFMA implementation;
- Ensuring compliance with the annual Division of Revenue Act;
- Promoting and enforcing transparency and effective management of revenue, expenditure, assets and liabilities of the provincial departments and public entities;
- Supporting provincial departmental implementation and maintenance of financial systems, particularly PERSAL, LOGIS and BAS;
- Monitoring and enforcing compliance with supply chain management (SCM) best practices;
- Overseeing risk management in the province;
- Guiding departments and entities through provincial treasury directives; and
- Compiling provincial consolidated financial statements.

In order to deal with the above-mentioned PFM responsibilities, the Provincial Treasury is organised administratively in functional areas or programmes that each deal with specific yet interrelated aspects of PFM in the province<sup>32</sup>:

- Programme 1: Provide and maintain high quality support services to the Member of Executive Council and the department pertaining to sound financial management, human resource management and corporate services.
- Programme 2: Sustainable resource management provides “professional advice and support the Head of Department on provincial fiscal policy, municipal finance developments, management of the annual provincial budget process, and effective management of provincial government’s fiscal resources.”
- Programme 3: Asset and liabilities management provides “policy direction, facilitating the effective and efficient management of physical, financial assets, PPP’s and liabilities.”
- Programme 4: Financial governance promotes “accountability through substantive reflection of financial activities of the province as well as compliance with financial norms and standards.”
- Programme 5: Provincial internal audit renders an “independent, objective assurance and consulting activity designed to add value and improve the NC provincial government’s operations.”

### **Province-specific PFM features**

The banking and cash management frameworks for provincial departments are defined in both Section 7 of the PFMA and Regulation 15 of the 2002 treasury regulations issued in terms of the PFMA. These regulations require

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<sup>31</sup> NCPG, EPRE 2014: Vote 8 - Provincial Treasury, March 2014, page 283

<sup>32</sup> NCPG, EPRE 2014: Vote 8 - Provincial Treasury, March 2014, pages 291 – 295.



that all revenue received by departments must be paid into their Paymaster-General accounts (PMG) daily.

Section 7 of the PFMA requires provincial departments authorised to open bank accounts to open them with banks registered in South Africa and to follow the prescribed tendering procedures. Departments may not open bank accounts with foreign banks except with the written approval of the National Treasury. Provincial Treasuries should nominate one bank account which is under the provincial revenue fund (PRF) into which all transfers from national departments will be deposited. Provincial departments who receive transfers from the national government departments must have these transfers deposited into the provincial treasury nominated account. Money received by departments and not classified under revenue such as agency payments must be paid into the department's PMG account. Monthly payment schedules are reconciled and reviewed by the Provincial Treasury for each provincial department. Provinces process payments on BAS using their PMG account.

Section 188 of the Constitution establishes the Auditor-General (AG) of South Africa as the supreme audit institution. Specifically, the AG must audit and report on the accounts, financial statements and financial management of provincial governments. The AG may audit and report on the accounts, financial statements and financial management of any institution funded from the provincial revenue fund or by a municipality. The AG must submit audit reports to the Northern Cape Provincial Legislature and make them public.

Section 3 below provides a detailed assessment on the compliance with existing rules and Section 4 discusses PFM reforms in the Northern Cape.

### 3. Assessment of PFM systems, processes and institutions

#### 3.1 Credibility of the budget

##### HLG-1 Predictability of transfer from higher level of government

**Dimensions to be assessed (scoring method M1):**

- (i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget***
- (ii) Annual variance between actual and estimated transfers of earmarked grants***
- (iii) In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within one month of the start of the SN fiscal year)***

Revenue raised nationally in respect of the financial year must be divided among the national, provincial and local spheres of government for their equitable share allocations. Each province's equitable share<sup>33</sup> raised nationally as well as each the conditional grants allocated to provincial departments is tabled every year in Parliament and published in the DORA<sup>34</sup>. The appropriated funds are transferred based on the approved national payment schedule from the national reserve fund (NRF) to the Northern Cape corporate provincial deposits account (CPD) at the South African Reserve Bank (the Central Bank)<sup>35</sup>. Provincial Treasury has access to this account and will withdraw funds as required to come into the provincial revenue fund (PRF)<sup>36</sup>. Each of the 13 departments in the province has its own PMG account<sup>37</sup> which is used for funds received from Provincial Treasury (equitable share, conditional grants and own generated revenue).

The National Treasury must, after consultation with the accounting officer of the Provincial Treasury, determine the payment schedule for the transfer of a Province's equitable share and conditional grants allocation. The Provincial Treasury is the custodian of the provincial appropriations to the departments as per the approved payment schedule. In determining the payment schedule, the National Treasury must take into account the monthly expenditure commitments of provinces and departments and must seek to minimise risk and debt servicing costs for provincial government.

***i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget***

Actual total transfer receipts from central government consist of equitable shares and conditional grants.

The provincial equitable share is nationally raised revenue and is divided amongst the three levels of the general government (central, provinces and municipalities) based on an equitable share formula, which is updated every year<sup>38</sup>. The equitable share is the largest source of funding and the biggest contributor of provincial receipts for the Northern Cape.

Conditional grants are the second largest source of funding for the Northern Cape. They are designed to fund national priorities and compensate the province (as well as other provinces) for cross boundary flows with respect to specialised services.

For the period under review (FY2011/12, FY2012/13 & FY2013/14) actual total transfer receipts were very close to amounts voted in the budget.

<sup>33</sup> This is also referred as the unconditional transfer from National Treasury to provincial governments.

<sup>34</sup> Division of Revenue Act, authorised annually, policy document published and revised annually to give national and provincial government the appropriations of revenues for each fiscal calendar.

<sup>35</sup> National Treasury, Public Finance Management Act (PFMA), No 1 of 1999, Updated to Government Gazette 33059, 1 April 2010, section 21.

<sup>36</sup> Provincial revenue fund is established through section 226 of the Constitution of South Africa.

<sup>37</sup> Paymaster-General accounts created by each department in the province and used as the bank account for all funds received from the National and Provincial Treasuries.

<sup>38</sup> The formula includes six components: education, health, basic share, poverty, economic activity and institutional.

**Table 6: Transfers from central government**

R'000	Voted			Actual		
	FY2011/12	FY2012/13	FY2013/14	FY2011/12	FY2012/13	FY2013/14
Equitable share	7 742 909	8 255 155	9 021 508	7 827 173	8 255 155	9 056 118
Conditional grants	2 923 142	3 083 987	3 579 645	3 065 295	3 083 987	
Total transfers from central government	10 666 051	11 339 142	12 601 153	10 892 468	11 339 142	12 635 763
Annual deviations (actual/voted)	--	--	--	102.21%	100.0%	100.3%

Source: Northern Cape Province, Estimates of Provincial Revenue and expenditures for FY2011/12 through FY2013/14, Provincial Treasury (2012, 2013 & 2014), tables 4.1

**ii) Annual variance between actual and estimated transfers of earmarked grants**

Conditional grants are distributed among eight categories (departments) such as agriculture (1), education (2), health (3), human settlements (4), roads and public works (5), sport (6), art and culture (7), and others (8) (Refer also to Annexure 1, table HLG-1 ii). For the last three years ((FY2011/12, FY2012/13 & FY2013/14), the annual variance between actual and estimated grants was as follows:

**Table 7: Annual variance between actual and estimated transfers of earmarked grants**

	FY2011/12	FY2012/13	FY2013/14
Annual variance	558.2%	0.0%	0.0%

Source: Refer to detailed calculations in Annexure 1 (Table HLG-1 ii)

For the FY 2012/2013 and FY2013/14, the annual variance was nil because for all the contingency items budgeted, the actual amounts disbursed were similar.

**iii) In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within one month of the start of the SN fiscal year**

Prior to the beginning of the financial year, the National Treasury in Pretoria (higher level of government) prepares a disbursement timetable for both equitable share and earmarked grants for the fiscal year and shares it with the Northern Cape Provincial Treasury (latest the first week of April). Following the budget adjustment, a revised timetable is forwarded to the Provincial Treasury (latest first week of December)<sup>39</sup>.

- For equitable shares, the timetable calls for three or four monthly disbursements per month (on the first, second, third and fourth Tuesday)<sup>40</sup> for a total of 40 disbursements for the year. The monthly disbursements are equivalent to 8.33 per cent of the total budget and are equal for the first three disbursements. The disbursements are credited to the cooperation for public deposits (CPD) account at the provincial account at the South African Reserve Bank (SARB)<sup>41</sup>. For the last three years under review (FY2011/12 through FY2013/14), the amounts of equitable shares budgeted have been disbursed on time, following the timetable for disbursements strictly;
- For earmarked grants (conditional grants), the same timetable calls for monthly and/or quarterly disbursements. The disbursements are credited to the exchequer account of the provincial government at ABSA Bank, a South African commercial bank, member of Barclays<sup>42</sup>. For the last three years under review (FY2011/12 through FY2013/14), the amounts of earmarked/conditional grants budgeted have been disbursed on time, strictly following the timetable for disbursements (provided the conditions for disbursements were met by the departments of the provincial government) 47.

<sup>39</sup> The cash-flow management sub-directorate and the banking management sub-directorate (directorate banking and cash flow management, chief directorate assets and liabilities, programme 3) have shared hard copies of the timetables for disbursements for the years under review with the PEFA team: Northern Cape adjusted provincial payment schedule for the 2011/12, 2012/13 and 2013/14 financial years.

<sup>40</sup> If Tuesday is a holiday, then the disbursement is made the following business day.

<sup>41</sup> The South African Reserve Bank (the SARB) is the central bank of the Republic of South Africa <http://www.reservebank.co.za/>

<sup>42</sup> <http://www.absa.co.za/>

Indicator	Score	Evaluation
<b>HLG-1 Predictability of transfers from higher level of government</b>	<b>C+</b>	<b>Scoring method M1</b>
i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the Province for inclusion in the latter's budget	A	Annual deviation of actual total HLG from the original total estimated amount provided by HLG to the province for inclusion in the latter's budget was less than 5 per cent for all the three years under review (FY2011/12 through FY2013/14)
ii) Annual variance between actual and estimated of earmarked grants	C	Variance in provision of earmarked grant did not exceed 10 per cent in more than one of the last three years.
iii) In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within one month of the start of the city EFY	A	A disbursement timetable forms part of the agreement between the National Treasury and the Northern Cape Provincial Government and this is agreed by all stakeholders at the beginning of the fiscal year and, for both disbursements of equitable shares and conditional grants, there were no actual delays (weighted) during the last three fiscal years (FY2011/12 through FY2013/14).

**PI-1 Aggregate expenditure out-turn in comparison with the original approved budget**

**Dimensions to be assessed (scoring method M1):**  
**(i) The difference between actual primary expenditure and the originally budgeted primary expenditure (i.e. excluding debt service charges, but also excluding externally financed project expenditure)**

**(i) Difference between real primary expenditure and originally-budgeted primary expenditure**

Overall actual primary expenditure<sup>43</sup> deviations from budgeted primary expenditures were on average relatively low (under 6 per cent) for the period under review (FY2011/12 through FY2013/14). This good performance supports budget credibility. Deviations went down from 5.5 per cent in FY2011/12 to 1.1 per cent in FY2012/13. They went up to 7.2 per cent in FY2013/14.

**Table 8: Deviations between budgetary executions of global provincial expenditure and its composition (in percentage of originally-budgeted primary expenditure)**

Year	Total expenditure deviations	Composition variance	Contingency share
FY2011/12	5.5%	7.1%	1.0%
FY2012/13	1.1%	5.4%	
FY2013/14	7.2%	4.9%	

Source: Annexure 1, tables 1, 2 and 3

Indicator	Score	Evaluation
<b>PI-1 Aggregate expenditure out-turn compared to original approved budget</b>	<b>B</b>	<b>Scoring method M1</b>
(i) Difference between real primary expenditure and originally-budgeted primary expenditure (debt service charges and also expenditure on projects from external financing excluded)	B	In no more than one of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 10 per cent of budgeted expenditure.

<sup>43</sup> The Northern Cape Province has no debt obligations and no foreign financing of its capital expenditures. Therefore primary expenditures are equivalent to total expenditures. The actual data used for the calculations are all audited payment data.

**PI-2 Composition of expenditure out-turn compared to original approved budget**

**Dimensions to be assessed (scoring method M1):**

- (i) Extent to which the variance in the composition of primary expenditure exceeded the aggregate variance (as defined in PI-1) in the past three years excluding contingency items**
- (ii) The average amount of expenditure charged to the contingency vote over the last three years**

**(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items.**

Overall the composition of expenditure out-turn compared well to the original approved budget (FY2011/12 through FY2013/14). In fact variance in expenditure composition remained relatively low, decreasing gradually from 7.1 per cent in FY 2011/12 to 5.1 per cent in FY2012/13, and further to 4.9 per cent in FY2013/14<sup>44</sup>.

**(ii) The average amount of expenditure charged to the contingency vote over the last three years**

There is a post in the budget for unallocated contingency reserves. It is not used though. In practice contingency expenditures are dealt with using the surplus that is intentionally generated in the draft budget law. The surplus is dealt with as an unallocated contingency reserve. Actual expenditure charged to the surplus was on average less than 3 per cent for the period FY2011/12 through FY2013/14.

Indicator	Score	Evaluation
<b>PI-2 Deviations in composition of expenditure out-turn compared to the original approved budget</b>	<b>B+</b>	<b>Scoring method M1</b>
(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items.	B	Variance in expenditure composition exceeded 10 per cent in no more than one of the last three (3) years
(ii) The average amount of expenditure charged to the contingency vote over the last three years	A	Actual expenditure charged to the contingency vote was on average less than 3 per cent of the original budget

<sup>44</sup> The relatively high variance of 7.1 per cent in FY2011/12 is due essentially to a 32 per cent increase in expenditures of the department of Roads and Public Works

### PI-3 Actual domestic revenue compared to domestic revenue in the originally approved budget

#### Dimension to be assessed (scoring method M1)

##### **(i) Real domestic income collection in comparison with estimates in the original approved budget**

Own revenue of the province of Northern Cape is relatively low and finances only about 2.0 per cent of total actual expenditures (FY2013/14). Taxes on motor vehicles' licences are the most important. They represented 49.3 per cent of the own revenue of the province (FY2013/14), followed by revenue from the sales of goods and services (27 per cent), interest and dividend and rents on land (11.7 per cent) and casino taxes (6.5 per cent).

Own revenues in the province of Northern Cape are collected by all the 13 departments. The department of Transport, Safety and Liaison collects the bulk of the revenue (56 per cent in FY 2013/14), followed by the Department of Health (10) with about 15 per cent the same year. The Provincial Treasury (08) collected about 12 per cent in FY2013/14 and the Department for Economic Development (06) about 8 per cent. Revenue collected is deposited in the department's Paymaster-General (PMG) account.

During the budget preparation process revenue forecasting for the budget year (and subsequent years) is carried out by the department based on the revenue of the previous year and on any other element that may affect the level of the same.

The data used for evaluating this indicator was provided by the Provincial Treasury and it originates from annual audited financial statements. It is considered to be reliable and suitable also because own revenue is a relatively low percentage of total revenue and easy to manage.

Given the relative low importance of own revenue in financing the province's expenditures, there is little interdependence between PI-3 and PI-1 (and no interdependence with D-1 that does not apply).

##### **(i) Real domestic income collection in comparison with estimates in the original approved budget**

For the period of FY2011/12 through FY2013/14 actual own revenue of the Northern Cape compared fairly well with own revenue in the originally approved budget except for FY2012/13 where revenue execution was over 20 per cent of the budgeted revenue. In FY2011/12 the execution of own revenue was 15.9 per cent over the budgeted revenue. Execution remained about the same in FY2013/14 however and was 15.3 per cent higher than the budgeted own revenue.

**Table 9: Comparison of original budgeted and actual own revenue**

	FY2011/12	FY2012/13	FY2013
Execution of actual own revenue	115.9%	122.8%	115.3%

Source: Refer to Annex I for more details

The main contributors in over- and under-collection in almost all departments are financial transactions in assets and liabilities, sale of goods and services other than capital assets, and sale of capital assets that are due to the reasons cited above.

In addition to the above, the reasons relating to the major collecting departments are discussed below.

Due to the non-availability of a revenue budgeting tool, the Department of Transport, Safety and Liaison has been conservative in budgeting which resulted in a huge over-collection over the years. The absence of a provincial revenue enhancement strategy at the time referred to in the report also affected the revenues of the department unfavourable. However, since 2013/14 the department used budget guidelines hence the lower over-collection that is being reported. The department has also started to utilise a revenue forecasting model for the 2015 MTEF and has started to develop own revenue enhancement strategy which will improve the revenue budgeting and collection thereof.

The reasons for the fluctuations reported by the Department of Economic Development and Tourism ranges from the non-budgeting and more revenue realised than what was budgeted for from the tax receipts and fines, penalties and forfeits items from fines on liquor licenses that were not budgeted for and the collection on casino taxes that was higher than budgeted for. This is due to the shortage of human capital for revenue management

which has been recurring over the years, the non-availability of a revenue budgeting tool for the casino taxes as well as the delay in the operation of the Kuruman Casino.

The under collection by the Department of Health relates to sale of goods and services other than capital assets, mainly due to health patient fees which is as a result of the system challenges experienced by the department as well as human capacity challenges in the area of revenue management. The department lacks proper controls in terms of revenue management and is unable to track the outstanding debts and monies from road accident fund (RAF). A revenue committee was established in 2013 so to assist the department with its revenue collection and management challenges moving forward.

The over collection by the Provincial Treasury is mainly due to the interest that was earned on the positive bank balance of the province.

Indicator	Score	Evaluation
<b>PI-3 Deviations in aggregate revenue out-turn compared with the original approved budget</b>	<b>C</b>	<b>Scoring method M1</b>
(i) Real collection of domestic income in comparison with estimates in the original approved budget	C	Actual own revenue was between 92 per cent and 116 per cent of budgeted own revenue in at least two of the last three years.



#### PI-4 Stock and monitoring of expenditure payment arrears

**Dimensions to be assessed (scoring method M1):**

**(i) Stock of expenditure payment arrears**

**(ii) Availability of data to monitor the stock of expenditure payment arrears**

#### (i) Stock of expenditure payment arrears

In the Northern Cape Provincial Government (NCPG), invoices due and not paid within 30 days are considered arrears at midnight of the 30th day. As of March 31st, 2014, the bulk of the arrears (86 per cent) was with the Department of Health (10), followed by the Department of Education (4) with 12 per cent. The remaining 2 per cent are spread over six departments. As of March 31st, 2014, total expenditure arrears represented 0.915 per cent of total actual expenditures for FY 2013/14 (following table 10).

**Table 10: Expenditure arrears by department and total arrears**

Name of department	No of invoices older than 30 days not been paid on 31 March 2014	Total value of invoices in R (Exp. arrears as at 31 March 2014)
1. Office of the Premier	0	0
2. Provincial Legislature	--	778 000
3. Transport, Safety and Liaison	57	302 101.90
4. Education	329	14 566 659.0
5. Roads and Public Works	0	0
6. Economic Development	0	0
7. Sports, Art and Culture	14	497 872.33
8. Provincial Treasury	84	89 989.01
9. Co-operative Government, Human Settlement and Traditional Affairs	181	1 379 491.22
10. Health	3 339	102 375 348.0
11. Social Development	0	0
12. Agriculture, Land reform and Rural Development	7	97 937.0
13. Environment and nature Conservation	6	45 560.78
<b>Total expenditure arrears</b>	<b>4 017</b>	<b>120 132 960.0</b>
<b>Total expenditure arrears (in per cent of total actual expenditures) (*)</b>	<b>--</b>	<b>0.915 per cent</b>

(\*) Total actual expenditures for FY 2013/14 were R13 130 338 000.0

Source: Data provided by the provincial Accountant-General, chief directorate provincial financial governance (programme 4)

#### (ii) Availability of data to monitor the stock of expenditure payment arrears

Every year at the end of the FY, each department calculates its arrears (invoices due and not paid within 30 days). The calculation is made automatically through LOGIS, the procurement software used by several departments (Provincial Treasury, Social Development, Environment and Nature Conservation). However, LOGIS does not provide an age profile. For the remaining departments where LOGIS is not yet fully implemented, the calculation uses LOGIS partially and is completed manually. The information is then forwarded to the chief directorate financial governance of the Provincial Treasury (provincial Accountant-General) for consolidation. The data on expenditure arrears are almost complete, because the Provincial Legislature does not participate in this exercise. In addition they do not have an age profile.

Indicator	Score	Explanation
<b>PI-4 Stock and monitoring of expenditure payment arrears</b>	<b>B+</b>	<b>Scoring method M1</b>
(i) Stock of expenditure payment arrears	A	The stock of arrears as of 31 March 2014 (year-end) represented 0.915 per cent of total actual expenditures for FY2013/14
(ii) Availability of data in order to monitor the stock of expenditure payment arrears	B	Data on the stock of arrears is generated annually. This excludes data on arrears of the Provincial Legislature (if any).

### 3.2 Comprehensiveness and Transparency

#### PI-5 Classification of the budget

**Dimensions to be assessed (scoring method M1):**

***(i) The classification system used to formulate, execute and report on the province's budget***

***i) The classification system used to formulate, execute and report on the province budget.***

Northern Cape Provincial Government's primary budget document is its annually published and publicly available EPRE, which also contains the province's MTEF estimates. The EPRE 2014 for 2014/15 contains the actual revenue and expenditure figures for the period under review (last completed financial year 2013/14) as well as the budget estimates of the current fiscal year (2014/15) and the two outer years. The EPRE therefore contains data for both budget formulation and execution.

The EPRE is classified and structured in a format that distinguishes between administrative, economic and functional classifications at the aggregate level and programme level, i.e. the main divisions of a departmental vote.

Northern Cape Provincial Treasury employs the in-year monitoring (IYM) and reporting tool developed by National Treasury to track monthly revenue and expenditure reports for each provincial department (vote). The tool collates revenue and expenditure data per vote in terms of both economical and functional classification, down to a sub-division of the main vote, i.e. sub-programme level. This tool is not publicly available, although the provincial aggregate revenue and expenditure quarterly reports, disaggregated in terms of votes, are published on the National Treasury's website<sup>45</sup>. Publicly available departmental annual reports contain appropriation statements that detail revenue and expenditure data for the relevant fiscal year and the previous fiscal year, also in terms of both economical and functional classification, up to the sub-programme level. The 2014 EPRE details the budgeted and actual transfer payments to all public entities (as provided for in the PFMA<sup>46</sup>) overseen by Northern Cape departments.

The EPRE classification and structure conforms to the IMF's government finance statistics manual (2001) advising on economic and functional classifications and the United Nations statistical division's nations classification of functions of government (COFOG) manual advising on administrative classifications. Specifically, the EPRE classification and structure conforms to COFOG in that high and lower levels of administrative functions are similarly applied, including public order and safety, education, health, social protection, housing and community amenities, environment protection and sectoral economic affairs, and their various sub-functions.

Indicator	Score	Evaluation
<b>PI-5 Classification of the budget</b>	<b>A</b>	<b>Scoring method M1</b>
(i) The classification system used to formulate, execute and report on the central government budget	A	The budget formulation and execution is based on administrative, economic, programme and sub-programme classification that can produce consistent documentation according to GFS/COFOG standards.

<sup>45</sup> [http://www.treasury.gov.za/publications/PiP/2014\\_15/Q1/default.aspx](http://www.treasury.gov.za/publications/PiP/2014_15/Q1/default.aspx)

<sup>46</sup> National Treasury, Public Finance Management Act (PFMA), No 1 of 1999, updated to Government Gazette 33059, 1 April 2010

## PI-6 Comprehensiveness of information included in budget documentation

### **Dimensions to be assessed (scoring method M1):**

***(i) Share of the above listed information contained in the budgetary documentation most recently issued by the central government***

This indicator assesses the completeness of the documentation on the provincial government's relevant fiscal forecasts, budget proposals and out-turn of the previous year. The publicly available budget documentation of the Northern Cape for the 2014/15 fiscal year is described below.

On 13 November 2013, approximately six months prior to the start of the 2014/15 fiscal year, the MEC of Finance tabled the province's medium-term budget policy statement (MTBPS) in the Northern Cape Provincial Legislature<sup>47</sup>. It stipulated the fiscal framework and economic assumptions that should inform the provincial budget over 2014/15 medium-term expenditure framework (MTEF) and was directly aligned to the National Treasury's MTBPS. The MTBPS took into account the adjustments to the current year's budget. It laid down the forecasts for provincial revenue and expenditure for the 2014/15 MTEF.

The budget speech delivered by MEC of Finance on 12 March 2014 to the Provincial Legislature described the province's budget priorities, high-level sectoral allocations and financial management initiatives. On the same day, the MEC of Finance tabled the Appropriations Bill in the Provincial Legislature. The Bill contained the 2014/15 budgetary estimates, which includes the 2014/15 MTEF departmental receipts and payments, detailed transfer payments to public entities overseen by departments, as well as the total conditional grant allocations from the provincial budget to municipalities. The Northern Cape's EPRE was tabled in the Provincial Legislature as part of the broad budget documentation package. The EPRE included a brief provincial economic outlook, the detailed breakdown of past, current and future fiscal year revenue and expenditure, as well as narratives on the background to each vote's programme and sub-programme initiatives and priorities. In particular the Provincial Treasury's "Provincial, district and local municipalities socio-economic review" provided detailed macroeconomic, demographic and socio-economic statistics for the province as well as for each municipality. These documents are publicly available.

Each provincial department tabled an annual performance plan in the Legislature, which details the relevant programmatic performance information (e.g. targeted outputs and outcomes) of the department, linked to the medium term budgetary estimates (e.g. contained in the MTBPS).

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<sup>47</sup> Northern Cape Provincial Government, Medium Term Budget Policy Statement 2013, 13 November 2013.

**Table 11: Information contained in budget documentation**

Documentary requirement	Fulfilled	Document
1. Macroeconomic assumptions, including aggregate growth, inflation and exchange rate estimates, at the very least.	Yes	Budget documentation provides the macro-economic framework. Documentation includes narratives on the following economic statistics pertaining to the Northern Cape, including real gross domestic product growth rates, past and projected inflation rates (national inflationary environment), and socio-economic statistics (e.g. historical unemployment figures).
2. Fiscal deficit.	Yes	Surplus or deficits are indicated in the EPRE under the province's aggregate historical figures, as well as the medium-term budget estimates. For the 2014/15 fiscal year, the province projects a surplus.
3. Deficit financing	Yes	Where a deficit arises, the EPRE indicates how it will be financed, for example through provincial roll-overs (surplus).
4. Debt stock.	N/A	Not applicable
5. Financial Assets.	No	There is no specific section in the EPRE for the 2014/15 MTEF describing the stock of cash reserves and the investment income accrued for the current year and the previous two years. The province's consolidated annual financial statements, tabled in the legislature, contain the statement of financial position, which details the aggregate financial assets of the province in terms of current and non-current assets.
Results of previous budget exercise	Yes	The audited outcome for the past three fiscal years, i.e. 2010/11, 2011/12 and 2012/13 are included in the 2014/2015 EPRE document.
7. Results of the current year's budget	Yes	The 2013/2014 adjusted appropriation and revised estimates are presented in the same format as the annual budget proposal.
8. Summarised budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous year.	Yes	The EPRE for the 2014/15 MTEF summarises budget data according to the total provincial revenue and expenditure for current and previous fiscal years. Quarterly revenue and expenditure statements for each provincial department in terms of the economic classifications are gazetted.
9. Explanation of the budget implications of new policy initiatives.	Yes	The EPRE for the 2014/15 MTEF contains an "Overview of provincial revenue and expenditure" section that summarises new policy initiatives, the additional allocations to functional areas (votes) to fund these initiatives and major changes to existing expenditure programmes. Policy initiatives and their impacts are further explained in departmental annual performance plans, which are publicly available.

***i) Share of the above listed information contained in the budgetary documentation most recently issued by the central government.***

Budget documentation fulfils 7 of the 8 information benchmarks applicable.

Indicator	Score	Evaluation
<b>PI-6 Comprehensiveness of information included in budgetary documentation</b>	<b>A</b>	<b>Scoring method M1</b>
(i) Proportion of information mentioned above and contained in the most recent budgetary documentation published by the central government	A	The budget documentation is comprehensive and fulfils seven benchmarks relevant to the sub-national government.

## PI-7 Extent of unreported province operations

### Dimensions to be assessed (scoring method M1):

- (i) Level of extra-budgetary expenditure (not including projects financed by donors) that is not declared – in other words that does not appear in fiscal reports**
- (ii) Information on income and expenditure in relation to projects financed by donors included in the fiscal reports**

This sub-indicator (i) assesses the degree of completeness of reporting on all sub-national government revenue and expenditures across all categories and their financing. This indicator does not take into account *ad hoc* irregular donations and gifts (whether cash or in-kind). These aspects are dealt with by each provincial department and reported on in their annual financial statements in accordance with the National Treasury regulation 21.2.4.

#### ***i) Level of extra-budgetary expenditure (not including projects financed by donors) that is not declared – in other words that does not appear in fiscal reports.***

No evidence of undeclared or unreported extra-budgetary revenue and expenditure was observed. No evidence of agencies that are outside the province's budgetary system was observed<sup>48</sup>. The public finance management legislative framework provides clear restrictions on unreported and extra-budgetary expenditure. For example, expenditure of budgeted amounts on purposes other than what it was appropriated for or overspending of a vote or a main division within a vote, is unauthorised.<sup>49</sup> A single provincial revenue fund (PRF) receives all provincial revenue and disburses all expenditure in accordance with the Constitution<sup>50</sup>. The PFMA contains various restrictions and prescriptions on the budgeting, accounting and reporting procedures related to the PRF<sup>51</sup>. In addition, the PFMA also requires the gazetting of quarterly statements of provincial revenue and expenditure statements for each province in terms of economic classifications<sup>52</sup>.

Past revenue collected by the largest votes from outside government from service delivery beneficiaries is contained in the latest budgetary estimates<sup>53</sup>. All departmental payments are processed through the Basic Accounting System (BAS) and LOGIS in the department that the system is fully implemented. It is highly unlikely that payments outside these systems could be generated for departments. At the end of the fiscal year, departmental financial statements are consolidated and audited which allows the aggregate reconciliation of sources and application of voted funds. This process presents another mechanism to identify extra-budgetary operations.

In addition, the reports by the Auditor-General for FY2011/12, FY2012/13 and FY2013/14 on the largest budgets, namely education and health, do not point to a lack of internal controls related to their abilities to pick up unreported and extra-budgetary expenditure<sup>54</sup>.

#### ***ii) Information on income and expenditure in relation to projects financed by donors included in the fiscal reports.***

This dimension does not apply (NA). There are no projects financed by donors in the province

<sup>48</sup> Except for Kalahari Kid Corporation, a public entity, full operations of other public entities (autonomous agencies) are not in the budget but they are all included in the annual financial statements. Refer to PI-9 (i) for more details.

<sup>49</sup> National Treasury, Public Finance Management Act (PFMA), No 1 of 1999, updated to Government Gazette 33059, 1 April 2010, Section 1.

<sup>50</sup> Constitution of the Republic of South Africa (Act 1 of 1999), Section 226 (1).

<sup>51</sup> The National Treasury, Public Finance Management Act (PFMA), Same, Sections 21 to 25.

<sup>52</sup> *Ibid* Section 32 (2).

<sup>53</sup> Northern Cape Provincial Government, Estimates of provincial revenue and expenditures (2014), for education (4), page 140, for health (10), page 354.

<sup>54</sup> Auditor-General, South Africa, Northern Cape, General report on the audit outcome of provincial governments, PFMA 2011-12, March 2013; Auditor-General, South Africa, Northern Cape, General report on the audit outcome of provincial governments, PFMA 2012-13, November 2013; Northern Cape Department of Health, annual report 2013/14, 29 August 2014; Northern Cape Department of Education, annual report 2013/14, no date.

Indicator	Score	Evaluation
<b>PI-7 Extent of unreported government operations</b>	<b>A</b>	<b>Scoring method M1</b>
(i) Level of extra-budgetary expenditure (as distinct from that for projects financed by donors) which is not declared, in other words does not appear in fiscal reports	A	There is no evidence of unreported extra-budgetary expenditure (excluding donor-funded projects).
(ii) Information on income and expenditure relating to projects financed by donors that is included in fiscal reports	NA	There are no donor funded projects in the province.



## PI-8 Transparency of intergovernmental fiscal relations

This indicator assesses the transparency of intergovernmental fiscal relations between the province and the lower levels of government in its jurisdiction. Municipalities are the key functional entities of local government. There are 32 municipalities in the Northern Cape: five district and 27 local municipalities<sup>55</sup>. Specifically, this indicator assesses whether municipalities receive firm, reliable and timely information on annual allocations from the province.

### ***i) Transparent systems based on regulations governing horizontal allocations between sub-national governments of unconditional and conditional transfers from central government (budgeted and real allocations).***

The transparency of the intergovernmental fiscal relations is enshrined in the Constitution and detailed in the various legislative pieces, primarily the PFMA, the MFMA and the annual Division of Revenue Act. A set of regulations stemming from these legislative pieces further solidifies the legislative framework for intergovernmental fiscal relations. The legislative framework for intergovernmental fiscal relations is described above in Section 2.

In particular the Constitution calls for the enactment of the annual Division of Revenue Act (DORA) to regulate provincial and local governments' equitable share of national revenue, as well as any other conditional grants and allocations<sup>56</sup>. The Constitution also prescribes that an equitable share of nationally collected revenue be allocated to municipalities to enable them to provide basic services and perform the functions allocated to them<sup>57</sup>. In this regard, schedule 3 of the annual DORA contains the medium-term allocations of each municipality's local government equitable share (LGES). The LGES for each municipality is determined by a formula employed by the National Treasury, which takes into account the following objective parameters: population size (as per the latest census data), per capita expenditure, household size, urban/rural proportions, and the number of poor households in the municipality. Since the formula is available from the National Treasury, municipalities are theoretically able to calculate their allocations based on the parameters listed above. All the various conditional grant allocations for the MTREF from national government directly to individual municipalities are contained in the published annexures of the annual Division of Revenue Bill.

The size of the LGES and conditional grants that flow directly from the national revenue fund to Northern Cape municipalities and the fact that municipalities have their own revenue assignments, means that relatively small amounts of conditional grants from the province itself are transferred to municipalities in its jurisdiction. For FY2013/14, the EPRE<sup>58</sup> indicates these transfers as less than R30 million, which is less than 0.25 per cent of total provincial estimated expenditure for this period. Transfers to municipalities in FY2013/14 originated from the following votes:

- R19.4 million from vote 7: Department of Sports, Arts and Culture;
- R8 million from vote 9: Department of Cooperative Governance, Human Settlements and Traditional Affairs;
- R2.2 million from vote 12: Department of Agriculture, Land Reform and Rural Development; and
- R14 000 from vote 3: Department of Transport, Safety and Liaison.

In conclusion, a transparent set of rules and systems for transfers of resources from the provincial government to local government exists.

### ***ii) Timely provision of reliable information to sub-national governments on the allocations to be made to them by central government for the following year.***

Every year, the National Treasury provides each municipality with an allocation letter that details the indicative national and provincial fiscal transfers for both conditional and unconditional grants over the next Medium-Term Revenue and Expenditure Framework (MTREF). The National Treasury routinely allows Provincial Treasury to provide input on these letters prior to dispatch to municipalities. The budgeted allocations are then formally

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<sup>55</sup> South African Local Government Association (SALGA), Northern Cape: brief profile, [www.salga.org.za/pages/About-SALGA/Provinces/Northern-Cape-Overview](http://www.salga.org.za/pages/About-SALGA/Provinces/Northern-Cape-Overview)

<sup>56</sup> Section 214 1a

<sup>57</sup> Section 227 1a

<sup>58</sup> Northern Cape Provincial Government, Estimates of provincial revenue and expenditure 2014, pp 91, 257, 317 and 473.

gazetted as part of the EPRE that are tabled alongside the Appropriations Bill. For FY 2013/14, the province provided the budgeted fiscal transfers from itself to individual municipalities in the province in the annexures of the tabled Appropriations Bill on 13 March 2013<sup>59</sup>. For the current fiscal year, FY 2014/15, these budgeted allocations were gazetted separately by 16 July 2014<sup>60</sup>.

Fiscal transfer predictability is provided through national government's published MTREF allocations to individual municipalities in the annual DORA. This means that municipalities can reasonably expect the transfers for FY2014/15 as published in the 2013/14 MTREF. This predictability is open for public scrutiny by means of the published annual financial statements of each municipality, which details the budgeted and actual receipts of all fiscal transfers per source. Furthermore, National Treasury annually publishes a payment schedule of LGES payment dates and amounts for each municipality<sup>61</sup>.

**iii) Degree to which consolidated general government fiscal data (at least on income and expenditure) is collected and made available, broken down by sectoral categories.**

Municipalities submit detailed monthly and bi-annual statements on projected and actual revenue and expenditure to the Provincial Treasury in compliance with the current legislation. These statements are disaggregated in terms of revenue per source (e.g. municipal service charges) and expenditure per vote (e.g. water services). These statements detail the utilisation of conditional grant transfers received from provincial departments. Provincial Treasury keeps a register of the submission dates of section 71 monthly statements by each municipality to it. Furthermore, Provincial Treasury quarterly compiles and publishes in the provincial gazette the "Municipal consolidated budget outcomes,"<sup>62</sup> which details the consolidated budgeted and actual operational revenue (e.g. the LGES), operational expenditure and capital expenditure of all municipalities in the Northern Cape.

The MFMA stipulates that municipalities must submit their annual financial statements to the Auditor-General within two months of the municipal fiscal year end, i.e. by 31 August of each year<sup>63</sup>. Thereafter, municipalities must also submit their statements to the relevant Provincial Treasury and the National Treasury. Municipal annual financial statements contain the budgeted and actual amounts per source of revenue, i.e. including intergovernmental conditional and unconditional grant transfers.

Those provincial departments that transferred funds to municipalities in FY 2013/14 indicate these amounts and purposes of transfers to individual municipalities in their annual reports<sup>64</sup>. The province annually prepares consolidated annual financial statements for FY 2013/14, which is an aggregation of all the annual financial statements of the provincial departments and their entities and therefore provides the actual transfers to municipalities.

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<sup>59</sup> Northern Cape Provincial Government, Appropriations Bill, 13 March 2013.

<sup>60</sup> Northern Cape Provincial Government, Provincial Gazette No. 1821, 16 July 2014.

<sup>61</sup> [http://mfma.treasury.gov.za/Media\\_Releases/Municipal%20Payment%20Schedule/Pages/1314.aspx](http://mfma.treasury.gov.za/Media_Releases/Municipal%20Payment%20Schedule/Pages/1314.aspx)

<sup>62</sup> Northern Cape Provincial Government, Provincial Gazette No. 1831, 25 August 2014.

<sup>63</sup> Section 126

<sup>64</sup> Northern Cape Provincial Department of Health, annual report 2013/14, p101

Indicator	Score	Evaluation
<b>PI-8 Transparency of inter-governmental fiscal relations</b>	<b>A</b>	<b>Scoring method M2</b>
i) Transparent systems based on regulations regarding horizontal allocation between sub-national governments of unconditional and conditional transfers from central government (budgeted and real allocations)	A	All transfers from the province to municipalities are rules- based, e.g. in terms of DORA, and transparent, i.e. in terms of a known formula and parameters. Local government MTREF allocation projections contained in the annual DORA provide strong indications of future allocations to municipalities.
ii) Punctual provision of reliable information to sub-national governments about the allocations to be made to them by central government in the coming year	B	For the latest completed fiscal year, i.e. FY 2013/14, the conditional and unconditional transfer allocations were tabled at least two months prior to the start of the municipal fiscal year. Municipalities therefore had sufficient time to incorporate information in their own budget processes.
iii) Degree to which consolidated fiscal data are gathered and made known (at least in terms of income and expenditure) relating to general government, broken down by sectoral categories	A	Northern Cape municipalities submit detailed monthly and bi-annual statements on projected and actual revenue per source (including intergovernmental fiscal transfers from the province) and expenditure per vote (for each functional vote) to the Provincial Treasury. Provincial Treasury and the National Treasury publish the individual and consolidated annual municipal budget execution reports broadly based on the national classification system, i.e. in terms of economic and functional classifications.

## PI-9 Oversight of aggregate fiscal risk caused by other public sector entities

### Dimensions to be assessed (scoring method M1):

*(i) Degree of province monitoring of the main autonomous public organisations and state companies*

*(ii) Degree to which the province monitors the fiscal position of local government*

This indicator assesses the extent that the province has a formal fiscal oversight role in relation to public sector entities under its control (i.e. public entities in terms of the current financial legislation<sup>65</sup>) and sub-national government within its jurisdiction (i.e. municipalities). This indicator is concerned with how the finances of these entities are monitored and managed to minimise fiscal risks.

### *i) Degree of province monitoring of the main autonomous public organisations and state companies*

The Northern Cape oversees five public entities that fall under the ambit of schedule 3C of the PFMA. The provincial Department of Agriculture, Land Reform and Rural Development oversees the Kalahari Kid Corporation, which promotes goat farming in the Northern Cape and the goat meat industry in the country. The provincial Department of Economic Development and Tourism oversees the following four public entities<sup>66</sup>:

- The Northern Cape economic development, trade and investment promotion agency (NCEDA) was constituted under the NCEDA Act, No. 4 of 2008 and promotes foreign trade and investment, enterprise development, provision of funds and project management in the Northern Cape.
- The Northern Cape gambling board functions under the auspices of the Provincial Gambling Act, No. 3 of 2008, and regulates the licenses of operators.
- The Northern Cape liquor board functions under the auspices of the Provincial Liquor Act, No. 2 of 2008, and provide licensing services as well as a liquor education and awareness programme.
- The Northern Cape tourism authority was established in terms of the national Tourism Act, No. 2 of 2008 and markets and promotes the Northern Cape as a tourism destination domestically and internationally.

The budget cycle of public entities starts six months prior to the start of the new financial year when medium-term budget estimates are submitted to parent departments, indicating their transfer payment funding needs. Budget estimates are first approved by the relevant board and sent to the MEC of the parent department for approval. The EPRE 2014 provides the transfer payment estimates as well as forward revenue and expenditure breakdown of the Kalahari Kid Corporation under the Department of Agriculture, Land Reform and Rural Development<sup>67</sup>. However, the EPRE 2014 only provides the transfer payment estimates to the four entities under the Department of Economic Development and Tourism. The table below provides the budgeted and actual transfers by the provincial Department of Economic Development and Tourism Economic Development and Tourism to the entities under its control.

<sup>65</sup> National Treasury, Public Finance Management Act (PFMA), No. 1 of 1999, Schedule 3C, page 48.

<sup>66</sup> Northern Cape Provincial Department of Economic Development and Tourism, Annual Report 2012/13, 2013, pages 12, 31 and 39.

<sup>67</sup> Northern Cape Provincial Government, Estimates of Provincial Revenue and Expenditure 2014, 2014, page 479.

**Table 12: Public entities under the Northern Cape Department of Economic Development and Tourism**

Northern Cape Department of Economic Development and Tourism - Public Entities R'000	FY2011/2012	FY 012/2013	FY 013/2014	FY 2014/15
	Actual	Actual	Actual estimated	Appropriated
Northern Cape Economic Development, Trade and Investment Promotion Agency (NCEDA)	12 612	5 625	6 000	5 255
Northern Cape Gambling Board	5 727	8 268	7 580	9 060
Northern Cape Liquor Board	4 841	4 854	6 831	5 910
Northern Cape Tourism Authority	16 185	16 578	16 427	18 275
<b>Total transfers</b>	<b>39 365</b>	<b>35 325</b>	<b>36 838</b>	<b>38 500</b>

In its 2013/14 consolidated annual financial statements, the province reported on the audited figures of the above entities, as well as three entities that are not subject to the PFMA<sup>68</sup>. The McGregor Museum receives limited transfer funding from the provincial Department of Sports, Arts and Culture, mostly towards administration costs<sup>69</sup>. The housing fund is in the process of being “de-established” by the provincial Department of Cooperative Governance, Human Settlements and Traditional Affairs<sup>70</sup>. The Northern Cape fleet management trading entity is a self-funded business entity and receives partial funding from the provincial Department of Roads and Public Works towards employment costs. This entity reports to the MEC for Roads and Public Works<sup>71</sup>. Separate financial statements are submitted on an annual basis to the department. This entity shares the services of the provincial internal audit unit and audit committee.

According to the consolidated annual financial statements for FY2013/14, the above seven entities’ total contribution to the total provincial expenditure was R182.7 million in FY 2013/14 and R150.3 million in FY 2012/13. Their total contribution to total provincial revenue receipts was R245.1 million in FY 2013/14 and R298.1 million in FY 2012/13. For FY 2013/14, these seven entities’ total contribution to both total provincial revenue and expenditure was 1.88 per cent and 1.39 per cent respectively. From a fiscal risk point of view, the Northern Cape fleet management trading entity is the most significant entity, contributing more than 77 per cent of all the entities’ revenue contribution and 69 per cent of expenditure contribution in 2013/14.

The current financial legislation<sup>72</sup> prescribes the financial management and accountability measures applied to public entities of national and provincial governments, including fiscal planning, budgeting, financial management, cash management, internal controls, procurement, reporting, auditing and oversight. Provincial public entities report at least quarterly to their parent departments on revenue and expenditure in accordance with their approved budgets. For example, NCEDA notes in its annual report 2012/13 that it provided four quarterly revenue and expenditure reports to the Department of Economic Development and Tourism<sup>73</sup>. This requirement is in accordance with the current legislation<sup>74</sup>, which requires the accounting officers of Schedule 3 public entities to spend only in accordance with approved budgets. Before being able to receive transfers, public entities need to provide parent departments with written assurance that they will be implementing efficient, effective and transparent financial management and internal controls systems, in accordance with the current financial legislation<sup>75</sup>. Quarterly disbursement of funds to entities may only occur once parent departments can confirm that the relevant legislation has been complied with. Evidence of this reporting and compliance check within the provincial Department of Economic Development and Tourism in terms of the entities that it oversees

<sup>68</sup> Auditor-General of South Africa, General report on the audit outcomes of provincial government, PFMA 2012-13, Northern Cape, 2013, page19.

<sup>69</sup> Northern Cape Department of Sports, Arts and Culture, Annual Report 2012/13, 2013, page15.

<sup>70</sup> Northern Cape Provincial Department of Cooperate Governance, Human Settlements and Traditional Affairs, Annual Report 2012/13, 2013, page 208.

<sup>71</sup> Northern Cape Provincial Department of Roads and Public Works, Annual Report 2012/13, 2013, page10.

<sup>72</sup> The National Treasury, Public Finance Management Act, No. 1 of 1999, Section 6

<sup>73</sup> Northern Cape Economic Development, Trade and Investment Promotion Agency, Annual Report 2012/13, 2013, page 33.

<sup>74</sup> The National Treasury, Public Finance Management Act, No. 1 of 1999, Section 53 (3)

<sup>75</sup> Op cit, Section 38j

was provided to the PEFA team.

Annual reports of public entities are tabled separately in the Northern Cape Provincial Legislature. For example, the board of NCEDA presented its 2011/12 annual report to the standing committee of public accounts (SCOPA) and the portfolio committee for finance, economic development and tourism in February 2013<sup>76</sup>. Annual reports of public entities contain their externally audited annual financial statements as well as non-financial performance. The province's consolidated annual financial statements for 2013/14 provide the revenue and expenditure contributions for each of the province's public entities that fall under the ambit of schedule 3C of the PFMA, as well as those of other entities to which the province contributes (discussed above)<sup>77</sup>. AG noted that not all public entities submitted annual performance information for 2011/12 and 2012/13, "mainly because of a slow response by political leadership and oversight bodies as well as capacity constraints" (2013, page 23).

Provincial Treasury provide entities with directions and guidelines on financial management aspects, for example it recently provided entities with practice notes addressing the surrendering of funds at fiscal year-end.

In conclusion, the fiscal risk position of entities is portrayed in the consolidated annual financial statements of the Northern Cape.

All indications are that the province has not provided loans, guarantees or other forms of loans to public entities under its control during the period under review. There were no loan-financed projects undertaken within provincial departments for FY2012/13 and FY2013/14.

**ii) Degree to which the province monitors the fiscal position of the sub-national governments.**

Municipalities' expenditure and revenue assignments are provided for in the Constitution and strictly regulated through the current legislation<sup>78</sup>. This is discussed in Section 2 above. Municipalities are allowed to raise short-term and long-term debt under specific circumstances, for example only for capital expenditure<sup>79</sup>. However, municipalities are not allowed to generate fiscal liabilities for provincial governments or national government. Neither provincial governments nor national government are liable to honour municipal debt should a municipality default on its payments.

The Provincial Treasury monitors municipal fiscal risks through monthly revenue and expenditure statements from municipalities<sup>80</sup>. Section 71 statements need to show actual borrowings of municipalities. Municipalities also send these statements to the National Treasury and Provincial Treasury sources these statements from the central database. Provincial Treasury routinely base their own fiscal oversight on National Treasury's oversight over section 71 statements.

The Sol Plaatje Municipality (Kimberley and surrounding areas) sends its section 71 statements directly to the National Treasury due its importance in terms of fiscal status and scope of its service delivery. Provincial Treasury confirmed that it is routinely invited to participate by the National Treasury whenever the latter engages the Sol Plaatje Municipality on finance issues. Provincial Treasury keeps a list of all municipalities' monthly Section 71 statement submission dates. On average, late submissions are less than 10 per cent of all submissions.

Provincial Treasury compiles a quarterly report for each district based on section 71 statements. The report comments on operational revenue and expenditure, capital expenditure and sources of funding for capital expenditure, debtor analyses, creditor analyses, cash flow issues, etc. This report is tabled quarterly in the Northern Cape Provincial Legislature. Municipalities are required to publish all this information in their annual financial statements, which are publicly tabled in their respective councils. Municipalities' annual financial statements need to account for size and the terms of loans in the disclosure notes.

Based on the section 71 monthly statements, Provincial Treasury compiles a quarterly consolidated budget outcomes report in which it provides individual municipal as well as consolidated reporting on the actual expenditure for FY2013/14 as well as the audited outcomes for FY2012/13. The consolidated report for the fourth quarter of FY2013/14 was published by the MEC of Finance in the provincial gazette on 25 August 2014<sup>81</sup>. Bi-

<sup>76</sup> Northern Cape Economic Development, Trade and Investment Promotion Agency, annual report 2012/13, 2013, page 33.

<sup>77</sup> Northern Cape Provincial Government, Consolidated annual financial statements 2013/14, pages 52 and 55.

<sup>78</sup> The National Treasury, Municipal Finance Management Act, No. 56 of 2003, 2003, Sections 45 and 56.

<sup>79</sup> *Ibid*, Sections 45 and 46

<sup>80</sup> *Ibid*, Section 71

<sup>81</sup> Northern Cape Provincial Treasury, consolidated municipal consolidated budget outcomes for the quarter ended 30 June

annually, municipalities also provide Provincial Treasury with a report on the financial and non-financial performance of the municipality, as required by law<sup>82</sup>. Provincial Treasury's directorates have regional offices who engage municipalities individually to discuss the report.

Indicator	Score	Evaluation
<b>PI-9 Oversight of aggregate fiscal risk caused by other public sector institutions</b>	<b>A</b>	<b>Scoring method M1</b>
(i) Degree to which the central government monitors the autonomous public organisms (AGAs) and public companies (EPs)	A	All public entities under the control of the province submit revenue and expenditure reports to their parent departments at least quarterly, as well as annual audited financial statements. Quarterly disbursement of funds to public entities only occurs when the relevant legislation has been complied with. The province consolidates all the audited annual financial statements of all departments and all public entities under its direct control.
(ii) Degree to which the central government monitors the fiscal position of sub-national governments	A	Municipalities cannot generate fiscal liabilities for provincial and national government. In addition the Provincial Treasury collects monthly revenue and expenditure statements from municipalities as per section 71 of the MFMA, indicating actual borrowings, and is in a position to identify fiscal risks, which could trigger remediation or interventions. The Provincial Treasury publishes a quarterly consolidated budget outcomes report on the individual and consolidated annual municipal budget execution reports in terms of revenue per source and expenditure per vote, broadly in terms of the national economic and functional classification system.

2014, Provincial Gazette No. 1831 of 25 August, 2014.

<sup>82</sup> The National Treasury, Municipal Finance Management Act, No. 56 of 2003, 2003, Section 72

## PI-10 Public access to key fiscal information

### Dimensions to be assessed (scoring method M1):

***(i) Number of the elements regarding public access to information, mentioned in table 10 that are used (an element can only be considered for the purposes of this evaluation if it fulfils all the requirements)***

This indicator assesses the transparency and ease of public access of the province's fiscal publications, especially its FY2012/13 budget documentation and related reporting documentation.

***i) Number of the elements regarding public access to information, mentioned in table 3.6 that are used (an element can only be considered for the purposes of this evaluation if it fulfils all the requirements).***

The Constitution guarantees public access to key government fiscal publications in order to foster the transparency of the public administration<sup>83</sup>. Government is required to provide accessible and accurate information in a timely manner. The public could apply for a court order to grant access to information from government when the public interest prevails through the application of the Promotion of Access to Information Act<sup>84</sup>.

The budget documentation as described in PI-6, including the budget review, EPRE, quarterly reports and annual reports, all conform to the structure and layout required by the National Treasury. It is therefore relatively easy to compare financial and non-financial budgetary information from both ex ante and ex post perspective both within the province and with other provinces. The language, structure and layout of the provincial budget documentation are generally clear. All budget documentation, including the Appropriation Bills, budget review, individual departmental vote budget statements and annual reports (which include annual financial statements), becomes publicly available on tabling in the Northern Cape Provincial Legislature. All documentation that is publicly available by law is in general available for the public from major libraries and by request from the Provincial Treasury during normal office hours.

**Table 13: Indicators of public access to key financial information**

Key information	Situation of public access
(i) Annual budget documentation: A complete set of documents can be obtained by the public through appropriate means when it is submitted to the province legislature.	Yes. Copies of the complete province's annual budget documentation are tabled for public consumption in the Northern Cape Provincial Legislature. The annual budget documentation includes all elements mentioned in PI-6. Printed copies are available immediately on request at the Provincial Treasury's offices. The budget documentation, including the Draft Appropriations Bill, EPRE and individual budget vote statements are published on the National Treasury's website. Link: <a href="http://www.treasury.gov.za/documents/provincial%20budget/default.aspx">http://www.treasury.gov.za/documents/provincial%20budget/default.aspx</a>
(ii) In-year budget execution reports: The reports are routinely made available to the public through appropriate means within one month of their completion.	Yes. In-year monitoring (IYM) reports containing detailed revenue and expenditure estimates of each provincial department are sent to and uploaded by the National Treasury on its website. Quarterly budget execution reports in accordance with Section 32 of the PFMA are published on the website of the National Treasury within one month of completion. Link: <a href="http://www.treasury.gov.za/publications/PIp/default.aspx">http://www.treasury.gov.za/publications/PIp/default.aspx</a> Quarterly budget execution reports are routinely gazetted within in 30 days after the end of the quarter and are therefore available for public scrutiny and oversight. A limited number of quarterly budget execution reports are available on the website of the Provincial Treasury. Link: <a href="http://www.ncpt.gov.za/QuarterlyReports.aspx">http://www.ncpt.gov.za/QuarterlyReports.aspx</a>

<sup>83</sup> Republic of South Africa, "Constitution, Act No. 108 of 1996," Sections 32 and 195.

<sup>84</sup> Republic of South Africa, "Promotion of Access to Information Act, No. 2 of 2000."



<p>(iii) Year-end financial statements: The statements are made available to the public through appropriate means within six months of completed audit.</p>	<p>Yes. Audited annual financial statements are tabled for public consumption in the Northern Cape Legislature, within in six months of completed audit. Annual reports of all departments and their entities are available in hard copies at major libraries in the province.</p>
<p>(iv) External audit reports: All reports on province consolidated operations are made available to the public through appropriate means within six months of completed audit.</p>	<p>Yes. Auditor-General's reports, contained in the annual report of each provincial department and entity, are tabled for public consumption in the Northern Cape Legislature, within six months of the completed external audits.</p>
<p>(v) Contract awards: Award of all contracts with value above approx. USD 100,000 equiv. is published at least quarterly through appropriate means.</p>	<p>No. Awarded bids are published on the website of the Provincial Treasury, but not quarterly. Link: <a href="http://www.ncpt.gov.za/awardedtenders.aspx">http://www.ncpt.gov.za/awardedtenders.aspx</a></p>
<p>(vi) Resources available to primary service units: Information is publicised through appropriate means at least annually, or available upon request, for primary service units with national coverage (elementary schools or primary health clinics).</p>	<p>Yes.  <b>Education:</b> Each school's governing body receives an allocation letter before the start of the fiscal year detailing the various conditional and unconditional transfers from the provincial Department of Education. These letters are available upon request. MTEF estimates of transfers to each school in terms of the education infrastructure grant are published in the publicly available EPRE 2014.  <b>Health:</b> The individual allocations per fiscal year to each facility under programme 2: district health services (including clinics and district hospitals) are available on request from the provincial Department of Health.</p>
<p>(vii) Fees and charges for major services are posted at the service delivery site and in other appropriate locations/media.</p>	<p>Yes. Northern Cape no-fee schools are displayed on the website of the National Department of Basic Education. Link: <a href="http://www.education.gov.za/LinkClick.aspx?fileticket=hRm1JMfd%2BaU%3D&amp;tabid=1231&amp;mid=3262">http://www.education.gov.za/LinkClick.aspx?fileticket=hRm1JMfd%2BaU%3D&amp;tabid=1231&amp;mid=3262</a>  Applicable exemptions for parents for payment of school fees are also displayed on its website.  Link: <a href="http://www.education.gov.za/DocumentsLibrary/Legislation/GovernmentNotices/tabid/188/Default.aspx">http://www.education.gov.za/DocumentsLibrary/Legislation/GovernmentNotices/tabid/188/Default.aspx</a>  Primary health service tariffs are displayed in the foyers of clinics and district hospitals in the Northern Cape.</p>

Indicator	Score	Evaluation
<p><b>PI-10 Public access to key fiscal information</b></p>	<p><b>A</b></p>	<p><b>Scoring method M1</b></p>
<p>Number of elements listed above regarding public access to information that is fulfilled.</p>	<p>A</p>	<p>Six of the seven listed elements of information are made available to the public access through electronic media, websites, and print media.</p>

### 3.3 Policy based budgeting

#### PI-11 Orderliness and participation in the annual budget process

<p><b>Dimensions to be assessed (scoring method M2):</b></p> <p><i>(i) Existence and observance of a fixed budget calendar</i></p> <p><i>(ii) Guidance on the preparation of budget submissions</i></p> <p><i>(iii) Timely approval of the budget by the legislature</i></p>
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This indicator assesses the degree of transparency and adequacy in the province's key budget deadlines and guidelines on the budget formulation and submissions by departments and entities to the sub-national government.

#### *(i) Existence and observance of a fixed budget calendar*

The scope of the first dimension of the assessment is the last budget approved by the Northern Cape Legislature, namely FY2014/15. The Provincial Treasury issued a budget calendar during FY2013/14 in preparation for the FY2014/15 budget and 2015 MTEF. The following table is an excerpt of this calendar and lists the activities and deadlines for the 2014/15 budget process that provincial departments, their entities and municipalities must adhere to. The calendar clearly states the deadlines for the main budget submissions, both from an operational and capital expenditure perspective. From the receipt of the circular, provincial departments have more than six weeks before they need to submit their detailed budget estimates for FY2014/15 (due 17 February 2014 – highlighted in the table below). Officials from the provincial Departments of Education and Health corroborated that Provincial Treasury's budget calendar's deadlines were realistic. Indications are that all departments adhere to the calendar<sup>85</sup>.

**Table 14: Calendar for the budget preparation process (for FY2014/15 budget)**

Deadline	Activity
01 July 2014	National Treasury issues provincial budget formats guideline for the preparation of the 2015 MTEF EPRE
11 July 2014	Provincial Treasury conducts budget formats guideline (EPRE) and Treasury guideline workshop with departments. <ul style="list-style-type: none"> <li>• Evaluation of 2014/15 estimates of provincial revenue and expenditure</li> <li>• Budget format guidelines for 2015 MTEF</li> <li>• Budget process workshop (Departments)</li> <li>• Revenue formats guideline</li> </ul> Provincial Treasury issues first draft MTEC database, Treasury and budget formats guidelines.
25 July 2014	Departments submit first draft 2015 MTEF budget documents
Early August 2014	National Treasury to issue adjusted estimates of national expenditure guidelines to national departments and Provincial Treasuries
12 August 2014	Provincial Treasury submit first draft 2015 budgets to National Treasury: <ul style="list-style-type: none"> <li>- estimates of provincial revenue and expenditure and database</li> </ul>
20 August 2014	Provincial department to submit first draft 2015/16 annual performance plans and strategic and performance plans to Provincial Treasury
22 August 2014	Departments submit 1st draft APP, database and budget submission for 2015 MTEF to Provincial Treasury
15-19 September 2014	Provincial medium-Term Expenditure Committee (PMTEC) hearings
26 September 2014	Technical committee on finance
29-30 September 2014	MEC's bilateral: PMTEC feedback (political perspective) and 2015 provincial budget priorities
16 October 2014	Provincial budget lekgotla
20 October 2014	Presentation on proposed 2014 adjustment budget allocations to Treasury committee
22 October 2014	Tabling of the MTBPS - Division of Revenue Amendment Bill and Adjusted Appropriation Bill tabled in National Assembly by the Minister of Finance

<sup>85</sup> Working sessions with the Provincial Treasury and with the Departments of Education and Health

23 October 2014	2014 adjustment estimate budget allocation letters issued to provincial departments
28 October 2014	Provincial departments submit 2014/15 adjusted estimates chapters to Provincial Treasury
Late October 2014	Preliminary allocation letters issued to provinces by National Treasury – equitable share and draft conditional grant allocations: Treasury committee to be convened to consider and endorse the preliminary 2015 MTEF allocations
05 November 2014	Tabling of the 2014/15 Adjustment Budget Appropriation Bill and the Provincial Medium- Term Budget Policy Statement (PMTBPS) by the MEC for Finance, Economic Development and Tourism
10 November 2014	Provincial Treasury issues 2015 MTEF preliminary allocation letters to provincial departments
14 November 2014	Departments submit 2015 MTEF second draft budget documents (EPRE chapters, database)
20 November 2014	Provincial Treasury submits second draft 2015 budgets (EPRE and database) for purposes of provincial benchmark exercises and the 2015 budget review
05 December 2014	Provincial benchmark exercise for 2015 budget with National Treasury
19-23 January 2015	2nd round - Benchmark meetings (follow up from December engagements)
29 January 2015	Technical committee on finance (TCF)
30 January 2015	Provinces prepare/finalise budget and planning documentation - provincial treasuries submit third draft 2015 budgets (EPRE and database)
Early February 2015	Final allocation letters issued to provinces Budget council meeting
07 February 2015	Provincial Revenue Forum
17 February 2015	Departments submit 2015 MTEF final budget documents (EPRE chapters, database)
10 March 2015	Tabling of the budget documentation. Provincial budget day Presentation to portfolio committee on finance: final allocations: 2015 MTEF

Source: Northern Cape Provincial Treasury, Annex A: 2014 Budget Process Schedule

**(ii) Guidance on the preparation of budget submissions**

The scope of the second dimension of the assessment is the last budget approved by the Northern Cape Legislature, namely FY2014/15. Provincial Treasury's budget circulars cover guidance on operating and capital expenditure budget preparation, as well as revenue and expenditure projections. Provincial Treasury's budget circular, read together with national government's 2014/15 MTREF, provides the fiscal framework for the whole of government, including the anticipated available budgetary resources for the medium-term. Provincial Treasury's budget circular includes the broad revenue ceilings that are pre-approved by the Northern Cape provincial executive council (PEC). The PEC can still make adjustments to the ceilings based on national government's MTBPS (typically published by the end of October) and subsequently the province's MTBPS (typically published by mid-November), which may include fiscal adjustments in terms of revenue and expenditure since the start of the budget process.

Officials from the provincial Departments of Education and Health corroborated that Provincial Treasury's 2014/15 budget circulars and the guidelines on budget preparation and submission was clear and achievable.

**(iii) Timely approval of the budget by the Legislature**

The scope of the third dimension of the assessment is the last three fiscal years' budgets, namely FY2011/12, FY2012/13, and FY2013/14. For interest's sake, the tabling and approval dates for FY2014/15 are also indicated. During these three fiscal years, the budget was never approved prior to the start of the financial year through the enactment of the respective Appropriations Bills in the Legislature. Even though budgets may have not been approved prior to the start of a financial year, expenditure of provincial revenue funds is allowed by the PFMA under certain conditions, among other things that such expenditure is based on the recent fiscal year's budget<sup>86</sup>.

<sup>86</sup> National Treasury, Public Finance Management Act (PFMA), No 1 of 1999, Updated to Government Gazette 33059, 1 April 2010, Section 29.

These provisions allow spending to continue and essential services to be delivered in the meantime.

Only after the national government budget has been approved are the provincial budgets tabled and approved. This approval on a sequential basis is provided for in the PFMA. The delay in legislative approval should therefore be seen with this delay taken into account.

**Table 15: Dates for budget approval by legislature (2012 through 2014)**

Fiscal year	Date of tabling	Date of approval	Delay between tabling and approval
2011/12	1 March 2011	4 May 2011	More than 2 months
2012/13	6 March 2012	25 July 2012	More than 4 months
2013/14	13 March 2013	27 June 2013	More than 3 months
2014/15	12 March 2014	31 July 2014	More than 4 months

Source: Northern Cape Provincial Government, Appropriations Bill 2011, 1 March 2011; Appropriations Bill 2012, 6 March 2011; Appropriations Bill 2013, 13 March 2013; Appropriations Bill 2014, 12 March 2014; Appropriations Act 2011, 4 May 2011; Appropriations Act 2012, 25 July 2012; Appropriations Act 2013, 27 June 2013; Appropriations Act 2014, 31 July 2014.

Indicator	Score	Evaluation
<b>PI-11 Orderliness and participation in the annual budget process</b>	<b>B</b>	<b>Scoring method M2</b>
(i) Existence and observance of a fixed budgetary calendar	A	A clear and fixed budget process timeline is provided by the Provincial Treasury to all provincial departments, their entities and municipalities in the Northern Cape. Provincial departments had at least six weeks from receipt of Provincial Treasury's budget circular to complete their detailed budget estimates for FY 2014/15 and the 2015 MTEF.
(ii) Directives on the preparation of budgetary documents	A	A comprehensive and clear budget circular is issued by Provincial Treasury to provincial departments, which reflects ceilings approved by the province's executive council prior to the circular's distribution to these departments.
(iii) Timely approval of the budget by the Legislature	D	In the three years reviewed under this dimension, the budget was signed into law after two months after the start of the fiscal year.

## PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting

### Dimensions to be assessed (scoring method M2):

*(i) Preparation of multi-year fiscal forecasts and functional allocation*

*(ii) Scope and frequency of debt sustainability analysis*

*(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure*

*(iv) Linkages between investment budgets and forward expenditure estimates*

This indicator assesses the extent to which expenditure policy decisions are pragmatic in that these decisions take into account the multi-year recurrent and capital expenditure implications for each of the functional areas (programmes) of the sub-national government.

### *(i) Preparation of fiscal forecasts and multi-annual functional allocations*

The scope of this dimension of the assessment is the last two completed fiscal years, namely FY2012/13 and FY2013/14.

The PFMA ushered in formal multi-annual programme budgeting in the South African government. Both the budgeting approach and the format of national, provincial and local government budgets conform to programme budgeting, i.e. budgeting for functional divisions and sub-divisions that have distinctive measurable objectives. Specifically, the provincial MEC for Finance is required to table in the Legislature multi-year revenue and expenditure projections for each departmental budget vote, differentiating between capital and current expenditure. Furthermore, MECs responsible for provincial departments need to table departmental budgets that are disaggregated into divisions, called programmes and such budgets need to contain measurable objectives aligned to each programme where necessary<sup>87</sup>.

Adherence to the above requirements is observed in Northern Cape's EPRE 2012 and 2013 (and 2014). The province's EPRE contains detailed rolling three-year estimates up to the programme level and are classified in terms of economic and functional classifications (see PI-5 in this regard).

Multi-year fiscal planning and budgeting in the province is based on the national MTEF process. Therefore, the province's EPRE also conforms to the format of the MTEF format, with three-year rolling forward estimates of provincial fiscal aggregates (i.e. revenue and expenditure). The province's EPRE mirrors the national ENE and outlines departmental strategic priorities, policy developments, legislation and other factors affecting expenditure together with departmental spending plans. In addition, the province's MTBPS 2011, 2012 and 2013 provides the broad fiscal framework in the above format six months in advance of start of the fiscal year, indicating estimates of receipts and expenditure for the rolling three-year MTEF.

At the local government level, municipalities are required by law to develop and implement medium- to long-term integrated development plans (IDPs) that should inform the allocations in the budgets and service delivery targets contained in the annual service delivery and budget implementation plans (SDBIPs). Conditional grant allocations to individual municipalities from the provincial budget for the budgeted financial year as well as the two outer financial years are provided in the province's annual Appropriations Acts for 2012 and 2013<sup>88</sup>.

Since provincial governments have limited revenue assignments, they are dependent on conditional and unconditional intergovernmental fiscal transfers from national government. The province's multi-year estimates are therefore functions of the total expected receipts from the national fiscus. The annual budget ceilings contained in the voted budgets of the province (i.e. in terms of the enacted Appropriations Bill) can only be amended through an adjustments budget process and is strictly regulated by the PFMA<sup>89</sup>. Provinces are not allowed to table adjustment budgets in relation to changes in economic conditions but only as a result of appropriation of funds that have become available to the province. Therefore, whenever there are differences in the estimated total envelope available to provincial governments, these are explained through national government's top-down MTREF process that precedes the provincial government's budget process.

<sup>87</sup> National Treasury, Public Finance Management Act (PFMA), No 1 of 1999, Updated to Government Gazette 33059, 1 April 2010, section 27(4) and section 28(1).

<sup>88</sup> Northern Cape Provincial Government, Appropriations Act, No. 3 of 2012, 25 July 2012; Northern Cape Provincial Government, Appropriations Act, No. 3 of 2013, 27 June 2013.

<sup>89</sup> National Treasury, Public Finance Management Act (PFMA), No 1 of 1999, Updated to Government Gazette 33059, 1 April 2010, section 31.

**(ii) Scope and frequency of debt sustainability analyses**

This dimension does not apply (NA): no debt has been incurred by the province for the period under review.

**(iii) Existence of sectoral strategies (programmes) with multi-annual determination of current expenditure and investment costs**

The scope of this dimension is the last completed budget, i.e. for FY2013/14.

The delineation of functional and fiscal responsibilities between national and provincial governments in South Africa is described above in Section 2. The relatively clear delineation places a considerable onus on the province and its provincial departments to develop costed sector strategies and related investment or infrastructure development plans. Furthermore, it is a national government requirement that national strategic outcomes such as the medium-term strategic framework (MTSF) and national development plan be incorporated into departmental strategic plans and subsequently into their annual performance and operational plans.<sup>90</sup> The broad strategic outcomes should be linked to budgetary allocations in the MTEF.

Detailed policy directions and priorities are explained in each provincial department's annual performance plan (APP), tabled alongside other budget documentation in the Northern Cape Legislature in March 2014.

The total expenditure estimates for FY2013/14 for the following four provincial departmental votes represent close to 80 per cent of the total expenditure estimate for the province for FY2013/14:

- Education;
- Health;
- Roads and Public Works; and \
- Agriculture, Land Reform and Rural Development.

A review of the APPs of these four departments for FY2013/14 reveals that current and capital expenditure (recurrent and investment) budgets are provided down to the sub-programme level. Performance information (including targeted outputs and outcomes) is provided for each sub-programme. The expenditure estimates are again provided in the EPRE 2013 under the respective departmental budget votes. Therefore the costed sectoral strategies of the four largest spenders for FY2013/14 are contained in their respective APPs, which by law need to be directly aligned to their respective strategic plans. The narrative sections of the province's EPRE also describes the broad policy directions and priorities for each programme of each departmental budget vote

Control of the above-described alignment is exercised by the Provincial Treasury through its annually performed analyses of departmental APPs.<sup>91</sup> The results are presented to provincial departments and shortcomings and concerns from a financial and non-financial planning perspective are provided to senior management.

The reconciliation between planned policies and priorities per programme area is provided annually in departmental annual report. The Auditor-General's reports on audit outcomes for 2011/12 and 2012/13 noted that in many departments the reported performance information was not consistent with planned objectives, indicators and targets<sup>92</sup>. This casts doubt on whether APPs are sufficiently aligned to the respective strategic plans.

**(iv) Links between the investments budget and future expenditure estimates**

The scope of this dimension is the last completed budget, i.e. FY2013/14. The above provincial departments that account for close to 80 per cent of the total expenditure estimate for the province for FY2013/14 were again sampled.

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<sup>90</sup> National Treasury, Framework for Strategic Plans and Annual Performance Plans, August 2010.

<sup>91</sup> For example: Northern Cape Provincial Treasury, Department of Health APP 2014 review, 15 September 2014.

<sup>92</sup> Auditor General-South Africa, Northern Cape, General report on the audit outcome of provincial governments, PFMA 2011-12, March 2013; Auditor General-South Africa, Northern Cape, General report on the audit outcome of provincial governments, PFMA 2012-13, November 2013

### **Health:**

In its APP 2013/14 under the section “Links to the Long-Term infrastructure and other Capital Plans,” the provincial Department of Health reconciles its budget for the 2013/14 MTEF with the infrastructure and other capital projects planned for in its five-year strategic plan<sup>93</sup>. The department indicates the programme area, project name, location and expenditure estimates for the medium-term. The department distinguishes between new infrastructure, upgrading and refurbishments, and maintenance of existing infrastructure. A breakdown of total 2013/14 MTEF expenditure estimates and past budget outcomes for new and existing infrastructure is provided in the province’s EPRE under the health vote, as well as detailed infrastructure expenditure per facility.<sup>94</sup> The total provincial infrastructure expenditure amounts include recurrent maintenance expenditure.

### **Education:**

Similarly, the provincial Department of Education reconciles its 2013/14 MTEF budget with its planned investment projects per school in its APP for FY2013/14<sup>95</sup>. The province’s EPRE 2013 also details the 2013/14 MTEF expenditure estimates inclusive of maintenance, and the detailed infrastructure expenditure per school<sup>96</sup>.

### **Roads and Public Works:**

The 2013/14 APP of the provincial Department of Roads and Public Works provides economical and functional classifications of the budget estimates of both current expenditure (including maintenance) and capital expenditure (e.g. construction of roads).<sup>97</sup> This expenditure occur primarily under programme 2: public works infrastructure and programme 3: transport infrastructure. The details of current and future infrastructure projects per location and their 2013/14 MTEF projections are also provided. The EPRE 2013 also displays these detailed estimates<sup>98</sup>.

### **Agriculture, Land Reform and Rural Development:**

The 2013/14 APP of the provincial Department of Agriculture, Land Reform and Rural Development only contains the projected infrastructure expenditure per project for FY2013/14<sup>99</sup>. These estimates are repeated in the EPRE 2013, which indicates that the projects are planned for execution only in FY2013/14<sup>100</sup>.

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<sup>93</sup> Northern Cape Department of Health, Annual Performance Plan 2013/14, 15 March 2013, pages 206 – 209.

<sup>94</sup> Northern Cape Provincial Government, EPRE 2013, 13 March 2013, pages 311 and 344.

<sup>95</sup> Northern Cape Department of Education, Annual Performance Plan 2013/14, March 2014, pages 90 – 97.

<sup>96</sup> Northern Cape Provincial Government, EPRE 2013, 13 March 2013, pages 145 – 155.

<sup>97</sup> Northern Cape Department of Roads and Public Works, Annual Performance Plan 2013/14, pages 37, 44 and 56.

<sup>98</sup> Northern Cape Provincial Government, EPRE 2013, 13 March 2013, page 188

<sup>99</sup> Northern Cape Provincial Departments of Agriculture, Land Reform and Rural Development, Annual Performance Plan 2013/14, pages 73 – 75.

<sup>100</sup> Northern Cape Provincial Government, EPRE 2013, 13 March 2013, page 414 – 415.

Indicator	Score	Evaluation
<b>PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting</b>	<b>A</b>	<b>Scoring method M2</b>
(i) Multi-annual fiscal forecasts and functional allocations	A	Detailed multi-annual revenue and expenditure forecasts for each provincial department up to the programme level are provided in the province's EPRE 2012, 2013 and 2014, disaggregated in terms of economical and functional classifications. These forecasts are directly linked to the MTEF forecasts of national government. Mid-term budgets in terms of the MTBPS adjust forecasts where necessary.
(ii) Scope and frequency of debt sustainability analyses	N/A	This dimension does not apply: no debt has been incurred by the province for the period under review.
(iii) Existence of sectoral strategies with cost determination	A	Departmental APPs from four provincial departments, representing more than 80 per cent of the total provincial expenditure estimates, were tabled alongside the budget documentation each year in the Northern Cape Provincial Legislature. APPs mirror the fiscal forecasts contained in the province's main budget document, namely the EPRE. These APPs are by law required to be aligned to the respective departmental strategic plans. APPs detail the reconciliations between multi-year financial projections and performance information (including output and outcome) targets up to at least the programme level for each vote (sector), and are therefore considered costed sector strategies.
(iv) Links between investment budgets and future expenditure estimates	A	The province's EPRE 2012, 2013 and 2014 contain the medium-term infrastructure expenditure (capital as well as maintenance expenditure) estimates for individual service delivery facilities (e.g. schools and clinics), with four departments accounting for close to 80 per cent of the total expenditure of the province.



### 3.4 Predictability and control in budget execution

#### PI-13 Transparency of taxpayers' obligations and liabilities

**Dimensions to be assessed (scoring method M2):**

***(i) Clarity and comprehensiveness of tax liabilities***

***(ii) Access by taxpayers to information on their tax responsibilities and administrative procedures***

***(iii) Existence and functioning of a tax appeals mechanism***

***(i) Clarity and comprehensiveness of tax liabilities***

The National Road Traffic Act (93/1996) in respect of fees and in respect of registration and licensing of motor vehicles (49.3 per cent of the revenue of the province in FY2013/14) of was elaborated by the Department of Transport, Safety and Liaison and published in the National Gazette. A new schedule of fees for vehicle licensing was published on January 13, 2014. Anyone who believes that he or she is eligible for any form of exemption is not covered for exemption, since there is no legislation governing exemption. However, based on the merits of any outstanding motor vehicle licence fees, the department will consider the write-off of a fee on receipt of an application. In most instances, the department grants concessions for write-off to deceased estates, pensioners and the unemployed. The status of the applicant should, however, be clearly justified. The Northern Cape Gambling Levies Act (2009) and its regulations provide for the payment of gambling levies (6.5 per cent) of the revenue of the province in FY2013/14. No exemption is foreseen in the legislation. The revenue from the sales of goods and services (27 per cent of the revenue of the province in FY2013/14) and interest and dividends and rents (6.5 per cent) are regulated by the Act. No discretion applies in these cases.

Overall, tax liabilities are clear and comprehensive. There is fairly limited discretionary power for officials of the Department of Transport, Safety and Liaison who have the discretion to write-off the fees.

***(ii) Access by taxpayers to information on their tax responsibilities and administrative procedures***

The legislation and fees for the registration and fees and licensing of motor vehicles as well as increases are available in the published national gazette (Province of the Northern Cape, provincial gazette, 2 June 1996 no 93, Province of the Northern Cape, provincial gazette extraordinary 13 January 2014 no 1768). The Northern Cape Levies Act is published in the national gazette as well (provincial gazette extraordinary 15 April 2009 no 1298. The regulations are also published in the national gazette (provincial gazette 5 October 2009 no. 1344).

***(iii) Existence and functioning of a tax appeals mechanism***

There is no tax appeals mechanism or other relating non-tax revenue complaints mechanism, i.e., motor vehicle or gambling levies, applicable in the province

Indicator	Score	Evaluation
<b>PI-13 Transparency of taxpayers' obligations and liabilities</b>	<b>B+</b>	<b>Scoring method M2</b>
(i) Clarity and comprehensiveness of tax liabilities	B	Tax liabilities are clear and comprehensive. There is fairly limited discretionary power for officials of the Department of Transport, safety and Liaison who have the discretion to write-off the fees.
(ii) Access by taxpayers to information about responsibilities and administrative procedures in relation to taxes	A	Relevant information on taxpayers' information on licence fees and gambling levies are available in the Northern Cape provincial gazette.
(iii) Existence and functioning of a tax appeals mechanism	NA	There is no tax appeals mechanism or other relating non-tax revenue complaints mechanism, i.e., motor vehicle or gambling levies, applicable to the province.

**PI-14 Effectiveness of measures for taxpayer registration and tax assessment**

**Dimensions to be assessed (scoring method M2):**  
**(i) Controls in the taxpayer registration system**  
**(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations**  
**(iii) Planning and control of tax auditing programmes**

**(i) Controls in the taxpayer registration system**

The department uses a government-wide system (eNaTIS) to establish the total number of vehicles under its jurisdiction. The eNaTIS system contains the registrations of all vehicles registered under that provincial authority. On an annual basis, at the registration anniversary of each vehicle, the system issues a reminder to the vehicle owner, in which the relevant licence renewal amount is specified, as well as the date for renewal of the licence. The eNaTIS system does not interface with any other government registration system.

There is no registration system for gambling levies. There is only a database of licenced gambling operators. This database is a stand-alone database and is not linked to any government database system. Regular inspections to detect illegal and non-compliant institutions are performed.

**(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations**

A grace period of 21 days is given to each vehicle owner to renew their licences, after-which penalties are applied, if the licence has not been renewed. For gambling levies, penalties are contemplated in the regulations (chapter 2, 4.). However there have not been any incidents which have led to hearings and/or penalties being imposed on licencees.

In practice, penalties are not always effective due to inconsistent administration

**(iii) Planning and control of tax auditing programmes**

No audit was carried out under the period under review. The shared internal audit unit (SIAU), under the auspices of Provincial Treasury (cluster 4) has not yet prioritised the revenue management unit for auditing its functions and procedures.

Indicator	Score	Evaluation
<b>PI-14 Effectiveness of measures for taxpayer registration and tax assessment</b>	<b>C</b>	<b>Scoring method M2</b>
(i) Application of controls in the taxpayer registration system	C	There is a database for vehicle licences.
(ii) Effectiveness of sanctions for failure to register and declare taxes	B	Penalties for non-compliance exist for non -paying or late paying of motor vehicle and gambling levies but are not always effective due to inconsistent administration
(iii) Planning and control of tax audit programmes	D	Tax audit and fraud investigations are not undertaken.

**PI-15 Effectiveness of tax collection**

**Dimensions to be assessed (scoring method M1):**

- (i) The collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of fiscal year, which was collected during that fiscal year (average of the last two fiscal years)*
- (ii) Effectiveness of the transfer of tax payments to the Treasury by the revenue administration*
- (iii) Frequency with which the Treasury completely reconciles accounts reflecting tax valuations, payments, records of late returns and income*

*(i) The collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of fiscal year, which was collected during that fiscal year (average of the last two fiscal years)*

There is no data on arrears for motor vehicles or for the gambling levies. It is not possible to score this dimension (NR).

*(ii) Effectiveness of the transfer of tax payments to the Treasury by the revenue administration*

Deposits from the license motor vehicles fees and gambling levies are deposited in the Provincial Treasury (PRF) weekly.

*(iii) Frequency with which the Treasury completely reconciles accounts reflecting tax valuations, payments, records of late returns and income*

No data is available for scoring this dimension (NR).

Indicator	Score	Evaluation
<b>PI-15 Effectiveness of tax collection</b>	<b>NR</b>	<b>Scoring method M1</b>
(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of fiscal year, which was collected during that fiscal year (average of the last two fiscal years)	NR	There is no data for scoring this dimension.
(ii) Effectiveness in the transfer of recovered taxes to the Treasury by the revenue administration	B	Deposits from the license vehicle fees and gambling levies are deposited weekly on in the Provincial Treasury (provincial revenue fund).
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and transfers to Treasury	NR	There is no data for scoring this dimension.

## PI-16 Predictability in availability of funds for commitment of expenditure

### Dimensions to be assessed (scoring method M1):

- (i) Degree to which cash-flow forecasts and monitoring are carried out*
- (ii) Reliability and time horizon of the information on maximum limits and payment commitments provided to the MDA during the year*
- (iii) Frequency and transparency of adjustments to budgetary allocations at a level higher than MDA administrations*

This indicator assesses the extent to which the Provincial Treasury provides reliable information on the availability of funds to departments managing administrative (or programme) budget votes<sup>101</sup> in the provincial budget and if they are the recipients of such information from the Provincial Treasury.

#### *i) Degree to which cash-flow forecasts and monitoring are carried out*

The Provincial Treasury will annually prepare a cash projection schedule detailing the value of the funds which will be required from National Treasury on a monthly basis, based on the projections received from the various departments<sup>102</sup>. The departments will then prepare monthly cash projections based on:

- Voted funds available for the year and funds transferred to date to departments;
- Bank reconciliation (which will include outstanding EFT payments, own revenue not yet transferred to revenue fund, receipts through suspense accounts and receipts through agency services not transferred, for the specific month); and
- Known and anticipated commitments for both recurring and capital expenditure.

If an amendment of the department's monthly cash flow projection is required, departments must contact Provincial Treasury to discuss this and provide adequate justification for the amendment. If the department fails to do so, the release of the monthly cash will be in accordance with their original annual cash flow projection. Departments must manage cash flows in their respective FY2013/14 appropriated budgets<sup>103</sup>.

The cash resources allocated to each department is analysed on a weekly cash flow basis based on total funds allocated for the month, total funds and revenue received up to date for the month, available cash resources per week, scheduled payments per week which includes compensation of employees, and transfers made. Each department is strictly prohibited from exceeding the weekly allocation without prior approval from the Provincial Treasury<sup>104</sup>.

The use of funds in advance to defray current week/month's expenditure is not permitted as there are no funds available to meet such commitments<sup>105</sup>.

#### *ii) Reliability and time horizon of the information on maximum limits and payment commitments provided to the MDA during the year*

Departments are able to plan and commit expenditure for at least six months in advance in accordance with the budgeted appropriations. This is evidenced by the monthly payment schedule which covers the full 12 months in each financial year<sup>106</sup>.

Furthermore, each year after six months, Provincial Treasury provides a provincial cash flow statement as at 30 September, as well as the projections as at 31 March<sup>107</sup>.

<sup>101</sup> Programme or segment to which the total amount is appropriated per provincial department in an appropriation Act, approved by the Provincial legislature.

<sup>102</sup> In terms of section 40(4) (a) of the PFMA.

<sup>103</sup> Northern Cape Provincial Treasury circular: cash flow financial year 2013/14, 9 May 2014

<sup>104</sup> Northern Cape Provincial Treasury circular: cash flow financial year 2013/14 (Paragraphs 4.3 and 4.5), 9 May 2014

<sup>105</sup> Notes made by the Provincial Treasury to every department with the monthly and weekly cash flow projection for July 2013.

<sup>106</sup> Evidence provided that the Provincial Treasury submit a monthly cash flow statement (with the inputs of the departments) for each month of FY2013/14 financial year

<sup>107</sup> Northern Cape Province: Memorandum to budget lekgotla – provincial cash flow position as at 30 September 2014, dated 16 October 2013.

**iii) Frequency and transparency of adjustments to budgetary allocations at a level higher than MDA administrations.**

Once a year, the province will undertake an adjustment budget process to revise and update budget estimates of provincial expenditure in terms of the 3-year rolling medium-term expenditure framework (MTEF)<sup>108</sup>. This informs the Provincial Adjustment Appropriation Bill. This Bill seeks the approval and adoption of the revised spending plans. Both the departments and the Provincial Treasury will review the expenditure and funding to date and the anticipated (committed/recurring) funding requirements for the remainder of the year, considering the funding received and the funding available.

The adjusted estimates of provincial revenue and expenditure of FY2013/14 for the province accompanies the Provincial Adjustments Appropriation Bill, tabled in the Provincial Legislature by the MEC for Finance, Economic Development and Tourism in complying with the requirements of the PFMA. Through the Bill, the executive seeks the Legislature's approval and adoption of the revised spending plans for the 2013/14 financial year.

The adjustment allocations for the province for FY2013/14 increased the original provincial main budget estimated expenditure level of R12.248 billion to R12.897 billion, representing a total additional amount of R648.799 million<sup>109</sup>.

The adjustments provided mainly for improvement of conditions of services, re-grading of clerical workers and approved national conditional grants and provincial (equitable share) rollover funds. There were also conditional grants adjustments of R57 million for hospital revitalisation, R1 million for expended public works programme and a reduction of R147.719 million on provincial roads maintenance grant. Included in the total adjustment is an amount of R328.035 million that has been made available from provincial financing to fund provincial specific pressures. This was mainly the previous year's unspent and unallocated equitable share as well as over collection of revenue in the 2012/13 financial year.

**Table 16: Summary of the adjusted budgets for the last three years**

Financial year R'000	Main appropriation	Adjustments appropriation	Adjusted Appropriation	% increase/ (decrease)
2011/12	10 285 237	677 000	10 962 237	7%
2012/13	11 355 400	439 870	11 795 270	4%
2013/14	12 248 313	648 799	12 897 112	5%

<sup>108</sup> National Treasury, Public Finance Management Act (PFMA), No 1 of 1999, Updated to Government Gazette 33059, 1 April 2010 Section 31

<sup>109</sup> Northern Cape Provincial Treasury: Adjusted estimates of provincial revenue and expenditure for 2013/14 (Tabled 13 November 2013)

**Table 17: Summary of the 2013/14 adjustments**

Detail of adjustments made		Amount R'000
Funds rolled over	National conditional grants	375 682
	Provincial equitable share	77 667
Conditional grants	Further education and training college sector grant	191
	Hospital revitalisation grant	57 000
	Provincial revitalisation grant	-147 719
	Economic development and tourism	1 000
National financing	Improvement of conditions of services	14 531
	Re-grading of clerical workers	20 079
Donor funding	Donor funding	15 830
Provincial financing	CFO's office capacity building (SCM)	5 472
	Re-grading of clerical workers	6 147
	Other adjustments	207 502
	Personnel adjustments and shortfall	14 337
	Statutory amount	1 080
<b>Total</b>		<b>648 799</b>

Indicator	Score	Evaluation
<b>PI-16 Predictability of availability of funds for commitment of expenditure</b>	<b>A</b>	<b>Scoring method M1</b>
(i) Degree to which cash flow forecasting and monitoring is carried out	A	A cash flow forecast is prepared for the fiscal year, and are updated monthly on the basis of actual cash inflows and outflows.
(ii) Reliability and time horizon of the periodic information during the year providing the MDAs with information about maximum limits and payment commitments	A	Departments are able to plan and commit expenditure for at least six months in advance in accordance with the budgeted appropriations.
(iii) Frequency and transparency of the adjustments made to the budgetary allocations available at a level higher than MDA administrations	A	Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a transparent and predictable way.

## PI-17 Registration and oversight of cash balances, debt and guarantees

### Dimensions to be assessed (scoring method M2):

*(i) Quality of debt data recording and reporting*

*(ii) Degree of consolidation of the government's cash balance*

*(iii) Systems for contracting loans and issuance of guarantees*

#### *i) Quality of debt data recording and reporting*

As at time of the present PEFA assessment (October-November 2014), the province had no contracted loans and no debt. Therefore the dimension does not apply (NA).

#### *ii) Degree of consolidation of the government's cash balance*

As already presented (HLG-1 iii), disbursements for equitable shares from the higher level of government are made to the province CPD account at the South African Reserve Bank (Central Bank) and earmarked/conditional grants are disbursed to the province exchequer account held at the ABSA Bank, a commercial bank. The exchequer account is credited with funds from the CPD account when this is necessary. The former is also credited with own receipts collected by the single departments. These two accounts (CPD and exchequer) are the most important accounts through which all provincial receipts transit.

In addition to these two accounts, each of the 13 departments has its own bank account at ABSA Bank (denominated PMG-Paymaster-General accounts). These accounts receive funds on a regular basis from the ABSA exchequer account in order to pay salaries and suppliers. In addition receipts from the province's own revenue (PI-3) are also credited to the PMG accounts.

It should be noted that the 13 PMG accounts have sub-accounts (a total of 53) that are petty cash accounts except for the Department of Health whose 32 sub-accounts (from the 53) are used to collect patient fees and charges. The sub-accounts are credited with resources from the PMG accounts.

The province has two) accounts for collecting (from the South African Reserve Bank) and paying interest to the ABSA Bank (for overdraft).

Overall, as presented above the province has one account at the South African Reserve Bank, 15 accounts at the ABSA Bank (13 departments and two for interest) and 53 sub-accounts for petty cash, a total of 70 accounts.

The entity in charge in the Northern Cape Provincial Treasury<sup>110</sup> has electronic access to the two banks (South African Reserve Bank and ABSA) and carries out daily a consolidation exercise of all the accounts and sub-accounts where the overall balance available is known<sup>111</sup>. This consolidation exercise excludes the Provincial Legislature (second department).

<sup>110</sup> The cash-flow management sub-directorate and the banking management sub directorate (directorate banking and cash flow management, chief directorate assets and liabilities, programme 3).

<sup>111</sup> The daily consolidation exercise is very detailed. The banking sub-directorate has shared with the PEFA team the hard copy of a daily consolidation exercise (analysis of daily cash requirements, October 6, 2014, over 70 pages).



**Table 18: Northern Cape government's accounts**

Account	Name of bank	Origin of funds	Number of accounts	Purpose of account
CPD account	South African Reserve Bank (SARB)	National Treasury	1	Equitable shares (credit) Transfer to exchequer account (debit)
Exchequer account	ABSA (South African Commercial Bank)	National Treasury CPD account	1	Conditional grants (credit) Transfer to department accounts (debit)
PMG department accounts	ABSA (South African Commercial Bank)	Exchequer account	12	Salary payments, payments to suppliers, transfers to sub-accounts (debit) Own revenue (credit) paid monthly to exchequer account (debit)
PMG department accounts	ABSA (South African Commercial Bank)	Provincial Legislature	1	Same as above
Sub-accounts	ABSA (South African Commercial Bank)	PMG department accounts	53	For petty cash payments <u>Note:</u> The Department of Health alone has 32 sub-accounts that are also used to collect the various fees and charges of this entity.
Interest account (1)	ABSA (South African Commercial Bank)	Interest paid by the province	1	Interest payments on overdraft to ABSA (debit)
Interest account (2)	ABSA (South African Commercial Bank)	Interest received by the province	1	Interest received from the South African Bank of Reserve (credit) Transfer to PMG account of the Department of Provincial Treasury (debit)
<b>Total accounts</b>	--	--	<b>70</b>	--

Source: Cash-flow management sub-directorate and banking management sub-directorate (directorate banking and cash flow management, chief directorate assets and liabilities, programme 3).

## ii) Systems for contracting loans and issuance of guarantees

Domestic borrowing by provinces is strictly regulated by the current legislation (foreign borrowing is not allowed)<sup>112</sup>. The member of the executive council (MEC) for finance, economic development and tourism of the Northern Cape Province may only allow domestic borrowing, issuing of a guarantee, indemnity or security, or entering in any transaction that binds or may bind the PRF to any future financial commitments. The legislation does not explicitly indicate that the procedure should be transparent. In addition it does establish clear borrowing criteria or ceilings. It should be noted though that no guarantees were issued and no loans were contracted by the NCP

<sup>112</sup> Northern Cape Provincial Government National Treasury, Borrowing Powers of Provincial Government Act, No 48 of 1996; Public Finance Management Act (PFMA), No 1 of 1999, Updated to Government Gazette 33059, 1 April 2010, sections 66 & 67; National Treasury, Regulations section 13, the treasury regulations were originally published in GNR.345 of 9 April 2001, and subsequently amended in total by GNR.740 of 25 May 2002, GN 2012 of 28 July 2003, GN 37 of 16 January 2004 and GNR.225 of 15 March 2005, respectively.

Indicator	Score	Evaluation
<b>PI-17 Recording and management of cash balances, debt and guarantees</b>	<b>C+</b>	<b>Scoring method M2</b>
i) Quality of the records and reports presented on debt data	NA	The province has no debt.
ii) Degree of consolidation of government cash balances	B	All cash balances are calculated daily and consolidated. This exercise excludes the Provincial Legislature (2 <sup>nd</sup> department).
iii) Systems for contracting loans and issuance guarantees	C	Provincial government's contracting of loans and issuance of guarantees are always approved by a single responsible government entity, but are not decided on the basis of clear guidelines, criteria or overall ceilings.

## PI-18 Effectiveness of payroll controls

### **Dimensions to be assessed (scoring method M1):**

- i) Degree of integration and reconciliation between personnel records and payroll data***
- (ii) Timeliness in the introduction of changes to the personnel records and payroll***
- (iii) Internal control over changes to personnel records and payrolls data***
- (iv) Existence of payroll audits to identify control weaknesses and/ or ghost workers***

The compensation of employees is governed by the National and Provincial Treasuries regulations<sup>113</sup> and instructions and included requirements such as segregation of duties between authorisation of appointments, authorisation of payments and recording of those payments. The requirement is to ensure that all posts are adequately funded, staff are paid directly into designated accounts and the certification of the existence of the staff member prior to his or her payment.

The province's payroll for public servants is controlled and administered using the integrated human resource, personnel and salary system known as PERSAL payroll management software. PERSAL is the software used by all national and provincial departments and caters for all aspects of government regulations and prescripts.

### ***i) Degree of integration and reconciliation between personnel records and payroll data***

The payroll is linked to the staff establishment of each department, indicating details regarding appointment, transfer, resignation, salary scales, promotions, etc. Both the payroll and staff establishment are controlled and administered by the PERSAL system. Apart from this, individual personnel records are also kept.

PERSAL is interfaced to BAS which ensures that all payroll related expense information is automatically loaded into BAS. As part of the month end closure procedures performed by the departments (monthly IYM), reconciliation between the information in BAS and PERSAL is prepared and documented to determine that all information has transferred correctly.

Both national and provincial regulations require the appointment of paymasters who then review the payroll information including the staff to be paid for their respective pay points and to certify that the information is correct or highlight changes required prior to the monthly payment of the salaries.

### ***(ii) Timeliness in the introduction of changes to the personnel records and payroll***

Payrolls are prepared monthly with fixed closing dates. Changes to the payroll are affected prior to the pay runs as the certification process requires that the payroll be certified as correct by the paymaster prior to payment. Hence, adjustments should be corrected in the next pay run at the latest. All appointments, terminations and other payroll related adjustments must be affected on PERSAL. Each department directly manages posts and personnel changes. Controls and procedures exist for all changes. Audit trails are built-in in the system.

Department of Education prepares a detailed monthly report indicating the effective and the transaction date of all appointments, resignations, promotions and transfers for monthly meeting purposes. Appointments, resignations, overtime and promotions are done within a month to two-month period. Only a few transactions regarding transfers were found that took longer than 3 months, but affects only a minority of changes<sup>114</sup>.

The Department of Home Affairs performs a reconciliation every second month between its records and the PERSAL system. A report is sent to National Treasury indicating the dates of deaths of officials and National Treasury freezes the salaries of deceased officials. An exception report is then sent to the provinces for follow up<sup>115</sup>.

<sup>113</sup> Treasury regulation 8.3: Compensation of employees (Section 76 (4) (b) of the PFMA)

<sup>114</sup> Confirmed with salary records for Department of Education and Provincial Treasury

<sup>115</sup> Monthly progress report of National Treasury and an exception report for June 2014 indicating the deaths in April 2014 and the freeze of salaries in June 2014.

**(iii) Internal control over changes to personnel records and payrolls data**

All appointment, termination and other payroll related adjustments must be affected on PERSAL. PERSAL provides audit trails to identify and document changes which are made to staff details in the system. The system requires a process of three tiers of approval namely create, authorise and approval. Segregation of duties is maintained by ensuring that a single user cannot perform more than one of the three functions.

Access controls restrict access to authorised users by way of password controls. PERSAL security is the responsibility of the Provincial Treasury. Users are required to log into the system with a username and password.

PERSAL is configured to lock access after three failed attempts and inactivate access if the user has not logged in after 30 days. To reactivate access the user's manager needs to complete a written request for reinstatement. Access is automatically terminated if the user is terminated in PERSAL.

PERSAL provides audit trails to identify and document changes which are made to staff details in the system. Exception reports are issued each month and used to identify anomalies and any extreme changes from one pay period to the next. Audit trails are built-into the system.

**(iv) Existence of payroll audits to identify control weaknesses and/ or ghost workers**

Compensation of employees contributes to the single biggest expenditure item of Provincial Departments, and therefore the Provincial Treasury seeks to ensure that rightful salary payments are made to employees and to prevent wastage by paying salaries to ghost employees at provincial departments<sup>116</sup>. Compensation of employees comprised 68 per cent of the current expenditure and increased by R676 394 000 from R6 032 634 000 to R6 709 028 000 in the 2013/14 financial year<sup>117</sup>.

For all employees at the departments, the person in charge at the respective pay-points must certify on the date of payment that all persons listed on the payroll report are entitled to payment. Within ten days of being certified, the payroll report must be returned to the chief financial officer of a department. The accounting officer of each department ensured that all pay-point certificates have been received on a monthly basis<sup>118</sup>. Analysis is performed on payroll certifications to identify possible ghost workers and implement corrective measures if necessary<sup>119</sup>.

The Department of Education performed a head count during March/April 2013 in order to identify any ghost workers.

PERSAL provides audit trails to identify and document changes which are made to staff details on the system. Exception reports are issued each month and used to identify anomalies and any extreme changes from one pay period to the next. Audit trails are built into the system.

The Northern Cape provincial shared internal audit unit also performed internal audits on the human resource management for both 2013/14 and 2014/15 financial years based on the risks identified at each department.

The AGSA performs annually an audit on each department and public entity, which includes various payroll related reviews on ghost/invalid employees and the effectiveness of the payroll controls. Human resource management (HR) was also identified as one of the risk areas by the AGSA during 2012/13 and 2013/14 financial years to improve audit outcomes and financial and performance management. Special focus was given on HR planning and organisation, management of vacancies, appointment processes, performance management, acting positions, management of leave, overtime and suspensions.<sup>120</sup> The AGSA identified that for the following departments in 2012/13, the persons in charge at pay points did not always certify that the employees receiving payment were entitled to them, as required by Treasury Regulation 8.3.4<sup>121</sup>:

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<sup>116</sup> Northern Cape Provincial Government: Slides presented to all the departments regarding the biometric aided headcount project.

<sup>117</sup> Northern Cape Province: Consolidated Financial Information for the year ended 31 March 2014.

<sup>118</sup> Treasury regulations 8.3.4 and 8.3.5.

<sup>119</sup> Management Performance Standards: Management Performance Assessment Tool, July 2014.

<sup>120</sup> Extraction of the AGSA procedures performed on Human Resources Management for the 2013/14 financial year

<sup>121</sup> Report of the Auditor-General for the year ended 31 March 2013 for each department and the AGSA Northern Cape general report on the audit outcomes of provincial government for 2012-13.

- Northern Cape Co-Operative Governance, Human Settlements and Traditional Affairs;
- Department of Health; and
- Department Roads and Public Works

#### Reforms and recent changes

The province implemented a biometric access control system (BACS) to enhance security to PERSAL<sup>122</sup> and its applicability to all the departments. The BACS used by the Northern Cape Provincial Treasury aims to initiate electronic signatures so that the integrity of the data is further protected. All users are issued with a biometric fingerprint scanner as well as a smart card<sup>123,129</sup>.

The Provincial Treasury embarked on a comprehensive process to conduct a biometric aided headcount of all employees in the provincial government with a view to identify and eliminate ghost workers on the payroll system from July to October 2014<sup>124</sup>. The progress report indicated that there are 265 outstanding verifications and the salaries of the employees who did not submit themselves for verification were frozen on 5 September 2014 and 12 September 2014 for the Department of Education<sup>125</sup>:

**Table 19: Headcount – Outstanding verifications as on 10 October 2014**

Department	Number of employees not verified
Department of Health	148
Department of Roads and Public Works	1
Department of Agriculture	2
Department of Education	37
Department of Sport, Arts and Culture	73
COGHSTA	4
Total	265

During the biometric aided headcount in 2014, the correctness of certain critical personnel information as it appears on PERSAL was also verified<sup>126</sup>.

Indicator	Score	Evaluation
<b>PI-18 Effectiveness of payroll controls</b>	<b>B+</b>	<b>Scoring method M1</b>
(i) Degree of integration and reconciliation between personnel registers and payroll data	A	Personnel database and payroll are directly linked through PERSAL to ensure data consistency and monthly reconciliation.
(ii) Timeliness of changes to personnel records and the payroll	B	Up to three months' delay occurs in updating of changes to the personnel records and payroll, but this affects a minority of changes. Retroactive adjustments are made occasionally.
(iii) Internal control of changes to the staff register and payroll	A	Authority to change records and payroll is restricted and results in an audit trail.
(iv) Payroll auditing to identify weaknesses and/or ghost workers	A	A strong system of annual payroll audits is in place to identify control weaknesses and/or ghost workers.

<sup>122</sup> Northern Cape Provincial Government: SIFS circular 5 of 2014, dated 27 March 2014

<sup>123</sup> Northern Cape Provincial Government: Biometric Access Control System (BACS) support procedure manual

<sup>124</sup> Northern Cape provincial government biometric aided headcount, dated 13 June 2014

<sup>125</sup> Northern Cape Provincial Treasury: headcount 2014 progress report, dated 14 October 2014

<sup>126</sup> Northern Cape provincial government biometric aided headcount, dated 13 June 2014

**PI-19 Competition, value for money and controls in procurements**

<p><b>Dimensions to be assessed (scoring method M2):</b>  <i>(i) Transparency, comprehensiveness and competition in the legal and regulatory framework</i>  <i>(ii) Use of competitive procurement methods</i>  <i>(iii) Public access to complete, reliable and timely procurement information</i>  <i>(iv) Existence of an adequate administrative procurement complaints system</i></p>
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**(i) Transparency, comprehensiveness and competition in the legal and regulatory framework**

Several regulatory tests are part of the current procurement framework. The framework only meets four of the six listed requirements.

**Table 20: Legal and regulatory framework for procurement**

Documentary requirement	Fulfilled	Explanation
1. Procurement legal framework is organised hierarchically and precedence is clearly established	Yes	Northern Cape provincial supply chain management (SCM) policy, July 2010, Chapter 3, sections 3-5
2. Procurement laws and regulations are freely and easily accessible to the public through appropriate means	Yes	Procurements Acts and regulations are easily accessible and available on-line and in the government gazette of South Africa, No.32489 and No.34350. <a href="http://www.treasury.gov.za/divisions/ocpo/sc/PPPF/A/d_efault.aspx">http://www.treasury.gov.za/divisions/ocpo/sc/PPPF/A/d_efault.aspx</a>
3. The legal framework applies to all procurement undertaken using government funds	Yes	Preferential Procurement Policy Framework (Act No. 5 of 2000/2011), Section 1 (iii); Public Finance Management Act (Act 29 of 1999), Schedules 2, 3A, 3B, 3C and 3D
4. The legal framework makes open competitive procurement the default method of procurement and defines clearly the situations in which other methods can be used and how this is to be justified	Yes	“When an organ of state in the national, provincial, or local sphere of government, or any other institution identified in national legislation, contracts for goods or services, it must do so in accordance with a system, which is fair, equitable, transparent, competitive and cost effective.” Constitution of the Republic of South Africa (Act 1 of 1999), Section 217 (1); and on competitive procurement: Public Finance Management Act (1999), section 38 1 (iii) and section 76 4 (c); treasury regulations (2005), chapter 16A.
5. The legal framework provides for public access to all the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints	No	There is no explicit provision in the law that requires the procurement information to be accessible to the public.
6. The legal framework provides for an independent, administrative procurement review process for handling procurement complaints by participants prior to contract signature	No	Northern Cape provincial supply chain management (SCM) policy, July 2010, chapters 5-11

**(ii) Use of competitive procurement methods**

Reliable data is not available to score this dimension due to the fact that the departments are not reporting for the goods and services procured through non-competitive methods which are justified in conformity with the current legislation and regulations.

**(iii) Public access to complete, reliable and timely procurement information**

Procurement plans are prepared in province but they are not publicly accessible. All bidding opportunities in province are published in local newspapers. Winners of contracts are notified, and winners' names are accessible to the public<sup>127</sup>. Resolutions on complaints are not public (no complaints presented to date).

**(iv) Existence of an adequate administrative procurement complaints system**

The procurement complaints system in NCP is contemplated in the current provincial policies<sup>128</sup>. The complaints process should start at the departmental level through the provincial departmental grievance review committee (DGRC) where the grievance is dealt with through mediation. The policy is not clear regarding the composition of this committee and no indication is given about its members. In the event of no resolution being achieved at the departmental level, the complaint is dealt with at the level of the province and through the Northern Cape Provincial Supply Chain Management Review Grievance Committee (NCPSCMGRC) where arbitration is carried out. If there is no positive outcome, then the court remains the last resort for the complainant. In all cases the process is not independent. For the Northern Cape provincial supply chain management review grievance committee, key criteria of a procurement complaints system are not met (table 17).

**Figure 1: Complaints systems**



<sup>127</sup> Awarded bids are published on the website of the Provincial Treasury, but not quarterly. Link: <http://www.ncpt.gov.za/awardedtenders.aspx>

<sup>128</sup> Northern Cape Provincial Supply Chain Management (SCM) Policy, July 2010, chapters 5-11





Indicator	Score	Evaluation
<b>PI-19 Competition, value for money and controls in procurements</b>	<b>D+</b>	<b>Scoring method M2</b>
i) Transparency, comprehensiveness and competition in the legal and regulatory framework	B	The legal framework meets four of the six listed requirements.
ii) Use of competitive procurement methods	D	Reliable data is not available to score this dimension.
(iii) Public access to complete, reliable and timely procurement information	C	Procurement information, bidding opportunities and contract awards are systematically made available to the public.
(iii) Existence of an adequate administrative procurement complaints system	D	The procurement complaints system does not meet criteria (i) and criteria (iv)

## PI-20 Effectiveness of internal controls on non-salary expenditure

### Dimensions to be assessed (scoring method M1):

*i) Effectiveness of expenditure commitment controls*

*ii) Scope, relevance and understanding of other internal control regulations and procedures*

*iii) Degree of compliance with regulations on the processing and registration of transactions*

Unauthorised expenditure refers to expenditure that was not incurred in accordance with the approved budget.

Irregular expenditure refers to expenditure that was not incurred in the manner prescribed by legislation. Such expenditure does not necessarily mean that money has been wasted or that fraud has been committed. It is, however, a measure of an auditee's ability to comply with legislation relating to expenditure and procurement management.

Fruitless and wasteful expenditure refers to expenditure that was made in vain and which would have been avoided had reasonable care been taken.

### *i) Effectiveness of expenditure commitment controls*

The PFMA, national instructions and numerous provincial treasury regulations/instructions and circulars provide the necessary structure for a comprehensive set of controls, which are widely understood<sup>129</sup>. The PFMA mandates that the accounting officer maintains effective, efficient and transparent systems of financial and risk management and internal control which include processes which effectively limit commitments to actual cash availability and approved budget allocations and provides for full and proper records of the financial affairs of the department. Some departments have further refined these prescripts with departmental circulars and standard operating procedures.

Overspending of a vote or a main division within a vote constitutes "unauthorised expenditure" per the PFMA and will require reporting to the Treasury and disciplinary steps against the official who made or permitted the overspending.

Budgets are prepared and approved as part of the annual budget process and include procurement plans for infrastructure and large value purchases. Budget implementation is further monitored through the in-year monitoring (IYM) reports that are presented by all departments to both Provincial and National Treasuries. Daily, weekly and monthly cash flow statements are prepared as detailed in PI-16 and would detect excessive expenditure in a timely manner should this occur.

The external audit which is performed by the AG of South Africa provides further assurance to both the accounting officer and the SCOPA as to the effectiveness of the department compliance with the relevant prescripts. The departments are then tasked with implementing actions to address any control/compliance deficiencies.

Although BAS has a budget blocking system that notifies users when the budget is exceeded, this can be overridden with the authorisation of the head of department. It also does not prevent commitments from being undertaken outside existing budgetary provision, and this having to be regularised later through the shifting of funds, virements<sup>130</sup>, adjustment budget, supplementary estimates and even rolled over as first commitments on the following year's budget.

### *(ii) Scope, relevance and understanding of other internal control regulations and procedures*

The PFMA, National Treasury and numerous Provincial Treasury instructions and circulars provide the necessary structure for a comprehensive set of controls.

A transversal procurement system known as LOGIS is used by all departments and this system includes the

<sup>129</sup> The National Treasury, Public Finance Management Act (PFMA), No 1 of 1999, Updated to Government Gazette 33059, 1 April 2010

<sup>130</sup> The National Treasury, Public Finance Management Act (PFMA), section 43

three-way functionality which necessitates the matching of the price per the approved order and quantity per the receipt to the information on the invoice supporting the charge by the supplier. It is possible to process a payment directly on BAS thereby circumventing these procedures, however, all payments require authorisation per the delegation of authorities.

The departments prepare annual risk registers including controls which are used by the internal audit department to determine the audit plan and provide management with an assessment of the adequacy and effectiveness of the identified and implemented controls. The external audit, which is performed by the AG, provides further assurance to both the accounting officer of a department and SCOPA as to the effectiveness of the departments' compliance with the relevant prescripts. The departments are then tasked with implementing actions to address any control/compliance deficiencies.

The AG reported in 2012/13 that information technology controls were assessed at all 13 departments in the Northern Cape. The status of information technology controls demonstrated that there was improvement since the previous financial year. However, some auditees were still experiencing challenges in the focus areas of security management, user access management and service continuity. Most auditees are in the process of implementing the cabinet-approved information technology governance framework. The implementation will be undertaken in phases over the next three financial years. Phase 1 is to be implemented by 31 March 2014<sup>131</sup>.

The AGSA reported in 2012/13 financial year that proper control systems were not implemented for safeguarding and maintenance of assets as required by PFMA section 38(1) (d) and treasury regulation 10.1.

***(iii) Degree of compliance with regulations on the processing and registration of transactions***

Although attempts are made to comply with the regulations and procedures, several non-compliance to the rules for processing transactions resulted in irregular as well as fruitless and wasteful expenditure. The fact that unauthorised, irregular, fruitless and wasteful expenditure was not prevented also explains the lack of compliance by all the role players in the processing of transactions.

The following non-compliance findings were noted by the AG during the 2012/13 financial year:

- Irregular and fruitless and wasteful expenditure was not adequately dealt with;
- Material misstatements or limitations in the financial statements submitted for auditing;
- Payments to creditors not made within 30 days from receipt of an invoice;
- Three written quotations not invited and/or deviations not justified;
- Effective and appropriate disciplinary steps not taken against officials who made or permitted unauthorised, irregular and fruitless and wasteful expenditure;
- Proper control systems not implemented for safeguarding and maintenance of assets;
- Investigations not conducted into all allegations of financial misconduct made against officials.

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<sup>131</sup> Auditor-General of South Africa, Northern Cape, General report on the audit outcome of provincial governments, PFMA 2012-13, November 2013 as obtained from the AGSA website [www.agsa.co.za](http://www.agsa.co.za)

Indicator	Score	Evaluation
<b>PI-20 Effectiveness of internal controls on non- salary expenditure</b>	<b>C+</b>	<b>Scoring method M1</b>
(i) Effectiveness of controls on expenditure commitments	B	The PFMA, National and Provincial Treasury regulations and instructions together with the budget and cash management prescripts and procedures contribute to a comprehensive set of expenditure commitment controls which are in place and effectively limit commitments to actual cash availability and approved budget allocations (as revised) for most types of expenditure, with minor exceptions.
(ii) Scope, relevance and understanding of other internal control regulations and procedures	C	Other internal control rules and procedures consist of a basic set of rules for processing and recording transactions, which are understood by those directly involved in their application. Controls may be deficient in areas of minor importance, given the results of the external audit.
(iii) Degree of compliance with the regulations for processing and registering transactions	C	Rules are complied with in a significant majority of transactions, but use of simplified/emergency procedures in unjustified situations is an important concern.

## PI-21 Effectiveness of internal audit

**Dimensions to be assessed (Scoring method M1):**  
**(i) Scope and quality of internal audit function**  
**(ii) Frequency and distribution of reports**  
**(iii) Management response to internal audit findings**

In terms of the PFMA<sup>132</sup> and the Treasury Regulations<sup>133</sup> all departments of the provincial government must have and maintain a system of internal audit under the control and direction of an audit committee complying with and operating in accordance with prescribed regulations and instructions.

The current legislation requires departments to publicly confirm that they have reviewed the following which is essential for the effective discharge of their responsibilities:

- Effectiveness of the internal control;
- Risk management;
- Implementation of risk management;
- Corporate governance principles;
- Accurate financial reporting; and
- A system of internal control and information systems<sup>134</sup>.

### **(i) Scope and quality of internal audit function**

All the departments in the province have internal audit services. The provincial legislature has its own internal audit unit and does not make use of the shared internal audit unit of the province<sup>135</sup>. The executive council of the Provincial Treasury has established a provincial internal audit unit (PIAU) for the remaining 12 departments as follows:<sup>136</sup>

**Table 21: Internal audit structure in the Northern Cape**

Cluster	Department
Cluster 1	Department of Education
	Provincial Treasury
	Department of Economic Development and Tourism
Cluster 2	Department of Health
	Office of the Premier
	Department of Social Development
Cluster 3	Department of Agriculture and Rural Development
	Department of Sports, Arts and Culture
	Department of Cooperative Governance, Human Settlement and Traditional Affairs
Cluster 4	Department of Roads and Public Works, including fleet management trading entity
	Department of Transport, Safety and Liaison
	Department of Environmental and Nature Conservation

The PSIAU's mandate is to provide assurance that the risks in the department are managed in a way that allows for the achievement of management objectives<sup>137</sup>. The PSIAU's internal audit methodology uses the Code of ethics, international standards for the professional practice of internal auditing and the practice advisories, all published by the Institute of Internal Auditors (IIA).<sup>138</sup>

In 2012/13, the AG indicated that the audit committees and the shared internal audit unit were in place at all

<sup>132</sup> National Treasury, Public Finance Management Act (PFMA), 1999 section 38(1)(a)(ii), sections 76 and 77

<sup>133</sup> Treasury Regulations 3.1 and 3.2 and effective from 15 March 2005

<sup>134</sup> Refer to signed Audit Committee Charter, 16 January 2014

<sup>135</sup> Same report as above (Page 54: Second level of assurance: Internal independent assurance and oversight).

<sup>136</sup> Refer to signed internal audit charter, 29 November 2013

<sup>137</sup> Extracted from the approved PSIAU methodology

<sup>138</sup> Provincial Treasury Provincial Shared Internal Audit, Internal Audit Methodology, dated 14 March 2014.

departments and were fully functional with the exception of the provincial legislature where improvement is still required in respect of the internal audit unit<sup>139</sup>.

The internal audit focuses on systemic issues and is risk based (more than 50 per cent of the staff's time). The scope of internal audit covers two main functions<sup>140</sup>:

- The provision of independent appraisal and review of the diverse operations and internal controls in the Northern Cape Provincial Administration to determine:
  - Financial and operation information is accurate and reliable
  - Risks at departments are identified and appropriately dealt with by management
  - External regulations and internal policies and procedures are followed
  - Satisfactory operating criteria are met
  - Resources are used effectively, efficiently and economically
  - The departmental objectives are achieved
  - The department adheres to good corporate governance principles.
- The provision of professional advice and consulting services to accounting officers in the discharge of their responsibilities. This includes the establishment and maintenance of effective, efficient and transparent systems of financial and risk management, internal control and good corporate governance.<sup>141</sup>

### **(ii) Frequency and distribution of reports**

Internal audit plans are drawn up for each department every financial year and approved by the audit committee. The internal audit plans listed audits planned for every quarter. Audits are expected to be completed in the quarter in which they have been planned<sup>142</sup>.

At the quarterly audit committee meetings, the internal audit reports the status of completion of assignments versus the audit committee approved plan to the audit committee. It was indicated in the quarterly progress report of Department of Health that sixteen assignments were planned for the year and by 31 March 2014, fourteen (87.5 per cent) of the planned assignments had been completed and reported on<sup>143</sup>.

Individual reports are issued to the head of the department – Provincial Treasury in an administrative capacity as well as to heads of departments of client departments<sup>144</sup>.

External audit (the AG), receives all audits completed on a quarterly basis. Furthermore, internal audit meets with AG to consider and conclude on the level of reliance that they wish to place on the internal audit work<sup>145</sup>. The AG also indicated that during the audit process, they work closely with the audit committee and internal audit as they are two of the key role players in providing assurance on the credibility of the financial statements, performance report as well as the departments' compliance with legislation<sup>146</sup>.

### **(iii) Management response to internal audit findings**

Internal audit has a service level agreement with all the departments which requires them to supply internal audit with information as requested and responses to findings within the prescribed and agreed timeframe. Each department is expected to provide final agreed management actions within one week of issuing the draft audit report<sup>147</sup>. The final report, with management comments, is submitted quarterly to the audit committee. Follow-up audits on previous completed assignments with material findings are performed within 12 months<sup>148</sup>.

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<sup>139</sup> AGSA general report on the audit outcomes for 2012/13, dated November 2013 (page 14: All role players should increase the level of assurance they provide).

<sup>140</sup> Provincial Treasury Provincial Shared Internal Audit, Internal Audit Methodology, dated 14 March 2014

<sup>141</sup> Obtained from the Department of Health, Internal Audit Strategic and Operational Plan for 2013/14 – 2015/16.

<sup>142</sup> Schedule of internal audit work to be performed on a quarterly basis as indicated on the approved internal audit plan for 1/11/2013-31/10/2014 for Department of Social Development, approved by Audit Committee on 27 November 2013

<sup>143</sup> Internal Audit Progress Report for Department of Health for 2013/14, dated May 2014

<sup>144</sup> Internal audit charter as approved by the audit committee on 29 November 2013

<sup>145</sup> Obtained from the Department of Health, Internal Audit Strategic and Operational Plan for 2013/14 – 2015/16

<sup>146</sup> AGSA general report on the audit outcomes for 2012/13, dated November 2013 (page 12: AGSA's audit and reporting process).

<sup>147</sup> Confirmed with the signed service level agreement between the shared internal audit unit and Departments Health and Education, signed 23 November 2012.

<sup>148</sup> Confirmed with the head of internal audit unit.

Audit action plans were compiled by each department for the 2012/13 and 2013/14 financial years. These included the findings and recommendations of both the internal audit and external audit. It also indicates the actions that the departments planned to take to address issues identified by audit<sup>149</sup>. However, the actions with due dates were not always implemented timeously by all departments<sup>150</sup>.

Indicator	Score	Evaluation
<b>PI-21 Effectiveness of internal audit</b>	<b>B+</b>	<b>Scoring method M1</b>
(i) Scope and quality of internal audit function	A	Internal audit is operational for all provincial government entities, and generally meets professional standards. It is focused on systemic issues (at least 50 per cent of staff time).
(ii) Frequency and distribution of reports	A	Reports adhere to a fixed schedule and are distributed to the audited entity, Provincial Treasury and the SAI (AGSA).
(iii) Management response to internal audit findings	B	Prompt and comprehensive action is taken by many (but not all) managers.

<sup>149</sup> Confirmed with the action plans for two of the major departments – health and education.

<sup>150</sup> Confirmed with the audit action plans for the 2013/14 financial year for Department of Health, Office of the Premier and audit action plan for the 2014/15 financial year for Department of Sport, Arts and Culture.

### 3.5 Accounting, recording and reporting

#### PI-22 Timeliness and regularity of accounts reconciliation

**Dimensions to be assessed (scoring method M2):**

**(i) Regularity of bank account reconciliations**

**(ii) Regularity of reconciliation and clearance of suspense accounts and advances**

National Treasury Regulations states that the accounting officer (AO) is responsible for effective banking and cash management which includes the daily bank reconciliations to detect any unauthorised entries<sup>151</sup>.

The National and Provincial Treasury issued an instruction to all provincial departments indicating that the departments must ensure that bank reconciliations are performed daily.

Section 17.1.2(b) of the treasury regulations requires that all suspense accounts be cleared and correctly assigned to the correct cost centres monthly.

Northern Cape Provincial Treasury issued an instruction to all provincial departments regarding month-end closure procedures for each financial year informing the accounting officers that they should comply with treasury regulations regarding the use and clearing of suspense accounts<sup>152</sup>. The departments should certify that in respect of the control and suspense accounts:

- All supporting documentation is readily available;
- Monthly reconciliation of all control or suspense accounts is performance to confirmed and unconfirmed balances in the confirmation letters (issued and received) and available supporting documentation;
- Amounts included in the control or suspense accounts are cleared and correctly allocated to the relevant cost centers on a monthly basis; and
- Reports are provided to the accounting officer on uncleared items, and followed up monthly by the chief financial officer.

**(i) Regularity of bank account reconciliations**

As already presented (PI-17), Northern Cape Provincial Government has one account at the South African Reserve Bank, 15 accounts at the ABSA Bank (13 departments and two for the interest) and 53 sub-accounts.

The directorate in charge in the Northern Cape Provincial Treasury Department<sup>153</sup> has electronic access to the two banks (South African Reserve Bank and ABSA) and carries out a consolidation exercise of all the accounts and sub-accounts daily where the overall balance available is known<sup>154</sup>.

Monthly, the transactions recorded in BAS are compared to the movements in the banking institution and reflected in the BAS reports. The chief financial officers of all the departments must review and sign all reconciliations for the reporting month to ensure that unauthorised transactions are detected, and dishonored cheques and long outstanding amounts are followed up and cleared. Reconciling differences are explained and documented in the monthly reporting pack provided to Provincial Treasury within 10 days after month-end closure<sup>155</sup>.

**(ii) Regularity of reconciliation and clearance of suspense accounts and advances**

The most common suspense accounts are the bank interfaces, payroll interfaces, staff debt, advances for officials' subsistence and interdepartmental debt. The provincial departments are required to reconcile and clear

<sup>151</sup> National Treasury, Treasury Regulation 15.10.1.2 (j) and (k).

<sup>152</sup> Treasury Regulations 17.1, part 7.

<sup>153</sup> The Cash Flow Management Sub-Directorate and the Banking Management Sub-Directorate (Directorate Banking and Cash flow Management, Chief Directorate Assets and Liabilities, Programme 3).

<sup>154</sup> The daily consolidation exercise is very detailed. The banking sub-directorate has shared with the PEFA team the hard copy of a daily consolidation exercise (Analysis of Daily Cash Requirements, October 6, 2014, over 70 pages).

<sup>155</sup> National Treasury: Office of Accountant-General Instruction Note 1 of 2013/14, Month-end closure procedures for 2013/14, to meet reporting requirements in terms of section 32 of the PFMA and interim financial statements, 14 February 2013.



the suspense accounts on a monthly basis; and submit this information to Provincial Treasury for review and comments, within 10 days after the end of the month. For the last month of the financial year, the departments submitted their monthly reports on reconciliations only by the 15th of May to make provision for the year-end transactions and annual financial statements. Northern Cape Provincial Treasury also issue on a quarterly basis, an assessment report for the compliance issues and at year-end, they issue a consolidated assessment report to each department to provide a summary of areas of concern noted and guidance on improving those areas.

As part of the year-end closing procedures all suspense accounts that should be nil are force closed to facilitate the issuance of the annual financial statements. Certain accounts in BAS must have zero balances at month or year-end, and if the department did not clear those accounts the system will not allow it to close its books. The system will automatically deny them the ability to process or clear any transaction in that particular reporting period at a specified date and time (i.e. forced closed). National Treasury issues dates on which the departments must close their books monthly and annually. Some of the suspense accounts may carry a balance at month and year-end, and these may be waiting for certain processes or information before they are cleared<sup>156</sup>.

Although the reconciliation and clearance of suspense accounts is carried out on a monthly basis, the reviews by the Provincial Treasury for the 2013/14 financial year have highlighted instances of long outstanding and uncleared items at all the departments

Provincial Treasury also highlighted that certain departments did not provide any reasons for the un-cleared items and most of the departments did not submit an action plan with time frames to deal with the non-movement of balances as required.

Indicator	Score	Evaluation
<b>PI-22 Timeliness and regularity of accounts reconciliation</b>	<b>B</b>	<b>Scoring method M2</b>
(i) Frequency of reconciliation of bank accounts	A	Bank reconciliations for all provincial government bank accounts take place at least monthly at aggregate and detailed levels, usually within four weeks of end of period.
(ii) Frequency of reconciliation and clearance of suspense accounts and advances	C	Reconciliation and clearance of suspense accounts and advances take place annually in general, within two months of year-end, but a significant number of accounts have uncleared balances brought forward.

<sup>156</sup> Financial year-end procedures, List of Accounts that must/preferably have zero balance at financial year-end.

## PI-23 Availability of information on resources received by service delivery units

### Dimensions to be assessed (scoring method M1):

***(i) Compilation and processing of information to show the resources effectively received (in money or in kind) by the majority of frontline service delivery units (with particular focus on primary schools and primary health care clinics) in relation to the resources made available by the relevant sector or sectors, regardless of the level of government responsible for the functioning and funding of these units***

The purpose of this indicator is to identify the collection and processing of information to demonstrate whether resources were actually received (in cash and kind) by the most common front-line service delivery units. The focus was on evidence of budgetary resources received by schools (the responsibility of the provincial Department of Education), and clinics (the responsibility of the provincial Department of Health).

***i) Compilation and processing of information to show the resources effectively received (in money or in kind) by the majority of front-line service delivery units (with particular focus on primary schools and primary health care clinics) in relation to the resources made available by the relevant sector or sectors, regardless of the level of government responsible for the functioning and funding of these units.***

The EPRE details the high-level allocations to programmes under which schools and clinics are funded in respectively the provincial Departments of Education and Health, as well as service delivery targets. These estimates and targets are also published in the departmental APPs and later reconciled in the respective annual reports, which contain the AFS. These departments track the disbursement of funds to schools and clinics primarily through the transversal accounting system, BAS, and their internal IYM tools. The hierarchical architecture of BAS means that units higher up can export reports on lower levels. Interviews with officials from the respective departments indicated that programme managers and other relevant senior managers draw and review at least quarterly expenditure reports for each individual facility (i.e. schools and clinics) during the fiscal year. These internal departmental reports distinguish between current and capital expenditure and compare budgeted and actual expenditure.

Control over the expenditure of the provincial Departments of Health and Education is exercised by the Provincial Treasury. This includes the legislatively required quarterly expenditure and non-financial performance report submissions<sup>157</sup>. Departmental annual reports should represent the activities of the department for the period concerned<sup>158</sup>. These PFM requirements are explained in detail in section 2 of this report. No evidence exists that special surveys, such as a public expenditure tracking survey (PETS), have been undertaken concerning schools and clinics during the last three fiscal years.

### **Education:**

The EPRE 2013 contains detailed non-financial service delivery measures (targets) that programme 2 needs to achieve over the 2013/14 MTEF with its budgeted resource envelope<sup>159</sup>. The equitable share allocation for each fiscal year to each school in the Northern Cape is gazetted annually and is therefore available for scrutiny by individual schools and the public.

The provincial Department of Education's publicly available 2013/14 annual report indicates the total amount transferred to public ordinary schools in that fiscal year, but does not report on the amounts transferred to individual public ordinary schools. This can be obtained upon request from the department. The department performs in-year and annual financial monitoring and analyses, including on the AFS of school governing bodies.

Increasingly the national Department of Basic Education is phasing in an electronic management information system, which is updated by schools themselves and monitored by the department. Excerpts of relevant reports were provided to corroborate this. Annually consolidated reports for schools are available on request from the department.

The following evidence, showing that schools effectively received their fiscal as well as resources-in-kind

<sup>157</sup> Republic of South Africa, *Division of Revenue Act (DORA), No. 2 of 2013*, Section (S 11 (4) (b) and S 12(2) (c)).

<sup>158</sup> Republic of South Africa, *PFMA, No. 1 of 1999*, Section 3(a).

<sup>159</sup> Northern Cape Provincial Government, *EPRE 2013*, 13 March 2013, page 115.

(learning and support materials, e.g. school text books) allocations from the provincial department, was collected from the provincial Department of Education:

- Bank account statements of individual schools indicate the inward payments from the department<sup>160</sup>;
- Monthly expenditure reports are prepared by schools themselves and presented to their school governing bodies, indicating among other things fiscal transfers and resources-in-kind received from the department. These reports are consolidated annually by the department<sup>161</sup>;
- Audited annual financial statements of individual schools showing the fiscal transfers received throughout the fiscal year from the department<sup>162</sup>. Each school's annual financial statements are reviewed by the department in terms of compliance with the relevant legislation, policies and guidelines<sup>163</sup>;

The department confirmed that BAS reports can be drawn at any stage of the budget cycle by the department, which indicate the actual fiscal and resources-in-kind transfers to individual schools and per expenditure item.

### **Health:**

Primary health care service is achieved through clinics, community health centers and district hospitals and the 2013/14 MTEF budget estimates for these services are under programme 2: in the EPRE 2013<sup>164</sup>. Clinics, district hospitals and HIV/Aids services consume the bulk of funding under this programme. About 55 per cent of the FY2013/14 budget for the whole programme was for compensation of employees, who include publicly-employed doctors and nurses. The EPRE 2013 contains detailed non-financial service delivery measures (targets) that clinics and district hospitals need to achieve with their budgeted resource envelopes<sup>165</sup>. Capital expenditure on the construction of clinics and district hospitals occur under programme 8: health facilities management. Annually consolidated reports for clinics are available on request from the department. However, by the time of writing, the Department of Health could not provide evidence from clinics that they received their allocated resources.

Indicator	Score	Evaluation
<b>PI-23 Availability of information on resources received by service delivery units</b>	<b>B</b>	<b>Scoring method M1</b>
Compilation and processing of information to show the resources effectively received (in payment or in kind) by the majority of front-line service delivery units.	B	Sufficient systems and sources confirm that schools effectively receive their allocated fiscal and resources-in-kind transfers from the provincial government. The information is compiled into annual reports. There was insufficient evidence at the time of writing on the availability of information from clinics on actual budgetary resources received.

<sup>160</sup> Zingisa Intermediate School, *FNB bank account statement, 31 May 2014 to 30 June 2014*, Note to file.

<sup>161</sup> Northern Cape Department of Education, *New reporting mechanisms for schools – budget*, Note to file.

<sup>162</sup> E.g. Francis Mohapanele Primary School, *Audited annual financial statements for the year ended 31 December 2013*, 5 September 2014.

<sup>163</sup> Northern Cape Department of Education, *Review of the audited annual financial statements submitted to the Northern Cape Department of Education – Pescodja Secondary School*, 4 March 2014.

<sup>164</sup> Northern Cape Provincial Government, *EPRE 2013*, 13 March 2013, page 314.

<sup>165</sup> Northern Cape Provincial Government, *EPRE 2013*, 13 March 2013, page 315.

## PI-24 Quality and timeliness of in-year budget reports

### Dimensions to be assessed (scoring method M1):

- (i) Scope of the reports in terms of coverage and compatibility with budget estimates*
- (ii) Timeliness of report presentation*
- (iii) Quality of information*

#### *(i) Scope of the reports in terms of coverage and compatibility with budget estimates*

Budget in-year execution reports are elaborated by the Provincial Treasury<sup>166</sup> and sent to the executive council. The reports are very detailed. They include a section on revenue presented in administrative and economic classification where actual revenues are compared with the revenues of the adjusted budget and the projected outcomes. Information on aggregate expenditure as well as data by sectors and departments is available. Actual expenditures are compared with expenditures of the adjusted budget and projected outcome<sup>167</sup>.

#### *(ii) Timeliness of report presentation*

Budget in-year execution reports are elaborated quarterly. For the first quarter of FY2013/14 ending on June 30th, 2013, the report was finalised on August 8, which was 39 days from the end of the quarter. The report for the second quarter ending on September 30th, 2013 was finalised on October 16th, 2013, which was 16 days from the end of the quarter. The report for the third quarter ending on December 31st, 2013 was finalised on January 30th, 2014, 30 days from the end of the quarter. The report for the last quarter ending on March 30th, 2014 was finalised on April 30th, 2014, 30 days from the end of the quarter<sup>168</sup>.

#### *(iii) Quality of information*

There is no specific tool with which to evaluate the quality of the data used for in-year budget execution reports. However the two most recent audit reports by the AG considered the yearly financial statements to be included in risk areas<sup>169</sup> since the data used for the in-year execution reports and the annual financial statements are similar and/or comparable. Although it is recognised that the situation has improved between FY2011/12 and FY2012/13, at the time of this evaluation (October-November 2014) concerns about the integrity of the data remain. As pointed out in the audit reports, they refer to a few departments only and not to all of them. Despite these concerns, the in-year budget execution reports are very useful.

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<sup>166</sup> By the senior manager of the directorate budget management (chief directorate sustainable resource management, programme 2).

<sup>167</sup> The four quarterly in-year budget execution reports were consulted for the evaluation of this dimension: Northern Cape Province, Provincial Treasury, memorandum to executive council, provincial expenditure outcomes as at end June 2013, September 2013, December 2013, and March 2014.

<sup>168</sup> Sources: Same as above.

<sup>169</sup> Auditor-General of South Africa, Northern Cape, General report on the audit outcome of provincial governments, PFMA 2011-12, March 2013, pages 31 & 33; Auditor-General of South Africa, Northern Cape, General report on the audit outcome of provincial governments, PFMA 2012-13, November 2013, pages 29 & 30

Indicator	Score	Evaluation
<b>PI-24 Quality and timeliness of in- year budget reports</b>	<b>C+</b>	<b>Scoring method M1</b>
(i) Scope of reports in terms of coverage and compatibility with budgetary forecasts.	C	Comparison with the adjusted budget is possible for administrative and economic headings. Expenditure is captured at payment stage only.
(ii) Timeliness in the presentation of reports.	B	Reports are prepared quarterly and issued within a maximum of 39 days of end of quarter.
(iii) Quality of the information.	B	There are some concerns about the integrity of the data but the reports are very useful.

## PI-25 Quality and timeliness of annual financial statements

### Dimensions to be assessed (scoring method M1):

- (i) Comprehensiveness of financial statements*
- (ii) Timeliness in the presentation of financial statements*
- (iii) Accounting standards used*

#### *(i) Comprehensiveness of financial statements*

Annual financial statements are prepared first by each of the 13 departments of the Northern Cape Provincial Government (for the department) using a similar format provided by Provincial Treasury<sup>170</sup>. At the departmental level the elaboration of the annual financial statements is the responsibility of the sub-directorate financial accounting (programme 1, directorate financial management). The process of elaborating annual financial statements by the departments is monitored by the directorate for accounting services and the sub-directorate provincial accounting of Provincial Treasury (programme 4, directorate financial governance and provincial Accountant General). The latter also carries out the consolidation of the 13 departmental annual financial statements received. The consolidation exercise also includes (second part of the statements) the consolidated financial statements of public entities. The departments as well as the public entities should forward their statements to Provincial Treasury within two months of the end of the FY (by 31 May)<sup>171</sup>. The consolidated statements include mainly a detailed appropriation statement with expenditures and revenue, a statement of financial position (assets and liabilities) and a cash flow statement<sup>172</sup>.

#### *(ii) Timeliness in the presentation of financial statements*

According to the legislation applicable to provinces, both departmental annual financial statements and consolidated annual financial statements should be submitted for external audit. The former should be submitted for audit within two months of the end of the fiscal year<sup>173</sup> (by 31 May 31). The latter should be submitted for external audit within three months of the end of the fiscal year<sup>174</sup> (by 30 June). For FY2013/14, these two deadlines were adhered to<sup>175</sup>.

#### *(iii) Accounting standards used*

According to the current legislation, annual financial statements have to be prepared in accordance with generally recognised accounting practice<sup>176</sup> (GRAP) that are governed by the Accounting Standards Board. A consolidated provincial government statement is prepared annually in the province. It includes full information on revenue, expenditure and financial assets and liabilities. The statement is consolidated for external audit within three months of the end of the fiscal year. IPSAS or corresponding national standards are applied for all statements.

<sup>170</sup>Annual Financial Statements (AFS) for Vote 4 –NC : Education (2013/14) ; Annual Financial Statements (AFS) for Vote 8 –NC : Provincial Treasury (2013/14) ; Annual Financial Statements (AFS) for Vote 10 –NC : Health (2013/14)

<sup>171</sup> The National Treasury, Public Finance Management Act (PFMA), No 1 of 1999, Updated to Government Gazette 33059, 1 April 2010, section 40 c2

<sup>172</sup> The consolidated annual statements also include detailed information on the conditional grants as well as several useful annexes (Source: Northern Cape Provincial Government, Northern Cape Provincial Treasury: Consolidated Annual Statements for FY2013/14)

<sup>173</sup> The National Treasury, Public Finance Management Act (PFMA), same, section 40 c1

<sup>174</sup> The National Treasury, Public Finance Management Act (PFMA), same, section 19 1b.

<sup>175</sup> The last annual financial statements (Consolidated Financial Information for the year ended 31 March 2014) were submitted for external audit on Monday, June 30th, 2014 (written documentation provided by the Provincial Accountant General, Chief Directorate Provincial Financial Governance (Programme 4)

<sup>176</sup> The National Treasury, Public Finance Management Act (PFMA), same, section 19 1a.

Indicator	Score	Evaluation
<b>PI-25 Quality &amp; timeliness of financial statements</b>	<b>A</b>	<b>Scoring method M1</b>
(i) Completeness of financial statements	A	A consolidated provincial government statement is prepared annually in Northern Cape. It includes full information on revenue, expenditure and financial assets and liabilities.
(ii) Timeliness in the presentation of financial statements	A	The statement is consolidated for external audit within three months of the end of the fiscal year.
(iii) Accounting standards used	A	IPSAS or corresponding national standards are applied for all statements.

### 3.6 External scrutiny and audit

#### PI-26 Scope, nature and follow-up of external audit

<p><b>Dimensions to be assessed (scoring method M1):</b>  <b>(i) Scope/nature of the audit carried out (including compliance with auditing standards)</b>  <b>(ii) Timeliness in submission of audit reports to the legislature</b>  <b>(iii) Evidence of follow up on audit recommendations</b></p>
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The provincial government of the Northern Cape is audited by the Auditor General of South Africa (AGSA). The Constitution of the Republic of South Africa establishes the AGSA as one of the state institutions supporting constitutional democracy<sup>177</sup>. The Constitution also recognises the importance and guarantees the independence of the AGSA, stating that the AGSA must be impartial and must exercise its powers and perform its functions without fear, favour or prejudice<sup>178</sup>.

The Constitution also states that the AGSA must audit and report on the accounts, financial statements and financial management of all national and provincial state departments and administrations and all municipalities<sup>179</sup>. The Public Audit Act (PAA) mandates the AGSA to perform constitutional and other functions<sup>180</sup>. In FY2012/13, the provincial government consists of 13 departments and 12 public entities. The public entities include five provincial public entities, one trading entity and six other entities that are not subject to the Public Finance Management Act (PFMA).

Additionally, performance auditing is also performed on a selective basis. This is an independent auditing process to evaluate the measures instituted by management to ensure that allocated resources are procured economically and utilised efficiently and effectively and, if necessary, to report on them. It contributes to the improvement and reform in public administration, providing the government with recommendations based on independent analysis. It thus adds value to the traditional functions of SAIs. Performance auditing plays an important role in keeping the legislative well informed about governmental actions and the outcome of its own decisions. It increases public transparency and accountability, providing objective and reliable information on how public services perform.<sup>181</sup>

**Table 22: Acts applicable on the submitting of financial statements and audit reports by departments to AGSA, Provincial Treasury and legislature**

Detail	Reference to applicable Acts and regulations
<b>Tabling of previous year's annual report</b>	
The AGSA must submit an audit report in accordance with any legislation applicable to the auditee which is the subject of the audit.	PAA section 21
Within five months after the end of financial year, the accounting officer submitted to the relevant treasury and the executive authority the following: a) an annual report on activities during that financial year; b) the audited financial statements for that financial year; and c) the Auditor-General's report on those statements	PFMA 40(1)(d)
The accounting officer submitted the annual report and the audited financial statements and the audit report on those statements to Parliament, within one month after the accounting officer received the audit report.	PFMA 40(1)(e)
The executive authority tabled the annual report, the audited financial statements and the audit report on those statements in the provincial legislature within one month after the accounting officer received the audit report or a date determined by the legislature.	PFMA 65(1)(a)
If the annual report was not tabled within six month after the end of financial year to which the annual report and the financial statements relate, the executive authority tabled a written explanation in the legislature setting out the reasons why	PFMA 65(2)(a)

<sup>177</sup> Constitution of the Republic of South Africa (1996), Chapter 9, Section 181 (e)

<sup>178</sup> *Ibid*, Section 181 (2)

<sup>179</sup> *Ibid*, Section 188

<sup>180</sup> The Public Audit Act 2004, (Act No. 25 of 2004)

<sup>181</sup> Obtaining the mandate and functions of the performance audit unit from the AGSA website



the annual report and the financial statements were not tabled.	
<b>Consolidated financial statements and reports</b>	
The provincial treasury must submit the annual consolidated financial statements to the AGSA within three months after the end of the financial year.	PFMA 19(1)(b)
The AGSA must audit the consolidated financial statements and submit an audit report on the statements to the provincial treasury of the province concerned within three months of receipt of statement.	PFMA 19(2)
The MEC for finance in a province must submit the consolidated financial statements and the audit report, within one month of receiving the report from the AGSA, to the provincial legislature for tabling in the legislature.	PFMA 19(3)
The MEC for finance must submit the consolidated financial statements to the legislature within seven months after the end of the financial year.	PFMA 19(5)

**(i) Scope/nature of the audit carried out (including compliance with auditing standards)**

The AG has to express an opinion of which the audit is conducted in accordance with the PAA and the International Standards on Auditing (ISA). The standards require from the AG to comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

From the review of the AG's general report issued on the audit outcomes for 2012/13 (the last available)<sup>182</sup>, it was noted that the coverage was in line with the legislative requirements and was fairly robust covering not only financial aspects, but also functioning of internal control and audit of predetermined objectives. It was also confirmed that for FY2012/13, all 13 provincial departments and 12 entities were included in the audit<sup>183</sup>. Risk areas on which special focus were given were also identified.

The AG performed the following types of audits during the annual audit cycle in the province for FY2012/13 and FY2013/14:

- Expressed an opinion on the financial statements and it included income, operating expenditure, salaries and wages, assets and liabilities, fruitless and wasteful expenditure, irregular expenditure and unauthorised expenditure and any other disclosure item in the financial statements.
- Reported on:
  - The performance against predetermined objectives. Quarterly and annually, the auditee must prepare a report to measure its service delivery against the performance indicators and targets set for each objective in their strategic plans. The AGSA will audit the institution to determine if the information is reliable and useful.
  - Compliance with laws and regulations which include budget, financial statements, expenditure management, transfer of funds, conditional grants received, revenue management, asset management, liability management, consequence management, audit committee and the internal audit section.
- For the 2012/13 financial year, the last year for which the general audit report on audit outcomes in the provinces was issued, the following six risk areas were also included in the audit process:
  - Quality of submitted financial statements;
  - Quality of annual performance reports;
  - Human resources (HR) management;
  - Supply chain management (SCM);
  - Information technology (IT); and
  - Financial health.<sup>184</sup>

Furthermore, certain performance audits were also performed in the Northern Cape apart from the normal financial statement audits during the last three years:

Department of Education<sup>185</sup>:

- Performance audit of the adult basic education and training (ABET) programme.

<sup>182</sup> Auditor-General of South Africa, Northern Cape, General report on the audit outcome of provincial governments, PFMA 2012-13, November 2013 as obtained from the AGSA website [www.agsa.co.za](http://www.agsa.co.za)

<sup>183</sup> *Ibid*

<sup>184</sup> *Ibid*

<sup>185</sup> Department of Education (Vote 4): Report of the Auditor-General for the year ended 31 March 2013

- Performance audit on the readiness of government to report on its performance
- Performance audit on early childhood development (ECD) programme –Grade R

Department of Roads Public Works<sup>186</sup>:

- Performance audit on the readiness of government to report on its performance

Provincial Treasury<sup>187</sup>:

- Performance audit on the readiness of government to report on its performance

Department of Social development<sup>188</sup>:

- Performance audit on the readiness of government to report on its performance

Northern Cape Province Office of the Premier<sup>189</sup>:

- Performance audit on the readiness of government to report on its performance

Department of Health:

- Performance audit report on the use of consultants<sup>190</sup>.
- Performance audit on the readiness of government to report on its performance.<sup>191</sup>

**(ii) *Timeliness in submission of audit reports to the legislature***

Audit reports are submitted to the legislature within eight months of the end of the period covered and in the case of the financial statements from their receipt by the audit office.

Individual annual financial statements and audit reports for 2012/13 of all the provincial departments were submitted to the Provincial Legislature at end of September 2013, six months after the financial year-end which is within the prescribed legislative framework of the PFMA<sup>192</sup>.

Consolidated financial information of the Northern Cape Province has been prepared annually since inception of the PFMA and had been subjected to an audit and review by AGSA over the past years. For the 2012/13 financial year, the combined financial statements and audit report were received by the Legislature from the MEC on 31 October 2013, seven months after the financial year-end which is within the prescribed legislative framework of the PFMA<sup>193</sup>.

**(iii) *Evidence of follow up on audit recommendations***

As part of the reporting process, the AG will prepare a communication of audit findings (ComAF), capturing keys issues for the client's attention. This document is in writing and includes both the nature of the issue, root causes as well as the recommended remedial action. This is presented to the departmental management for written comment and response including whether the department agrees with the finding and its commitment to implement the required action. Once the auditor has completed the various ComAFs, they are consolidated in a draft management report in which management will provide final comments and updates as required. A final management report is then issued of which the more important and serious findings, ones that will have an influence on the opinion issued on the financial statements, are included in the audit reports.

The AG indicated that Northern Cape Province recorded eight (42 per cent) improvements in audit outcomes in FY2012/13 and celebrated its first clean audit, with no disclaimers reported for departments (only one public entity received a disclaimer of audit opinion)<sup>194</sup>. However, it was noted in the AGSA's report for 2012/13, that all

<sup>186</sup> Department of Roads and Public Works: Report of the Auditor-General for the year ended 31 March 2013

<sup>187</sup> Provincial Treasury: Report of the Auditor-General for the year ended 31 March 2013

<sup>188</sup> Department of Social Development: Report of the Auditor-General for the year ended 31 March 2013

<sup>189</sup> Office of the Premier: Report of the Auditor-General for the year ended 31 March 2013

<sup>190</sup> Obtained from the AGSA website [www.agsa.co.za](http://www.agsa.co.za) detailing the performance audit section

<sup>191</sup> Department of Health: Report of the Auditor-General for the year ended 31 March 2013

<sup>192</sup> List received from Provincial Treasury indicating when the annual financial statements and audit reports for each department was tabled.

<sup>193</sup> Department of Health: Report of the Auditor-General for the year ended 31 March 2013

<sup>194</sup> Auditor-General of South Africa, Northern Cape, General report on the audit outcome of provincial governments, PFMA 2012-13, November 2013 as obtained from the AGSA website (Refer to the foreword of the Auditor General, page. 9)

13 departments and nine out of 12 entities had repeated audit findings<sup>195</sup>. For the FY2013/14 financial year, four departments received a clean audit report<sup>196</sup>.

The AG indicated in its general report on audit outcomes for 2012/13 that all oversight commitments made by the Provincial Treasury were implemented<sup>197</sup>.

The AG also recommended that for FY2012/13, that the oversight of entities in the province be strengthened. None of the prior year (2011/12) commitments made by the portfolio committees and SCOPA were implemented by the departments. The legislature undertook to engage with the AG to assist with the follow-up on SCOPA resolutions and to intensify its oversight of departments<sup>198</sup>.

The individual audit reports for FY2012/13, were discussed in the SCOPAs which took place during October and November 2013. The individual reports for each department that was audited as a separate entity are table before the consolidated report is prepared and presented.

Indicator	Score	Evaluation
<b>PI-26 Scope, nature and follow-up of external audit</b>	<b>B+</b>	<b>Scoring method M1</b>
(i) Scope/nature of the audit carried out (including adherence to audit standards)	A	All entities of provincial government are audited annually covering revenue, expenditure, assets and liabilities. A full range of financial audits and some aspects of performance audit are performed. Entities generally adhere to auditing standards, focusing on significant and systemic issues.
(ii) Timeliness in the presentation of auditing reports to the Legislature	B	Audit reports are submitted to the legislature within eight months of the end of the period covered and in the case of the financial statements from their receipt by the audit office.
(iii) Evidence of follow up of audit recommendations	B	A formal response is made in a timely manner, but there is little evidence of systematic follow up.

<sup>195</sup> *Ibid*, Annexure 1

<sup>196</sup> Based on discussions held with the head of internal audit unit as the AGSA audit reports were not yet tabled for 2013/14 financial year.

<sup>197</sup> *Ibid*, section 5: Impact of key role players on audit outcomes – Second level of assurance: Provincial Treasury and Premier's office, page. 55)

<sup>198</sup> *Ibid*, section 5: Impact of key role players on audit outcome – Third level of assurance: External independent assurance and oversight, page 55)

## PI-27 Legislative scrutiny of the annual budget law

### Dimensions to be assessed (scoring method M1):

#### **(i) Scope of examination by the Legislature**

#### **(ii) Degree to which legislative procedures are recognised and respected**

#### **(iii) Adequacy of the time for the Legislature to provide a response to budget proposals**

#### **(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature**

This indicator assesses the scope, comprehensiveness and adequate time horizon for legislative review of the annual budget law and related documentation. The annual Appropriations Bill and the EPRE is the equivalent of the annual budget law and related documentation.

#### **(i) Scope of examination by the Legislature**

Since the annual budget documentation tabled in the Provincial Legislature is comprehensive (please refer to PI-6), the Legislature has access to and can investigate the full EPRE set of documents. The EPRE contains the provincial medium-term fiscal framework and medium term priorities, as well as details of expenditure and revenue per department, for each programme area.

The team obtained evidence that the Provincial Legislature deliberated on the individual sections of the EPRE for FY2013/14 and FY2014/15 for at least the budget votes of education<sup>199</sup> <sup>200</sup> and health<sup>201</sup> <sup>202</sup>. In addition, the Legislature considered the relevant year's APPs for at least the votes of health and education<sup>203</sup>, as well as the provincial adjustment budgets for FY2013/14<sup>204</sup>.

#### **(ii) Degree to which legislative procedures are recognised and respected**

This dimension assesses the scope and comprehensiveness of and respect for procedures for legislative review, and whether there are internal organisational arrangements to implement these procedures.

Legislative review and oversight over the provincial government by the Provincial Legislature is enshrined in the Constitution<sup>205</sup>. Specifically, the power of legislative committees to summon officials, institutions and request reports is prescribed in the Constitution<sup>206</sup>.

The Northern Cape legislature's rulebook deals with the passing of laws and therefore applies to the annual Appropriations Bill<sup>207</sup>. The rulebook provides for the monitoring, investigation and recommendations in terms of the budgets of provincial departments and their entities by specialised portfolio committees<sup>208</sup>. Committees are supported by a limited number of support and research staff. Furthermore, the legislature's process on dealing with budget laws prescribes that<sup>209</sup>:

- Only the MEC responsible for finance is able to introduce a Money Bill in the House;
- Money Bills are referred to the committee of finance for discussion; and
- After discussion, the committee submits a report to the House; and

<sup>199</sup> Northern Cape Provincial Legislature, Announcements, tablings and committee reports (ATC): Committee report based on the presentation of the Department of Education Budget Vote 4 - 2013/2014, ATC No. 23 – 2013, 30 May 2013.

<sup>200</sup> Northern Cape Provincial Legislature, Announcements, tablings and Committee Reports (ATC): Minutes and committee report based on the presentation of the Department of Education Budget Vote 4 - 2014/2015, Reference number 16.6.2.2.4, 20 June 2014.

<sup>201</sup> Northern Cape Provincial Legislature, Announcements, tablings and committee reports (ATC): Minutes and committee report based on the presentation of the Department's 2013/14 Budget – Health Budget Vote 10, Reference number 16.6.2.4.2, 26 April 2013.

<sup>202</sup> Northern Cape Provincial Legislature, Announcements, tablings and committee reports (ATC): Minutes and committee report based on the presentation of the Department's 2014/15 Budget – Health Budget Vote 10, Reference number 16.6.2.4.4, 15 July 2014.

<sup>203</sup> Note to file: Correspondence with the senior manager: procedural and research services: Ms. C. Andrews, on 27 January 2015.

<sup>204</sup> Northern Cape Provincial Government, Adjustments Appropriations Act, No. 6 of 2013, 28 January 2014.

<sup>205</sup> Constitution of the Republic of South Africa, Act No. 108 of 1996, as amended, Section 114(2).

<sup>206</sup> *Ibid*, Section 115.

<sup>207</sup> Northern Cape Provincial Legislature, Rules of the Northern Cape Provincial Legislature, 2014, Rule 164 (3), <http://www.ncpleg.gov.za/rules.html>

<sup>208</sup> *Ibid*, Rule 98.

<sup>209</sup> Northern Cape Provincial Legislature, Legislative process, 2014, <http://www.ncpleg.gov.za/legislation.html>

- The Committee is not allowed to propose any amendments to the Bill, as there is not yet legislation that allows this.

The table below describes legislatures dealing with the annual provincial Appropriations Bill.<sup>210</sup> Since any adjustment to the provincial budget is considered a new Money Bill, the Provincial Legislature also deals similarly with the annual Adjustments Appropriation Bill.

**Table 23: The role and function of the Legislature concerning the provincial Appropriation Bill.**

Step	Process	Relevant prescript
1	Money Bills must be introduced by the Minister/MEC responsible for financial matters	<i>Constitution section 119</i>
2	Provincial budgets must be introduced within two weeks after the Minister of Finance introduced the national budget.	<i>PFMA section 27 (2)</i>
3	The MEC informs the Speaker and the standing committee on programmes when he will be ready for introduction and the date may be accommodated with due regard to the provisions referred to in step 2.	<i>NCPL Rules.</i>
4	The Bill is tabled and an introductory speech delivered and referred to the portfolio committee responsible for financial matters for consideration of the principle of the Bill.	
5	The committee receives a briefing from the Treasury Department within five days of the date set down for consideration by the Presiding Officer.	
6	The committee reports back to the House.	
7	The House considers the report and accepts the report and adopts the principle of the Bill.	<i>Constitution s.120(3)</i>
8	The Presiding Officer refers the votes in the schedule to the relevant portfolio committee.	
9	Each portfolio committee receives a briefing from the relevant department on the allocation of the budget which is measured against the APP.	<i>S. 27(4) of the PFMA (APP)</i>
10	Each portfolio committee tables a report on the individual votes.	
11	The House debates the votes but defer the adoption of the individual vote after all votes have been considered.	
12	Each vote is put after all have been considered and debated.	
13	After all votes have been approved, the schedule is considered.	
14	The quorum required to pass an Act is 50 per cent +1. The Bill is put and a majority of the members must vote in support of the Bill to be passed.	<i>Constitution s.112(1)(a)</i>
15	The Act is presented to the secretary for certification.	
16	The Act is presented to the Premier for assent.	<i>Constitution s121 (1)</i>
17	The Act is gazetted for public information.	

Although a legislature can amend any Bill tabled before it in terms of the Constitution<sup>211</sup>, the Northern Cape Legislature has not adopted the procedures required to amend the tabled provincial budget<sup>212</sup>. Therefore, the Legislature is only in a position to consider, debate and move to either approve or reject the annual provincial budget.

The Northern Cape Legislature adopted a customised version of the sector oversight model from the national speakers' forum in 2012/13 and piloted the relevant oversight mechanisms with the committees responsible for health, education and agriculture<sup>213</sup>. According to the 2012/13 annual report of Northern Cape Legislature, there were 23 sittings on the adoption of the provincial budget and oversight over departmental annual reports<sup>214</sup>. The

<sup>210</sup> Northern Cape Provincial Legislature, Process of the Appropriations Bill, 2014, <http://www.ncpleg.gov.za/legislation.html>

<sup>211</sup> Constitution of the Republic of South Africa, Act No. 108 of 1996, as amended, Section 114(1).

<sup>212</sup> The Constitution, same, Section 120(3).

<sup>213</sup> Northern Cape Provincial Legislature, Annual Report 2012/13, 2013, page 38.

<sup>214</sup> Northern Cape Provincial Legislature, Annual Report 2012/13, 2013, page 36.

2012/13 annual report does not detail the scope of the sittings or portfolio committee resolutions on the provincial budget.

Expenditure of budgeted amounts on purposes other than for what they were appropriated, or overspending of a vote or a main division within a vote, is unauthorised<sup>215</sup>. As was evident in PI-7, the Auditor-General reports for the FY2011/12, FY2012/13 and FY2013/14 for the largest voted budgets, namely education and health, do not point to significant unauthorised expenditure or to a lack of internal controls related to their abilities to identify unauthorised (including unreported and off-budget) expenditure<sup>216</sup>. The annual in-year adjustment budget process includes the approval of the adjustment budgets by the Provincial Legislature. Typically, departments reallocate administrative allocations extensively, although these reallocations are strictly governed by the PFMA, as pointed out in PI-12<sup>217</sup>. In conclusion, the PEFA team could not source any evidence that there is a significant lack of respect for the budgets approved by the Provincial Legislature during the period under review.

**(i) Adequacy of the time for the Legislature to provide a response to budget proposals**

This dimension assesses the combined time horizon allowed in practice for the Provincial Legislature to consider and respond to budget proposals, which include the detailed EPRE and the province's macro-fiscal framework. Based on the evidence obtained from the Legislature (see above discussion under Dimension i), the combined time for considering the adjustment budget and annual budget for the last completed fiscal year (FY2013/14) by the Legislature, was at least one month.

The time allowed for a provincial legislature to consider provincial annual budgets is not prescribed in South Africa. It is also not prescribed when a provincial legislature must approve the provincial government's tabled budget after the approval of the national budget. To balance the absence of prescriptions over the time horizon of legislative budget oversight, clear rules exist for the expenditure of provincial funds from the start of the new financial year in the absence of an approved provincial budget. In this regard, please refer to the discussion on the timely approval of the budget by the Legislature under dimension iii of PI-11.

The Provincial Legislature confirmed that the Northern Cape Appropriation Bill 2013/14 was tabled on the 13 March 2013 and the Northern Cape Appropriation Bill 2014/15 was tabled on 12 March 2014 by the MEC of Finance. The period between the tabling of the provincial budget and the start of the financial year (on 1 April) is not adequate for it to properly interrogate the budget<sup>218</sup>. Therefore, budget oversight typically continues well after the start of the provincial financial year. The reason for the time lag between the tabling of the Appropriations Bills of 2013/14 and 2014/15 and their promulgations is primarily because the legislature has an oversight process in place whereby tabled annual performance plans (APPS) of provincial departments are considered in relation with the relevant tabled departmental budget votes. The legislature allows itself time for this consideration, knowing that departments may spend limited amounts in terms of the prevailing legal framework in the absence of an approved budget after the start of the financial year.

Further delays in the consideration of the 2014/15 budget were also caused by the 2014 national elections and the time it took for the dissolving of the fourth Provincial Legislature and the establishment of the fifth Provincial Legislature. These delays impacted on the budget oversight work of committees<sup>219</sup>. It is the team's view that the legislature also lacks adequate numbers of research and support staff to expedite the full budget proposal oversight cycle. Furthermore, due consideration must be given to the fact that national government's Division of Revenue Act was itself only assented to on 25 April 2014<sup>220</sup>, meaning that formal legal permission to spend according to the budgeted transfers to provinces was only received at that date.

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<sup>215</sup> National Treasury, Public Finance Management Act (PFMA), No 1 of 1999, Updated to Government Gazette 33059, 1 April 2010, Section 1.

<sup>216</sup> Auditor General-South Africa, Northern Cape, General report on the audit outcome of provincial governments, PFMA 2011-12, March 2013; Auditor General-South Africa, Northern Cape, General report on the audit outcome of provincial governments, PFMA 2012-13, November 2013; Northern Cape Department of Health, Annual Report 2013/14, 29 August 2014; Northern Cape Department of Education, Annual Report 2013/14, no date.

<sup>217</sup> National Treasury, Public Finance Management Act (PFMA), No 1 of 1999, Updated to Government Gazette 33059, 1 April 2010, section 31.

<sup>218</sup> Note to file: *Correspondence with the Senior Manager: Procedural and Research Services: Ms. C. Andrews, on 27 January 2015.*

<sup>219</sup> Note to file: *Correspondence with the Senior Manager: Procedural and Research Services: Ms. C. Andrews, on 27 January 2015.*

<sup>220</sup> Republic of South Africa, *Division of Revenue Act (DORA)*, No. 10 of 2014.

**(ii) Rules for in-year amendments to the budget without ex-ante approval by the legislature**

The PFMA provides for in-year amendments of voted budget ceilings through an adjustment budget process<sup>221</sup>. As was discussed in the assessment of PI-16, adjustments to budget allocations are done in a transparent and predictable way. In-year adjustments can only be approved through the Provincial Legislature. For example, the 2013/14 annual provincial budget adjustment commenced in the legislature with the tabling of the Adjustment Appropriations Bill on 14 November 2013<sup>222</sup>. The Act was gazetted on 28 January 2014<sup>223</sup>.

Indicator	Score	Evaluation
<b>PI-27 Legislative scrutiny of the annual budget law</b>	<b>B+</b>	<b>Scoring method M1</b>
i) Scope of examination by the legislature	A	Sufficient evidence on the scope and depth of deliberations on the Appropriations Bill and detailed estimates of revenue and expenditure over the medium term (i.e. the EPRE) exists, including deliberations on at least the budget votes of education and health.
ii) Degree to which legislative procedures are recognised and respected	B	Simple procedures exist for the legislature's budget review and are respected. They include internal organisational arrangements, such as specialised review committees, and negotiation procedures. Rules are generally respected, as is witnessed by the lack of significant unauthorised expenditure. Extensive administrative reallocations are witnessed in the mid-year adjustments budget process, but are strictly regulated.
iii) Sufficiency of time for the legislature to respond to the budgetary proposals.	B	The combined time for the legislature to consider the adjustment budget and annual budget documentation for the last completed FY (FY2013/14) was at least one month.
iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.	A	Clear rules exist for in-year budget amendments by the executive. These rules set strict limits on the extent and nature of amendments and are consistently respected.

<sup>221</sup> National Treasury, *Public Finance Management Act (PFMA)*, No 1 of 1999, Updated to Government Gazette 33059, 1 April 2010, section 31.

<sup>222</sup> Northern Cape Provincial Government, Adjustments Appropriations Bill 2013, 14 November 2013.

<sup>223</sup> Northern Cape Provincial Government, Adjustments Appropriations Act, No. 6 of 2013, 28 January 2014.

## PI-28 Legislative scrutiny of external audit reports

### Dimensions to be assessed (scoring method M1):

- (i) Timeliness in examination of the audit reports by the Legislature (reports received in the past three years).**
- (ii) Scope of the hearings carried out by the Legislature into the main findings**
- (iii) Issuance of recommendations by the Legislature and their implementation by the executive**

Within five months of the end of financial year, the accounting officer submitted to the relevant treasury and the executive authority the following:

- An annual report on activities during that financial year;
- The audited financial statements for that financial year; and
- The AG's report on those statements<sup>224</sup>.

The accounting officer the annual report and the audited financial statements and the audit report on those statements submitted to Parliament within one month after the accounting officer received the audit report<sup>225</sup>.

An accounting authority must submit the report and statements for tabling in Parliament or the provincial legislature, to the relevant executive authority through the accounting officer of a department designated by the executive authority<sup>226</sup>.

### **(i) Timeliness in examination of the audit reports by the legislature (reports received within the past three years)**

Parliament, through the select committee of public accounts (SCOPA), usually examined the annual reports, which includes the external auditor's reports, within three months from date when the report was tabled to Provincial Legislature.

The 2011/12 annual reports for all the departments, were tabled between end of August 2012 to beginning of October 2012 to the Provincial Legislature<sup>227</sup>. SCOPA sittings took place between October 2012 and November 2012 for the review of all departments' annual reports, including the audit reports, for 2011/12 financial year.

The 2012/13 annual reports for all the departments, were tabled between September 2013 to October 2013 to the Provincial Legislature<sup>228</sup>. SCOPA sittings took place between October 2013 and November 2013 for the review of all departments' annual reports, including the audit reports, for 2012/13 financial year<sup>229</sup>.

The 2013/14 annual reports for the departments were tabled between end of August 2014 to beginning of October 2014 to the Provincial Legislature<sup>230</sup>. The 2013/14 SCOPA meetings were scheduled between October 2014 and November 2014<sup>231</sup>.

The 2011/12 annual reports with the audit reports for the provincial public entities were tabled at the Provincial Legislature during October 2012 and November 2012. The 2012/13 annual reports for the entities were tabled at the Provincial Legislature between August 2013 and October 2013, but only discussed during October 2014<sup>232</sup>. The 2013/14 reports were discussed within three months from receiving them<sup>233</sup>.

### **(ii) Scope of the hearings carried out by the legislature into the main findings**

All departments and public entities that received a qualified or adverse opinion during 2011/12, 2012/13 and

<sup>224</sup> PFMA section 40(1) (d) for departments and PFMA section 55(1) (d) for public entities

<sup>225</sup> *Ibid*

<sup>226</sup> *Ibid* section 55(3) for public entities

<sup>227</sup> List obtained from Provincial Treasury indicating when the annual reports were tabled and what opinion was given to each department for 2011/12 financial year.

<sup>228</sup> *Ibid* for 2012/13 financial year.

<sup>229</sup> Legislature programme for October and November 2012/13 financial year, committee and oversight week.

<sup>230</sup> *Op cit* for 2013/14 financial year.

<sup>231</sup> *Op cit* for 2013/14.

<sup>232</sup> 222 Legislature Programme for October 2014 for three of the public entities that indicated the 2012/13 annual reports were only discussed in October 2014.

<sup>233</sup> *Op cit*.



2013/14 financial years were subject to in depth hearings carried out by the Provincial Legislature. The hearings are attended by the executive authorities (MECs) and the accounting officers. The AG held briefing sessions with the MECs and the members of the Provincial Legislature on the actions needed to improve audit outcomes.

All SCOPA hearings focused on the root causes of key audit findings, which resulted in 33 resolutions for implementation by departments and public entities for the 2013/14 financial year. The key audit findings consist of the state of financial statements, internal control, procurement issues, reporting on performance information and any other issues emanating from poor or weak performance as reported by the external audit<sup>234</sup>. They will then extract commitments from the MECs and accounting officers to take corrective actions based on the AG's findings.

**(iii) Issuance of recommendations by the legislature and their implementation by the executive**

It is a mandatory requirement to include a section on SCOPA resolutions in each annual report. It was confirmed that all the departments listed the previous year's SCOPA resolutions and actions taken by them in both the 2012/13 and 2013/14 annual reports<sup>235</sup>.

However, it was noted that the AG reported in its report to Department of Health for 2012/13, that action plans developed and presented to SCOPA on the previous year's audit outcome were not implemented as planned and were not monitored and tracked by the leadership of the department<sup>236</sup>.

Provincial Treasury draw up a report during October 2014 indicating all the resolutions for departments for 2011/12, 2012/13 and 2013/14 and based on the mentioned report, a number of recurring issues were identified<sup>237</sup>.

During 2014/15, the Provincial Treasury performed an analysis to determine the progress made with the implementation of SCOPA resolutions. Based on this analysis, the Provincial Treasury found that there are a few recurring SCOPA resolutions/findings as from 2011/12 financial year<sup>238</sup>. In an effort to reduce the recurring SCOPA findings/resolutions as from 2011/12 financial year, the Provincial Treasury is in the process of providing workshops during October/November 2014 to all departments which covered the following issues<sup>239</sup>:

- 30 days' payment rate;
- Irregular expenditure;
- Fruitless and wasteful expenditure;
- Unauthorised expenditure; and
- Financial management capability maturity model (FMCMM).

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<sup>234</sup> Scope of the SCOPA hearings confirmed with the detail of the resolutions taken for both 2012/13 and 2013/14

<sup>235</sup> Annual reports tabled for all the departments for both 2012/13 and 2013/14 were obtained.

<sup>236</sup> Report of the Auditor-General to the Northern Cape Provincial Legislature on Vote No 10: Department of Health for the year ended 31 March 2013.

<sup>237</sup> Provincial Treasury: Schedule on the progress made by departments with the implementation of SCOPA resolutions for 2011/12, 2012/13 and 2013/14 financial years.

<sup>238</sup> Provincial Treasury: Schedule on the progress made by departments with the implementation of SCOPA resolutions for 2011/12, 2012/13 and 2013/14 financial years.

<sup>239</sup> Workshop presentation material submitted by Provincial Treasury.

Indicator	Score	Evaluation
<b>PI-28 Legislative scrutiny of external audit reports</b>	<b>B+</b>	<b>Scoring method M1</b>
(i) Timeliness in the examination of audit reports by the legislature (reports received within the past three years).	A	Scrutiny of audit reports is usually completed by the legislature within three months from receipt of the reports.
(ii) Scope of the hearings held by the legislature into the main conclusions	A	In-depth hearings on key findings take place consistently with responsible officers from all or most audited entities, which received a qualified or adverse audit opinion.
(iii) Measures recommended by the legislature and implementation of these by the executive	B	Actions are recommended to the executive, some of which are implemented, according to existing evidence.

### 3.7 Donor practices

External donor activity is practically inexistent in the province, only domestic donors provide some monetary and in-kind support to certain activities and events (PI-7). The three indicators do not apply.

## **4. Government reform process**

### **4.1 Description of provincial government reforms**

Recent and on-going PFM reforms are as follows:

#### **Effectiveness of payroll controls**

- The Northern Cape implemented a biometric access control system (BACS) to enhance security to PERSAL, BAS and Logis<sup>240</sup> this is applicable to all the departments. The BACS used by the Provincial Treasury aims to initiate electronic signatures so that the integrity of the data becomes further protected. All the users are issued with a biometric fingerprint scanner as well as a smart card<sup>241</sup>.
- The Provincial Treasury also embarked on a comprehensive process to conduct a biometric aided headcount of all employees in the provincial government with a view to identify and eliminate ghost workers on the payroll system during July 2014 to October 2014<sup>242</sup>.
- During the Northern Cape provincial government biometric aided headcount in 2014, the correctness of certain critical personnel information as it appears on PERSAL was also verified.<sup>243</sup>

#### **Rollout of an integrated financial management system (IFMS)**

The main objective is to enhance the integrity and effectiveness of financial management, human resource management, supply chain management and reporting in the public service and contribute to effective service delivery. The IFMS includes modules for financial management (including payroll), human resource management, supply chain management (including asset and procurement management) and business intelligence. Certain modules of the IFMS are currently being piloted in certain key national departments and some provincial governments with a view to make final design updates before full implementation. The National Treasury is responsible for the roll out of IFMS and as soon as the system is ready the Northern Cape will have to roll out in conjunction with the National Treasury.

#### **Refining the medium-term expenditure framework (MTEF) guidelines**

The National Treasury continuously refines the MTEF guidelines. Although they are guidelines for the MTEF, they are issued annually for the new MTEF. The province uses these MTEF guidelines to align its own priorities before budget inputs are called for from departments.

#### **Adopting a generic organisational structure for provincial treasuries**

The National Treasury has introduced a generic functional structure for provincial treasuries in September 2013. The Northern Cape Provincial Treasury is currently busy finalising this process, and a series of meetings and consultations have taken place already and soon (between December 2014 and January 2015) provincial treasury will present the structure at the relevant provincial structures including the executive council before the structure is sent to the Department of Public Service and Administration.

#### **Induction of finance members of provincial executive council, accounting officers and heads of provincial treasuries**

The National Treasury has introduced a comprehensive induction dossier for finance members of provincial executive council, accounting officers and heads of provincial treasuries. The dossier aims to emphasis the key responsibilities, with reference to the regulatory prescripts, of the respective office bearers.

The Provincial Treasury presented the budget process to the new executive council. The purpose was to inform the executive council about the pertinent issues affecting the provincial budget in line with its oversight responsibilities on the budget.

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<sup>240</sup> Northern Cape Provincial Government: SIFS circular 5 of 2014, dated 27 March 2014

<sup>241</sup> Northern Cape Provincial Government: Biometric access control system (BACS) support procedure manual

<sup>242</sup> Northern Cape provincial government biometric aided headcount, dated 13 June 2014

<sup>243</sup> Northern Cape provincial government biometric aided headcount, dated 13 June 2014

## 4.2 Institutional factors supporting reform planning and implementation

The commitment to continuing improvements in PFM in South Africa has political championship at the highest levels through the Minister for Finance. Implementation oversight and monitoring is the responsibility of the National Treasury's heads of division. Coordination of the reform efforts is the responsibility of the budget office at the National Treasury.

At the provincial level, commitment by the executive authority (MECs), representing political leadership, is one of the critical success factors for any reform undertaken. The MECs are accountable for their respective provincial departments to the Provincial Legislature. They have a monitoring and oversight role in their portfolios and play a direct role at the departments, as they have specific oversight responsibilities in terms of the PFMA and the Public Service Act<sup>244</sup>. From time to time the National Treasury may note potential reforms which should be implemented at a provincial level and these will be communicated in the form of the National Treasury instruction which will internally be disseminated to the departments in the form of Provincial Treasury instructions. The compliance with these instructions will be part of the AG's audit scope and hence compliance and related reform implementation will be monitored.

As indicated above, the revised generic structure will better position Provincial Treasury to respond to challenges facing the province. The provincial executive is central in this process and regular updates and engagements will assist in better decision making on the part of the executive.

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<sup>244</sup> In terms of Section 125 of the Constitution, the Executive of a province is vested in the Premier of that province. The Premier, together with other members of the Executive Council (MEC), exercises the executive authority by, among others, implementing all national legislation within the specified functional areas, developing and implementing provincial policy, coordinating the functions of the provincial administration and its departments, and performing any other function assigned to the provincial executive in terms of the Constitution or Act of Parliament.

## Annexure 1: Detailed calculations for HLG-1, PI-1, PI-2 & PI-3

**Table HLG-1 ii (1): Primary expenditures, deviations and composition variance (In R'000)**

Data for FY2011/12						
Administrative head		Actual	Adjusted budget	Deviation	Absolute deviation	Per cent
1. Agriculture	131 862	270 269	867 879	1 778 836	5 712 140	11 707 803
2. Education	984	481 497	6 476	3 169 080	42 626	20 858 004
3. Health	-	1 037 087	0	6 825 819	0	44 925 649
4. Human Settlements	10 350	332 989	68 121	2 191 641	448 352	14 424 775
5. Roads and Public Works	86 219	439 190	567 470	2 890 627	3 734 927	19 025 304
6. Sport, Art & Culture	-	100 174	0	659 317	0	4 339 445
7. National Treasury	213 999	213 999	1 408 482	1 408 482	9 270 239	9 270 239
8. Transport	-	37 565	0	247 242	0	1 627 281
9. Other	-	5 658	0	37 239	0	245 099
Allocated expenditure	443 414	2 918 428	2 918 428	19 208 283.9	19 208 284	
Contingency						
Total expenditure	443 414	291 8428				
<b>Overall (PI-1) variance</b>						<b>558.2%</b>

Source: Calculations based on data from estimates of provincial revenues and expenditures (2011-2012), Northern Cape Provincial Government

**Table HLG-1 ii (2): Primary expenditures, deviations and composition variance (in R'000)**

Data for FY2012/13						
Administrative Head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Per cent
1. Agriculture	504 723	504 723	504 723	0	0	0.0%
2. Education	518 814	518 814	518 814	0	0	0.0%
3. Health	1 046 497	1 046 497	1 046 497	0	0	0.0%
4. Human Settlements	339 551	339 551	339 551	0	0	0.0%
5. Roads and Public Works	529 532	529 532	529 532	0	0	0.0%
6. Sport, Art & Culture	101 366	101 366	101 366	0	0	0.0%
7. Transport	39 255	39 255	39 255	0	0	0.0%
8. Other	2 506	2 506	2 506	0	0	0.0%
Allocated expenditure	3 082 244	3 082 244	3 082 244	0.0	0	
Contingency						
Total expenditure	3 082 244	3 082 244				
<b>overall (PI-1) variance</b>						<b>0.0%</b>

Source: Calculations based on data from estimates of provincial revenues & expenditures (2012-2013), Northern Cape Provincial Government

**Table PI-1 & PI-2 (1): Primary expenditures, deviations and composition variance (R'000)**

FY 2011/12						
Administrative Head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Per cent
1. Office of the Premier	141 236	152 079	148 976	3 103	3 103	2.1%
2. Provincial Legislature	125 002	126 521	131 853	-5 332	5 332	4.0%
3. Transport, Safety and Liaison	171 998	257 285	181 424	75 861	75 861	41.8%
4. Education	4 062 149	4 077 770	4 284 772	-207 002	207 002	4.8%
5. Roads and Public Works	756 061	1 055 695	797 496	258 199	258 199	32.4%
6. Economic Development	192 778	206 956	203 343	3 613	3 613	1.8%
7. Sports, Art and Culture	213 035	268 610	224 710	43 900	43 900	19.5%
8. Provincial Treasury	143 580	117 844	151 449	-33 605	33 605	22.2%
9. Co-operative Government, Human Settlement and Traditional Affairs	560 480	589 541	591 197	-1 656	1 656	0.3%
10. Health	2 946 839	3 005 742	3 108 338	-102 596	102 596	3.3%
11. Social Development	520 271	522 687	548 784	-26 097	26 097	4.8%
12. Agriculture, Land Reform and Rural Development	357 084	369 638	376 654	-7 016	7 016	1.9%
13. Environment and nature Conservation	94 724	98 543	99 915	-1 372	1 372	1.4%
Allocated expenditure	10 285 237	10 848 911	10 848 911	0.0	769 350	
Contingency	0	0				
Total expenditure	10 285 237	10 848 911				
Overall (PI-1) variance						5.5%
Composition (PI-2) variance						7.1%
Contingency share of budget						0.0%

Source: Calculations based on data from estimates of provincial revenues and expenditures (2011-2012), Northern Cape Provincial Government

**Table PI-1 & PI-2 (2): Primary expenditures, deviations and composition variance (in R'000)**

Data for FY2012/13						
Administrative head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Per cent
1. Office of the Premier	150 419	151 787	148 324	3 463	3 463	2.3%
2. Provincial Legislature	132 596	136 825	130 749	6 076	6 076	4.6%
3. Transport, Safety and Liaison	280 038	282 063	276 138	5 925	5 925	2.1%
4. Education	4 197 323	4 233 621	4 138 872	94 749	94 749	2.3%
5. Roads and Public Works	953 066	1 016 536	939 794	76 742	76 742	8.2%
6. Economic Development	207 281	223 288	204 394	18 894	18 894	9.2%
7. Sports, Art and Culture	223 566	221 908	220 453	1 455	1 455	0.7%
8. Provincial Treasury	151 624	151 597	149 513	2 084	2 084	1.4%
9. Co-operative Government, Human Settlement and Traditional Affairs	582 761	581 941	574 646	7 295	7 295	1.3%
10. Health	3 121 589	3 165 498	3 078 118	87 380	87 380	2.8%
11. Social Development	525 897	531 722	518 573	13 149	13 149	2.5%
12. Agriculture, Land reform and Rural Development	730 345	436 462	720 174	-283 712	283 712	39.4%
13. Environment and nature Conservation	98 895	102 739	97 518	5 221	5 221	5.4%
Allocated expenditure	11 035 292	10 881 616	11 197 266	315 650	606 145	
Contingency	320 108	354 371				
Total expenditure	11 355 400	11 235 987				
Overall (PI-1) variance						1.1%
Composition (PI-2) variance						5.4%

Contingency share of budget						3.1%
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Source: Calculations based on data from estimates of provincial revenues and expenditures (2012-2013), Northern Cape Provincial Government

**Table PI-1 & PI-2 (3): Primary expenditures, deviations and composition variance (in R'000)**

Data for FY2013/14						
Administrative head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Per cent
1. Office of the Premier	167 828	180 120	184 311	2 861	2 861	1.6%
2. Provincial Legislature	138 785	143 278	152 416	-10 129	10 129	6.6%
3. Transport, Safety and Liaison	299 255	310 289	328 647	-13 917	13 917	4.2%
4. Education	4 448 073	4 559 172	4 884 947	-309 796	309 796	6.3%
5. Roads and Public Works	1 146 915	1 280 917	1 259 561	1 937	1 937	0.2%
6. Economic Development	223 028	266 380	244 933	22 413	22 413	9.2%
7. Sports, Art and Culture	235 837	256 651	259 000	11 320	11 320	4.4%
8. Provincial Treasury	195 660	180 289	214 877	-14 020	14 020	6.5%
9. Co-operative Government, Human Settlement and Traditional Affairs	652 413	841 569	716 491	-50 630	50 630	7.1%
10. Health	3 341 990	3 401 801	3 670 228	-113 017	113 017	3.1%
11. Social Development	603 823	604 415	663 128	-55 621	55 621	8.4%
12. Agriculture, Land reform and Rural	690 023	987 816	757 795	49 157	49 157	6.5%
13. Environment and nature Conservation	104 683	117 641	114 965	2 679	2 679	2.3%
Allocated expenditure	119 56 057	13 130 338	13 451 298	-476 762.3	657 497	
Contingency	292 256	0				
total expenditure	12 248 313	13 130 338				
overall (PI-1) variance						7.2%
composition (PI-2) variance						4.9%
Contingency share of budget						0.0%

Source: Calculations based on data from estimates of provincial revenues and expenditures (2013-2014), Northern Cape Provincial Government

**Table PI-3: Budgeted and Actual Revenues**

R'000	Voted			Actual		
	FY2011/12	FY2012/13	FY2013/14	FY2011/12	FY2012/13	FY2013/14
Tax receipts	125 751	139 976	155 219	143 833	151 923	156 788
- Casino taxes	16 474	17 163	17 472	15 154	15 309	16 158
- Horse racing taxes	595	625	1 030	723	1 008	1 330
- Liquor licenses	1 043	1 095	3 654	3 612	3 714	3 714
- Motor vehicle licences	107 639	121 093	133 063	124 344	131 892	135 586
Sales of goods and services	63 767	74 113	81 827	61 945	69 368	71 210
Fines, penalties and forfeits	1 593	1 739	2 542	3 763	3 046	3 676
Interest, dividends and rents on land	805	814	808	11 858	2 8236	38 556
Sales of capital assets	125	546	1 554	1 233	4 986	2 689
Transactions in financial assets and liabilities	2 669	2 685	3 557	3 034	12 350	10 088
Total provincial own receipts	194 710	219 873	245 507	225 666	269 909	283 007
Actual versus voted (actual/voted)				115.9%	122.8%	
				115.3%		

Source: Calculations based on data from estimates of provincial revenues and expenditures (2011/12-2013/14) Northern Cape Provincial Government



## Annexure 2: List of contacts

Provincial Treasury	
Financial governance	Lephina Bosvark (Provincial Accountant-General)
	Beulah Nortjie (Senior manager)
	Mpho Tamasane
	Matseleng Gooiman
Norms and standards	Nondumiso Asiya (Senior manager)
	Frank Mahlangu
Internal audit	Johan van Tonder (General manager)
	Cecelia Louw (Personal assistant)
Cash flow management	Boitumelo Phokojoe
	Franciska Geldenhuys
SIFS	Ockert Vermeulen (Senior manager)
	Dienkie Nel (Manager)
Budget	Bakang Moea (Senior manager)
	Vincent Modise
	Thapelo Sehunelo
	Oscar Ngalo
	Loyiso Mbengo
	Michael Kanguwe
	Sipho Mbinakomo
	Anele Ntshovula
	Patricia Kopang
Asset management	Vusi Sidumo (Manager)
Corporate services	M Mooki (Senior manager)
Human resources management	Boitumelo Mphahlele
Municipal finance	Paul Seane (Senior Manager)
Economic Analysis	Elvis Ramafamba (Senior Manager)
Provincial public entities	
Northern Cape Tourism Authority	Roscoe Miller (Chief Financial Officer)
Legislature	
Kennett Sinclair	Manager Committees
Department of Education	
Sithembiso B. Sekhoacha	Chief Financial Officer
Jacoba du Plessis	Human Resource Management (Manager)
Ganief Jacobs	Director: Institutional Funding
Department of Health	
P. Ngcoboti	Chief Financial Officer
H. Chipungu	Deputy Director: Financial Accounting
Department of Economic Development and Tourism	
S Visser	Senior Manager: Financial Accounting
Auditor-General of South Africa (AGSA)	
Simon du Plessis	Product champion NC AGSA

## **Annexure 3: List of documents consulted**

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Office of the Premier

Department of Social Development

Department of Transport, Safety and Liaison

Department of Education

Provincial Treasury

Department of Sports, Arts and Culture

Department of Roads and Public Works

Department of Environment and Nature Conservation

Department of Health

Department of Agriculture, Land Reform and Rural Development

Economic Development, Trade and Investment Promotion Agency

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