Public Expenditure and Financial Accountability Assessment

PEFA Report
Republic of South Africa
Eastern Cape Province

Final Report

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national treasury
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REPUBLIC OF SOUTH AFRICA

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The team also acknowledges that most provincial top executives were extremely busy with budget preparation at the time of the PEFA assignment and were not as available as we would have wished to participate in the evaluation course.

List of abbreviations and acronyms

AFS	Annual financial statements
AG	Auditor-General
AGA	Autonomous government agencies
APP	Annual performance plan
ASB	Accounting Standards Board
BAS	Basic accounting system
B-BBEEA	Broad-Based Black Economic Empowerment Act
BO	Budget office
BS	Budget support
CFO	Chief financial officer
COFOG	Classifications of the functions of government
CRO	Chief risk officer
DDG	Deputy Director-General
DG	Director-General
DORA	Division of Revenue Act
DORB	Division of Revenue Bill
DPSA	Department of Public Service and Administration
EC	European Commission
ENE	Estimates of national expenditure
EPRE	Estimates of provincial revenue and expenditure
EP	Economic policy
FINEST	Financial efficient strategic system
FMIP	Financial management improvement programme
FY	Fiscal year
GDP	Gross domestic product
GM	General manager
GFS	Government financial statistics
GNI	Gross national income
GRAP	Generally Recognised Accounting Practice
HOD	Head of department
HR	Human resources
IA	Internal audit
ICT	Information and communications technologies
ID	Identification document
IDC	International development cooperation
IFMS	Integrated financial management system
IIA	Institute of Internal Auditors
IMF	International Monetary Fund
INTOSAI	International Organisation of Supreme Audit Institutions
ISA	International Standards on Auditing
IYM	In-year monitoring
LOGIS	Logistical information system
MEC	Member of the executive council
MFMA	Municipal Finance Management Act
MTBPS	Medium-term budget policy statement
MTEC	Medium-term expenditure committee
MTEF	Medium-term expenditure framework
NA	National Assembly
NDP	National Development Plan
NCOP	National Council of Provinces

NRF	National revenue fund
NT	National Treasury
OAG	Office of the Accountant-General
ODA	Official development assistance
PAA	Public Audit Act
PAIA	Promotion of Access to Information Act
PE	Public enterprise
PEFA	Public expenditure and financial accountability
PERSAL	Personnel and salary administration system
PF	Public finance
PFM	Public finance management
PFMA	Public Finance Management Act
PI	Performance indicator
PMG	Paymaster-General
PPP	Public private partnership
PRF	Provincial revenue fund
PU	Procurement unit
RDP	Reconstruction and Development Programme
SA	South Africa
SARB	South African Reserve Bank
SARS	South African Revenue Service
SBS	Sector budget support
SCM	Supply chain management
SCOA	Standard chart of accounts
SCOPA	Standing committee on public accounts
SITA	State Information Technology Agency
SOE	State-owned enterprise
TOR	Terms of reference
VAT	Value Added Tax
ZAR	South African Rand

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Summary assessment

1. Integrated assessment of PFM performance

This PEFA assessment has been carried out to evaluate the performance of public financial management in the Eastern Cape province. The sections that follow summarise the performance of the PFM systems, procedures and practices through six dimensions of PFM:

- Credibility of the budget;
- Comprehensiveness and transparency of the budget process;
- Policy-based budgeting;
- Predictability and control in budget execution;
- Accounting, recording and reporting; and
- External scrutiny and audit.

Credibility of the budget

The budget credibility is assessed with reference to five performance indicators and the main purpose is to assess whether the budget is realistic, predictable and has been implemented as intended.

From a revenue perspective, the Eastern Cape provincial government secures 98% of its funding/revenue via highly regulated transfers from national government (equitable share and conditional grants). Only 2% of revenue is self-generated by the province. On the expenditure side, the compensation of employees is the single largest economic cost and provides some stability in forecasting future expenditure. The province (and the government as a whole) has experienced problems with the recording and payment of arrears and a number of initiatives have been implemented to improve the systems in preceding years.

Comprehensiveness and transparency

The comprehensiveness and transparency of the budgeting process is assessed with reference to six performance indicators (PIs). The dimension assesses whether the budget and the fiscal risk oversight are comprehensive and fiscal and budget information is accessible to the public.

The scores indicate that the budget documentation is complete, understandable and comprehensive. The standards adopted for the budget formulation and execution are based on economic, administrative, programme and sub-programme classification that is consistent with GFS/COFOG. The budget documents are submitted to the provincial legislature when the MEC for Finance presents the budget for the coming year.

The provincial government has limited measures in place to monitor provincial public entities and municipalities via the preparation and submission of annual reports and in-year monitoring processes. However, due to the nature of the three spheres of government, (ie national, provincial and local), local government is independent of provincial government.

Access by the public to key fiscal information is enshrined in the Constitution and further supported via the Promotion of Access to Information Act. However, in reality, the access to information is not always presented in a useful and user friendly manner. The main source of information is the internet, although relevant information is also made available through other means such as print media and on request to provincial departments.

Policy based budgeting

The National Treasury is the custodian of the national budget process in line with the legislative framework governing financial management in the country. The main relevant act is the Public Finance Management Act (PFMA) that enables the National Treasury and provincial treasuries to do policy based budgeting. Budgeting and accounting for transactions and balances are done on a universal system (BAS) that standardises accounting and enables real time monitoring at various levels, such as national, provincial, departmental and programme levels. The main source of income for individual provinces and departments is that of equitable share and conditional grants, distributed annually via legislation (the annual Division of Revenue Act and Appropriation Act).

Departments are provided with the actual approved allocation for the current year and also the indicative figure for the following two years. At provincial level, departments therefore budget mainly for expenditure in line with nationally determined classifications contained in a standardised chart of accounts (SCOA).

Predictability and control in budget execution

As discussed above, departments are funded directly via the National Treasury. Own revenue collected accounts for less than 2% of total revenue allocated to departments and is regarded as insignificant. Expenditure budgeting is the main activity for provincial departments.

The adopted regularity framework that enables policy based budgeting also promotes predictability and strengthens control over individual department budgets, by programme as well as by economic classification. The adopted accounting framework (modified cash basis of accounting) allows for real time monitoring of actual expenditure at various levels. This basis of accounting requires a manual calculation of overall exposure, however, as commitments and accruals are not processed on the accounting system.

Overspending of a budget is regarded as unauthorised expenditure in terms of legislation and accounting officers (AOs) and chief financial officers (CFOs) could be charged with financial misconduct if such unauthorised expenditure is incurred. The Constitution provides that government spending should be based on a system that is fair, equitable, cost-effective, transparent and economical. The Auditor-General and SCOPA has identified and raised this concern as the highest area of non-compliance, fraud and corruption.

Throughout each year various reporting, monitoring, evaluation and review mechanisms are in place to ensure that budgets are executed within limits and against time constraints. Under spending of the budget results in service delivery constraints. The Auditor-General has highlighted five major concerns, i.e. the quality of financial reporting, high level of non-compliance in supply management practices, poor human resource management practices, inadequate general controls over the information technology, and financial health (under spending of capital budgets).

Accounting, recording and reporting

The accounting system provides for adequate information on a real time basis and detailed to extract relevant information. The Provincial Treasury has direct access into departmental records and ensures that information in each department, and for the province is presented and reported on in a timely, accurate and comprehensive manner. The introduction of reporting of non-financial information (performance management) adds value to budgeting and spending patterns as priorities are aligned to the budget distribution to departments, and allocation to departmental programmes. The PFMA prescribes strict reporting frequency and deadlines that have to be complied with monthly, quarterly and annually.

External scrutiny and audit

The provincial auditor audits all provincial departments and public entities every year within four months of the financial year end (i.e. by the end of July). A full range of audits is performed, including systems, financial statements, compliance, procurement, IT and programme performance related audits. The provincial auditor applies INTOSAI/ISSAI standards and good practices. The audit reports are not tabled in the legislature in July, but included in the department annual reports. As a result, the department's audited financial statements are submitted to the legislature within six to seven months from the end of the FY. Even though formal responses are provided to each department in the final management letters, and commitments are obtained from them to implement corrective measures to resolve audit findings, the provincial auditor's report often shows limited improvement on some systematic issues identified in the previous financial years, affecting negatively the impact of external audit findings.

The scrutiny of audit reports by SCOPA, the provincial committee responsible for overseeing the provincial government's financial performance, has been extensive, and hearings for all entities with negative findings on their audit reports are held by SCOPA. Presentations are done to SCOPA through the committees responsible for these departments. SCOPA passes mandatory resolutions whose implementation should be monitored by the internal auditor and audit committees of the department and public entities.

Most recommended actions are generally acted upon by the executive, as set out in the following year's annual report. However, some sensitive resolutions are not entirely performed and disciplinary measures not communicated.

2. Implications for budgetary outcome

An efficient PFM system is essential for the implementation of policies and the achievement of developmental objectives by supporting aggregate fiscal discipline, strategic allocation of resources and efficient service delivery. This PEFA assessment indicates that there are major strengths in some areas of PFM in the province, which have led to appropriate funding of budget operations, adequate financial recording and sufficient reporting.

Aggregate fiscal discipline

The fact that budget preparation takes place in a transparent medium-term expenditure framework (MTEF) is conducive to maintain aggregate fiscal discipline. This is assisted by MEC-approved budget ceilings, which are generally respected in departmental budget submissions. In spite of deficiencies in certain expenditure management controls that led to important overdrafts in specific departments in the past, the province has been able to contain expenditure in line with its current revenue. The amendments and expansion of the budget with formal ex-post regularisation did not hinder fiscal discipline.

Strategic allocation of resources

A number of positive elements contribute to a more strategic allocation of resources in the province including the preparation of the budget on three year rolling basis under MTEF, reference to sectoral strategic plans in some cases, and the systematic approach to the budget process supported by detailed guidelines to be followed by each provincial department. The strategic policy and sector objectives set out in the government's medium-term budget policy statement for service delivery also contributes to guiding sector allocations. Nevertheless the provincial government is in the process of finalising the detailed costing (investment and recurrent) for the provincial development strategy and medium-term sector plans, strengthening the linkage with the MTEF and subsequent year's ceilings to adopt a more consistent allocation policy.

Efficient service delivery

The deficiencies in internal audit follow-up, together with insufficient responsiveness from the Executive to the Auditor-General and legislative recommendations, do not contribute to sufficient accountability. Consequently efficient delivery of public services might be suffering. Moreover, insufficient public information on the results of procurement processes is likely to undermine the credibility of institutions and their ability to deliver efficient public services. The ability to plan and deliver quality services could also be affected by the adjustments to budget allocations during the year.

Conclusion

Overall, the performance of PFM systems in the province is fair but not yet sufficient to contribute effectively to achieving developmental objectives. Important areas in the budget execution, control and external scrutiny have to be improved in time to increase accountability and the likelihood of contributing to fiscal discipline, strategic allocation of resources and efficient service delivery. The overall legal and institutional framework of South Africa is generally conducive to efficient PFM. However, the national systems that are provided to the provinces (such as BAS etc.) must be efficient and effective tools for the provinces so that their PFM can be improved and not just be requisites from national government that introduce further administrative burdens or similar complications for provincial PFM.

3. Prospect for reforms

The implementation of a fully Integrated Financial Management System (IFMS) is essential for Eastern Cape PFM reform. The province currently uses basic accounting system (BAS) for financial management, PERSAL for human resource management and payroll administration and financial efficient strategic system (FINEST) for managing and generating purchase orders. These systems are not fully integrated. PERSAL is interfaced with BAS, but FINEST is neither integrated nor interfaced with BAS. Although the existing systems appear to capture financial information as required, their use in terms of reporting and data querying and mining is cumbersome.

The planned activities for improvements to the financial management systems involve implementation of LOGIS2 to address the shortcomings of FINEST and will cover all the provincial departments. LOGIS, a provisioning, procurement and stock control system which is highly adaptable to the requirements of any government department, supports the complete order-to-cash process of procurement and adheres to sound supply chain management best practice. Furthermore, it will offer a functionality to support financial interface with BAS. It is scheduled to be implemented in phases and it is anticipated to take approximately three years to complete.

The National Treasury has initiated a reform effort that aims to upgrade and modernise all financial software programmes and integrating them to serve as a single integrated financial management information system (IFMS). The National Treasury has decided to employ standard platforms customised to meet the needs of the PFM systems and procedures.

The province faces various challenges with the IFMS planned reforms, ranging from allocation of adequate resources to deployment of sufficiently skilled and experienced personnel. The commitment to continuing improvements in PFM in South Africa has political championship at the very highest levels through the Minister of Finance. At provincial level, commitment by the executive that represents political leadership is one of the critical success factors for any reform undertaken.

4. PEFA performance indicators (2014)

Scoring is assigned based on best international practices and corresponds to a scale of four 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	Dimension ratings				Overall rating
			D (i)	D (ii)	D (iii)	D (iv)	
A. PFM out-turns: Credibility of the budget							
HLG-1	Predictability of transfers from a higher level of government	M1	A	A	A		A
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	A				A
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	A	N/A			A
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	D				D
PI-4	Stock and monitoring of expenditure payment arrears	M1	A	C			C+
B. Key cross-cutting issues: Comprehensiveness and transparency							
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	A			A
PI-8	Transparency of inter-governmental fiscal relations	M2	A	B	A		A
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	B	A			B+
PI-10	Public access to key fiscal information	M1	B				B
C. Budget cycle C(i) Policy-based budgeting							
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	A		A	A	A
C(ii) Predictability and control in budget execution							
PI-13	Transparency of taxpayer obligations and liabilities	M2	A	B	D		B
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	A	A	D		B
PI-15	Effectiveness in collection of tax payments	M1	A	C	A		C+
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	A	A		A
PI-18	Effectiveness of payroll controls	M1	B	B	A	A	B+
PI-19	Competition, value for money and controls in procurement	M2	B	D	D	D	D+
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	C	B	C		C+
PI-21	Effectiveness of internal audit	M1	C	C	C		C
C(iii) Accounting, recording and reporting							
PI-22	Timeliness and regularity of accounts reconciliation	M2	A	D			C+
PI-23	Availability of information on resources received by service delivery units	M1	A				A
PI-24	Quality and timeliness of in-year budget reports	M1	B	A	A		B+
PI-25	Quality and timeliness of annual financial statements	M1	A	A	A		A
C(iv) External scrutiny and audit							
PI-26	Scope, nature and follow-up of external audit	M1	A	A	B		B+
PI-27	Legislative scrutiny of the annual budget law	M1	A	A	A		A
PI-28	Legislative scrutiny of external audit reports	M1	B	A	B		B+
D. Donor practices							
D-1	Predictability of direct budget support	M1					
D-2	Financial information provided by donors for budgeting and reporting on project and programme aid	M1					
D-3	Proportion of aid that is managed by use of national procedures	M1					

1. Introduction

The rationale for conducting a PEFA assessment in the province is twofold:

- In the short-term, the PEFA assessment will be used as baseline data, and a basis for information and monitoring to: (i) feed into the financial management capability and maturity model (FMCMM); (ii) help donors assess eligibility for a new sector budget support (GBS) programmes, and (iii) verify whether general or specific PFM conditions of ongoing GBS programmes (such as the FMIP) have been met.
- In the medium-term, the outcomes of the PEFA assessment will be utilised to feed the reflection on: (i) measuring the progress made in PFM improvement; and (ii) informing and guiding the government's PFM capacity development programme, in coordination with the donor community.

1.1 Objective

The objective of this assignment is to compile a comprehensive public financial management performance report (PFM PR) prepared according to the PEFA methodology, so that an analysis of the overall performance of the PFM systems of the province can be provided, and to provide a baseline n that can measure changes in performance.

This sub-national PFM PR is a detailed analysis of the 32 indicators of the PFM, and of the performance report itself, which summarises this analysis of the indicators and includes other elements relevant to the assessment.

The purpose of the assignment is to:

- Conduct PFM assessments for the province based on the PEFA methodology.
- Analyse objectively the existing PFM sector in terms of the 29 high-level indicators that covers the six essential dimensions for the performance assessment of public finance management (inclusive of donor practices).
- Compile an objective assessment report aimed at providing an exhaustive and overall evaluation of the performance of the PFM of the province on the basis of the indicators, to identify the main PFM weaknesses in the province, and to evaluate to what extent the institutional mechanisms set up in the province contribute to planning and the implementation of the reforms of PFM. This summary assessment of PFM performance and the impact of its weaknesses are of highest importance to the government and donors. It is an important part of the basis of future reform discussions.
- Provide a shared information pool for donors about overall PFM performance in the country. This should lead to increased donor coordination and harmonisation, as well as a basis for policy dialogue in the PFM sector.

1.2 Process

The Eastern Cape PEFA evaluation was carried out parallel with the 2014/2015 provincial budget preparation. The Provincial Treasury provided all required documentations, but high-level officials were too busy to be thoroughly interviewed and could not give much time to the assignment. A November time schedule was not really propitious for in depth conversations with Treasury finance officers. Nevertheless, the provincial PFM documentation collected and compiled by the consultants gave enough opportunity to evaluate the level of public expenditure financial accountability of the province.

Role and involvement of various stakeholders

Due to the provincial budget preparation schedule, very few interlocutors were interviewed. Apart from personnel at the Provincial Treasury, various interviews were held with other stakeholders, including the chairperson of SCOPA, two general managers from the office of the Auditor-General, various CAEs of the departments, and the CFO and chief director of strategic planning at the Department of Education. Similarly, official documentation was reviewed, including legal and regulatory frameworks and official sub-government financial reports. The attached data base details documents consulted.

Assessment process

The assessment process was under the supervision of Ms Ronél Slinger, provincial budget analyst in the National Treasury, and Mr Andisile Best, director of the budget system support office in the Provincial Treasury. The assessment was organised by the National Treasury, which drafted the terms of reference (TOR). These were circulated to the Eastern Cape provincial authorities. At the start of the mission a presentation of the PEFA methodology was made to provincial department officials.

1.3 Methodology

The PEFA methodology framework, "PEFA guidelines for SN applications (main and annex) March 2008" and the "PEFA field guides (May 2012)", were applied. An effective and orderly PFM measurement framework requires three levels of budgetary outcomes, namely:

- Effective controls of the budget totals and management of fiscal risks contributing to maintaining aggregate fiscal discipline;
- Planning and executing the budget in line with government priorities contributing to implementation of government's objectives, otherwise known as strategic allocation of resources; and
- Managing the use of budgeted resources contributing to efficient service delivery and value for money.

This provincial PEFA field assessment was carried out between 21 October and 14 November 2014. Meetings were arranged with the assistance of the Provincial Treasury. A Provincial Treasury official accompanied the consulting team to many of the interviews. Other actions included:

- Review of legal and regulatory documentation;
- Budget documentation and financial and department audit reports;
- Assessment of the requirements for further analysis and evaluation of PFM practice in provincial government, based on interviews with government officials in the Provincial Treasury, the Provincial Council, and the office of the provincial auditor;
- Quantitative analysis of official financial and budgetary data;
- Assessments of PFM procedures and systems; and
- The application of professional judgment.

1.4 Scope

The assessment covers the sub-national government, i.e. the provincial authorities and public entities at the provincial level. The point of time or period of assessment of each indicator and dimension is in accordance with the PEFA field guide.

As suggested in the PEFA guidelines, the following main PFM indicators were adopted as a guiding framework for assessing the current status of PFM practice and performance in the Eastern Cape Province.

Six main dimensions were addressed:

- ***Budget credibility***: the original approved budget should be the total budget approved by the National Assembly and the NCOP. The budget should reflect the intended outputs of the provincial and sector medium-term development plans;
- ***Budget comprehensiveness and transparency****:* budget and the fiscal risk oversight are comprehensive and fiscal and budget information is accessible to the public;
- ***Policy based budgeting***: budget policy from the national and provincial levels should have both a bottom-up and top-down perspective;
- ***Predictability and control in budget execution***: the budget should be implemented as intended, in an orderly and predictable manner, and checks and balances should be put in place to enhance stewardship;
- ***Accounting, recording, and reporting:*** adequate records and information are produced, maintained and disseminated to meet expenditure and decision-making control, management and reporting; and
- ***External audit and scrutiny***: A high quality external audit established to scrutinise sub-government finances.

The assessment also looked into revenue sources and its expenditure, application of procurement and contracting procedures at the provincial level, including timeliness analysis of the provincial departmental annual reports, financial statements, and legislature responses.

2 Background to the province

2.1 South Africa: Economic context, development and reforms

According to the World Bank[1], "a sustained record of macroeconomic prudence and a supportive global environment enabled South Africa's GDP to grow at a steady pace for the decade up to the beginning of the global financial crisis in 2008. Improvements in the public budget management system and efforts to restore the macro fundamentals by the National Treasury played an essential role. Fiscal balances consistently improved, causing central government gross debt to fall from around 50 per cent of GDP in FY1994/95 to 40 per cent today. Revenue collection quadrupled and the number of taxpayers more than doubled between 1996 and 2007. At the heart of the fiscal achievements were dramatic improvements in revenue collection by the South African Revenue Service (SARS) and disciplined spending choices.

Due to consistent and sound budgetary policies, South Africa has been able to tap into international bond markets with reasonable sovereign risk spreads. South African government bonds were the first in Africa to be included in Citigroup's World Government Bond Index in 2012. The 2012 Open Budget Index prepared by the International Budget Partnership ranked South Africa second among 94 countries surveyed, behind New Zealand, and ahead of the United Kingdom, France and the United States.

Pro-poor orientation of public spending has contributed to improved social development indicators in a range of areas. Millennium Development Goals (MDG) on primary education, gender, several health indicators and environmental sustainability are likely to be achieved. Social grants expenditure and the number of beneficiaries have quadrupled since 1994. Social insurance programmes including state old-age pensions, child support grants, conditional grants for school feeding and early childhood development and disability grants, currently cover around 16 million people. These programmes, managed by the South Africa Social Security Agency (SASSA), are well targeted and provide income relief for the poor.

Despite the notable accomplishments, South Africa's economic transformation agenda remains incomplete. A range of enduring legacy issues from the apartheid system continues to undermine economic efficiency and job creation. The limited progress since 1994 in lifting the living standards of the majority and reducing the income inequality has put the social contract under pressure and has grown into an open public debate. Service delivery protests by underserved groups suggest that parts of the population have become frustrated and disillusioned with the pace of reform, the poor quality of public health, education and infrastructure services, and modest job growth prospects.

South Africa remains a dual economy, with one of the highest inequality rates in the world. Spatially, an advanced, modern urban economy coexists in sharp contrast with the socioeconomic poverty of disadvantaged townships, informal settlements and rural areas. With an income Gini of around 0.70 in 2008 and consumption Gini of 0.63 in 2009, the top decile of the population accounts for 58 per cent of the country's income, while the bottom decile accounts for 0.5 per cent and the bottom half less than 8 per cent. Land distribution is one of the most unequal in the world, with 55 000 white farmers owning 85 per cent of the agricultural land. Despite South Africa's sophisticated financial sector, financial services do not adequately reach the poorer segments of the economy—only around 28 per cent of adult South Africans have access to credit—stifling entrepreneurship and growth, particularly in the townships, informal settlements and rural areas and thus further perpetuating inequality and exclusion".

Development and poverty reduction strategies

"The current administration is acutely aware of the immense challenges to accelerate progress, eradicate extreme poverty, and build a more inclusive society". The government vision and priorities to address them are outlined in the 2030 National Development Plan (NDP). Released in 2012, the report is the product of extensive nationwide consultations led by the National Planning Commission, an independent advisory body consisting of 26 eminent people drawn largely from outside the government, appointed by the current administration to draft a vision and development plan for the country. The NDP was embraced by the ANC at its 2012 National conference as a platform for united action by all South Africans to eradicate poverty, create full employment and reduce inequality. The Cabinet has also endorsed the NDP in 2012 as the country's overarching strategic plan to implement its development vision. It also underpins the 2013 Budget.

[1] WB Country Partnership Strategy 2014-2017

Fiscal policy and fiscal development

With fiscal space becoming more constrained, the government is making the best possible use of fiscal policy to reduce poverty and inequality and answer two main questions:

- How do taxes and spending in South Africa redistribute income between the rich and the poor?
- What is the impact of taxes and spending on poverty and inequality?

In answer to the first question, academic researchers find that the tax system is slightly progressive, and spending is highly progressive. In other words, the rich in South Africa bear the brunt of taxes, and the government effectively redirects these tax resources to the poorest in society to raise their incomes.

On the tax side, fiscal policy relies on a mix of progressive direct taxes—such personal income taxes and slightly regressive indirect taxes—that when combined generate a slightly progressive tax system. Direct taxes (personal income and payroll taxes) are progressive, since the richer deciles pay a proportionally higher share of total direct tax collections than their share of market income. And because these taxes make up a fairly high share of GDP, they help narrow the gap in incomes between the rich and the poor. Indirect taxes are slightly regressive: the four poorest deciles contributed about 5.0 per cent of total indirect tax collections, compared with their share of 4.8 per cent in total disposable income. This regression at the lower end of the income distribution largely reflects the impact of excises, as value-added and fuel taxes are progressive.

South Africa uses its fiscal instruments very effectively, achieving a large reduction in poverty and inequality. As a result of South Africa's fiscal system, some 3.6 million people are lifted out of poverty, measured as those living on less than $2.50 a day (in purchasing power parity dollars). The rate of extreme poverty is cut by half. The share of the population living on $1.25 a day or less falls from 34.4 per cent to 16.5 per cent, reflecting the impact of cash transfers and free basic services net of taxes. Inequality goes from a situation where the incomes of the richest decile are more than 1,000 times higher than the poorest to one where they are about 66 times higher. As a result, the Gini coefficient on income falls from 0.77, where it lies before various taxes and social spending programmes are applied, to 0.59 after these fiscal interventions are incorporated. Still, the level of inequality remains high.

In summary, fiscal policy already goes a long way toward redistribution. Even so, the level of inequality and poverty in South Africa after taxes and spending remains unacceptably high. But South Africa's fiscal deficit and debt indicators show that the fiscal space to spend more to achieve even greater redistribution is extremely limited. Addressing the twin challenges of poverty and inequality going forward in a way consistent with fiscal sustainability will require better quality and more-efficient public services. It will also require faster and more inclusive economic growth to address the need for jobs and higher incomes at the lower end of the income distribution—to narrow the gap in incomes between the rich and the poor and to reinforce the effectiveness of fiscal policy.

Decentralisation and local governments

South Africa has a unique system of fiscal decentralisation in which relatively large expenditure assignments to provincial governments are associated with very limited revenue assignments. While provincial governments are responsible for 32 per cent of total public sector expenditure, their own-source revenue represents less than 2 per cent, on average, of their total revenue. This indicates extremely limited revenue decentralisation in South Africa, especially when compared to other developing countries, where own-source revenue accounts for more than 58 per cent of sub-national government's revenue.

It is difficult to assess the efficiency of the intergovernmental transfer system in South Africa owing to lack of enough information. However, heavy dependence of provincial governments on transfers from the central government suggests that the benefits from fiscal decentralisation in terms of improved service delivery due to enhanced transparency and accountability to local citizens are likely to be limited. The intergovernmental transfer system makes provinces more accountable to central government and hence the design of central fiscal management standards is critical and more important than accountability to local constituencies.

Some analysis[2] shows that despite the emphasis of the intergovernmental transfer system on redistribution and equity, richer provinces in South Africa still enjoy higher levels of revenue per capita and have higher per capita expenditure on education and health. The findings indicate that both own-source revenue and transfers from

[2] Paper 58, Economic Commission for Africa, Working Paper No. 2012/87 (UNU-WIDER)

central government have an important impact on education services across provinces. A large portion of transfers is always used to finance education services.

In view of limited revenue autonomy, fiscal decentralisation in South Africa could only enhance the efficiency of service delivery if the central government is able to efficiently respond to local preferences as identified by provincial governments. Despite the important equity and redistributive role of the existing transfer system, the question regarding its relative strength in ensuring efficient service delivery remains open.

Table 2: Republic of South Africa - Main allocation by sphere of government

Spheres of government R'000	2011/12	2012/13	2013/14
National	566 322 576	622 434 681	676 920 412
Provincial	288 492 831	309 057 382	337 572 412
Local	34 107 901	37 873 396	40 581 787
Total	**888 923 308**	**969 365 459**	**1 055 074 611**
% allocated to national	63.7%	64.2%	64.2%
% allocated to provincial	32.5%	31.9%	32.0%
% allocated to local	3.8%	3.9%	3.8%

Source: Division of Revenue Act, 2011-2014

2.2 Eastern Cape Province socio-economic background[3]

Introduction

The Eastern Cape province is the second largest province in South Africa by land mass (169.580 km^2) and with 6.7 million inhabitants, the third largest in terms of population size (12.5%). The province remains one of the poorest in the country where inequality remains high, both in terms of income and assets. Research indicates that 25 per cent of citizens of the province are food insecure, with 17.3 per cent deemed 'food inadequate' and 7.7 per cent being 'severely food inadequate' *(ECPC: Diagnostic 2013).* Outward migration remains high in the province, as people leave the province in search of economic opportunities.

Population overview

The province has 2.1 million children less than 14 years of age with a further 1.4 million between the ages of 15 and 24. This is the highest proportion of children as a percentage of the total population of any province in the country. This has implications on the ability of the provincial economy to generate jobs at a rate higher than that of population growth, as this age group represents new entrants into the labour force. Those above the age of 65 make up 6 per cent of the province's population, implying a youthful provincial population.

Census 2011 shows that 63.2 per cent of the population in the province live in formal dwellings, 7.7 per cent in informal dwellings and 28.2 per cent reside in so-called traditional dwellings. Basic services (water, sanitation, electricity and refuse removal) are pre-conditions for improved economic growth and development in any economy. Both Census 2011 and general household surveys (GHS) confirm large-scale expansion of access to basic in the province since 1994, although much work still needs to be done in the peri-urban and rural areas.

Life expectancies within the province are relatively low at 52.6 and 59.4 years for men and women respectively, although this has improved from 2007. These figures are well below the 70 years targeted in the Millennium Development Goals (MDGs) and National Development Plan (NDP). The HIV/AIDS epidemic and tuberculosis are crucial drivers of mortality rates, health services demand and the levels of wellbeing and productivity in the province.

Education is profiled in terms of the level of educational attainment in the population of the province. A profile of the levels of academic qualifications of the population indicates that only 29 per cent of the population holds a qualification beyond matric level. Matric is often the entry requirement for formal employment and, as such, a low rate of matriculants does not bode well for developmental initiatives of the province.

[3] Excerpts from EC EPRE 2014/15

Economic environment

The outlook for the province remains positive for 2014 as public sector investment is likely to drive provincial growth. The province, however, is vulnerable to global changes in demand especially from the European Union (EU), which is a key market for its products. Provincial production in 2013 was hampered by severe industrial action and this continues to be a concern in 2014.

The province is characterised by high levels of unemployment. During the first three quarters of 2013 total employment in the province remained constant at about 1.33 million. The severity of poverty and indigence in the province is such that immediate remedy in the form of social grants provision is necessarily indispensable. According to the 2012 GHS, over a third of the population in the province benefit from social grants (child support, old age and disability grants). The province has the second highest dependency on social grants in the country after KwaZulu-Natal.

Economic growth coupled with sustained job creation remains a significant challenge facing the province, which is predominantly rural and characterised by sparsely located industrialised nodes in the metropolitan areas while relatively high levels of under-development remain a characteristic of the remainder of the province.

2.3 Allocation of resources

The allocation of resources from national government to provincial government is made in terms of the Division of Revenue Act, as approved by the National Legislature. This division is based on transparent formulas and is significantly correlated to the population of the province making the Eastern Cape the third highest receiver as calculated by the equitable share formula.

Table 3: Equitable share allocation by province

Provinces	2011/12	2012013	2013/14	2011/12	2012/13	2013/14
	Allocation in R'000			Percentage share of PES		
KwaZulu-Natal	62 927 556	67 802 913	73 509 972	21.8%	21.9%	21.8%
Gauteng	50 428 480	54 545 389	61 374 917	17.5%	17.6%	18.2%
Eastern Cape	44 120 028	46 940 272	50 164 506	15.3%	15.2%	14.9%
Limpopo	36 348 545	38 721 016	41 361 830	12.6%	12.5%	12.3%
Mpumalanga	23 378 714	24 874 453	27 210 543	8.1%	8.0%	8.1%
Free State	17 520 835	18 531 165	20 000 325	6.1%	6.0%	5.9%
North West	19 271 431	20 614 831	22 754 264	6.7%	6.7%	6.7%
Western Cape	26 754 333	28 772 188	32 174 547	9.3%	9.3%	9.5%
Northern Cape	7 742 909	8 255 155	9 021 508	2.7%	2.7%	2.7%

Source: Division of Revenue Act, 2011-2014

Table 4: Eastern Cape provincial budget

Eastern Cape Province R'000	2011/12	2012/13	2013/2014
Receipts			
- Equitable share	44 644 170	47 559 888	50 164 506
- Conditional grants	8 841 741	9 411 323	9 461 231
- Own revenue	845 876	1 100 678	836 061
Total receipts	**54 331 787**	**58 071 889**	**60 461 798**
Less:			
- Total provincial payments	(53 734 258)	(56 154 218)	(59 257 837)
- Legislative receipts	(4 784)	(1 583)	(340)
Surplus before financing	**592 745**	**1 916 088**	**1 203 621**
Financing			
- Provincial roll-overs	71 426	44 491	-
- National roll-overs	823 050	217 744	-
- Other	132 948	295 606	(49 636)
Surplus after financing	**1 620 169**	**2 473 929**	**1 153 985**

Source: Eastern Cape Provincial Treasury

Education, health and public works accounted for 80 per cent of the provincial annual total expenditure in the 2013/14 financial year.

Table 5: Eastern Cape department expenditure 2013/14, "Top 3"

Department R'000	Current payment	Transfers	Investments	Total expenditure	80/20
Vote 6-**Education**	23 534 990	2 575 839	1 338 188	27 449 017	27 449 017
Vote 3-**Health**	15 494 102	387 171	1 161 246	17 042 519	44 491 536
Vote 5-**Public Works**	2 987 948	220 577	641 684	3 850 209	48 341 745
Total for province	**48 692 209**	**8 437 735**	**3 594 766**	**60 724 707**	**79.61%**

Source: PEFA team compilation

2.4 Legal and institutional framework for PFM

South Africa has nine provinces, namely, Eastern Cape, Free State, Gauteng, KwaZulu/Natal, Limpopo, Mpumalanga, Northern Cape, North West and Western Cape. Each province has its own provincial government with 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.

A Provincial Legislature has between 30 and 80 members elected for a five-year term. Provincial elections are held concurrently with national elections every five years. The Provincial Legislature is empowered to pass legislation in its functional areas, as well as a constitution for the province should it wish to do so. A provincial constitution is bound by the national Constitution.

The Premier is elected by the Provincial Legislature and is limited to two five year terms in office. The Premier appoints the other members of the executive council (MEC), which functions as a cabinet at provincial level. The members of the executive council are accountable individually and collectively to the Provincial Legislature.

The province's permanent delegates to the National Council of Provinces may attend and speak in the Provisional Legislature and committees, but may not vote.

The Constitution (Act No. 108 of 1996)

The Constitution is the supreme law of the country. It clearly demarcates between Parliament, the Executive (Cabinet) and the Judiciary. The powers and responsibilities of each of these institutions cannot be mistaken.

The Constitution further states that South Africa is a unitary state with three spheres of government: national government, provincial government and local government (the latter represented by municipalities). The function to collect most taxes is vested with the national government. These taxes are distributed to the other spheres of government through a legislated formula, which is enacted in the annual Division of Revenue Act (DORA). This Act is promulgated every year, usually after the annual budget is approved by Parliament.

The Bill of Rights, as contained in chapter 2 of the Constitution, outlines the rights and responsibility of all citizens and institutions. Individuals and institutions have the right of freedom of expression, access to information and services and can interrogate government activities with regards to use and management of the country's resources.

The Constitution states that Parliament will consist of

- The National Assembly; and
- The National Council of Provinces (NCOP). The NCOP represents the provinces to ensure that provincial interests are taken into account in the national sphere of government in the legislative process.

Parliament has the prerogative of establishing committees that will oversee the activities of the executive. Among these are the select committee on public accounts (SCOPA), the budget committee which oversees the budget process and select committees on different portfolios, which oversee the general activities of each of the departments and entities entrusted with a particular portfolio.

Section 100 of the Constitution deals with the national supervision of provincial administration and it states that:

(1) When a province cannot or does not fulfil an executive obligation in terms of legislation or the Constitution, the national executive may intervene by taking any appropriate steps to ensure fulfillment of that obligation, including: -

  (a) Issuing a directive to the provincial executive, describing the extent of the failure to fulfil its obligations and stating any steps required to meet its obligations; and
  (b) Assuming responsibility for the relevant obligation in that province to the extent necessary.

(2) If the national executive intervenes in a province in terms of subsection (1) b,

  (a) Notice of the intervention must be tabled in the National Council of Provinces within 14 days of its first sitting after the intervention began,
  (b) The intervention must end unless otherwise approved by the Council within 30 days of its first sitting after the intervention began, and
  (c) The Council must review the intervention regularly and make any appropriate recommendations to the national executive.

Elaborating further, the national government can take over the responsibilities of a provincial government that is showing deficiencies in its financial management. The key performance indicators in this regard are the actual deficit and expenditure relative to the budget plan; substantial overruns that appear to be more than temporary may lead the national government to invoke section 100. The Auditor-General's opinion also plays a role. This was a case for a number of provincial governments in the late 1990s and early 2000s; for example, the section was invoked for Free State and KwaZulu-Natal in 1999. In 2011/12 financial year section 100(a) was also imposed on the Provincial Treasury and the Department of Police, Roads and Transport. Both the Free State and KZN's public expenditure and financial management systems have improved sharply.

Chapter 13 of the Constitution stipulates broader guidelines for the regulation of financial affairs of the national, provincial and local spheres of government. Provincial governments must also pass legislation to regulate the financial affairs of that particular province and such legislation should not materially or unreasonably prejudice national economic policies.

Section 188 provides for the office of the Auditor-General to audit the annual financial statements of government agencies in all spheres.

Section 214 (1) requires Parliament to pass an Act for:

(a) The equitable division of revenue raised nationally among the national, provincial and local spheres

of government;
(b) The determination of each province's equitable share of the provincial share of that revenue; and
(c) Any other allocation to provinces, local government or municipality from the national government's share of that revenue, and any conditions on which those allocations may be made.

Section 216 (1) stipulates that: national legislation must establish a national Treasury and prescribe measures to ensure both transparency and expenditure control in each sphere of government by introducing,
(a) Generally recognised accounting practice
(b) Uniform expenditure classifications
(c) Uniform treasury norms and standards.

Section 217 (1) stipulates that an organ of state in the national, provincial or local government sphere of government or any other institution identified in national legislation, contracts for goods and services, must do so in accordance with a system which is fair, equitable, transparent, competitive and cost-effective.

Chapter 13, section 220 of the Constitution stipulates that:
(1) There is a Financial and Fiscal Commission for the Republic, which makes recommendations on fiscal matters to Parliament and provincial legislatures; and
(2) The Commission is independent and subject only to the Constitution and the law, and must be impartial.[4]

Public Finance Management Act (Act No. 1 of 1999)

The Constitution confers extensive powers on national government to determine the financial management framework over all organs of state, in all spheres of government. As a result, a PFMA was enacted in 1999. The Act promotes the objective of good financial management in order to maximise delivery through the efficient and effective use of limited resources. Under the PFMA, public financial management practices are to be brought up to modern international standards. An extract from the foreword to the Act is germane: the Act "represents a fundamental break from the past regime of opaqueness, hierarchical systems of management, poor information and weak accountability. The Act lays the basis for a more effective corporate governance framework for the public sector." The Act focuses on outputs and responsibilities, rather than the rule-driven approach of the previous Exchequer Act, which prescribed ex-ante controls over virtually every activity.

The principal components of the PFMA are:
- Introduction of generally recognised accounting practice (GRAP);
- Uniform treasury norms and standards, measures to ensure transparency and expenditure control in all spheres of government, and
- To set the operational procedure for borrowing, guarantees, procurement and oversight over the national and provincial revenue funds (PRFs).

The National Treasury is further expected to monitor and enforce these norms. The National Treasury, therefore, not only implements the budget of the national government, but plays a financial oversight role over other organs of state in all spheres of government.

Provincial governments have to establish provincial treasuries, "which are responsible for preparing and managing provincial budgets and enforcing uniform norms and standards as prescribed by the National Treasury and this Act."

Chapter 4 states that Parliament and provincial legislatures must appropriate money for each financial year for the requirements of the state and the province, respectively.

The Minister of Finance is required to table the annual budget for the financial year in the National Assembly before the start of that financial year or, in exceptional circumstances, on a date as soon as possible after the start of that financial year, as the Minister may determine. The MEC for finance in a province must 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, but the Minister may approve an extension of time for the tabling of a provincial budget.

[4] For example, the Ugandan Constitution (1995), drafted with the assistance of international advisers, has many similar provisions. A Constitution is not a prerequisite for good public finance management; for example, the UK does not have a written constitution. But a constitution, with strong provisions for sound public finance management, is commonplace for countries, such as South Africa, Uganda, and former communist bloc countries, undergoing rapid political change.

Within 30 days after the end of each month, the National Treasury must publish in the national government gazette, a statement of actual revenue and expenditure with regard to the national revenue fund (NRF). After the end of a prescribed period, but at least quarterly, every provincial treasury must submit to the National Treasury, a statement of revenue and expenditure with regard to the revenue fund for which that treasury is responsible, for publication in the national Government Gazette within 30 days after the end of each prescribed period.

Section 38 (1) (a) (i) of the Act stipulates that the accounting officer must ensure that the department has and maintains an effective, efficient and transparent system of financial and risk management and internal control. Section 38 (1) (a) (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 Treasury regulations.

Section 39 states that the accounting officer for a department is responsible for ensuring that:

- Expenditure of that department is in accordance with the vote of the department and the main divisions in the vote,
- Effective and appropriate steps are taken to prevent unauthorised expenditure,
- An accounting officer, for the purpose of subsection (1), must take effective and appropriate steps to prevent any overspending of the vote of the department or a main division in the vote,
- Report to the executive authority and the relevant treasury any impending under collection of revenue due, shortfalls in budgeted revenue, and overspending of the department's vote or a main division in the vote, and
- 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 in the vote.

Section 77 states that there must be an establishment of an audit committee. Most of the national departments and provincial departments have already established audit committees for themselves, though shared between provinces in the case of some provinces. Most of these committees consist of persons from outside the public service and some are from some of the outstanding private audit firms.

Audit units in departments are expected to submit audit reports to the audit committee on a continuous basis. The Auditor-General takes into consideration the audit committee reports.

Supply Chain Management Framework and Preferential Procurement Policy Framework Act

In line with section 217 of the Constitution, section 38 (1) of the PFMA mandates the accounting officer of an agency to maintain an "appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective. Reform of the procurement system under PFMA is fully in line with the ethos of the PMFA to move away from the inflexible rules-based culture of the old system and to ensure that all spending is fully geared to achieving public policy objectives at minimum cost to taxpayers and with full accountability vested in the hands of the accounting officer. In November 2000, the National Treasury issued the general procurement guidelines. Five pillars of procurement are stated: value for money, open and effective competition, ethics and fair dealing, accountability and reporting, and equity.

To achieve reform of the procurement system in line with the spirit of PFMA, the procurement process is being decentralised, with the national and provincial government tender boards being phased out and departments taking over responsibility for procurement through the supply chain management framework. The State Tender Board (STB) Act was repealed in 2005 under an Act to amend the PFMA. The STB regulations were amended in 2003 by means of promulgation in the Government Gazette to allow accounting officers of national departments to procure goods and services either through the State Tender Board (until the STB Act has been repealed) or through the PFMA[5]. Correspondingly, Provincial Tender Board Acts are being repealed and, under the auspices of the provincial treasuries, supply chain units are being established in provincial departments.

In September 2003, the Cabinet adopted a supply chain management (SCM) policy to replace the procurement and provisioning practices throughout government with an SCM function that would be an integral part of financial management and conform to international best practices. The new policy is in line with the recommendations of the country procurement assessment review (CPAR) conducted jointly by the World Bank and government agencies in 2001, though not published until 2003.

[5] Regulation 2 of the STB regulations issued in 1988 was amended in terms of section 13 of the STB Act, 1968.

Accordingly, the National Treasury established a supply chain management office (SCMO) in December 2003. The supply chain management framework (SCMF) was promulgated in terms of section 76(4) (c) of the PFMA and section 106 (1) b of the MFMA. It effectively plays a policy making and regulatory role. It issued detailed regulations in December 2003. Departments have to install SCM units in their finance department offices and have to establish bid evaluation and adjudication committees (each with at least three members, one of whom should be a SCM practitioner, and none of whom should be private sector representatives or members of the legislative body). The ultimate responsibility rests with the accounting officer, who delegates SCM responsibility, in line with sections 44 and 56 of the PFMA.

The SCM approach fully integrates procurement into public financial management. It recognises that government purchases of goods and services is a major component of government spending and therefore should be planned and budgeted for properly in order to make it as cost effective as possible in terms of meeting public policy objectives at minimum cost. Bad planning for procurement and inefficient procurement leading to much higher costs than budgeted for can lead to cash flow squeezes, possibly compromising the attaining of service delivery objectives. Another feature under the old approach was the bunching of procurement requests at the end of the financial year, as departments attempted to spend their budget; such practice reflected improperly planned and budgeted for procurement, and not adequately linked to service delivery objectives.

The sole responsibility for procurement given to the accounting officer is a crucial component of the new procurement system (and of the PMFA in general). This feature means that the AO is accountable to Parliament and has to answer for mistakes. Under the STB system, such accountability was obviously passed on to STB. With STBs including private sector representatives and perhaps politicians (councilors at local government) the potential for misspending was high.[6]

The SCMO has three chief directorates.

- Chief directorate of supply chain policy, responsible for supply chain policy development. Most important is the need for uniformity, efficiency, and transparency in procurement practices;
- Chief directorate of norms and standards, responsible for the monitoring and surveillance of compliance; and
- Chief directorate of contract management, whose mission is to facilitate the arrangement of certain transversal contracts in the instances where economies of scale can be realised through bulk purchase covering different departments. Heads of user departments are represented on the bid evaluation committees to take the procurement decisions jointly. The decision to procure under these transversal contracts is fully devolved to accounting officers. Where there is a general lack of capacity to deal with large contracts, the SCMO will also provide support to departments. The emphasis is placed on the monitoring of the outcome of contracts, including achievements of government's procurement policy objectives.

The SCMO interacts with the office of the Auditor-General on all audit and compliance related issues.

The implementation of the SCM system is well underway and all national and provincial departments are expected to be fully compliant by 1 April 2005. Most national government departments have already stopped using the STB and the frequency of STB meetings has dwindled drastically from once a week to once every two months. The Departments of Agriculture and Defence continue to make partial use of STB, particularly in difficult cases.[7] In some cases a department has requested *ex post de facto* approval from STB for procurement, where procedures have not been followed, as has happened in the case of the Department of Housing, STB approval means that the department does not have to report the breach of procedure to the SCOPA. STB approval in this instance is rare, however.

The National Treasury keeps a close watch on SCM implementation. It requires monthly reporting by SCM units in all departments; provincial treasuries have a similar requirement. SCM units have to report all transactions and demonstrate compliance with PPPFA and B-BBEEA.

The National Treasury has developed a draft regulatory framework for SCM at the local government level in line with the MFMA. If approved by Parliament under section 169 of MFMA, all local governments are expected to

[6] There have been cases at the provincial level of department tender committees selecting a contractor based on price, only for the provincial tender board, dominated by private sector representatives, to overturn the recommendation and select a more expensive contractor.

[7] Scrutiny of Government Tender Bulletin of 16 July 2004, confirms this; the GTBs are on the National Treasury website.

comply by 1 December 2004.[8] When this is accomplished, all government units in every sphere will be using uniform procurement procedures as an integral component of good financial management. Chapter 3 discusses this in more detail. A key provision in the MFMA in relation to procurement is section 117, which bans councillors from serving on tender boards.

Preferential Procurement Policy Framework Act (Act No. 5, 2000) (PPPFA)

The Preferential Procurement Policy Framework Act (PPPFA) partly derives from section (217 (2)) of the Constitution and provides procurement preferences for historically disadvantaged people, particularly in relation to projects falling under Reconstruction and Development Programmes (RDP). The PPPFA states that an organ of state must determine its preferential procurement policy and implement it in the following framework:

- A preference point system must be followed. For contracts with a value above R500 000 a maximum of 10 points (a preference margin of 11.11 per cent) may be allocated for specific goals provided that the lowest acceptable tender scores 90 points for price; i.e. the price quotation must be reasonably competitive as a prerequisite for being considered for a preference margin.
- For contracts with a Rand value equal to or below R500 000 and above R30 000 a maximum of
- 20 points (a preference margin of 25 percent) may be allocated for specific goals provided that the lowest acceptable tender scores 80 points for price;[9]
- Any other acceptable tenders which are higher in price must score fewer points, on a *pro rata* basis, calculated on their tender prices in relation to the lowest acceptable tender, in accordance with a prescribed formula.

The contract must be awarded to the tenderer who scores the highest points, unless objective criteria in addition to specific goals justify the award to another tenderer. These are, for example, ownership by previously disadvantaged individuals (PDIs), women, disabled individuals and small and medium scale enterprises.

Division of Revenue Act

South Africa is divided into nine provinces and 284 local governments/municipalities. Provincial and local governments account for 60 per cent of total government expenditure. Transfers from the national government account for about 95 per cent of provincial government resources and between 5 per cent and 40 per cent of municipal government resources; municipal services such as water and refuse removal are funded out of fees and tariffs.

The transfers to provinces are in two forms, as legislated under the annual Division of Revenue Act (DORA). The main form, accounting for about 80 per cent of transfers, is the equitable share grant, under which each province receives an equitable share of tax revenues, virtually all of which are assigned to the national government. The equitable share between spheres (vertical division) is not determined by formula but evolves over time, modified by policy challenges and by ongoing mediation of concurrent responsibilities. This can lead to provinces sometimes coming under pressure to meet assigned responsibilities, for example, the current need to pay social assistance grants to all qualifying citizens.

The equitable share of these revenues between provinces is determined by a formula established for DORA 2012/13 comprising six components or indices of relative demand for services between provinces and taking into account particular provincial circumstances. The components are:

- An education share based on the size of the school age population (ages 5-17) and the average number of learners enrolled in ordinary primary schools for the past three years. The share was increased to 48 per cent for FY 2012/13 by replacing average enrolment data with 2010-2011 enrolment figures and by changing to the 5-17 school age cohort (by using 2001 Census data and the 2011 education school realities) to take account of early childhood development (i.e. the minimum school age was lowered from six to five);
- A health share (27 per cent) based on the proportion of the population with and without access to medical aid;

[8] Rather unusually, the regulations under the Act have to be "submitted to Parliament for scrutiny". This is different from the usual procedure around the world whereby the enabling Act contains a clause delegating the responsibility to the Minister for preparing implementing regulations.

[9] The preferential point system was originally introduced in 1997 following the Government's Green Paper on procurement, but was given legislative force under PPPFA.

- A basic share (16 per cent) derived from each province's share of the country's total population; for the 2012/13 budget, this was updated with 2011 Census data;
- A poverty component (3 per cent) based on the poor population includes falling in the first two quintiles of household incomes in the 2005 income and expenditure survey (IES)—the estimated size of the poor population in each province is calculated by multiplying the proportion in that province from the IES by the population figure from the 2011 mid-year population estimates;
- An economic output component (1 per cent) based on the final GDP by region (GDPR) data; and
- An institutional component (5 per cent) divided equally among the provinces.

The fiscal and financial commission (FFC) is considering moving to a costed norm approach (i.e. transfers based on estimated costs of service delivery) but insufficiency of data precludes this at present.

The equitable share to municipalities is distributed according to a formula that has two components: a basic services (S) component based on the estimated cost of delivering a basic package of social services and the number of low income households in each municipality, and an institutional (I) component, based on population size and average income. The local equitable share is being reformulated to take into account the demarcation of municipalities in 2000 and the introduction of free basic supply of water and electricity.

The equitable share grant has no conditionality and provinces have absolute discretion over how it is spent, but nevertheless spending is expected to be in tune with national priorities.

The other form is conditional grants through which the national government supports provincial and municipal governments in implementing programmes of national priority. Section 35 of the DORA (for 2004) states that all provincial departments that received conditional grants during 2001/02 - 2003/04 must report on spending against such grants, including roll-overs from previous years, in their 2003/04 annual report. Section 7 (7) of DORA requires that the accounting officer of the provincial education department certifies that funds have been spent in accordance with the purpose and the conditions of the grant.

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 Division of Revenue Bill. It establishes the budget council and the budget forum, the consultative intergovernmental forum for the budget process. Section 9 and 10(4) of the Act sets out the consultation process to be followed with the FFC, including the process of considering recommendations made with regard to the equitable division of nationally raised revenues.

The budget council is a forum between the Minister of Finance with all MECs for Finance in all the nine provinces. MECs can raise issues of provincial interest that have a bearing on their allocation of the budget. The budget forum consists of the budget council, the FFC and the South African Local Government Association (SALGA). The allocations of resources between the three spheres of government are discussed.

Most recently, the Division of Revenue Amendment Act, 2010 (Act No 15 of 2010) provides for the equitable division of revenue raised nationally among the national, provincial and local spheres of government for the 2010/11 financial year and the responsibilities of all three spheres pursuant to such division; and to provide for matters connected therewith.

Public Audit Act, 2004 (Act No. 25 of 2004)

This Act gives effect to the provisions of the Constitution establishing and assigning functions to an Auditor-General; to provide for the auditing of institutions in the public sector; to provide for accountability arrangements of the Auditor-General; to repeal certain obsolete legislation; and to provide for matters connected therewith.

The legislative branch — portfolio committee

For the above purposes the role and powers of a portfolio committee are established by the Provincial Legislature Act, (No. 3 of 1996).

Roles:

- The main function of the portfolio committee is to examine the accounting and financial matters raised by the Auditor-General for investigation.

- The committee can make recommendations with a view to the better use of public funds.
- The committee shall also scrutinise the regularity, efficiency and effectiveness of the collection of taxes.
- The committee should not concern itself with the policies of government or with determining their merit. The committee should be concerned with ensuring that the policies and programmes of government are implemented in an effective, efficient, and economical manner, and that the taxpayer is receiving value for the money spent.
- The committee and the Auditor-General and his or her representatives must work together to achieve maximum accountability to the Legislature.
- It is important that the committee establishes and maintains a constructive working relationship with the provincial government and statutory bodies concerned.

Powers:

- The committee shall have permanent referral, as they become available, of:
    - The public accounts;
    - All Auditor-General's reports on provincial accounts;
    - All reports by the Auditor-General on institutions in the province which are submitted to the Provincial Legislature;
    - All financial statements and all audit reports of all corporations where applicable; and
    - Other agencies receiving funding from the provincial government.
- The committee has the right to investigate or review all past, current and committed expenditures of government and organisations in the province, receiving funds from such government.
- The committee has the right to request the Provincial Legislature, at short notice, to refer to it any financial problem/matter that comes to its attention.
- The committee has the right to request, on its own initiative, the Auditor-General, in the existing framework, to perform specific reviews or tasks.
- The committee shall report to the Provincial Legislature at least annually, have the report debated in the Provincial Legislature and have the right to request the provincial executive authority to table a comprehensive response to the committee's report within 60 days.
- The committee shall, as determined by the Powers, Privileges and Immunities of the Provincial Legislature Act, No. 3 of 1996, have the right of access to all financial information and other documents necessary for its investigations.
- The committee shall have the right to call MECs, witnesses from the civil service, expert witnesses and private citizens to testify and provide information (under oath or affirmation if necessary). This includes individuals currently responsible for matters under consideration, as well as those who were responsible at the time of the events, if not the same person.
- The committee may hold public servants accountable for their performance of the administrative duties and the implementation of activities which have been delegated to them (refer to chapter 5 of the PFMA).
- The committee has the right to meet when the Legislature is in session, recessed or prorogued.
- The committee may amend the rules through due process at any time.

Institutional framework

Legislature

The National Parliament derives its powers from the 1996 Constitution. It is made up of two chambers - the National Assembly consisting of 400 seats, and the National Council of Provinces (NCOP) made up of 90 seats. All constitutional matters and subsidiary legislature affecting the Republic of South Africa are considered and passed by the National Assembly. The NCOP is also involved in enacting provincial legislation but this must conform to the national laws and the Constitution.

The Constitution of South Africa makes provision for the composition of legislatures in each of the nine provinces. According to Section 104 of the Constitution, the legislative authority of a province is vested in its provincial legislature, and confers on the provincial legislature the power to pass a constitution for its province.

Provincial Executive Council

This body runs the government machinery in the province. The premier is elected for a five-year term of office by the provincial legislature, and heads the executive. He/she appoints members of the Executive Council to assist in running the affairs of the province. In the Eastern Cape, the Executive Council represents 14 departments.

Judiciary

The Constitution establishes the judiciary and guarantees its independence. It is the third arm of government. It is made up of the Constitutional Court, the Supreme Court of Appeal, high courts and magistrates' courts. All matters of legal interpretation are handled by the courts.

The main entities involved in PFM at the central and sub-national levels are national and provincial departments, trading entities, constitutional institutions, public entities and local government (municipalities).

The following agencies exist under Schedule 3 of the PFMA in the province:

Table 6: Eastern Cape public entities

Responsible departments	Entities
Vote 1: Office of the Premier	1.1 Eastern Cape Socio-economic Consultative Council
Vote 8: Rural development and agrarian reforms	8.1-Eastern Cape Rural Development Agency
	8.2-Eastern Cape Appropriate Technology Unit
Vote 9: Economic affairs.	9.1-Eastern Cape Development Corporation
	9.2-East London Industrial Development Zone
	9.3-Coega Development Corporation
	9.4-Eastern Cape Parks and Tourism Agency
	9.5-Eastern Cape Gambling and Betting
	9.6-Eastern Cape. Liquor Board
Vote 10: Transport	10.1-Mayibuye Transport Corporation
	10.2-Government Fleet Management Trading Entity
Vote 12: The Provincial Treasury	12.1-Eastern Cape Planning Commission

Province special PFM features

Key features of the PFM system are to promote efficient and effective financial management, accountability, transparency, understandability and reliability.

Each department in the Eastern Cape has its own PMG[10] account, into which all funds received from the National and Provincial Treasuries must be deposited. Departments are required to submit their expenditure budgets for the year and are only allowed to revise these commitments during the tabling of the budget adjustments during the September/October period.

Each department in the province has its own accounting officer, who is accountable for the effective financial management of his/her department. Responsibilities of accounting officers are detailed in Chapter 5 of the PFMA. Chapter 3 of the PFMA in turn gives effect to the oversight role to be played by the Provincial Treasury. This is achieved through standardised financial reporting to monitor the financial process all the way from planning and budgeting to the final annual report.

The Auditor-General of South Africa is the external audit body. It derives its mandate from Section 188 of the Constitution. The functions of Auditor-General are to audit and report on the accounts, financial statements and financial management of:

- National and provincial state departments and administrations;
- Municipalities; and
- Any other institution or accounting entity required by national or provincial legislation to be audited by the Auditor-General.

Availability of information related to service delivery or operational efficiency

[10] Paymaster-General accounts created by each Department within the province and used as their bank account for all funds received from the National and Provincial Treasuries.

Information is made available and monitored in terms of the Monitoring and Evaluation (M&E) Framework published in 2007. It is a framework that is oriented nationally, institutionally and locally involving service delivery and performance monitoring and evaluation. The service delivery performance evaluation reporting includes variables reflecting institutional performance and service delivery analysis and review, links identified and responsive strategies. The annual performance plan, as prescribed by the National Treasury, outlining the strategic outcome oriented goals of the departments in terms of service delivery programmes is linked to the approved budget.

Reporting on actual achievements are included in the annual report and audited by the Auditor-General.

3 Assessment of PFM systems, processes and institutions

The following sub-sections present the detailed assessment of the PFM indicators for the province. The methodology takes into account the existing situation and does not cover ongoing and planned activities that may result in reforms and that might impact performance and future assessments. These planned or ongoing reforms are summarised at the end of the discussion on each indicator when relevant.

Each indicator contains one or more dimensions that enable to assess the key elements of the PFM process. The PEFA framework requires using two scoring methods. Method 1 (M1) is used for all single dimensional indicators and for multi-dimensional indicators where the performance on one dimension of the indicator is likely to undermine the overall performance on other dimensions of the same indicator (value the weakest link). A plus sign is given where any of the other dimensions are scoring higher. Method 2 (M2) is prescribed for multi-dimensional indicators, where a low score on one dimension of the indicator does not necessarily undermine the performance on another dimension of the same indicator. It creates an aggregate average score of the individual dimensions' scores of an indicator. The conversion table with for the M2 scoring methodology used to calculate the overall score can be found in the PEFA handbook ("PFM Performance Measurement Framework, www.pefa.org).

The PEFA assessment reviews PFM performance under the existing situation. The relevant time period of analysis depends on the type of indicator. For some indicators, the relevant time period is the last completed fiscal year. For others, the last three completed fiscal years. There are also some indicators that combine the periods of analysis among their different dimensions.

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***[11] ***ii) Annual variance between actual and estimated transfers of earmarked grants***[12] ***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***

Background

Transfers from higher level of government (HLG) – national government in this case – and shared revenues constitute important sources of revenue for provincial governments. Poor predictability of inflows of these transfers affects the provincial government's fiscal management and its ability to deliver services. Shortfalls in the total amount of transfers from HLG and the delays in the in-year distribution of the in-flows can have serious implications for the provincial government's ability to implement its budget as planned. Shortfalls in earmarked grants (such as conditional transfers or project grants) can have an additional effect on particular sectors. For the purposes of this indicator, transfers include all revenues transferred from HLG either in the form of block (equitable share or conditional earmarked grants), as well as shared revenues which are not collected and retained by the provincial government.

Transfers from HLG (i.e. the National Treasury and national departments) constitute the largest share of revenue for the provincial government as a whole. It comprises equitable shares and conditional grants, which together made up more than 98 per cent of provincial revenue in 2011/12, 2012/13 and 2013/14. Provincial own revenue makes up only 2 per cent of the balance of the total provincial funding in the period.

The total funds transferred to the provinces from the national government take three forms: (i) the equitable share block grant, (ii) conditional grants and (iii) agency payments.

[11] Depending on the timing of the approval of the SN budget *vis a vis* the CG budget, there may be some deviation from the amount included in the central budget.
[12] Dimension (ii) should be assessed on the same basis as indicator PI-2. All non-earmarked transfers should in aggregate be counted as one component of earmarking. Deviation of all other transfers should be considered sector by sector corresponding at least to the 10 COFOG main functions (to the extent they are applicable) or any similar classification.

The equitable share is an unconditional allocation delivered as a block grant. This means that provinces are free to distribute this money to particular departments and programmes as they see fit. They are directly accountable for how the money is spent. However, this money is generally spent on services, which are guided by national standards.

The equitable share relates to revenue emanating from taxes imposed on international trade, VAT, customs, duties, income tax, PAYE, domestic goods and consumption, among others, collected nationally by the South Africa Revenue Services (SARS). The Division of Revenue Acts (DORA) presents the origins of revenues by sphere of government and its distribution. This distribution is based on a formula which is revised annually by the National Treasury, advised by the Financial and Fiscal Commission (FFC)[13], to calculate the equitable share across the provinces. This formula consists of six components that capture the relative demand for services between provinces and takes into account specific provincial circumstances, namely:

- Basic component derived from each province's share of the national population;
- Institutional component divided equally between the provinces;
- Poverty component reinforcing the redistributive bias of the formula;
- Economic output component based on GDP-R data;
- Education component based on the size of the school-age population and the number of learners enrolled in public ordinary schools; and
- Health component based on a combination of a risk-adjusted capitation index for the population, which takes into account the health risks associated with the demographic profile of the population and the relative share of case-loads in hospitals.

For the 2014 MTEF, the formula has been updated with data from the 2013 mid-year population estimates published by Statistics South Africa; the 2013 preliminary data published by the Department of Basic Education on school enrolment; data from the 2012 general household survey for medical aid coverage; and data from the health sector and the risk equalisation fund for the risk-adjusted capitation index. As the formula is largely population-driven, the allocations capture shifts in population across provinces, which leads to changes in the relative demand for public services throughout these areas. The impact of these updates on the provincial equitable share is phased in over three years (2014/15 to 2016/17).

Provinces also receive grants from the national government, which come with conditions on how they are spent. In contrast to the equitable share block grant, the conditional grants are earmarked for specific functions. Typically, these are areas where national government functions are shared by provincial governments, or require the cooperation and empowerment of provincial authorities for their delivery.

Conditional grants are primarily for improvements in conditions of service and hospitals. They are included as part of the national equitable share, and are listed in a schedule of the Division of Revenue Bill. The administration of these grants works in the following manner:

- The national department retains responsibility for monitoring compliance;
- The provincial government takes care of actual expenditure of funds, and;
- Funds are usually paid in lump sums up front, or on a previously-agreed schedule.

There are four types of conditional grants that are distributed to provinces through the Division of Revenue Act (DORA) namely:

- Schedule 4A of DORA, which involves more general grants supplementing various programmes already funded by provinces that are aimed predominately to provincial health, education and infrastructure sectors with varied transfer and spending accountability arrangements, as more than one national or provincial department may be responsible for different outputs;
- Schedule 5A of DORA, which deals with specific purpose conditional grants, with specific responsibilities for both the transferring and receiving departments of provincial accounting officers;
- Schedule 6A of DORA provides allocations in-kind through which a national department implements projects in provinces; and

[13] The Division of Revenue Act (DORA) is the subject of policy research and analysis by the Finance and Fiscal Commission (FFC), an independent constitutional advisory institution that advises Parliament and the National Treasury. It establishes the annual transfers to all provinces including the equitable share and the conditional grant share which are determined by a well-defined formula. In terms of section 214 (1) of the Constitution, DORA must be enacted and voted annually to determine the vertical and horizontal allocation of resources prior to the commencement of each financial year. The FFC has the responsibility for advising and making recommendations to Parliament, provincial legislatures, organised local government and other organs of State on financial and fiscal matters. See http://www.ffc.co.za/index.php/about-ffc/what-is-the-ffc

- Schedule 7A of DORA provides for the swift allocation and transfer of funds to a province to help it deal with a disaster.

Agency payments are best described as fee-for-service arrangements between departments or between spheres of government. The government body with responsibility for a function may contract with another department or another sphere of government to deliver that service.

Agency payments therefore provide another way for funds to flow from the national departments to provincial departments. In the case of agency payments, the national government retains accountability for the funds and their expenditure. The relationship is similar to a contractual agreement: provinces or local government agree to perform a function or administer a programme on behalf of the central government. Usually provinces are reimbursed for expenses in the case of agency payments. They also do not currently flow through the budgets. They are not voted upon in provincial budgets as in the case of conditional grants.

Table 7: Eastern Cape provincial revenue – budget

Description R'000	2011/12 Actual	2012/13 Actual	2013/14 Budget
Transfer receipts from national			
- Equitable share	44 644 170	47 559 888	50 164 506
- Conditional grants	8 841 741	9 411 323	9 461 231
Total transfer receipts from national	**53 485 911**	**56 971 211**	**59 625 737**
Provincial own receipts			
Tax receipts	**469 282**	**491 309**	**553 194**
- Casino taxes	112 949	97 412	98 360
- Horse racing taxes	7 299	20 004	20 777
- Liquor licenses	2 507	5 109	5 936
- Motor vehicle licenses	346 527	368 784	428 121
Non-tax receipts	**376 594**	**609 369**	**282 867**
- Sale of goods and services other than capital assets	157 614	186 778	172 101
- Fines, penalties and forfeits	4 018	83 355	11 065
- Interest dividends and rent on land	7 080	8 401	76 563
- Transfers received	112 122	213 381	-
- Sale of capital assets	3 284	2 517	413
- Transactions in financial assets and liabilities	92 476	114 937	22 725
Total provincial own receipts	**845 876**	**1 100 678**	**836 061**
Total provincial receipts	**54 331 787**	**58 071 889**	**60 461 798**

Source: Eastern Cape provincial publications (based on Actual for 2012 & 2013 and Main Appropriation for 2014)

Table 8: Eastern Cape Province revenues by relative weight

Description	2011/12 %	2012/13 %	2013/14 %
Transfer receipts from national			
- Equitable share	82.2%	81.9%	83.0%
- Conditional grants	16.3%	16.2%	15.6%
Total transfer receipts from national	**98.4%**	**98.1%**	**98.6%**
Provincial own receipts			
Tax receipts			
- Casino taxes	0.2%	0.2%	0.2%
- Horse racing taxes	0.0%	0.0%	0.0%
- Liquor licenses	0.0%	0.0%	0.0%
- Motor vehicle licenses	0.6%	0.6%	0.7%
Non-Tax receipts			
- Sale of goods and services other than capital assets	0.3%	0.3%	0.3%
- Fines, penalties and forfeits	0.0%	0.1%	0.0%
- Interest, dividends and rent on land	0.0%	0.0%	0.1%
- Transfers received	0.2%	0.4%	0.0%
- Sale of capital assets	0.0%	0.0%	0.0%
- Transactions in financial assets and liabilities	0.2%	0.2%	0.0%
Total provincial own receipts	**1.6%**	**1.9%**	**1.4%**
Total provincial receipts	**100.0%**	**100.0%**	**100.0%**

Source: Eastern Cape provincial publications (EPRE 2014/15)

Section 22 (3)(a) of DORA states that the National Treasury must, within 14 days after the DORA takes effect, approve the payment schedule for the transfer to the province of an allocation listed in Schedule 4A or 5A. In addition, in terms of section 22 (3)(d), the National Treasury must determine the requirements regarding payment schedules for the transfer of allocations listed in Schedule 6A. At the closing of the fiscal year any unspent conditional grant is returned to the National Treasury and lost by the related departments. During execution, national departments monitor the spending of the grants and other provincial departments can ask for the unspent funds to be reallocated to them. Equitable share cannot be reduced once approved.

(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[14]

A comparison of budgeted versus actual revenues transferred from the National Treasury and departments is presented in Table 9 below. It shows that consolidated deviations between budget appropriations and receipts from national level did not exceeded 1, 61 per cent.

[14] Depending on the timing of the approval of the SN budget *vis a vis* the CG budget, there may be some deviation from the amount included in the central budget.

Table 9: Eastern Cape revenues budgeted vs out-turns by sources

Description R'000	2011/12	2012/13	2013/14
Equitable share transfers			
Budget (adjusted appropriation)	44 644 170	47 559 888	50 256 614
Actual	43 667 767	46 706 722	50 782 767
Deviation (R 000)	976 403	853 166	526 153
Deviation (%)	**2.19%**	**1.79%**	**1.05%**
Conditional transfers			
Budget (adjusted appropriation)	9 167 491	9 697 649	9 652 180
Actual	9 613 603	9 629 067	9 741 239
Deviation (R 000)	446 112	68 582	89 059
Deviation (%)	**4.87%**	**0.71%**	**0.92%**
Total transfers			
Budget	53 811 661	57 257 537	59 908 794
Actual	53 281 370	56 335 789	60 524 006
Deviation (R 000)	530 291	921 748	615 212
Deviation (%)	**0.99%**	**1.61%**	**1.03%**

Source: EPRE and Budget Review

(ii) Annual variance between actual and estimated transfers of earmarked grants[15] . Table 10 below shows the variance (how far a set of numbers, i.e. the individual departments' equitable share allocation share is spread out yearly from the mean).

Table 10: Comparison of budgeted and actual transfers of equitable share

R'000	2011/12			2012/13			2013/14		
	Budget	Actual	Var (%)	Budget	Actual	Var (%)	Budget	Actual	Var (%)
Premier	401 862	398 801	0.8	398 811	392 473	1.6	456 603	438 494	4.1
Legislature	392 831	359 951	9.1	415 434	406 715	2.1	451 910	443 009	2.0
Health	11 862 273	12 419 402	-4.5	12 886 100	12 940 950	-0.4	14 193 822	14 093 210	0.7
Social development	1 703 066	1 683 710	1.1	1 768 527	1 741 431	1.6	2 033 514	1 931 970	5.3
Public works	2 020 179	2 020 157	0.0	2 166 315	2 162 867	0.2	2 565 419	2 524 706	1.6
Education	22 322 000	23 017 186	-3.0	24 070 360	23 565 209	2.1	25 134 621	25 029 365	0.4
Local government and traditional affairs	759 993	737 246	3.1	810 835	785 689	3.2	1 052 888	999 059	5.4
Rural development and agrarian reforms	1 276 818	1 245 395	2.5	1 408 980	1 375 045	2.5	1 448 015	1 446 449	0.1
Economic affairs	760 844	755 029	0.8	713 345	686 385	3.9	1 259 392	1 225 081	2.8
Transport	1 046 124	1 033 407	1.2	894 314	860 112	4.0	931 783	880 077	5.9
Human settlements	242 407	241 931	0.2	273 411	272 411	0.4	298 579	297 363	0.4
The Provincial Treasury	300 357	281 818	6.6	267 941	247 778	8.1	274 451	261 072	5.1
Sports, arts and culture	503 263	497 610	1.1	550 563	517 961	6.3	586 925	578 501	1.5
Safety and security	58 387	57 981	0.7	63 294	62 188	1.8	75 535	69 283	9.0
Aggregate %			**-2.5**			**1.5**			**1.1**

Source: Revenue Fund AFS (2012/13 & 2013/14)

The variance between estimated and actual transfers from the Provincial Treasury to the provincial departments is relatively low in the years under review. The average for the overall variance has been -2.5 per cent (2011/12) 1,4 per cent (2012/2013) and 1,1 per cent (2013/2014). Furthermore, the average for the composition variance was less than 5 per cent during the period under review

[15] Dimension (ii) should be assessed on the same basis as indicator PI-2. All non-earmarked transfers should in aggregate be counted as one component of earmarking. Deviation of all other transfers should be considered sector by sector corresponding at least to the 10 COFOG main functions (to the extent they are applicable) or any similar classification.

Table 11: Comparison of budgeted and actual transfers of earmarked conditional grants

R'000	2011/12			2012/13			2013/14		
	Appropriation Act	Funds transfer	Var %	Appropriation Act	Funds transfer	Var %	Appropriation Act	Funds transfer	Var %
Department						%			%
Health	2 871 191	2 694 283	6.6%	2 765 404	2 764 476	0.0%	2 895 780	869 869	0.9%
Education	2 767 229	2 399 309	15.3%	2 626 138	2 592 807	1.3%	2 342 958	2 330 29	0.5%
Human settlement	2 368 915	1 911 992	23.9%	2 292 859	2 002 176	14.5%	2 526 803	2 525 93	0.0%
Rural dev and agrarian reform	247 956	230 836	7.4%	263 056	233 432	12.7%	285 609	275 597	3.6%
Transport	170 068	169 453	0.4%	177 104	177 104	0.0%	187 805	187 805	0.0%
Sports, arts &	181 258	151 979	19.3%	58 146	126 669	24.8%	153 232	146 314	4.7%
Roads and public	1 376 560	1 376 560	0.0%	624 977	1 624 977	0.0%	1 357 472	1 308 31	3.8%
Social	5 606	5 252	6.7%	6 708	6 708	0.0%	6 862	6 862	0.0%
Economic development	-	-	-	1 000	-		550	550	0.0%
Aggregate %		**End of March 2012**	**11.8%**		**End of March 2013**	**4.1%**		**End of March 2014**	**1.1%**

Source: Overview of Provincial Revenue and Expenditures 2013/14

Table 11 above shows that variance for departmental conditional grants where less than 5 per cent for two of the three years under review. By means of distributing conditional grants to provincial department, the national government supports higher levels of infrastructure provision and capital expenditure, particularly in the health, education, human settlements and transport departments which would not otherwise be possible (with the province's own resources).

Table 12: Comparison of appropriations and actual expenditures, per department

Eastern Cape provincial department R'000	2011/12			2012/13			2013/14		
	Budget	Actual	Var %	Budget	Actual	Var %	Budget	Actual	Var %
Vote 1-Office of the Premier	404 529	402 666	0.46	401 566	395 931	1.42	461 186	440 892	4.60
Vote 2-Provincial Legislature	397 922	360 257	10.46	415 759	407 040	2.14	451 410	443 009	1.90
Vote 3-Health	14 812 568	14 900 989	- 0.59	15 771 710	15 605 890	1.06	17 203 412	17 068 224	0.79
Vote 4-Social Development	1 715 888	1 691 893	1.42	1 785 155	1 751 212	1.94	2 054 171	1 942 281	5.76
Vote 5-Public Works	3 418 703	3 393 640	0.74	3 808 724	3 803 772	0.13	3 956 652	3 851 944	2.72
Vote 6-Education	25 153 839	25 174 117	-0.08	26 754 712	26 220 593	2.04	27 548 311	27 450 752	0.36
Vote 7-Local Government and Traditional Affairs	76 1691	73 8943	3.08	815 221	786 295	3.68	1 057 003	1 001 664	5.52
Vote 8- Rural Development and Agrarian Reforms	1 536 142	1 484 433	3.48	1 763 875	1 617 094	9.08	1 758 774	1 731 203	1.59
Vote 9-Economic Affairs	931 997	885 651	5.23	933 309	807 407	15.59	1 388 127	1 353 816	2.53
Vote 10-Transport	1 600 941	1 583 803	1.08	1 486 788	1 454 332	2.23	1 735 573	1 517 381	14.38
Vote 11-Human Settlements	2 618 262	2 143 154	22.17	2 575 802	2 279 062	13.02	2 837 461	2 827 992	0.33
Vote 12-Provincial Treasury	340 032	283 987	19.74	480 114	322 106	49.05	554 005	339 119	63.37
Vote 14-Sports, Recreation, Arts and Culture	687 730	651 905	5.50	711 278	647 479	9.85	742 873	727 359	2.13
Vote 15-Safety and Liaison	58 437	57 980	0.79	63 353	62 207	1.84	75 618	69 316	9.09
Aggregate %	**End of March 2012**		**1.27%**	**End of March 2013**		**2.86**	**End of March 2014**		**1.74%**

Sources: Department's annual reporting

Table 1 above shows the results of the analysis of variances in appropriations and expenditure, per department. It indicates that the variances in aggregate expenditure have been 1.27 per cent (2011/12), 2.86 per cent (2012/13) and 1.74 per cent (2013/14)

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)

As for the in-year timeliness of transfers (equitable share and conditional), a disbursement timetable based on DORA is agreed on between national and the provincial governments and this is endorsed by all stakeholders (departments) at or before the beginning of the fiscal year.

Table 13: Forecast vs disbursed transfers (R million), per quarter

Description	2011/12				2012/13				2013/14			
Forecast payment schedule												
Equitable shares	11 030 007	11 030 007	11 030 007	11 030 007	11 735 070	11 735 068	11 735 067	12 354 683	12 541 128	12 541 128	12 541 125	12 633 233
Condition grants	1 730 137	2 316 492	2 510 586	2 285 310	2 343 826	2 583 312	2 841 596	1 730 906	2 392 872	2 427 645	2 685 030	2 386 878
Total	12 760 144	13 346 499	13 540 593	13 315 317	14 078 896	14 318 380	14 576 663	14 085 589	14 934 000	14 968 773	15 226 155	15 020 111
Actual inflows national												
Equitable shares	11 030 007	11 030 007	11 030 007	11 030 007	11 735 070	11 735 068	11 735 067	12 354 683	12 541 128	12 541 128	12 541 125	12 633 233
Condition grants	1 702 814	2 325 358	2 252 760	2 175 181	2 318 092	2 608 728	2 839 867	1 627 834	2 337 637	2 458 919	2 593 079	2 216 544
Total receipts from NT	**12 732 821**	**13 355 365**	**13 282 767**	**13 205 188**	**14 053 162**	**14 343 796**	**14 574 934**	**13 982 517**	**14 878 765**	**15 000 047**	**15 134 204**	**14 849 777**
% disbursed	**99.79**	**100.07**	**98.10**	**99.17**	**99.82**	**100.18**	**99.99**	**99.27**	**99.63**	**100.21**	**99.40**	**98.87**

Source: Eastern Cape Provincial Treasury

As shown in the above table, actual disbursement delays have been almost non-existent in the period under review.

Indicator	Score	Evaluation
HLG-1 Predictability of transfers from higher level of government	**A**	**Scoring method M1**
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	As shown in table above, in no more than one of the last three years have HLG transfers fallen short of the estimate by more than 5%.
ii) Annual variance between actual and estimated of earmarked grants.	A	Variance in provision of earmarked conditional grants exceeded overall deviation in total transfers by no more than 5 percentage points in any 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 province FY).	A	A disbursement timetable is agreed by NT and PT at the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 25% in more than one of the last three years.

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)*

Background

This indicator serves to identify differences between actual primary expenditure and the originally budgeted primary expenditure. The assessment covers the years 2011/12, 2012/13 and 2013/14.

The indicator measures the actual total primary expenditure compared to the original total primary budget. The calculations exclude the following expenditure categories, over some of which the provincial government will have little control:

- Debt service payments, which in principle the provincial government cannot alter during the year while they may change due to interest and exchange rates movements;
- Donor funded project expenditure, the management and reporting of which are, to a high degree, typically under the donor agencies' control; and
- Contingency items, which are unallocated at budget preparation time but are used to cover shortfalls in spending in any budget unit during execution.

Table 13 below shows that aggregate expenditure, which exceeded the original budget by 2.08 per cent in 2011/12, was practically equal to budget in 2012/13, and exceeded the budget by 2.50 per cent in 2013/14. These variances result in a score of A as the amounts are within the 5 per cent deviation band. For the organisational breakdown of the variance each year, see PI-2 (i) below.

An analysis of selected economic categories shows that variances were lowest on current payments, which is the category that accounts for the vast majority of expenditure. Other categories such as transfers and subsidies, and payments for capital assets, showed higher variances. A contributing factor is the low proportion of expenditure on capital assets, which is more variable. The level of compliance with the budget, and thereby its credibility, is impressive.

(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)

Table 14: Comparison of budget estimates against actuals (primary expenditure, R'000)

Description	2011/12	2012/13	2013/14
Primary original expenditure estimates	52 643 536	56 204 805	59 258 177
Primary expenditure outturn	53 739 042	56 155 801	60 741 327
Aggregate expenditure deviation	1 095 506	-49 004	1 483 150
Aggregate expenditure deviation %	**2.08%**	**-0.09%**	**2.50%**

Source: Estimates of provincial expenditure 2011 – 2014, Annual report of provincial departments 2014

Table 15: Variance from budget of selected economic categories

Percentage	2011/12	2012/13	2013/14
Current payments, excl. interest	-3.04%	-1.34%	-1.15%
Transfers and subsidies	-0.20%	10.55%	-7.52%
Payments for capital assets	7.73%	2.23%	-5.68%

Source: Estimates of provincial expenditure 2011 – 2014, Annual report of provincial departments 2014

Indicator	Score	Evaluation
PI-1 Aggregate expenditure out-turn compared to original approved budget	**A**	**Scoring method M1**
(i) Difference between real primary expenditure and originally budgeted primary expenditure (debt service charges and also expenditure on projects from external financing excluded).	A	In no year has the actual expenditure deviated from budget by more than 5%.

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

Background

This indicator serves to review variations in the composition of expenditures, derived from variations in the overall expenditures already analysed in PI-1. Where the composition of expenditure varies considerably from the original budget, the budget will not be a useful statement of policy intent. Measurement against this indicator requires an empirical assessment of expenditure out-turns against the original budget at a sub-aggregate level.

The first dimension of this indicator measures the extent to which reallocations between budget votes during execution have contributed to variance in expenditure composition. The second dimension recognises that while it is prudent to include an amount to allow for unforeseen events in the form of a contingency reserve, accepted good practice requires that these amounts be vired to those votes against which the unforeseen expenditure is recorded, in other words, that expenditure is not charged directly to the contingency vote.

In the Eastern Cape, provincial government budget and accounts, there is an administrative classification with 14 heads of expenditure that are voted by the provincial legislature. Annex 4 shows the original budgets and actual outcomes for all departments in accordance with the PEFA framework.

(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

Table 15 below provides a breakdown of the budgeted and actual expenditure for the province by departments (i.e. vote).

Table 16: Budget vs actual out-turns for Eastern Cape, per vote

Vote	Administrative or functional head R'000	2011/12			2012/13			2013/14		
		Budget	Actual	Var (%)	Budget	Actual	Var (%)	Budget	Actual	Var (%)
1	Office of the Premier	403 880	400 819	0.8%	423 848	394 616	7.4%	458 109	440 750	3.9%
2	Provincial Legislature	371 446	360 257	3.1%	384 082	407 040	-5.6%	409 531	443 009	-7.6%
3	Health	14 237 249	14 892 282	-4.4%	15 166 038	15 602 512	-2.8%	16 584 328	17 046 519	-2.7%
4	Social Development	1 711 206	1 691 851	1.1%	1 782 421	1 751 212	1.8%	2 015 20	1 942 281	3.8%
5	Roads and Public Works	3 269 009	3 393 640	-3.7%	3 741 601	3 803 772	-1.6%	3 670 31	3 851 944	-4.7%
6	Education	24 634 708	25 174 117	-2.1%	26 268 669	26 220 593	0.2%	26 972 0	27 450 752	-1.7%
7	Local Government and Traditional Affairs	746 085	738 943	1.0%	788 452	788 228	0.0%	840 869	1 001 538	-16.0
8	Rural Development Agrarian Reform	1 509 785	1 484 433	1.7%	1 694 131	1 617 094	4.8%	1 714 488	1 731 203	-1.0%
9	Economic Development, Environmental Affairs and Tourism	884 226	885 651	-0.2%	936 063	807 407	15.9%	1 070 858	1 352 164	-20.8%
10	Transport	1 453 764	1 582 911	-8.2%	1 322 994	1 452 471	-8.9%	1 532 36	1 517 381	1.0%
11	Human Settlements	2 424 942	2 143 154	13.1%	2 574 536	2 279 064	13.0%	2 830 08	2 827 992	0.1%
12	Provincial Planning and Treasury	302 526	283 987	6.5%	352 143	322 106	9.3%	374 872	339 119	10.5%
14	Sport, Recreation, Arts and Culture	636 323	649 017	-2.0%	705 454	647 479	9.0%	715 108	727 359	-1.7%
15	Safety and Liaison	58 387	57 980	0.7%	64 373	62 207	3.5%	69 979	69 316	1.0%

Source: Estimates of provincial expenditure 2011 – 2014, Annual report of provincial departments 2014

Annexure 1 shows that the variance in expenditure composition was 2.0 per cent in 2011/12, 2.4 per cent in 2012/13, and 1.8 per cent in 2013/14. This results in a score of A. The preparation of the medium-term framework, the fiscal calendar and strategic plans has all contributed to the realism of each year's budget, which has been closely adhered to by the province.

Table 17: Average weighted deviations for Eastern Cape Province

Year	For PI2 (i) Composition variance
2011/12	2.0%
2012/13	2.4%
2013/14	1.8%

Source: Team calculations

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

The overall provincial savings (i.e. surpluses in the provincial revenue fund) is kept and monitored in the Provincial Treasury. This is reserved for unforeseen and unavoidable expenditures in each financial year, and is used during the year to provide additional funding not specifically included in the estimates of provincial revenue and expenditure documentation. It is reflected as a surplus between overall provincial revenue and total expenditure.

The actual expenditure did not exceed the budgeted expenditure in each of the last three years. No portion of the provincial savings was therefore utilised during the year and the realised surplus was added to the existing savings. This is further supported by the fact that the province has reflected a surplus in its combined financial statements in all the last three years.

Table 18: Contingency reserve utilised during the year

R'000	2011/12	2012/13	2013/14
Adjusted appropriation - expenditure	54 327 119	57 396 593	61 375 899
Actual expenditure - per combined AFS	54 189 840	56 372 939	60 853 374
Contingency reserve surplus/(utilisation)	137 279	1 023 654	522 525

Source: Estimates of provincial expenditure 2011 – 2014, Eastern Cape combined financial statements, team calculations

The Provincial Treasury is keeping these reserves in the provincial revenue fund to cover itself in the event that the contingent liabilities (as disclosed in the combined financial statements) become payable. These contingent liabilities mainly arise from capped leave owing to employees and potential litigations against the Department of Health.

However, in terms of the PEFA guidelines and in terms of discussions with the National and Provincial Treasuries, it was determined that provinces are not allowed to budget for a contingency vote and therefore this dimension is deemed not applicable.

Indicator	Score	Evaluation
PI-2 Deviations in composition of expenditure out-turn compared to the original approved budget	**A**	**Scoring method M1**
(i) Degree to which the variation in composition of primary expenditure has exceeded the global deviation in primary expenditure (as defined in PI-1) in the past three years.	A	Variance did not exceed 5% in any of the last three years.
(ii) The average amount of expenditure charged to the contingency vote over the last three years.	A	Provinces are not allowed to budget for a contingency vote and therefore this dimension is deemed not applicable.

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***

Background

For a credible budget it is imperative for revenue forecasting to be during the planning phase of the budget, as optimistic revenue forecasts can lead to unfunded expenditure. The objective of this indicator is to compare the actual revenue to the originally approved budgeted revenue. For the purpose of the assessment at the provincial level, the revenue to be assessed is the own revenue (or domestic revenue).

The provincial revenue fund was established in terms of Section 226 of the Constitution into which all money received by the provincial government must be paid except money reasonably excluded by an Act of Parliament. Money may be withdrawn from the provincial revenue fund only in terms of an appropriation by a provincial Act or as a direct charge against the provincial revenue fund, when it is provided for in the Constitution or a provincial Act. Revenue allocated through a province to local government in that province in terms of section 214(1), is a direct charge against the provincial revenue fund.

Provincial revenue comprises three components: equitable share, conditional grants and own revenue. The equitable share and the conditional grants are issued in terms of the Division of Revenue Act, which is promulgated every year once Parliament approves it.

The provincial government has limited sources of own revenue. This is evidenced by the fact that own revenue only contributed to 1.6 per cent, 1.9 per cent and 2.1 per cent of total revenue for the province in 2011/12, 2012/13 and 2013/14, respectively. Major sources of own revenue in the province include motor vehicle licenses, interest and sales of goods and services (other than capital assets).

In discussions with the National and Provincial Treasuries, it was decided that domestic income, consistent with PEFA guidelines, relates to own revenue and does not include the transfers from higher levels of government. The comparison with budget in the table below therefore only takes provincially generated own revenue into account.

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

Table 19: Original budgeted and actual revenue

R'000	2011/12	2012/13	2013/14
Revenue estimates	668 809	774 477	836 061
Revenue out-turns	845 876	1 100 678	1 281 188
Deviation, R-millions	117 067	326 201	445 127
Deviation %	**126%**	**142%**	**153%**

Source: Estimates of Provincial Revenue and Expenditure 2011 – 2014,

Indicator	Score	Evaluation
PI-3 Deviations in aggregate revenue out-turn compared with the original approved budget	**D**	**Scoring method M1**
(i) Real collection of domestic income in comparison with estimates in the original approved budget.	D	Actual domestic revenue above 116% of budgeted domestic revenue in all 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***

This indicator is concerned with measuring the extent to which there is a stock of arrears, and the extent to which the systemic problem is being brought under control and addressed.

For national and provincial departments, all payments due to creditors should be settled within 30 days from receipt of invoice (Treasury Regulation 8.2.3). An unpaid bill outstanding for more than 30 days after verification of the invoice is deemed to be expenditure in arrears. This has been reinforced by Treasury instruction note No. 34 of 2011, which requires each department to submit a monthly report on the number and amount of invoices that were paid after 30 days and invoices older than 30 days not paid.

(i) Stock of expenditure payment arrears

Table 24 below provides an overview of the arrears (greater than 30 days) versus the total expenditure, using economic classifications. Even though in all the last three years, the stock of arrears is less than 2 per cent of total expenditure, this expenditure figure includes compensation of employees (CoE). As can be seen below, if CoE is excluded from the total expenditure, the current payment arrears as a percentage of expenditure on current payments are 5.12 per cent in 2011/12, 0.95 per cent in 2012/13 and 1.41 per cent in 2013/14. Although this is a worrying statistic, the total overall arrears when compared to the total expenditure (excluding CoE) is below 2 per cent in all the three years under review.

Table 20: Accruals (outstanding longer than 30 days) as a percentage of annual expenditure

Arrears > 30 days R'000	**2011/12**	**2012/13**	**2013/14**
Goods and services	448 081	96 540	150 933
Interest and rent on land	-	-	-
Transfers and subsidies	119 684	140 976	151 083
Capital assets	97 621	49 224	15 444
Other	5 929	8 277	10 209
	671 315	**295 017**	**327 669**
Total expenditure (R'000)			
Current payments	43 201 133	46 053 214	48 692 206
Current payments (excl. CoE)	8 759 763	*10 172 628*	*10 733 262*
Transfers and subsidies	7 031 052	6 930 070	8 437 635
Capital assets	3 468 962	3 041 753	3 519 913
Other	52 571	137 315	74 853
	53 753 718	**56 162 352**	**60 724 607**
% Arrears > 30 days against expenditure			
Current payments	1.04%	0.21%	0.31%
Current payments (excl. CoE)	5.12%	*0.95%*	*1.41%*
Transfers and subsidies	1.70%	2.03%	1.79%
Capital assets	2.81%	1.62%	0.44%
Other	11.28%	6.03%	13.64%
Total	**1.25%**	**0.53%**	**0.54%**
Total (excl. CoE)	**1.49%**	**0.64%**	**0.66%**

Source: Combined annual financial statements 2011/12, 2012/13, annual reports 2013/14

At a departmental level, when the accruals outstanding for greater than 30 days are compared to total expenditure, they are all less than 1 per cent.

Table 21: Arrears outstanding greater than 30 days as a % of total expenditure by department

Department (2013/14)	Arrears older than 30 days	Total expenditure	Arrears as % of expenditure
R'000			
Education	236 471	27 450 752	0.9gf%
Health	34 099	17 046 519	0.2%
Social Development and Special Programmes	4	1 942 281	0.0%
Office of the Premier	-	440 750	0.0%
Provincial Legislature	1 799	443 009	0.4%
Roads and Public Works	32 780	3 851 944	0.9%
Local Government and Traditional Affairs	2 861	1 001 538	0.3%
Rural Development and Agrarian Reform	2 933	1 731 203	0.2%
Economic Development Environmental Affairs and Tourism	1 277	1 352 164	0.1%
Transport	6 229	1 517 381	0.4%
Human Settlements	3 677	2 827 992	0.1%
Provincial Planning and Treasury	69	339 119	0.0%
Sport, Recreation, Arts and Culture	5 194	727 359	0.7%
Safety and Liaison	276	69 316	0.4%
Total payments and estimates	**327 669**	**60 741 327**	**0.5%**

Source: Provincial Department annual reports 2013/14

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

LOGIS is the procurement software for managing procurement across government and runs parallel to the accounting system, BAS. The LOGIS system provides for processing of orders (acquisition) against the approved budget while BAS provides for recording actual expenditure payments against approved budget. Due to the two systems running in parallel, a number of issues have arisen in the past as to the completeness and accuracy of all the information recorded in LOGIS, as certain transactions may be captured in one of the systems and not captured in the other. This brings into doubt the credibility of the information recorded in LOGIS, which is used as the source for determining the arrears in the area of procurement. Furthermore, instances have been noted in which the SCM procurement systems are circumvented and orders placed with suppliers without following proper procedures (resulting in irregular expenditure). In these circumstances, goods and services may have been provided with payments now owing by the departments but have not been captured on LOGIS and reflected in the accruals' reports.

Refer to PI-20 for more information on the internal controls regarding LOGIS.

The Auditor-General issued a qualified audit opinion for the Department of Education in the 2013/14 financial statements. An extract from the opinion is as follows:

> *"Accruals*
> *8. The department did not maintain adequate records of outstanding payments for goods and services received but not yet paid at year-end as required by the MCS, and included amounts which should not have been accrued for in the financial statements, resulting in the overstatement of accruals as disclosed in note 22 by at least R19.8 million. However, due to the lack of systems in place, it was impracticable for [the Auditor-General] to determine the full extent of the overstatement of accruals. In addition, sufficient appropriate audit evidence was not available to support the amounts disclosed by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amount of R236.5 million disclosed for accruals".*

As the Department of Education represents approximately 47 per cent of the total expenditure for the province, this uncertainty brings into question its ability to monitor the overall quantum of expenditure in arrears.

A "C" rating is applied as the Auditor-General did not issue a qualified audit opinion on accruals in the 2012/13 financials and therefore indicates that the data on the accruals was generated by at least one comprehensive exercise within the last two years (i.e. 2012/13 financial year end).

Indicator	Score	Evaluation
PI-4 Stock and monitoring of expenditure payment arrears	**C+**	**Scoring method M1**
(i) Stock of expenditure payment arrears.	A	The stock of arrears as a percentage of total expenditure (excluding CoE) is less than 2% in all the last three years.
(ii) Availability of data in order to monitor the stock of expenditure payment arrears.	C	Data on the stock of arrears has been generated by at least one comprehensive *ad hoc* exercise in the last two years.

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***

Background

During the annual budget process, the provinces are provided with the provincial budget formats guide, for the preparation of the estimates of provincial revenue and expenditure (EPRE). This guide requires a strict adherence by the provincial departments and dictates the structure of the submissions for the EPRE in terms of the economic reporting format issued by the National Treasury in September 2009, after the revised set of accounts was introduced in April 2008.

Annexure W2 to the Budget Review 2014 provides detailed information on the structure of the government accounts and states the following:

"The structure of the reporting tables is based on recommendations in the most recent version of government finance statistics (GFS), published in 2001, and the system of national accounts (SNA), published in 1993. Certain modifications to the structure of the accounts and the labelling of the receipt and payment items have been made to take into account specific features of the South African environment."

The classification is a South African version of international standards, and provides for the classification of receipts, payments, financing and debt. It also shows the impact of transactions relating to these items on the cash flow and balance sheet of government.

The public finance statistics and the office of the Accountant-General are responsible for evolving and maintaining the chart of accounts and for providing support to departments and provinces on the proper assignment of expenditure.

Indicator	Score	Evaluation
PI-5 Classification of the budget	**A**	**Scoring method M1**
(i) The classification system used to formulate, execute and report on the provincial government budget	A	The budget formulation and execution is based on administrative, economic and sub-functional classification using GFS 2001 standards that produce consistent documentation according to those standards.

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***

Background

This indicator serves to establish whether the annual budget documentation presented to the Provincial Legislature at the time of tabling the provincial budget for approval and scrutiny is sufficient and complete to provide a good picture of provincial government fiscal forecasts, budget proposals and out-turn of previous years. In addition to the detailed information on revenues and expenditures, and in order to be considered complete, the annual budget documentation should include information on the budgetary context, including the macroeconomic assumptions, growth, inflation and exchange rates estimates, fiscal deficit and financing, financial assets, prior and current year's budget out-turn, data on revenue and expenditure by departments, and an explanation of budget implications and impact of the policy initiates undertaken by the province.

The budget documentation presented to the Provincial Legislature includes comprehensive information on the budgetary context, intent and recent financial achievements. The budget is set against a medium-term expenditure framework of the government's strategic objectives as approved in the NDP.

Budget documentation (2013/14) is comprehensive, and consists of the following main components:

- The budget speech by the MEC of Finance;
- The estimates of provincial revenue and expenditure;
- The department annual reports that incorporate the audit report and the audited financial statements, including statement of financial assets and liabilities, a cash flow statement and the SCOPA resolutions; and
- The medium-term budget policy statement, which is submitted to Parliament at the beginning of the budget cycle.

The budget speech underscores the policy priorities for the respective budget year. The Budget Review 2014 prepared at a national level contains the information pertaining to the overall macroeconomic and fiscal framework in which the medium-term expenditure framework has been developed. This information then forms the basis for the estimates of provincial revenue and expenditure, which contains a range of aggregate data for both three-year forward projections for the budget and actual expenditures from three previous years. The estimates of provincial revenue and expenditure also present a breakdown by department, programme and sub-programme of proposed expenditure. The table below summarises the availability of budget information.

Table 22: Elements and availability of budget documentation

Documentary requirement	Fulfilled	Document
1. Macroeconomic assumptions, including aggregate growth, inflation and exchange rate estimates, at the very least.	**Yes**	The overview of provincial revenue and expenditure includes macroeconomic indicators and assumptions.
2. Fiscal deficit.	**Yes**	The province has budgeted to generate a surplus, which is further supported by a surplus balance being reflected in the provincial revenue fund financial statements.
3. Deficit financing.	**Yes**	The province has budgeted to operate a surplus which is further supported by a surplus balance being reflected in the provincial revenue fund financial statements.
4. Debt stock.	**N/A**	
5. Financial assets.	**No**	No detailed information on financial assets is presented currently in the budget although limited information on the financial assets is disclosed in the combined annual financial statements.
6. Results of previous budget.	**Yes**	Prior year's budget (budget year -2) out-turn is included.
7. Results of the current year's budget.	**Yes**	The estimates of expenditure show the current year's revised budget (budget year 1) in the same format as the 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 by departments includes summarised data according to the main heads of classification for both revenue and expenditure.
9. Explanation of the budget implications of new policy initiatives.	**Yes**	The budget speech outlines changes in policy initiatives and an explanation of the impacts on revenues, as well as proposed policies, along with the explanation of allocation shifts and expenditure consequences.

Indicator	Score	Evaluation
PI-6 Comprehensiveness of information included in budgetary documentation	**A**	**Scoring method M1**
(i) Proportion of information mentioned above and contained in the most recent budgetary documentation published by the central government.	A	Budget documentation fulfills seven out of the eight applicable benchmarks. The budget documents are comprehensive.

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.***

(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

One element of government operations, which affects fiscal discipline and the efficient allocation of resources, is reflected by unreported government expenditure. In general, given their nature, it is difficult to ascertain the full extent of unreported government operations, but every indication suggests that only insubstantial, if any, unreported extra-budgetary expenditures occur, excepting donor funded projects.

The provincial government operates a single provincial revenue fund account controlled by the Provincial Treasury. All departments' revenue estimates are reflected in the budget; funds are deposited in the provincial revenue fund (PRF) and reported on in the budget. The Auditor-General specifically checks that the all the revenue is received by the PRF, transferred to the relevant departments and checks that any under-spending is surrendered back to the PRF. This makes unreported expenditure of directly managed department accounts quite difficult and also unlikely. While provincial government subsidises some commercial public enterprises, they address all subsidies through the budget.

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

All international technical assistance and grants should be paid into the reconstruction and development programme (RDP) fund, which is separated from the provincial and national revenue funds, and produces its own annual report and financial statements. Funding received from the RDP is transferred to the PRF, which in turn transfers the funds to the relevant department. When deemed significant, a separate entity is created on BAS by the National Treasury to account for the revenue and expenditure applicable to certain funding. However, revenue and expenditure arising from smaller donations could be included in the normal financial management of the department. The revenue and expenditure arising from donor funds is separately disclosed as an annexure to the financial statements.

In the Eastern Cape combined financial statements, the total expenditure of donor funds represents less than 1 per cent of the total expenditure for the previous three financial years and is therefore insignificant.

Table 23: Aggregated donor funded expenditure

R'000	2011/12	2012/13	2013/14
Donor funded expenditure	11 446	6 166	371
Total expenditure of departments where donor funded expenditure incurred	16 484 792	17 060 222	18 585 605
% of total	0.07%	0.04%	0.00%

Indicator	Score	Evaluation
PI-7 Extent of unreported government operations	**A**	**Scoring method M1**
(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	The level of unreported extra-budgetary income and expenditure, if any, is insubstantial.
(ii) Information on income and expenditure relating to projects financed by donors that is included in fiscal reports.	A	Donor funded project expenditure is insignificant.

PI-8 Transparency of inter-governmental fiscal relations

Dimensions to be assessed (scoring method M2): ***(i) Transparent systems based on regulations governing horizontal allocations to municipalities of unconditional and conditional transfers from provincial government (budgeted and real allocations)*** ***(ii) Timely provision of reliable information to municipalities on the allocations to be made to them by provincial government for the following year*** ***(iii) Degree to which consolidated general government fiscal data (at least on income and expenditure) is collected and made available, broken down by sector categories***

Background

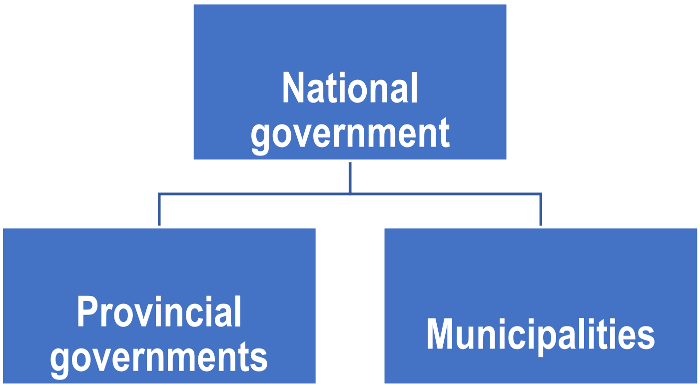
Legal framework

Fiscal relations among the levels of government are determined by the Constitution and the Intergovernmental Fiscal Relations Act (No. 97 of 1997), Intergovernmental Relations Framework Act (No. 13 of 2005), and Public Service Commission Act (No. 46 of 1994).

Organisation and structure

In terms of section 40 of the Constitution, South Africa is constituted as national, provincial and local spheres of government which are distinctive, interdependent and interrelated.

The national government, through the National Treasury, makes allocations to provincial governments and municipalities directly. As the provinces and municipalities have limited powers of raising revenue, the national government makes transfers to the provinces and municipalities in terms of an annual Division of Revenue Act (DORA), which is approved by Parliament along with the Appropriation Act. Currently, provincial governments are funded 98 per cent from the national government and 2 per cent from own revenues. Municipalities are funded 35 per cent from higher levels (of which 96 per cent is from National government and 4 per cent from provincial governments) and 65 per cent from own revenue.



As the municipalities are funded directly by the national government in the form of the equitable share and conditional grants, the provincial government only provides limited funding to the municipalities via transfers and subsidies.

(i) Transparent systems based on regulations governing horizontal allocations to municipalities of unconditional and conditional transfers from provincial government (budgeted and real allocations)

The Division of Revenue Act, like the MTEF, provides a rolling three-year framework of allocations, so that provincial and local governments have greater assurance on their resource pool in years two and three. However only year 1 (the budget year) is assured. Changes in the formula are phased in over a period of years to reduce instability: for instance, the changes in allocations resulting from the 2011 census are being implemented over the years 2013/14 – 2015/16.

The explanatory memorandum to the division of revenue (annexure W1 to the budget review) sets out the provincial and municipal allocations and details the equitable share formula and the basis for the allocation of conditional grants. Furthermore, the allocations from the province to the municipalities is outlined in the provincial budget (i.e. EPRE).

(ii) Timely provision of reliable information to municipalities on the allocations to be made to them by provincial government for the following year

In the overview of provincial revenue and expenditure, a schedule of the transfers to local government (refer Table A.5) is provided that lists all the transfers to be made to the separate municipalities in the province (including a three-year forecast). As the provincial budgets are tabled in March of each year and the municipal financial years only start on 1 July, the municipalities have adequate time to include the transfers from provincial government in their budgets for the coming year.

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

Section 71 of the MFMA requires municipalities to submit a monthly report to the National and Provincial Treasuries. The reports are collated on a quarterly basis and the consolidated reports for the provinces are made available via the National Treasury website.

Furthermore, in accordance with Section 126 of the MFMA, the municipal annual financial statements (AFS) must be submitted to the Auditor-General (AG) within two months of the financial year end, namely by 31 August each year. The municipalities prepare their financial statements on an accrual basis in accordance with the Accounting Standards Board. The AG submits an audit report on those statements to the accounting officer of the municipality within three months of receipt of the statements, i.e. by 30 November each year. Once the annual financial statements have been submitted to the AG, they are also submitted to the National and Provincial Treasuries.

Indicator	Score	Evaluation
PI-8 Transparency of intergovernmental fiscal relations	**A**	**Scoring method M2**
i) Transparent systems based on regulations regarding horizontal allocation between local governments of unconditional and conditional transfers from provincial government (budgeted and real allocations).	A	The horizontal allocation of all transfers from provincial government to the municipalities is determined by transparent and rules based systems.
ii) Punctual provision of reliable information to local governments about the allocations to be made to them by provincial government in the coming year.	B	Lower level SN governments are provided reliable information on the allocations to be transferred to them ahead of completing their budget proposals, so that significant changes to the proposals are still possible.
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 sector categories.	A	Fiscal information (ex-ante and ex-post) by sector category is collected for municipal expenditure and consolidated into annual reports within 10 months of the end of the fiscal year.

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

Background

Fiscal risks can be created by sub-national government, AGAs and PEs and *inter alia* take the form of debt service defaulting (with or without guarantees issued by central government), operational losses caused by unfunded quasi-fiscal operations, expenditure payment arrears and unfunded pension obligations. If the provincial government is to oversee aggregate fiscal risk, it should require and receive quarterly financial statements and audited year-end statements from AGAs and PEs, and monitor performance against financial targets. Where local governments can generate fiscal liabilities for provincial and national government, their fiscal position should be monitored, at least on an annual basis, again with consolidation of essential fiscal information.

As stipulated in section 66 of the PFMA, provincial government and its institutions may only borrow money or issue guarantees that bind the PRF with the authorisation of the MEC for Finance in the province. Furthermore, public entities are only allowed to enter into funding arrangements with the approval of the National Treasury, which must take into account the financial strength of the balance sheet of that public entity.

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

The table below provides a list of the Public Entities in the provincial departments of the Eastern Cape. These reports are prepared on an annual basis and audited by the Auditor-General.

Table 24: Preparation of annual reports for public entities

Eastern Cape Provincial Department	2011/12	2012/13	2013/14
	Audited AFS prepared	Audited AFS prepared	Audited AFS prepared
Vote 1 - **Office of the Premier** 1.1-E C. Socio eco consul council	□	□	□
Vote 8 – Rural development and agrarian			
8.1 EC Rural Development Ag	x	□	x
8.2 EC Appropriate Tech Unit	□	□	x
Vote 9 – **Economic development**			
9.1-EC Development Corporation	□	□	x
9.2 East London Industrial Development Zone	□	□	□
9.3 COEGA Development Corporation	□	□	□
9.4 Eastern Cape Park and Tourism Ag	□	□	□
9.5 Gambling and Betting	□	□	□
9.6 Liquor Board	x	□	□
Vote 10 - **Transport**			
10.1 Mayibuye Transport Corp	x	□	□
10.2 Government Fleet Mgt Trading	□	□	□
Vote 12-**Provincial Treasury** 12.1-E C. Planning Commission	□	□	□

□ = *prepared and available for inspection*
x = not available for inspection

Provincial government prepares annual combined reports of all the public entities. This report reflects the combined financial position of all the public entities of the provincial government. A review of the combined financial position has the following positive indicators:

Table 25: High level review of combined financial statements of public entities

R'000	Combined AFS 2012/13	Combined AFS 2012/13	Draft combined AFS 2013/14
Current assets	1 307 316	1 571 743	1 633 445
Non-current assets	2 305 235	2 624 063	3 476 990
Current liabilities	(977 859)	(766 430)	(842 285)
Non-current liabilities	(1 350 222)	(1 532 135)	(1 632 523)
Net assets	**1 284 470**	**1 897 241**	**2 635 627**
Profitability			
(Deficit) / surplus	(131 963)	355 301	441 928
Solvency	155%	183%	206%
Current ratio	134%	205%	194%

As can be seen from the table above, the results of the combined financial entities indicate that the entities appear to be solvent and liquid and that there is no indication that the combined entities will be unable to cover their liabilities for the foreseeable future. Furthermore, a review of the liabilities indicates that the majority of the liabilities relate to unspent conditional grants and receipts, which would not be payable to a third party. Lastly, note disclosure on contingent liabilities is included in the annual report.

One of the public entities, COEGA Development Corporation, has been excluded from the combined report in previous financial years. A review of this entity's financial statements indicates that it also has favorable solvency ratios and has generated a surplus in all three of the prior years.

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

Local government receives a portion of their funding via the Division of Revenue Act, which outlines the transfers from national government to the municipalities. The province provides funding for certain support functions via transfers to local government which is detailed in the annual budget submissions. Due to the independent structure of the three spheres of government, the provincial government is not responsible for the fiscal risks that may arise at a local government level.

Indicator	Score	Evaluation
PI-9 Oversight of aggregate fiscal risk caused by other public sector institutions	**B+**	**Scoring method M1**
(i) Degree to which the provincial government monitors the autonomous public organisms (AGAs) and public companies (EPs).	B	All major AGAs/PEs submit fiscal reports including audited accounts at least annually to their SN governments, which then consolidates overall fiscal risk issues into a report.
(ii) Degree to which the provincial government monitors the fiscal position of sub-provincial governments.	A	Local government (municipalities) cannot generate fiscal liabilities for provincial governments.

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 25 that are used (an element can only be considered for the purposes of this evaluation if it fulfils all the requirements)***

Background

The purpose of this indicator serves to assess the transparency and accessibility regarding fiscal plans, positions and performance of the government. The ease of accessibility to the general public or at least the relevant interest groups is also examined.

Elements of information to which public access is essential include:

- Annual budget documentation;
- In-year budget execution reports;
- Year-end financial statements;
- External audit reports;
- Contract awards;
- Resources available to primary service units; and
- Fees and charges for major services.

Section 32(1) of the Constitution provides that everyone has the right of access to records and/or information held by the state and any information held by another person and that is required for the exercise or protection of any rights. This section affirms the fundamental right of access to information and seeks to promote a culture of transparency and accountability in the private and public sector.

The Promotion of Access to Information Act (Act No. 2 of 2000) (PAIA) lays down the procedures for accessing information from government as well as from private bodies. It seeks to promote transparency, accountability and effective governance of all public and private bodies. With the view of protecting state interests or the privacy of a natural person the Act properly places some restrictions.

It should be noted that even though a mechanism is available via the PAIA, it does not necessarily indicate that it is readily available to members of the public. In terms of section 14 of the PAIA, public bodies are required to have an information manual available on the website of the public body that provides citizens with guidance of how to request information. A comprehensive search on the internet revealed that only the office of the Premier in the Eastern Cape has a section 14 manual available.

Annual budget documentation

Budget documents are made available to the public at the time they are tabled by the MEC of Finance at the Provincial Legislature. The budget is published in English, which is one of the eleven of the official languages of South Africa. The budget speech is also made available on the provincial website.

Annual financial statement and external audit reports

The audited annual financial statements and audit reports are made available to the public when the annual report is tabled in the Provincial Legislature. The annual reports must be completed and tabled at the Provincial Legislature by end of September of each year[16]. The annual financial statements are included in the annual report. Copies of the annual report are distributed to the National and Provincial Treasuries once the reports have been tabled in the Provincial Legislature.

Once the annual reports are issued to the Provincial Treasury they are made available to the general public on request. The reports are not always available, however, on the respective websites of the National and Provincial Treasuries. Furthermore, as noted in PI-9 above, some of the annual reports of the public entities were not

[16] PFMA Section 40(1)(d) states that the accounting officer for a department must submit, within five months of the end of a financial year to the relevant treasury and also to the executive authority responsible for that department, an annual report, audited financial statements and Auditor-General's audit report. Furthermore, section 65 requires the executive authority to table in a provincial legislature the annual report, audited financial statements and the audit report within six months after the end of the financial year to which those statements relate.

available for inspection by the assessment team, which implies that they would not be readily available for members of the public.

The Auditor-General issues a summary of the audit outcomes for the province which is available on the website of the Auditor-General. The report details the outcomes, and progress of the auditees relative to previous years for all 14 departments and 12 public entities.

In-year budget execution reports

In terms of sections 32 and 40(4) of the PFMA, provincial departments are required to submit in-year budget execution reports to the Provincial Treasury within 15 days after month end, and the Provincial Treasury then submits the consolidated reports to the National Treasury within seven days of receipt from the departments. The National Treasury collates the in-year budget execution reports and publishes the consolidated data on its website on quarterly basis.

Contract awards

With regard to public information on procurement, there is a tender bulletin published weekly where bids for procurement are advertised and awarded tenders announced. This is accessible via the Provincial Treasury website or via subscription.

From a public access perspective, the information is not presented in a manner that is easily usable. Furthermore, the extent of irregular expenditure incurred at the provincial level that is identified by the Auditor-General provides an indication of the potential lack of compliance with SCM procedures and therefore the list of tenders awarded is likely to be incomplete.

Resources available to primary service units

The resources available to primary service units (such as primary health care and primary school education) are not made available through the provincial budget (apart from some of the more significant hospital complexes). Furthermore, information relating to resources available for primary service units is not available via the internet and therefore not readily accessible by the public.

Fees and charges for major services

The significant fees and charges collected by the province are generated by the Department of Transport and the Department of Health.

Significant fees collected by the Department of Roads and Transport are derived from motor vehicle licences, registration fees and traffic fines. These rates are readily available at the time when vehicles are registered.

Significant fees collected by the Department of Health are derived from patient fees. The patient fees are charged in terms of the uniform patient fee schedule. No information relating to these fees for the Eastern Cape hospitals and clinics is easily available on the internet.

The Department of Education's 2013/14 annual report states that 93 per cent of learners paid no fee schools, benefitting from the "no fee" policy.

Public access to key fiscal information in the province is inconsistent and not always user-friendly. The main source of information is the internet, though relevant information is also made available through other means such as printed media and on request at the provincial departments.

Table 26 below lists and discusses the public availability and means of access of the documents that make up the essential elements of information applicable to this indicator.

Table 26: Indicators of public access to key financial information

	Elements of information for public access	Availability	Source of information
1	Annual budget documentation	**Yes** - these are made available to the public through the internet when it is submitted to the legislature. The annual budget documentation includes all elements mentioned in PI-6.	Website of Provincial Treasury and National Treasury
2	In-year budget execution reports	**Yes** - the public has access to regular and reliable information on budget implementation. As per Section 32 of the PFMA, the National Treasury makes reports available on a quarterly basis on its website for each province.	National Treasury website
3	Year-end financial statements	**Yes** – Audited annual financial statements of the departments are prepared within 6 months on the completion of the audit and made available on the Provincial Treasury website.	Annual reports for departments available on the Provincial Treasury website. Some of the public entities available via their websites.
4	External audit reports	**Yes** – Audited annual financial statements are prepared within 6 months after fiscal year end. The audited annual financial statements and external audit reports are included in the annual report.	Annual reports for departments available on the Provincial Treasury website.
5	Contracts rewarded	**No** – Tender bulletins are published weekly but the completeness of the list is called into question. Furthermore, a consolidated list of all the tenders awarded is not available.	Refer National and Provincial Treasury websites for the tender bulletins.
6	Resources available to primary service units	**No** – the resources available to primary services was not readily available on the internet.	N/A
7	Fees and charges for major services are posted at the service delivery site and in other appropriate locations/media	**No –** The motor vehicle licenses, registration fees, traffic fine rates and the uniform patient fee schedule for the Eastern Cape is not readily available for members of the public.	N/A

Indicator	Score	Evaluation
PI-10 Public access to key fiscal information	**B**	**Scoring method M1**
Number of elements listed above regarding public access to information that are fulfilled.	B	Four of the seven listed elements of information are made available to the public via the web and other means.

3.2 Policy based budgeting

PI-11 Orderliness and participation in the annual budget process

Dimensions to be assessed (scoring method M2): ***(i) Existence and observance of a fixed budget calendar*** ***(ii) Guidance on the preparation of budget submissions*** ***(iii) Timely approval of the budget by the legislature***

Background

South Africa's budget process adopts a medium-term expenditure framework (MTEF). The role of the MTEF, premised upon a three-year rolling macro-fiscal framework, is programme prioritisation, the efficient re-programming of resources and programme implementation control. Further, it serves as a firm budget allocation guideline for the management of departmental revenue collection and expenditure. The chart of accounts is fully aligned with the budget structure. Both the recurrent and capital budget preparation is integrated into a single budget process managed by the National Treasury.

(i) Existence and observance of a fixed budget calendar

Departments have the opportunity throughout the budget cycle to adjust their budgets, with a first submission in August, a second in November and a final submission in January/February. This allows the factoring of national changes to conditional grants and the incorporation of new programmes following the bids for resources over and above the baseline. Between the first submission in August, and the final submission in January/February, departments are required to ensure that their budget submissions and annual performance plans (APPs), as well as the input from the public entities, are discussed with the relevant portfolio committees of the Legislature before they are submitted to the Provincial Treasury, thus ensuring the involvement of political leadership in the budget preparation process.

As evidenced in the timetable below, the departments have a number of months to prepare and refine their budgets over the budget period. They have a number of months between the budget circular (issued in July/August) and the final submission to National Treasury (in January/February).

Table 27: Budget calendar (summary)

	2011/12	2012/13	2013/14
Budget circular issued by the Provincial Treasury	21 July 2010	20 July 2011	13 August 2012
First budget submission due from provincial departments	20 August 2010	19 August 2011	20 August 2012
EPRE tabled in Provincial Legislature	6 March 2011	6 March 2012	6 March 2013

Source: Budget circulars 2011/12, 2012/13 & 2013/14

(ii) Guidance on the preparation of budget submissions

The budget process in the province is guided by MTEF guidelines issued by the National Treasury. This document is issued at the start of the budgeting process, normally in June of the prior year, to prepare the next year's budget. In addition to the document the Provincial Treasury organises workshops to clarify the application of the guidelines and formats for all departments and public entities.

Although the budget allocations are only finalised later in the process, the departments are able to prepare their preliminary budgets in the context of the MTEF. During the course of the budget process, the departments are issued with preliminary allocation letters, which detail the preliminary departmental ceilings. Once the allocation amounts are finalised, they are disseminated to the provincial departments in January/February to allow the them to adjust their final budgets prior to the final submission due date and the tabling of the budgets in Parliament.

(iii) Timely approval of the budget by the Legislature

Once the estimates of EPREs are tabled in March of the current year, the legislature reviews and debates it. Thereafter the finance portfolio committee hears all departments and public entities before presenting its report to the Legislature. Each department's budget is approved separately, usually from April to May, i.e. in the new fiscal year. The Appropriation Act, prepared by the Provincial Treasury, is normally enacted in July, three or four months after the start of the fiscal year. Section 29 of the PFMA allows expenditure of budget funds prior to the approval of an annual budget.

Table 28: Dates for budget approval by legislature

Financial year	Approval of the budget by the legislature
2011/12	31 May 2012
2012/13	19 June 2013
2013/14	24 July 2014

Source: Minutes of proceedings – Eastern Cape Legislature

Indicator	Score	Evaluation
PI-11 Orderliness and participation in the annual budget process	**B**	**Scoring method M2**
(i) Existence and observance of a fixed budgetary calendar	A	A clear annual budget calendar exists, is generally adhered to and allows departments enough time (and at least six weeks from receipt of the budget circular) to meaningfully complete their detailed estimates on time.
(ii) Directives on the preparation of budgetary documents	A	A comprehensive and clear budget circular is issued to departments. The departments are guided by the ceilings/allocations reflected in the MTEF. Although the budget circular does not reflect the ceilings, preliminary allocation letters are issued approximately four months before the budgets are tabled in parliament giving the departments adequate time.
(iii) Timely approval of the budget by the legislature	D	The budget has been approved with more than two months' delay (since the start of the financial year) in two of the last three years.

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

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

South Africa has adopted a multi-year perspective to its budget formulation process, which accommodates a direct integration of some elements of strategic content into the budget through the linkage to the five-year medium-term strategic framework using departments' annual performance plans and strategies, as well as the guidance given by the NDP. The MTEF is based on three-year rolling aggregate forecasts. The forecasts are allocated on the basis of cluster, economic and programme classifications.

The Minister of Finance presents the MTBPS on an annual basis to Parliament. This statement provides a high-level overview of the forecast revenue and expenditure of the government and provides indications of the forecast annual budget ceilings.

The National Treasury has revised Treasury regulations 5 and 30 issued in terms of the PFMA to provide the necessary legal basis for the implementation of this framework and to support the implementation of the framework for managing programme performance information.

Consistent with the regulations, the Eastern Cape departments and the Eastern Cape planning commission produced and implemented the following reports:

- The planning commission and the departments produced strategic plans with five-year planning horizons (in 2009/2010) within 12 months after the provincial elections in 2009, outlining the planned sequencing of projects and programme implementation and associated resource implications and other prescribed information.
- The departments produced and tabled annual performance plans including forward projections for a further two years, consistent with the MTEF period, with annual and quarterly performance targets, where appropriate, for the current financial year and the MTEF.
- Ensured that there is alignment of reporting between the strategic plans, annual performance plans, budget documents and annual and quarterly reports.

(ii) Scope and frequency of debt sustainability analysis

The province has no debt prerogatives and no DSA is carried out at the provincial level.

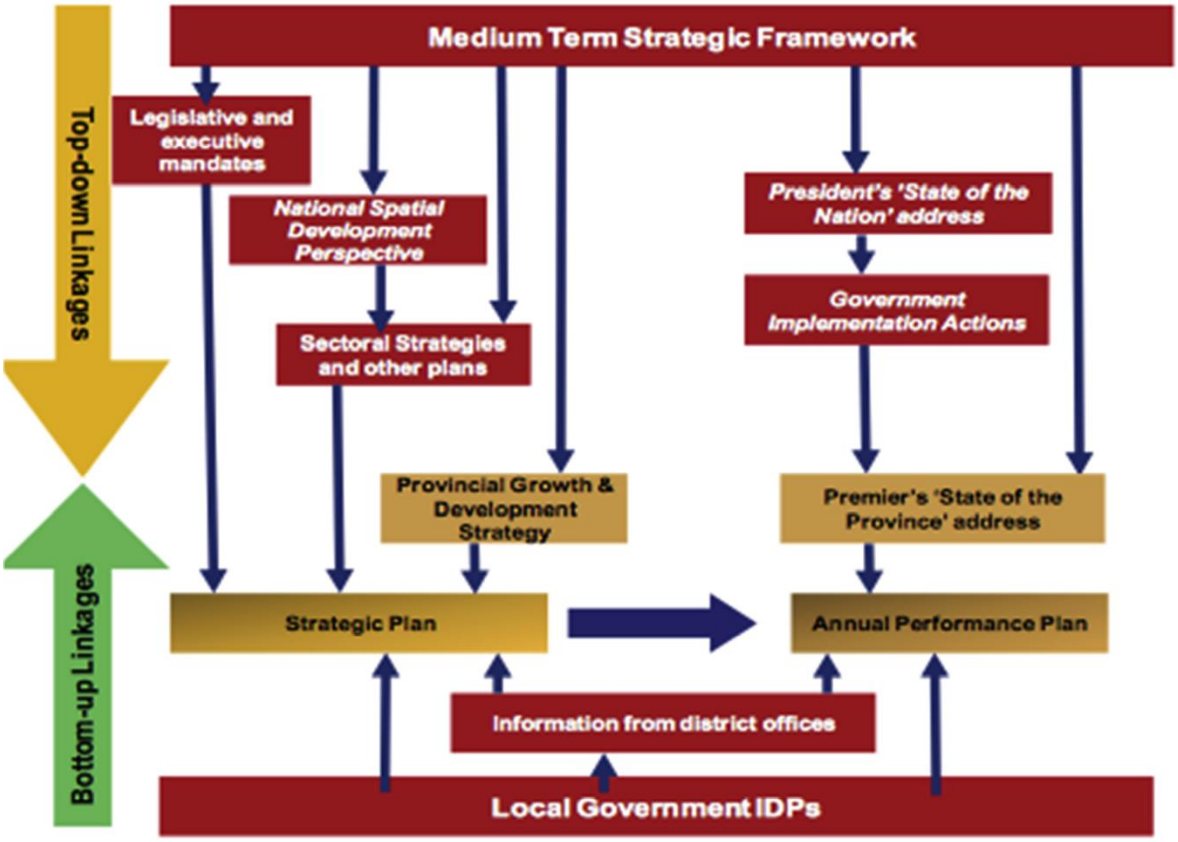
(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure

The medium-term strategic framework with a five-year planning horizon, aligned with the political election cycle, defines the national strategic direction. The Eastern Cape planning commission is in the process of developing the provincial development plan (2014 – 2030). Previously, the strategic direction of the province was provided via the Eastern Cape provincial growth and development plan (2004 to 2014).

The major provincial departments (including Education, Health and Public Works representing in excess of 75 per cent of departmental spend) prepare sector strategies with a five-year planning horizon at the beginning of the election cycle, which are aligned to the medium-term strategic framework (that in turn is guided by the NDP).

With the introduction of the NDP in 2012, government is now aiming to create a closer link between policies and the related budgets (at least for the first five-year period). Each of the departments are currently in the process of preparing their new strategy documents with the appointment of the new MECs after the national and provincial elections in May 2014 and will table these strategic plans in February/March of the coming year.

Figure 1: Links to planning frameworks and other plans



(iv) Linkages between investment budgets and forward expenditure estimates

The 2014-2019 MTSF guides the coordination of policy and resource distribution through 14 outcomes that shape allocations to government's functions. Within this strategy, the MTBPS defines the broad national policy direction over a five-year horizon that shapes the prioritisation schedule of sector strategy programmes that are incorporated into the MTEF.

In terms of the framework for strategic plans and annual performance plans (August 2010), the departments are required to apply activity-based costing to better improve the link between budgets and the performance targets.

At an Eastern Cape provincial and departmental level, the effect of significant investments in infrastructure and other related capital assets are included in the strategic plans of the departments and therefore incorporated into the MTEF. Furthermore, the annual performance plans detail the performance of the department in relation to the budget and the MTEF. Even though the costs related to new investments are not separately disclosed in the forecasts as recurrent costs, the costs are included in the future operational budgets of the departments.

Indicator	Score	Evaluation
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	**A**	**Scoring method M2**
(i) Multi-annual fiscal forecasts and functional allocations	A	Forecasts of fiscal aggregates are prepared for three years, including the budget year. The forecasts are directly linked to subsequent budget ceilings and include functional/sector classifications.
(ii) Scope and frequency of debt sustainability analyses	N/A	The province has no debt prerogatives and no DSA is carried out at the provincial level.
(iii) Existence of sector strategies with cost determination	A	Strategies for departments representing at least 75% of primary expenditure exist with full costing of recurrent and investment expenditure, broadly consistent with fiscal forecasts.
(iv) Links between investment budgets and future expenditure estimates	A	Investments are consistently selected on the basis of relevant sector strategies and recurrent cost implications in accordance with sector allocations and included in forward budget estimates for the sector.

3.3 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***

Background

In terms of section 3 of the South African Revenue Services (SARS) Act, 1997 (No. 34 of 1997), SARS is mandated to perform the following tasks as a national competency:

- Collect all revenues that are due;
- Ensure maximum compliance with the legislation; and
- Provide a customs service that will maximise revenue collection, protect our borders as well as facilitate trade.

Schedule 1 of the Act provides for all the taxes administered by SARS, inclusive of income tax (revenue based tax), customs and excise (consumption based tax), unemployment insurance, workman's compensation insurance, VAT (consumption based tax) etc. In certain instances, municipalities can raise both ownership based taxes (based on property ownership) and consumption taxes (rates for cleaning services etc.). At provincial government level certain taxes as discussed here below are collected by the departments.

Provincial *Own revenue* consists mainly of motor vehicle licenses collected by the Department of Transport in terms of the National Road Traffic Act (No. 93 of 1996) based on ownership of motor vehicles. Gambling and betting taxes as well as liquor license fees are administered and collected by the Department of Economic Development, Environmental Affairs and Tourism (on ownership and/or consumption basis) in term of the respective national legislation. Patient fees collected by the Department of Health (49 per cent) accounts for the major portion and commission on insurance premium deductions collected by the Department of Education (28 per cent) accounts for the second largest portion of *Sale of goods and services other than capital assets*. The budget for *Own revenue* at provincial level can be analysed as follows:

Table 29: Eastern Cape Province - own revenue

Sources of revenue R'000	**2011/12** **Actual**	**2012/13** **Actual**	**2013/14** **Estimated**
Casino taxes	111 273	86 228	97 409
Horse racing taxes	7 224	20 614	17 197
Liquor licences	3 436	5 600	5 666
Motor vehicle licences	347 612	394 582	423 730
Total taxes	469 545	507 024	544 002
Sale of goods and services other than capital assets	156 627	176 635	183 967
Transfers received	25	0	160
Fines, penalties and forfeits	6 910	10 871	8 220
Interests, dividends and rent on land	78 516	140 004	197 576
Sale of capital assets	4 494	716	10 180
Transactions in financial assets and liabilities	77 501	64 081	59 687
Total own	**793 618**	**899 331**	**1 003 792**
Provincial total receipts	**54 605 279**	**57 863 149**	**60 909 165**
Total own as percentage of provincial total receipts	**1.45%**	**1.55%**	**1.65%**

Source: Annual budget booklets

For purpose of the effective assessment of indicators PI 13 to 15, taxes will be regarded as casino taxes, horse racing taxes, liquor licences and motor vehicle licences.

(i) Clarity and comprehensiveness of tax liabilities

Motor vehicle licences: The major portion of the department's revenue is derived from tax receipts collected in terms of the National Road Traffic Act (NRTA). The NRTA prescribes the registration and licensing of motor vehicles, manufacturers, builders and importers, as well as the licensing of drivers of motor vehicles. The NRTA Regulation 24 (2) (b) stipulates that each province determines its own registration and license fees, which are increased annually by proclamation in the respective provincial gazettes. The annual license fees are assessed on the basis of the vehicle's tare with separate scales for vehicle types.

Gambling and racing taxes: The bulk of the department's own revenue is generated from tax receipts which comprise casino levies and horse racing taxes. Levies and license fees in respect of horse racing and gambling (casino), are collected in terms of the Eastern Cape Gambling and Betting Act, (No. 5 of 1997) read with the National Gambling and Betting Act (Act No. 10 of 2008). The Act and regulations prescribe the levies and fees payable by parties licensed in terms of the Act. Betting licenses and levies are determined in accordance with the Act. Betting on horse races is catered for under the regularity framework.

Liquor licence fees: Fees are determined in accordance with the Eastern Cape Liquor Act, (Act No. 10 of 2003) read with the National Liquor Act (Act No. 59 of 2003) and regulations in terms Section 182. The liquor tariffs are contained in the National Liquor Act. Regulations and communicated by the Minister of Justice. Provinces cannot change national tariffs. Liquor Licence fees are payable annually. The tariffs for liquor licences are communicated from October each year with each individual licence holder by a way of Form 22. The licence holders are required to produce the Form 22 when renewing the licence.

(ii) Taxpayer access to information on tax liabilities and administrative procedures

Roads and Transport: The department issues a gazette annually to communicate with the public, and tables of tariffs are posted on notice boards in all revenue points and registering authorities. Taxpayers (motor vehicle owners) are billed once per annum directly and are based on registered ownership.

Economic development: The fee structure in respect of casino, horse racing and liquor tariffs is communicated to the general public through gazettes. All tariffs are included in retail and wholesale (where applicable) pricing etc. Members of the general public are not involved in the administration of these taxes and these taxes are regarded as indirect taxes as the taxpayer is not invoiced separately.

(iii) Existence and functioning of a tax appeals mechanism

There is no appeal mechanism in place as the tariffs are determined in terms of legislation and are non-negotiable. Proposed changes to any rates and tariffs enforced by law are contained in the national budget process, approved by the national cabinet on an annual basis.

Indicator	Score	Evaluation
PI-13 Transparency of taxpayers' obligations and liabilities	**B**	**Scoring method M2**
(i) Clarity and comprehensiveness of tax liabilities.	A	There is generally clear and comprehensive legislation and procedures in respect of most major taxes and there is a limited discretionary power of the government entities involved as sub-national taxes must be in line with national policy and budget guidelines. No entity has the right to introduce taxes that are not applied on a national basis.
(ii) Access by taxpayers to information about responsibilities and administrative procedures in relation to taxes.	B	Motor vehicle licences are recovered directly from the vehicle owner and are billed and payable on an annual basis. The gaming and liquor taxes are regarded as indirect taxes and taxpayers are not invoiced separately.
(iii) Existence and functioning of a tax appeals mechanism.	D	No appeal system is in place.

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***

Background

The background to tax administration is discussed in detail in PI 13.

(i) Controls in the taxpayer registration system

Motor vehicle licences: All new vehicles in the province are registered and recorded on the National Traffic Information System (eNaTIS) at the point of manufacturer or entry. eNaTIS is an online system that supports the relevant legislation in terms of motor vehicle registration and licensing. The purpose of the eNaTIS system includes the registration of all motor vehicles, and the identification and monitoring of the source of motor vehicles, through the registration of motor vehicle manufacturers, importers and builders. The system identifies the title holder and owner of every registered motor vehicle (based on unique identification numbers, for example Identity numbers for individuals) and facilitates the collection and recovery of annual and outstanding motor vehicle licence fees. The South African Revenue Services (SARS) have access to the eNaTIS system but the department is responsible for collecting taxes in respect of vehicle registration and licensing.

Gambling and betting: The regularity framework stipulates that gambling can only be conducted in accordance with the Act. Prospective licensees must apply and pay the required fee as set out in the Act. Applications are open to public inspection.

Liquor licences: In terms of the Liquor Act (No. 27 of 1989) and regulations in terms of Section 182, prospective licensees must apply and pay prescribed fees. After lodging of the application, any person may lodge a written objection to or petition against; or a written representation or a petition is support of such application within the prescribed period. Non-compliance to any of these acts is regarded as a criminal offence and transgressors are prosecuted.

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

Roads and Transport: Failure to license or register a vehicle will result in penalties being charged. The penalties are incurred automatically from the date of non-compliance and remain on the system until settled. According to regulations, the penalties are calculated as 1/10th of the appropriate fee for every month or part month that the licence remains unpaid.

Economic development: Penalties are charged for late payments and in case of non-payment, no trading will be allowed. Licence holders are required to renew licences by 31December each year. January has a penalty of 50 per cent and February a penalty of 100 per cent in addition to the renewal fee. If the licence is not renewed by 28 February, the licence lapses with the effect that it becomes invalid. If the licence holder wants to revive the licence, he/she is required to apply for the approval of the licence as if it never existed.

(iii) Planning and monitoring of tax audit and fraud investigation programmes

The Department of Economic Development, Environmental Affairs has established a gambling board and a liquor board in line with the Acts to oversee and monitor compliance. The department does not perform audits of revenue collection systems of the gambling board. Statistics in the annual report indicate that the ECLB licensed 8 550 liquor outlets during the year 2013/14. The ECGBB issued 13 gambling and betting licenses. As non-compliance could be a criminal offence, the South African Police Services are regularly involved in raids and inspections, but there is no formalised visit schedule in place.

Roads and Transport: The department does not conduct audits and only performs reconciliation of the collected money.

Indicator	Score	Evaluation
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	**B**	**Scoring method M2**
(i) Application of controls in the taxpayer registration system.	A	The relevant departments maintain a database that facilitates identification of the relevant approved applications and registered taxpayers as all details (motor vehicle licences, liquor licences) are linked to unique personal identity numbers (issued by the Department of Home Affairs) and for business entities (all licences) issued by the CIPRO and SARS. For any application it is mandatory to submit a valid registration or personal identification document.
(ii) Effectiveness of sanctions for failure to register and declare taxes.	A	There are effective penalties for Roads and Transport, and Economic Development.
(iii) Planning and control of tax audit programmes.	D	Though inspections and raids are done, it is not in accordance with a pre-determined time schedule.

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***

Background

The background to tax administration is discussed in detail in PI-3.

(i) Collection ratio for gross tax arrears

Motor vehicle licences: The 2013/14 annual report indicates a collection rate of 102 per cent, and a 93 per cent collection rate for 2012/13. The department attributes the performance to frequent visits by departmental officials to the various registration authorities in the province. Details of arrears is maintained but not disclosed in the annual financial statements due to the cash basis of accounting.

Gambling, betting and liquor licences: The department has indicated that it does not have any arrears as failure to pay taxes by licensees will result in their licences being suspended and hence they will not be able to operate. Payment of fees is a prerequisite for the issuing of a licence.

(ii) Effectiveness of transfer of tax collections

Motor vehicle licences: The money collected at the registering authorities is deposited into the department's paymaster-general (PMG) account. The department also appointed the South African Post Office (SAPO) as collecting agent and on receipt of the money a receipt is issued and captured in the financial system. The fees are collected on a daily basis and the money is transferred electronically daily into the PMG account as prescribed by the service Level agreement (SLA). The municipalities also license fees for the department. The fees are collected daily and deposited into the municipality bank account. Revenue collected at the municipalities is then transferred into the department's PMG account on or before the 15th of every month in line with the SLA. All revenue received by the department is transferred monthly into the PRF in line with the Provincial Treasury's cash flow management transversal policy. However, these funds are not always transferred monthly.

Gambling, betting and liquor taxes and licences: Gambling and betting revenue is collected by the gambling board and transferred to the department's PMG account and subsequently to the PRF. This is done on a monthly basis. Liquor licences are collected through electronic fund transfers in the department's PMG account or through the department's cashiers. The transfer to the PRF is in line with Treasury's cash flow management transversal policy and is done monthly. However, these funds are not always transferred monthly.

(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts

Roads and Transport: the department performs reconciliation on receipts of remittance by collecting agent. All receipts are captured in the BAS and paid over to the PRF on a monthly basis.

Economic development: monthly reconciliation is performed between the department and the gambling board, and a schedule of payment accompanies the transfers. Liquor licence fees are paid directly into the department's PMG account.

Indicator	Score	Evaluation
PI-15 Effectiveness of tax collection	**C+**	**Scoring methods M1**
(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).	A	The average actual collection rate for motor vehicle licences was 97% against budget for the past two financial years. Motor vehicle licence fees are paid in advance and the annual budget process incorporates historical statistics from the motor vehicle registration system. It is mandatory that a licence is issued for all new vehicle purchases. Arrears are therefore regarded as insignificant as it usually represents a vehicle not in use any more (accident write off etc.) Gambling, betting and liquor licences are paid upfront before a valid licence is issued (thus 100%).
(ii) Effectiveness in the transfer of recovered taxes to the Treasury by the revenue administration.	C	Actual transfers are not done monthly and as per the 2013/14 annual report, certain registration authorities have not transferred all funds.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and transfers to Provincial Treasury.	A	Complete reconciliation of revenue assessments, collections, arrears and transfers to the PRF takes place at least monthly, within one month of end of month.

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***

Background

Section 28 of the Public Finance Management Act (PFMA) (No. 1 of 1999), read with the National Treasury regulations, part 3, provides for multi-year budget projections at national and provincial levels.

Tax revenue is centralised in South Africa. This requires funds to be transferred to provinces as revenue from national government as equitable share and conditional grants. The usage of the equitable share portion is left to the discretion of the provincial treasuries and each provincial legislature while conditional grants are allocated to specific departments, programmes and/or functions.

Parliament approves the Division of Revenue Act (DORA) annually, indicating equitable share (ES) and conditional grant funding (CG) to provinces and departments, granting full authority to spend at the beginning of the financial year. The Act also provides for indicative funding for the following two years in line with the implemented MTEF policy of the National Treasury.

Provincial treasuries, in line with the National Treasury, annually implements a budget guideline each year, setting out timelines and timeframes for specified deliverables. Section 27 of the PFMA stipulates that the annual budgets must be tabled in Parliament (for national departments) and provincial legislatures (for provincial departments) before the start of each financial year.

In summary, the following original (initial) funding was annually allocated to the Eastern Cape provincial government and appropriated by its Provincial Legislature to the selected (sampled) departments for the four years up to 2014/15, and with indicative figures for the outer two years of the 2014/17 MTEF period ending 2016/17:

Table 30: Original budgets

R million	Education Vote 6	Health Vote 3	Social Development Vote 4	Treasury Vote 12	Public Works Vote 5	Economic Development Vote 9	Transport Vote 10	Rural and Agriculture Vote 8
2012/13	**24 635**	**14 237**	**1 711**	**303**	**3 269**	**884**	**1 454**	**1 510**
ES	22 058	11 744	1 705	302	2 021	753	903	1 278
CG	2 522	2 415	6	0	1 232	2	170	225
2012/13	**26 288**	**15 166**	**1 782**	**352**	**3 742**	**936**	**1 323**	**1 694**
-ES	23 678	12 461	1 775	279	2 105	816	731	1 427
-CG	2 554	2 625	7		1 621	1	177	260
2013/14	**26 972**	**16 584**	**2 015**	**375**	**3 670**	**1 071**	**1 532**	**1 714**
-ES	24 633	13767	2 008	375	2 502	1 070	1 345	1 435
-CG	2 339	2 818	7	0	1 168	1	188	279
2014/15	**27 935**	**17 509**	**2 159**	**378**	**4 025**	**1 444**	**1 708**	**1 867**
-ES	25 357	14 434	2 141	378	2 684	1 442	1 509	1 579
-CG	2 578	3 074	17	0	1 341	2	199	288
2015/16	**29 756**	**18 235**	**2 263**	**388**	**3 931**	**1 526**	**1 601**	**1 859**
-ES	26 695	15 151	2 254	388	2 780	1 526	1 397	1 568
-CG	3 060	3 084	9	0	1 151	0	204	292
2016/17	**29 675**	**18 893**	**2 375**	**409**	**4 093**	**1 592**	**1 686**	**1 945**
-ES	28 148	15 997	2 375	409	2 931	1 592	1 471	1 641
-CG	1 527	2 896	0	0	1 163	0	215	304

Source: Annual budget booklet
Note: Own revenue excluded from the above summary

Sections 39 and 40 of the PFMA, read with the National Treasury regulations sets out the responsibilities of the accounting officer in respect of budget control inclusive of monitoring and monthly reporting. This includes in-year monitoring (IYM) reports to be submitted monthly which includes cash flow forecasting calculations.

The annual adjustment budget process is provided for in the PFMA, read with the Treasury regulations and is done in line with the National Treasury guidelines providing for revised estimates of revenue and expenditure and the rollover of funding for specified commitments originating from the prior year.

(i) Extent to which cash flows are forecasted and monitored

Chapter 15.10.2 of the Treasury regulations of March 2005 provides the regulatory framework on the preparation and update of annual cash flow forecasts by each department, as enacted under Section 7 of the PFMA. Departmental annual *pro forma* cash flow statements are prepared and submitted to the National and Provincial Treasuries, based on which expenditure commitment ceilings are set for each department, once the Provincial Legislature approves the national budget - which in practice occurs two months after March 31 each fiscal year.

These annual *pro forma* cash flow statements are updated monthly on a rolling basis based on the annual general budget release warrants issued by the provincial MEC in accordance with the Appropriations Act passed by the Provincial Legislature, and actual cash releases for payment of expenditure incurred by each department through the BAS accounting software which runs across all departments. The National Treasury notifies the Provincial Treasury, which then notifies each department in the event of any changes to the cash flow forecast prior to budget approval, giving departments enough notice for any amendments and reprioritisation.

(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment

Following the tabling of the budget, each department prepares and submits an annual cash flow statement to the Provincial Treasury. The Provincial Treasury consolidates all departmental cash flows into a provincial cash flow schedule. The provincial MEC for Finance issues a general annual budget release warrant to each department based on the ceilings derived from the cash flow statements. Both the departmental cash flow and the consolidated provincial cash flow statements are updated monthly on a rolling basis flowing from expenditure commitment based on the general warrant and actual cash drawdown by each department for payment of expenditure. The Treasury releases cash each month to each department, through the departmental paymaster-general account - a sub provincial revenue fund account, for payment of expenditure incurred.

(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs

The PFMA and sections 43 and 76(3), and Chapter 6.3 respectively of the Treasury regulations of 2005, stipulate the legal and regulatory framework for budget and expenditure virement in departments. Department budget reallocations across divisions in the same vote are allowed; this can be initiated and authorised by the MEC or accounting officer in charge of that department up to 8 per cent of the original approved budget without recourse to the MEC of Finance. However, the accounting officer is mandated to report on the virement to the MEC of Finance within seven days.

The Provincial Treasury is responsible for monitoring and compiling all departmental virements, which are then reported to the Provincial Legislature at least once a year.

The MEC of Finance, by legal powers vested in him or her under Section 31 of the PFMA, can prepare and present a supplementary budget to the Legislature for approval as and when required; in practice this usually occurs once a year midway through the fiscal year, around October.

Table 31: Budget execution, expenditures' phases, procedures and entities involved

Phases	Operations	Entities involved
1	Division of Revenue Act (national level)	National Treasury
2	Provincial Budget Appropriation Bill	Provincial Treasury
3	Strategic plans; annual performance plans, procurement	Provincial departments
4	Approval of departmental budget	Departments; Provincial Treasury Provincial Legislature
5	Budget allocation letter	Provincial Treasury
6	Capturing of budget on BAS (financial accounting system)	Departments
7	Processing and payment for procurement of goods and services	Departments
8	Monthly (ongoing) review and reporting on expenditure patterns, identification of budget challenges and surpluses; cash flow forecasting	National Treasury; Provincial Treasury; departments
9	Adjustment budget process – repeat 2 to 8 above.	National Treasury; Provincial Treasury; departments and the Provincial Legislature.

NB: The assessment of this indicator is to what extent the National Treasury provides reliable and timely information on the availability of funds to each government department. The timeliness and reliability of this information is paramount to the efficiency and effectiveness of departmental service delivery.

Indicator	Score	Evaluation
PI-16 Predictability of availability of funds for commitment of expenditure	**A**	**Scoring method M1**
(i) Degree to which cash flow forecasting and monitoring is carried out	A	Each department prepares and submits an annual cash flow statement to the National Treasury, which serves as the basis for expenditure commitment ceilings. The annual cash flow statements are updated monthly as and when required in line with budget release warrants and actual cash releases for payment of expenditure.
(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 prepare annual cash flow forecasts and submit to the National Treasury, which are updated monthly. The Treasury informs each department on their expenditure commitment ceilings by issuing an annual general budget warrant.
(iii) Frequency and transparency of the adjustments made to the budgetary allocations available at a level higher than MDA administrations	A	Provincial adjustments were done annually for each year under review, approved by Legislature. This is a formal process guided through the National Treasury legislation and guidelines and is done only once a year.

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***

NB: The completeness and quality of government debt recording and management, as well as the overall consolidation and management of government cash balances are assessed under this indicator. Debts including government guarantees, loans, and public-private partnership (PPP) arrangements, among others, are equally assessed under this indicator.

Background

The Eastern Cape provincial government has limited borrowing powers as prescribed by the Borrowing Powers of Provincial Governments Act (No. 48 of 1996) read with section 66 of the Public Finance Management Act (No. 1 of 1999), and are subject to the conditions as set out in these acts. At provincial department level, debt is limited to unpaid supplier invoices and bank overdrafts. Additional disclosure is made of contingent liabilities and contractual obligations (commitments), however, in order to illustrate the possible overall liabilities.

In accordance with section 38 (2) of the PFMA, accounting officers may not commit a department to any liability for which money has not been appropriated.

It is evident from the provincial annual reports that no guarantees were issued other than those that are employee related as approved by the National Treasury i.e. housing guarantees. At 31 March, these guarantees can be summarised as follows.

Table 32 Housing guarantees provided

R million	Education	Health	Social Dev	Treasury	Public Works	Economy	Transport	Rural D
2011	129	12	0	0	0	0	0	4
2012	117	9	0	0	0	0	0	2
2013	106	6	0	0	0	0	0	2
2014	75	5	0	0	0	0	0	2

Source: Department annual reports

At 31 March, these cash balances can be summarised as follows.

Table 33: Cash balances

R million	Educati on	Health	Social Dev	Treasury	Public Works	Economy	Transport	Rural Develop-ment
2011	-839	-785	19	3	21	7	32	-55
2012	-425	-958	2	4	-5	9	30	-37
2013	13	-823	0	18	-14	14	5	0
2014	0	25	0	2	23	9	57	0

Source: Department annual reports

(i) Quality of debt data recording and reporting

For cash balance management in the province, each department performs a monthly reconciliation on its own PMG account. These reconciliations should be submitted by the 14th of every month as part of the in-year monitoring (IYM) oversight reports to the Provisional Treasury. The Provincial Treasury performs the monthly reconciliation on the PRF as well as on the corporate provincial deposits account (CPD).

The near real time recording and management of cash balances in the Treasury single account held with the South African Reserve Bank provides a critical component for managing budget disbursements to the provinces. The province's funds are transferred to the PRF which is managed by the Provincial Treasury. Cash management division in the Provincial Treasury allocates the funds to the departments as per the annually approved payment schedule. This information is then reported and published in the quarterly in-year monitoring reports at a provincial and national level. Funds appropriated but not spent in the particular financial year may be rolled over to the subsequent year, provided the conditions as per the Treasury regulation S6.4.1 are met. In instances where these are not met, the funds need to be refunded to the National Revenue Fund (NRF). For purpose of assessing this indicator, the bank overdraft balances are regarded as the only debt incurred.

(ii) Extent of consolidation of the government's cash balances

The Provincial Treasury consolidates all bank balances daily.

(iii) Systems for contracting loans and issuance of guarantees

Article 218 of the Constitution, the PFMA and section 16 of the Treasury regulations clearly spell out the legal and regulatory framework governing government guarantees, loans and PPP arrangements. The Minister of Finance is the sole authority for contracting central government loans and approving guarantees for some public entities, under Schedule 2 of the PFMA.

Prior to the implementation of the PFMA, state employees were allowed to take home loans by means of guarantees, both nationally and provincially. The criteria set for housing guarantees with the South African banks was for a five-year period. If any employee defaulted on the liability to the bank within this period, the department would thus be liable for the outstanding debt. The department would therefore recover the monies from the employee either from their salaries or pension fund. To date the department's financial statements are showing balances on state guarantees, some of which have been recovered but not yet accounted for in the records. The reliability of the information relating to the state guarantees is therefore not completely accurate.

In view of the above, this PI is only evaluated for guarantees issued. Scrutiny of the reporting done by the Auditor-General for the 2013/14 financial year for the Department of Education (being the major department) contains no findings pertaining to accuracy and completeness. It is accepted that historically approved guarantees will remain valid until suspensive conditions are met.

Indicator	Score	Evaluation
PI-17 Recording and management of cash balances, debt and guarantees	**A**	**Scoring method M2**
i) Quality of the records and reports presented on debt data	N/A	For all bank balances, monthly reconciliations are done, Provincial Treasury applies cash management processes to minimise interest costs. Adequate disclosure is made of these balances which are available on a daily basis.
ii) Degree of consolidation of government cash balances	A	This function is done daily by the Provincial Treasury.
iii) Systems for contracting loans and issuance guarantees	A	This is only applicable for guarantees which were regulated through a legal framework pertaining to employment conditions and benefits. In term of the national legislative framework, staff rules and regulations, every government employee has the right to a guarantee subject to compliance with the prescribed (transparent) conditions and criteria. There is no fiscal target as far as guarantees are concerned as there is no financial implication to the state. The government recovers any guarantee that is called up from monthly salaries, pensions and resignation benefits.

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***

Background

Chapter 10 of the Constitution and the Public Service Act (Act No. 103 of 1994), amended by the Public Service Amendment Act (Act No. 30 of 2007) are the constitutional and legal frameworks that regulate public sector human resource administration in South Africa. Chapter 4 of the 1994 Act details the procedure for recruitment, appointment, promotion, changes and transfers. The Public Service Commission is established as a constitutional body under Chapter 10, Article 196 of the Constitution to advance the principles and values of public servants, provide directions and guidelines in the recruitment of public servants, investigate and report on human resource administration in the public sector, among others. The Department of Public Service Administration regulates, in accordance with the Public Service Act, government human resource in terms of budgeting for posts, developing HR manuals and standards, and the necessary infrastructure for efficient utilisation of public sector human resource.

The government payroll system, PERSAL, is a national system under the custodianship of the National Treasury. The responsibilities for maintaining the payroll and data basis is divided between the National Treasury and provincial departments. For example, annual salary increases are processed electronically by the National Treasury while staff movements (resignations, appointments, promotions) are processed at provincial level.

The Department of Public Service and Administration (DPSA) is mandated to foster good governance and sound administration in the public service. The mandate of the department has evolved over the years from transforming and modernising the public service through the development and implementation of policies and frameworks to providing implementation support to ensure compliance, improve service delivery and strengthen monitoring and evaluation. The duties of DPSA are driven by the Public Service Act.

Manual personnel records (salaries, leave, personal) are maintained and managed at provincial department level. At provincial department level the processing of employee specific adjustments, movements and changes are decentralised and delegated to the regions, districts and institutions. For example, if a teacher is relocated to another school, the two schools involved will process the transfer in writing (documents) and the database is updated at district or regional level on receipt of these documents, depending on capacity and standing delegation of authority.

Monthly payroll certification as internal control mechanism is provided for in the Treasury regulations 8.3.4 and 8.3.5 (issued in line with the PFMA).

The Departments of Education and Health, combined, represent 86 per cent of employee costs in the province while employee costs in total represent 78 per cent of expenditure in the Eastern Cape provincial government. Personnel numbers (excluding abnormal appointments) as disclosed in the annual reports (HR oversight reporting) are as follows.

Table 34: Number of staff for selected departments

	Education	Health	Social Develop-ment	Treasury	Public Works	Economic Develop-ment	Transport	Rural and Agriculture
	Vote 6	Vote 3	Vote 4	Vote 12	Vote 5	Vote 9	Vote 10	Vote 8
2011/12	82 767	41 133	4 097	459	3 598	628	1 663	3 286
2012/13	80 767	39 480	3 270	442	3 519	594	1 688	3 152
2013/14	80 942	38 642	4 158	434	3 719	598	1 542	3 048

Source: Annual reports

The Auditor-General has cited numerous incidents of non-compliance and weaknesses in internal controls in the audits conducted on the Departments of Education and Health.

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

Departments have direct authorised access to the human resource interface in PERSAL (Personnel and Payroll Software) linked to the payroll platform managed by the National Treasury. Access to the personnel interface is controlled with passwords for authorised staff in the human resource units of each department. In some departments, biometric controls (finger prints) have also been introduced. At the beginning of each fiscal year and as part of the annual budget process, each department provides an estimate of its human resource requirements which goes through the necessary administrative and parliamentary approvals before any new entrants are recruited, based on available posts. PERSAL links three databases: the post database - this is for regulating the positions; the personnel database - this regulates the physical existence of people employed; and the payroll database - this regulates the approved remuneration of staff recruited. Furthermore, PERSAL has an early warning of personnel and payroll management in terms of any irregularities: this is referred to as Vulindela.

(ii) Timeliness of changes to personnel records and the payroll

Changes to personnel and payroll are not in all instances timely as result of the decentralised location of employees (schools, hospitals).

New appointments are reasonably well managed and these occur within one month after all the necessary administrative protocols have been approved. A new recruitment which occurs remotely from a department headquarters in one month typically takes effect the following month and ensures the new staff receives his/her remuneration.

Termination of services, relocation of staff, changes to personal details and leave records however remains a challenge for the large departments like Education and Health and forms the basis for negative findings by the Auditor-General. The National Department of Basic Education, for example, is continuously requested by aggrieved officials to intervene at provincial level.

Departments are responsible for managing their personnel database, which is budgeted for in accordance with approved established posts. The integration between the personnel and payroll database allows changes to be promptly effected.

(iii) Internal controls of changes to personnel records and the payroll

Every staff member on government payroll is paid through a dedicated personal bank account via an electronic payment system administered by the National Treasury. No staff member, either permanent or casual, is paid with cash. Audit trails are in-built in PERSAL to track changes by authorised officials. Encryption functionality with the payroll software prevents unauthorised access to personnel and payroll data of staff. Access is granted to departments with authorised permission but only to data related to that particular department. Each authorised human resources staff member has a password that allows access to PERSAL.

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

Heads of units in each department perform staff head counts each month and sign off personnel control sheets (payroll certificates), which are then forwarded to the central payroll processing centre for review. In addition, the internal audit unit conducts regular in-year personnel and payroll audit. The Auditor-General, as part of his Constitutional mandate, carries out an annual payroll audit during financial audit of each department.

The large departments (Education and Health) sometimes pay all staff by cheque so that the existence of ghosts can be eliminated and personal details of staff updated against the physical verification process. Employees must identify themselves with personal identity documents and present themselves at earmarked pay points.

Indicator	Score	Evaluation
PI-18 Effectiveness of payroll controls	**B+**	**Scoring method M1**
(i) Degree of integration and reconciliation between personnel registers and payroll data	B	The province uses PERSAL system for HR management and payroll administration. It allows for a direct link between the establishment and personnel and the payroll databases. Salary, promotions and allowances are criteria attached to a post, not to a person, ensuring effective control. Not all staff movements and changes to personal details, however, are processed timeously.
(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 affects only a minority of changes. Retroactive adjustments are made occasionally. The nature of employment, i.e. a teacher at a school versus an office based official, has a direct impact on this turnaround time due to the physical location of workplace and the time it takes for documents to reach payroll officers etc. It is however the exception to the rule.
(iii) Internal control of changes to the staff register and payroll	A	PERSAL has an in-built audit trail, which ensures authorised access to staff are properly monitored and tracked.
(iv) Payroll auditing to identify weaknesses and/ or ghost workers	A	The internal audit unit in each department undertakes regular in-year personnel and payroll audit. Apart from the annual payroll audit conducted by the Auditor-General, there is a monthly reconciliation process that ascertains physical staff counts (payroll certification), which are signed off and reported by the head of each unit in departments before salaries are paid. Occasionally staff members are paid by cheque so that ghosts can be identified.

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

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

Background

Supply service chain (SSC legislative, regulatory and practices framework) is a major issue in this province. In the absence of a recent "country procurement assessment review (CPAR[17])" available on Eastern Cape, many questions remain unanswered.

(i) Transparency, comprehensiveness and competition in the legal and regularity framework

Section 217 of the Constitution prescribes the general constitutional principles governing public procurement (supply chain management). It states that when an organ of state at the national, provincial or local sphere of government or any other institution identified in the 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.

The (PFMA) (section 38 (1)(a)(iii) read with the Treasury regulations TR 16A stipulates specific rules for implementation of such requirements. The National Treasury issued a SCM framework, 2003, setting out rules and regulations, and frequent practice notes and circulars (practice note 8 of 2007/08) to promote the implementation of a procurement systems that meets the criteria set out in the Constitution.

Procurement must also be consistent with the Preferential Procurement Policy Framework Act, (No. 5 of 2000) and with the Broad Based Black Economic Empowerment Act (No. 53 of 2003). The legislation empowers each organ of state as defined in the PFMA to set up its own preferential procurement policy in the framework stipulated in Section 2(1)(a) to (g). The Minister of Finance, by the powers vested in him, exempted some state organs under the Act, expiring 7 December 2012. These included public entities under Schedule 2, 3B and 3D listed in the PFMA. The revised regulations (dated 9 June 2011) apply to all public entities that were hitherto exempted from the previous regulations. As shown in the table below, only three out of the six requirements of the PEFA procurement measurement framework have been met.

[17] OECD-CAD methodology

Table 35: Procurement assessment documentary requirements

Documentary requirement	Fulfilled	Evaluation
1. Procurement legal framework is organised hierarchically and precedence is clearly established.	**Y**	The legal framework is manifested in the Constitution, PFMA and Treasury regulations
2. Procurement laws and regulations are freely and easily accessible to the public through appropriate means.	**Y**	Through the internet and in hard copy format, documents are available free of charge.
3. The legal framework applies to all procurement undertaken using government funds.	**Y**	The National Treasury issued SCM specific policy setting threshold intervals of R1 – R2 000; R30 000; R1 million and above R1 million.
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	**Y**	While the framework sets out the rules and regulations, exceptions are provided for in TR16 (PPP) and 16A.6.4.
5. The legal framework provides for an independent, administrative procurement review process for handling procurement complaints by participants prior to contract signature.	**N**	The National Treasury SCM framework, 2003, section 9(3) provides for provinces to set up mechanisms to receive and consider complaints regarding alleged non-compliance with the prescribed minimum norms and standards. It is not stipulated, however, how this is achieved prior to contract signature.
6. 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.	**N**	There is no evidence or proof that such access is freely available. The Access to Public Information Act is too general, but does give any citizen the right to information as provided for in section 32 of the Constitution.

Key: Y – yes; N - no

(ii) Use of competitive procurement methods

The PFMA and Treasury regulations are in line with the Constitution which provides for a competitive procurement system by law as the default system. Deviations are allowed, but should be in line with Treasury regulations 16 and 16A, and the accounting officer of the department should record the reasons for deviation in writing.

The government uses the transversal contract framework for procurement of goods and services needed by a number of different departments and government agencies to ensure efficiency and cost-effectiveness; this uses open competition.

LOGIS is the procurement software used to manage procurement in departments but there is no systematic system of collating data on the use of procurement methods other than open competition. Non-compliance to the legal framework is defined in the PFMA as irregular expenditure. On an annual basis, Irregular Expenditure is reported by departments as a note in the Annual Financial Statements. By analysing the level of irregular expenditure incurred annually, which is indicative mainly of the level of non-compliance to the SCM regularity framework by officials, it is possible to quantify the degree of compliance. Set out below is a summary in this regard.

Table 36: Level of irregular expenditure

R million	Education Vote 6	Health Vote 3	Social Develop-ment Vote 4	Treasury Vote 12	Public Works Vote 5	Economic Develop-ment Vote 9	Trans-port Vote 10	Rural and Agriculture Vote 8
2011/12								
-Irr Exp	Q 93	Q 138	3	0	Q 25	4	83	14
-G&S&A	2 049	5 087	327	76	2 412	91	854	489
%	**4.54%**	**2.71%**	**0.92%**	**0%**	**1.04%**	**4.40%**	**9.72%**	**2.86%**
2012/13								
-Irr Exp	Q 7	Q 256	27	0	Q 1 334	9	33	29
-G&S&A	2 430	5 377	124	83	2 729	121	660	518
%	**0.29%**	**4.76%**	**21.77%**	**0%**	**48.9%**	**7.44%**	**5.00%**	**5.60%**
2013/14								
-Irr Exp	Q 5	Q 133	27	0	Q 1 054	33	27	13
-G&S&A	3 070	5 870	380	85	2 733	121	641	522
%	**0.16%**	**2.27%**	**7.11%**	**0%**	**38.6%**	**27.27%**	**4.21%**	**2.49%**

Source: Annual financial statements

Key: Irr Exp – represents annual irregular expenditure as disclosed in the annual financial statements, prior to being condoned.

G & S & A – represents the expenditure on goods and services and capital assets as disclosed in the annual financial statements. It is assumed that for this calculation, irregular expenditure is mainly incurred when procuring goods and services and capital assets and not pertaining to employee costs, transfers and subsidies (no competitive procurement required).

Q – represents incidents where the Auditor-General has qualified the disclosure of irregular expenditure as a result of the lack of proper systems to ensure the completeness and accuracy of the amounts disclosed.

As a result of the 2013/14 annual audit process, the Auditor-General identified an amount of R2.2 billion (Education: R605 million; Health: R440 million; PW: R1.2 billion) that has erroneously not been recognised by the respective departments as irregular expenditure.

Reliable data on deviation from the framework, other than the analysis of irregular expenditure is not available. There is no reliable data on the award of contract by methods other than open competition; therefore, this dimension is rated D.

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

There are pieces of published information on current tenders, publication of bidders, information on tenders awarded, and finalised contracts. There is no information, however, on annual procurement plans as well as a complete set of information on the value of contracts awarded. Even though complaints are resolved administratively and through the legal appeals system, information on complaints resolved is not published besides notifying the complainant. The government lacks a systematic mechanism for providing complete procurement information to the public.

(iv) Existence of an adequate administrative procurement complaints system

Neither the Preferential Procurement Policy Framework Act nor the Treasury regulations provide clear guidelines on the composition of members of an administrative complaint body. Responses from interviewees attest to the existence of a complaint body in each department composed mainly of the accounting officer (head of department) and his or her senior executives. As part of measures to ensure fairness in adjudication, independent auditors are invited to review the procurement process and participate in the complaints proceedings. As indicated in the table below, the administrative complaint mechanism satisfies three out of the seven requirements.

Table 37: Legal and regulatory framework for procurement complaint

Complaints are reviewed by a department internal committee which:		
(i)	Is comprised of experienced professionals, familiar with the legal framework for procurement, and includes members drawn from the private sector and civil society as well as government.	N
(ii)	Is not involved in any capacity in procurement transactions or in the process leading to contract award decisions.	N
(iii)	Does not charge fees that prohibit access by concerned parties.	Y
(iv)	Follows processes for submission and resolution of complaints that are clearly defined and publicly available.	N
(v)	Exercises the authority to suspend the procurement process.	N
(vi)	Issues decisions within the timeframe specified in the rules/regulations.	N
(vii)	Issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority).	N

Key: Y – yes; N - no

Indicator	Score	Evaluation
PI-19 Competition, value for money and controls in procurements	**D+**	**Scoring method M2**
i) Transparency, comprehensiveness and competition in the legal and regulatory	B	4 out of the 6 criteria have been met[18].
ii) Use of competitive procurement methods	D	The legal SCM framework provides for competitive procurement methods by law as the default mechanism. Data on deviation in the framework is not available.
(iii) Public access to complete, reliable and timely procurement information	D	The government does not make key procurement information available to the public. The absence of key information include procurement plans, bidding opportunities, contract awards, and resolution of procurement complaints.
(iv) Existence of an adequate administrative procurement complaints system	D	There exists an administrative complaint body in each department, but the system does not meet all criteria, except (iii).

[18] Complaints: www.ectreasury.gov.za (/ Documents / Supply Chain Management) or (/tenders)

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***

Background

Apart from the main PFMA, a set of Treasury regulations and a number of practice/instruction notes from the National Treasury have been issued to guide accounting officers to ensure effective and efficient expenditure and cash management. The National Treasury has also issued several guidelines to assist accounting officers and these include, among others, the accounting officers guide to the PFMA, accounting officers guide to supply chain management and guide on in-year management, monitoring and reporting.

Sections 38, 39 and 40 of the PFMA and Chapters 8 and 15 of the National Treasury regulations provide the legal and regulatory framework for internal controls in expenditure and cash management. The accounting officer, in accordance with the PFMA and the Treasury regulations, is responsible for ensuring that expenditure is appropriately incurred, paid for and accurately recorded and reported.

Controls in place over the availability of cash

The rolling cash flow projections are required to be prepared on a monthly basis by each department and submitted to the Provincial Treasury, which makes payments in tranches according to the expenditure needs. These are differentiated into the PERSAL (payments for payroll) and BAS payments (payments for goods and services). Both types of payments are made twice a month. Treasury will then assess the available cash and the department's bank accounts (PMGs) as well as the rolling cash flow forecasts.

Where the department will exceed its set budget, the Provincial Treasury will inform it of this. The necessary payment will nevertheless still be processed.

Controls in place around expenditure commitment

A two-way match is implemented whereby an invoice is matched to a purchase order before payment can be made. In cases where an invoice is not matched to a purchase order the transaction will not be processed and consequently payment not affected.

There are two systems in place, the LOGIS and BAS system. LOGIS is a procurement and order printing system. The order is initially created in the LOGIS system. The order must then be captured in the BAS system as the two systems are not integrated or interfaced. A reconciliation of the transactions captured on the systems should be performed at a departmental level on a monthly basis; Access to the systems is given to users at a departmental level. Cancelled orders should be cancelled on both systems. Discrepancies between these two should be picked up when the reconciliation is performed. The order cannot be processed if there is no available budget in the Vote under both systems. The control can be overridden in BAS, but this requires an authorisation by the head of the department. Segregation of duties is applied; for example, one person captures the transaction while a second person approves it, and exception reports are generated and supposed to be reviewed daily by the senior managers and the financial account directorate. This is not always fully complied with.

Procedure manuals

The departments follow the National Treasury guidelines for basic accounting and processing of transactions. There are also internally prepared procedure manuals in place (informed by and consistent with the National Treasury guidelines). These are approved by the head of department and the Provincial Treasury. These are well understood by staff. In the case of the Provincial Treasury the procedure manuals were jointly developed with the staff. Compliance with controls and procedures is considered adequate by the CFO.

Areas of concern

Through discussions within the Provincial Treasury's transversal financial systems and departmental management and staff, the following areas of concern were highlighted:

The accounting system, BAS, and the procurement system, LOGIS, are neither interfaced nor integrated, and consequently inefficiencies result due to some of the following:

- At the beginning of the fiscal year, the budget must be loaded separately on to both systems.
- Changes in SCOA must be made in both systems.
- Orders have to be captured twice: first in LOGIS so they can be printed and then in BAS where payment will ultimately go through. The capturing of orders is also a manual process.
- Reconciliation of the two systems is a necessity and is a manual process.
- One system can be overridden while the other cannot. This results in inconsistent data between the two systems.
- Not all the users have the functional knowledge of the systems and there is lack of training about them. There is currently no mandatory training that the staff has to go through in order to work with BAS.
- Departmental management and users of BAS complain about system issues, ranging from sluggishness to total downtime.
- Capacity constraints (in terms of vacancies) were also highlighted as a hindrance in effectively complying with internal control, especially segregation of duties.

(i) Effectiveness of expenditure commitment controls

Expenditure commitment begins with the issuance of a purchase order emanating from the head of unit in a department and approved by the accounting officer or his/her delegate. This occurs after the the national budget has been approved by Parliament and the issue of general budget release warrants by the Minister of Finance, which provide commitment ceilings for the whole year, and the preparation of annual *pro forma* cash flow statements that are updated monthly by each department.

The BAS package is used throughout central government departments and provinces. It has in-built commitment control mechanism that prevents unbudgeted expenditure commitments. Prior to 2013, BAS only had a budget blocking functionality - for unbudgeted expenditure. A new functionality known as cash blocking has been operationalised to ensure additional expenditure control.

An annual performance and procurement plan is a prerequisite for budget preparation. LOGIS is the procurement software for managing procurement across government and runs parallel to BAS. The LOGIS system provides for processing of orders (acquisition) against the approved budget while BAS provides for recording actual expenditure payments against approved budget.

Payment of expenditure requires that VAT invoices are obtained from suppliers who have been duly registered with SARS and to whom tax clearance certificates are issued as evidence of an up-to-date supplier tax position, once goods and/or services have been received as evidenced by a goods received note. Hitherto, expenditure spikes were prevalent in March; this phenomenon has been eliminated by way of dialogue between the National and Provincial Treasuries and the departments, followed by clear instructions indicating that culpable departments will suffer budget cuts to the tune of these expenditure spikes that occur in the last month of each fiscal year.

ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures

Apart from the PFMA Act, a number of regulations from the National Treasury have been issued to guide accounting officers to ensure effective and efficient expenditure and cash management. These include Treasury regulations March 2005, accounting manual - guide to accounting officers, guide on in-year management monitoring and reporting, among others. These legal regulations and procedure manuals are comprehensive and provide sufficient guidance for expenditure commitment. The National Treasury has an annual continuous training programme for accounting officers to familiarise them with new accounting and reporting reforms. Each departmental head complements this training programme for new entrants.

Findings by the Auditor-General annually refer to the lack of capacity for financial management as a significant root cause regarding the ineffectiveness of internal controls. Officials have intimated that this has been largely due to the fast pace of public finance management reforms that often become too complex and principle-based, the reduction in discipline among some staff, and the high staff turnover in the public sector that leads to recruitment of new entrants who might lack the requisite capability, among other reasons. In order to reverse the situation, the National Treasury is now requesting a mandatory training programme for all public servants through formal courses offered by PALAMA (now known as the National School of Government) in addition to simplifying transaction procedures.

(iii) Degree of compliance with rules for processing and recording transactions

South Africa's ratings on governance and corruption have deteriorated recently. According to the Transparency International Corruption Perception Index, based on a number of independent surveys each year, South Africa's rating slipped from 55th out of 180 countries in 2009 to 72nd out of 177 countries in 2013.

This compares with Botswana (30th), Rwanda (49th), Lesotho (55th), Namibia (57th) and Ghana (63rd).

The Auditor-General reports that the proportion of annual accounts with material misstatements has fallen from 72 per cent in 2010/11 to 60 per cent in 2012/13 (see PI-24 (iii)), but are still high. Compliance with rules for processing and recording financial transactions is unsatisfactory. Responses obtained from officials in departments point to the fact that laid down procedures are not always adhered to. The National Treasury has introduced measures that will require each department to establish a compliance unit, beginning in April 2015.

The National Treasury is going to develop a compliance framework based on the generally accepted compliance practice framework issued by the Compliance Institute of South Africa to assist institutions to improve their level of compliance with laws and regulations.

The Auditor-General issued the following audit opinions that are indicative of internal controls not being effective.

Table 38: Effectiveness of department internet control processing

	Educa-tion	Health	Social Development	Treasury	Public Works	Economic Develop-ment	Transport	Rural and Agriculture
	Vote 6	Vote 3	Vote 4	Vote 12	Vote 5	Vote 9	Vote 10	Vote 8
2011/12	D	Q	U	U	Q	U	U	Q
2012/13	Q	Q	U	U	D	U	U	Q
2013/14	Q	Q	U	U	Q	U	U	U

Source: Annual reports
Key: D – disclaimer, Q – qualified, U – unqualified (54%)

Indicator	Score	Evaluation
PI-20 Effectiveness of internal controls on non-salary expenditure	**C+**	**Scoring method M1**
(i) Effectiveness of controls on expenditure commitments	C	An additional functionality known as cash blocking has been operationalised as part of the existing budget blocking functionality. Commitment control is a requirement of the PFMA and specific procedures have been developed by departments, which are informed by (and in line with) the National Treasury guidelines. The heads of directorates are tasked with the responsibility of managing budget in their respective directorate. Although BAS system has a budget blocking system that notifies users when the budget will be exceeded, this can nevertheless be overridden with the authorisation of the head of department. Furthermore capacity constraints impact on the effectiveness of the expenditure controls.
(ii) Scope, relevance and understanding of other internal control regulations and procedures	B	Internal controls are well covered in the PFMA and the Treasury regulations and manuals. Furthermore departments have developed internal policies and procedures, which are in line with the National Treasury guidelines. There however is doubt, however, whether these procedures are widely understood and followed, and complied with; refer the Auditor-General reporting each year.
(iii) Degree of compliance with the regulations for processing and registering transactions.	C	There are important concerns over the level of compliance with rules and procedures even though there is general compliance in majority of transactions. For the 3 years under review, the Auditor-General issued only 54% unqualified audit opinions. The qualified reports for the Departments of Education and Health are considered as a significant weakness for the province as a whole but the gradual improvement is acknowledged.

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***

Background

The accounting officer in each department is responsible for ensuring that an internal audit unit is established and functioning efficiently with qualified members and that an audit committee is established in accordance with sections 38(1)(a), 76(4) and 77of the PFMA and Chapter 3 of the Treasury regulations. The Provincial Treasury provides for oversight responsibilities through the provincial internal audit unit.

Scope and quality of the internal audit function

In March 2009, the National Treasury issued a revised internal audit framework consistent with the Institute of Internal Auditors (IIA) standards as part of measures to streamline internal audit functions and ensure optimum efficiency. The head of each internal audit unit prepares an annual internal audit plan that is approved by the audit committee and the accounting officer. Audit plans cover a wide range of internal audit issues including compliance testing, IT-based systems audit, payroll and procurement.

A review of the annual reporting done by departments illustrates, however, incidents of significant non-compliance and capacity constraints. Throughout the reports tabled, the audit committee cited the lack of capacity as a major constraint that has a significant negative impact on the effectiveness of internal controls. The Auditor-General concluded that in most instances no reliance can be placed on the work done by the internal audit units in the majority of the departments.

Comments made by the audit committees and Auditor-General can be summarised as follows.

Table 39: Comments on internal audit effectiveness

	Education	Health	Social Development	Treasury	Public Works	Economic Develop-ment	Transport	Rural and Agriculture
	Vote 6	Vote 3	Vote 4	Vote 12	Vote 5	Vote 9	Vote 10	Vote 8
2011/12	AC - **N**	AC - **N**	AC - **Y**	AC - **Y**	AC - **Y**	AC - **N**	AC - **N**	AC - **N**
	AG - **N**	AG - **N**	AG **- Y**	AG **- Y**	AG - **N**	AG - **N**	AG - **N**	AG - **N**
2012/13	AC - **N**	AC - **Y**	AC - **Y**	AC - **Y**	AC - **Y**	AC - **Y**	AC - **N**	AC - **N**
	AG - **N**	AG **- Y**	AG **- Y**	AG **- Y**	AG - **N**	AG **- Y**	AG - **N**	AG - **N**
2013/14	AC - **N**	AC - **Y**	AC - **Y**	AC - **Y**	AC - **Y**	AC - **Y**	AC - **N**	AC - **Y**
	AG - **N**	AG - **Y**	AG **- Y**	AG **- Y**	AG - **N**	AG **- N**	AG - **N**	AG **- Y**

Source: Annual reports

Key: AC = audit committee opinion as per report in annual report; AG = comment on IA effectiveness as per reporting done in the annual report; Y = satisfactory comment; N = unsatisfactory comment = 50%

Frequency and distribution of reports

The Provincial Treasury could not provide specific details of reports received and timelines involved as no specific record was kept. Departments have also not provided adequate statistics. The Treasury and Auditor-General are represented on all audit committees, meeting at least four times per annum when reports are presented and discussed. Failure to attend may, however, result in not receiving the reports. As a final attempt to obtain copies, the Auditor-General reviews reports as part of the annual audit process to identify risk areas and evaluate the extent to which it can rely on work done by the internal audit unit. Due to the lack of availability of actual statistics, the dimension is rated as C.

Table 40: Frequency of internal audit reporting

		Health	Social Development	Treasury	Public Works	Economic Develop-ment	Transport	Rural and Agriculture
	Vote 6	Vote 3	Vote 4	Vote 12	Vote 5	Vote 9	Vote 10	Vote 8
2011/12	**Comprehensive statistics could not be supplied by departments**							
2012/13								
2013/14								

Management response to internal audit findings

The establishment of audit committee in each department is to ensure its audit findings and recommendations are implemented to the letter; Section 77 of the PFMA provides for this. The audit committee should consist of at least three people, the chairperson of which should be from the private sector. Available evidence from official reports of the Auditor-General's annual audit of national and provincial government reflects a slow management response to audit findings and recommendations.

Some accounting officers fail to provide prompt and comprehensive response to audit queries. Set out below is an analysis of the observations made by the departmental audit committees on the extent of responsiveness. This results in repetitive findings year on year. An interview with the chairperson of the provincial standing committee on public accounts (SCOPA) confirmed this as a worrying state of affairs. The lack of consequence management was highlighted as a major contributing factor to the extent of these repetitive findings.

Table 41: Extent of responsiveness from accounting officers

	Education	Health	Social Development	Treasury	Public Works	Economic Development	Transport	Rural and Agriculture
	Vote 6	Vote 3	Vote 4	Vote 12	Vote 5	Vote 9	Vote 10	Vote 8
2011/12	**AC - N**	**AC - N**	**AC - Y**	**AC - Y**	**AC - N**	**AC - N**	**AC - N**	**AC - N**
2012/13	**AC - N**	**AC - N**	**AC - Y**	**AC - Y**	**AC - N**	**AC - Y**	**AC - N**	**AC - N**
2013/14	**AC - N**	**AC - Y**	**AC - Y**	**AC - Y**	**AC - N**	**AC - Y**	**AC - N**	**AC - N**

Source: Annual reports
Key: Y = yes, the AC has highlighted the concern; N = No, not specifically highlighted AC = Audit Committee

Indicator	Score	Evaluation
PI-21 Effectiveness of internal audit	**C**	**M1 scoring method**
(i) Scope and quality of internal audit function	C	Throughout annual reporting, capacity constraints resulting in the scope of activities being limited, is highlighted by the audit committees as a significant challenge. Work done, however, complies with IIA standards. It is recorded by the audit committees that the IA plans are risk based.
(ii) Frequency and distribution of reports	C	The Auditor-General has reported that not all reports were made available - not even during the audit process. Each department has its own IA unit which issues reports to the entity, as and when audits are finalised. Audit committees have reported that annual plans have been complied with in most instances. Distribution to external stakeholders remains a challenge.
(iii) Management response to internal audit findings	C	In 37% of annual reports, the audit committees raised concerns that internal audit findings are not being addressed timeously and effectively. As a result, only partially achieved.

3.4 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***

Background

The PFMA provides the legal framework for banking arrangements of central government, provinces and public entities. Treasury regulations provide further guidelines. Section 7(2)(a) stipulates the mandatory approval of the Provincial Treasury prior to opening any bank account by any government department or public agency. Further, Section 15.9 of Treasury regulations requires each accounting officer to ensure a daily accountability and reconciliation of movement in cash and bank balances.

In the province each department has a unique individual bank account (TR 15.10.3) and, in addition, the Provincial Treasury is responsible for the PRF bank account, exchequer bank account and PMG bank account. Bank reconciliations are done in full on a monthly basis; however, payment activity is monitored daily in line with TR 15.10.1.2 (j).

Suspense account receivable and advance balances brought forward from prior years normally represent intergovernmental debt as well as staff related matters, and may only be written off against available funds/savings in the department when deemed not to be recoverable (TR 11; 12). Clearance of these historic balances therefore remains a major challenge as departments normally spend 100 per cent (and more) of the annual budget, resulting in no funds being available. Internal controls are generally in place to identify new balances and to put in place recovery of such advances and over payments. Unauthorised expenditure is carried as a receivable under suspense accounts.

i) Regularity of bank account reconciliations

The Provincial Treasury confirmed daily, weekly and monthly monitoring of the bank accounts, inclusive of daily consolidation of bank accounts to prevent interest charges. Reconciliations are done monthly by each department and for the revenue fund by the Provincial Treasury.

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

Section 40(1)(a) of the PFMA and Section 17.1 of the Treasury regulations require that all suspense accounts be cleared and correctly assigned to the correct cost centres on a monthly basis. The National Treasury's Office of the Accountant-General (OAG) provides guidance in its basic accounting handbook for government departments, and this is available on the OAG's website. The provincial departments refer to the OAG's handbook when processing transactions, and reconciling and clearing the suspense accounts.

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 the suspense accounts on a monthly basis, and to submit this information to the Provincial Treasury's financial governance branch for review and comments, within 15 days after month end. On receipt of the comments from the Provincial Treasury, the departments are advised to consider these comments, but this is at their discretion.

Reconciliation of the suspense accounts is done annually as the suspense account details are processed on the BAS financial accounting system. Clearance remains a major challenge, however, as is evidenced by the significant amounts written off as irrecoverable and the remaining balances older than one year.

Table 42: Suspense accounts

R million		Educa-tion	Health	Social Development	Treasury	Public Works	Economic Develop-ment	Transport	Rural and Agriculture
		Vote 6	Vote 3	Vote 4	Vote 12	Vote 5	Vote 9	Vote 10	Vote 8
2011/12	**T**	**207**	**107 892**	**38 995**	**20 557**	**22 493**	**2 571**	**988**	**18 516**
Note 1	**G**	14 760	5 941	4 145	20 434	18 845	25	261	1 540
	S	159	87 203	4 052	0	3 141	2 425	667	2 041
	O	33 342	14 748	30 798	123	507	121	60	14 935
2012/13	**T**	**61 994**	**112 831**	**28 968**	**21 691**	**25 083**	**2 605**	**2 458**	**15 249**
Note 2	**G**	7 223	2 200	316	21 413	20 788	25	1 238	2 118
	S	52 801	108 854	3 740	0	3 786	2 577	1 214	2 253
	O	1 970	1 722	24 912	278	509	3	6	10 878
2013/14	**T**	**89 961**	**33 174**	**20 773**	**41 641**	**46 044**	**4 839**	**5 998**	**17 146**
Note 3	**G**	6 426	1 265	501	41 340	11 826	23	1 474	4 149
Note 4	**S**	81 491	30 445	2 932	0	4 320	4 816	1 044	1 770
	O	2 044	1 464	17 340	301	29 898	0	3 480	11 227
	>	**68 382**	**7 451**	**18 215**	**2 306**	**13 233**	**1 985**	**693**	**14 515**

Source: Published annual reports
Key: T = Totals; G – Intergovernmental claims; S = Staff debt; O = other; > = older than 12 months
Note 1 = Education – R12 m debts written off (AFS Note 6)
Note 2 = Education – R126 m staff debt written off (AFS Note 6)
Note 3 = Health – R88 m staff debts written off (AFS Note 8.2)
Social Services – R14 m debts written off (AFS Note 7.1)
Note 4 = PW (R29 m) – "IDT Savings Club – EPWP Contractors"
Based on these statistics, at least R240 m debt has been written off over the past 3 years.

Indicator	Score	Evaluation
PI-22 Timeliness and regularity of accounts reconciliation	**C+**	**Scoring method M2**
(i) Frequency of reconciliation of bank accounts	A	Reconciliations are performed on a daily basis. Scrutiny of the Auditor-General report indicates no incidents of significant non-compliance.
(ii) Frequency of reconciliation and clearance of suspense accounts and advances	D	Significant amounts are written off as irrecoverable as a result of not clearing the accounts timeously and by not applying receipts/matching credits (refer suspense accounts included as payables) to debit balances. This is indicative of not clearing accounts timeously and debts therefore not recoverable as staff members are not in service any more etc.

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***

Background

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 frontline service delivery units, in relation to the overall resources made available to the sectors, irrespective of which level of government is responsible for the operation and funding of those units.

The availability of information is directly linked to the financial framework applied by provincial government (the modified cash basis of accounting), the financial reporting records (BAS accounting system) and the detailed provided for in the Standard Chart of Accounts (SCOA).

Reporting on the resources (in cash) disbursed to the frontline service delivery units is included in the relevant departmental budgets as well as facilitated through the BAS system. At departmental level, the budget is also further broken down into programmes, the expenditure of which (or transfer of resources) is tracked through the in-year monitoring system.

In addition to reporting to the National Treasury in terms of Section 32 of the PFMA, the departments are required to report to their sector departments, i.e. the national Department of Health for Health and national Department of Education for Education. The non-financial performance of the programmes is included in the department's annual performance plan. Such non-financial information includes reporting on annual performance against predetermined objectives and targets. These plans are tabled annually and the actual achievement reported on quarterly as well as in the annual report. The Auditor-General audits the report included in the annual report.

Primary school education

The South African Schools Act (No. 84 of 1996) and the National Education Policy Act (No. 27 of 1996) charges provincial departments with the responsibility of the resourcing of schools. The resourcing of schools involves providing the following goods and services:

- Infrastructure and facilities
- Furniture and equipment
- Teaching and administration staff
- Text Books and stationery
- External examination (Grade 12 etc.)
- Feeding of qualifying learners
- Transport to and from schools
- Accommodation in certain instances
- Financial subsidies (transfers)
- Training to members of school governing boards
- Internet access to enhance communication and knowledge sharing.

The main provision of primary school education is assigned to programme 2: public schools education under the administration of provincial Department of Education. Examination related support for primary education is allocated and monitored under programme 9: auxiliary and associated services, and the infrastructure for the primary education schools is monitored under programme 8: infrastructure development.

Recent changes in national policy provides for compulsory early childhood development which is funded under Programme 7.

Certain functions and responsibilities are located to other departments and municipalities. In this province learner transport is provided by the Department of Transport and is done in conjunction with the learner numbers etc.

supplied by the Department of Education. Sport, arts and culture is supported by the Department of Sport, Recreation, Arts and Culture through specific budget allocations.

Other departments and municipalities are also involved in certain areas, for example the Department of Health. The construction of schools and major maintenance is the responsibility of the Department of Public Works, while the national Department of Water Affairs assists with water resources, for example providing boreholes. The relevant financial information is not specifically set out in the departmental budgets, however, and it is deemed not to be cost-effective to extract any further information for this report.

The following school specific information is extracted from the annual approved budget (including the impact of the adjustment budget where applicable) for the specific departments.

Table 43: Funding primary school services

R'000	2012/13 Adj	2013/14 Adj	2014/15
The provincial Department of Education (V 06)			
Programme 2 in total	22 134 607	21 827 612	22 266 856
Programme 7 in total	515 546	453 808	558 513
Programme 8.4/9.4 - Examination	221 741	218 476	212 301
Programme 8.2/4 – Capital assets	35 841	1 240 111	932 544
Total budget of DoE	**26 754 712**	**27 538 880**	**27 934 964**
The provincial Department of Transport (V 10)			
Programme 2.7/3.6 – Scholar transport	369 479	210 949	356 076
The provincial Department of Sports, Recreation, Arts and Culture (V 14)			
Programme 4.4– Sport development	5 011	5 733	5 358

Source: Annual adjustment budget

Primary health care clinics

The provision of primary health care is assigned to Programme 2: District Health Services under the administration of provincial Department of Health. Patient transport and emergency medical services are budgeted for in Programme 3. The infrastructure required for primary health care is included and monitored under Programme 8: Health Facilities Management. Other departments and municipalities also provide certain health care services to some extent, for example the Department of Education, the Department of Social Services, and the Department of Public Works that is responsible for maintenance of the facilities.

At community level, services are rendered through clinics, health centres and district hospitals. Programme specific service delivery measures are compiled and actual performance is measured against these targets.

The following health care-specific information is extracted from the annual approved budget (including the impact of the adjustment budget where applicable) for the specific departments.

Table 44: Funding primary health care services

R'000	2012/13 Adj	2013/14 Adj	2014/15
The Provincial Department of Health (V 03)			
Programme 2 in total	7 685 994	8 672 274	8 674 057
Programme 3 in total	724 164	825 889	798 435
Programme 8.1 – Community facilities	169 821	398 826	466 644
Programme 8.3 – District hospitals	477 530	309 072	350 783
Total budget of DoH	**15 734 550**	**17 183 547**	**17 509 012**

Source: Annual adjustment budget

Indicator	Score	Evaluation
PI-23 Availability of information on resources received by service delivery units	**A**	**Scoring method M1**
(i)-Compilation and processing of information to show the resources effectively received (in payment or in kind) by the majority of frontline service delivery units.	A	The budget software and the BAS application provide information detailed by the chart of account, for primary schools and clinics. Quarterly and annual financial reports are prepared and consolidated by the Accountant-General. They are known as "provincial budgets and expenditure reports" and reported to Legislature. Achievements of performance against predetermined objectives and targets (non-financial information) is compiled and reported.

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***

Background

At provincial level, departments are mainly concerned with expenditure management as own revenue is insignificant, but are reported on as required.

The budget (TR 6) and reporting cycles are highly regularised through national regulatory frameworks and implemented, monitored and controlled at the National Treasury level. Detailed monitoring of departmental spending patterns is done at the following levels throughout each financial year as the transversal accounting system (BAS) is nationally driven and access to download information is readily available to these role players:

- National Treasury – quarterly budget meetings with clusters, for example "education", which then includes the mother department and all nine provincial departments, commonly referred to as 10x10 meetings.
- Provincial Treasury – quarterly budget meetings with provincial departments.
- National ("mother") department – quarterly oversight meetings.
- MEC of the department – monthly review of specified reports.
- Accounting officer of the department – monthly reporting to Treasury and respective MEC.

The PFMA, section 63 (1)(b), requires monthly reporting in line with sections 39 (2)(b) and 40 (4)(c) read with TR 18.1.2 to be considered by the MEC (as the executive authority) of each department. On a monthly basis departments have the opportunity to report on and/or adjust cash flow forecasts taking into account budget pressures as a result of priorities.

The budget of each department is driven by the strategic and annual performance plans (TR5). On a quarterly basis actual performance against the predetermined objectives and targets is reported by each department and on an annual basis the performance is reported in the annual report. The Auditor-General conducts an annual audit on the plans, alignment to budget and reported actual performance.

Procurement processes use a system (LOGIS) independent from the transversal accounting system (BAS) to initiate transactions (issue of orders) and monitoring commitments (budget less orders placed to date). However, this system does not interface with the BAS accounting system.

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

In-year monitoring (IYM) expenditure is informed by Section 32 (2) and Section 40 (4) (a – c) of the PFMA. Section 32 (2) requires that after the end of a prescribed period but at least quarterly, every provincial treasury must submit to the National Treasury a statement of revenue and expenditure with regard to the revenue funds for which that particular Provincial Treasury is responsible, for publication in the national Government Gazette within the 30 days after the end of each prescribed period. Section 40 (4) (a – c) stipulates the format of reporting with which the accounting officers of the departments must comply. It must be noted, however, that the PFMA does not prescribe that IYM expenditure be further reported at commitment stage as national and provincial government departments' budget and expenditure is currently reported on a cash basis. It is the responsibility of each CFO to track the status of commitments as per the LOGIS reports and consolidate it with actual expenditure payments to date.

Not all captured commitments result in actual expenditure in the particular year due to cut-off at year end, price variances and delayed or cancelled performance by service providers. It is common practice that in Q4, commitments are cancelled by programme managers if it becomes evident that goods and services will not be rendered before year-end.

(ii) Timeliness of report presentation

The actual level of compliance to monthly reporting to Treasury in terms of PFMA 40 (4) (b) & (c) can be summarised as follows.

Table 45 Level of compliance

		Education	Health	Social Develop-ment	Treasury	Public Works	Economic Develop-ment	Transport	Rural and Agriculture
		Vote 6	Vote 3	Vote 4	Vote 12	Vote 5	Vote 9	Vote 10	Vote 8
2011/12		**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**
2012/13		**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**
2013/14		**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**

Source: Director- budget services (Provincial Treasury)

The accounting framework of the government and the using of a transversal accounting system (BAS) allows for real time reporting at any level. The Provincial Treasury has access to departmental LOGIS data and is on a real time basis able to calculate and consolidate commitments and transactions processed.

(iii) Quality of information

The Q4 reports for the EC province in total as per National Treasury records matched to the actual audited figures as per the consolidated financial statements can be summarised as follows.

Table 46: Quality of information

R'000	Q4 Report	Consolidated AFS	% Variance
2011/12	53 493	53 779	0.54%
2012/13	55 928	56 162	0.42%
2013/14	60 591	60 853	0.43%

Source National Treasury records & consolidated financial statements

Indicator	Score	Evaluation
PI-24 Quality and timeliness of in-year budget reports	**B+**	**Scoring method M1**
(i) Scope of reports in terms of coverage and compatibility with budgetary forecasts	B	There are two systems that need to be consolidated manually to calculate the total of actual expenditure and commitments. The budget is loaded on both systems for individual comparison purposes. Not all commitments result in actual expenditure.
(ii) Timeliness in the presentation of reports	A	Reports are reported monthly at departmental level and to provincial and national levels as per discussion with Provincial Treasury.
(iii) Quality of the information	A	The Q4 report and audited financial information as per annual reports differs less than 1%.

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***

Background

Regulatory framework

This assessment applies only to the provincial government, i.e. provincial departments and provincial public entities, excluding public enterprises. The last annual financial statement prepared at the time of the assessment was the consolidated financial statements for FY 2013/14, which ended 31 March 2014.

The economic reporting format (ERF) was introduced in the 2004 Budget. The ERF is based on the IMF-GFS, slightly adapted for South Africa's reporting requirements and terminology. The budget format is supported by a standard chart of accounts (SCOA), which is fully aligned with the ERF and provides for posting-level details of the budget and financial statements. In the ERF and SCOA, each descriptive label reflects the actual content of the item to ensure that classifications are consistent across all national and provincial departments. It does not apply at local government level (municipalities) or to government business enterprises.

The evolution of accounting and reporting requirements and the intended introduction of an integrated financial management system (IFMS), led to a review of the SCOA in 2008. These changes have improved reporting on infrastructure spending, control over departmental programme budgets, asset management, and monitoring regional spending.

The National Treasury has implemented a training programme through the financial management improvement programme (FMIP) for departments to implement the new classifications, and established a classification committee and call centre to support practitioners. The committee issues circulars that provide feedback to practitioners on changes made to the chart of accounts, ensuring a consistent approach to classification.

Organisational responsibilities

At the departmental level, the accounting officer is responsible for the timeliness and accuracy of the departmental or entity accounts. Functional responsibility lies with the CFO.

The Office of the Accountant-General (OAG) seeks to achieve accountability to the general public by promoting transparency and effectiveness in the delivery of services. It prescribes government accounting policies and practices to ensure compliance with the standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board. It also focuses on the preparation of consolidated financial statements and on improving the timeliness, accuracy and efficiency of financial reporting.

Accounting framework

The national public entities keep their accounts on an accrual basis, and are separately aggregated and converted back to modified cash basis for the purpose of aggregate consolidation with the departments. The National Treasury has been exempted from the PFMA requirement for detailed consolidation of departments and public entities for the years 2012/13 to 2016/17. The RPDF keeps its accounts also on an accrual basis, and publishes its annual financial statements separately. Most of its expenditure is brought into the accounts of the benefitting departments. Municipalities are also accounted on an accrual basis, and work on a different fiscal year, ending 30 June.

In 2012/13, the National Treasury changed its accounting policy with regard to the treatment of GBEs in the consolidated financial statements. GRAP 6 (Consolidated and Separate Financial Statements) requires the National Treasury to consolidate an entity if the government has control over its financial and operating policies. This is in accordance with international standards (IPSAS). However, the National Treasury says that the government "does not have control over the financial and operating policies of the GBEs but has the ability to significantly influence those policies through legislation and practice notes". Accordingly, the National Treasury changed its accounting policy from fully consolidating GBEs to equity accounting those GBEs in accordance with

GRAP 7 (Investments in Associates). This is said to provide more reliable and relevant information. However, this was not accepted by the Auditor-General, and full consolidation remains the aim.

The whole-of-government consolidation (WGC) of accounts, which is not a legal requirement, can only happen when all levels of government have made the move to the full accrual accounting basis. The ongoing work with WGC is based on statistical information consolidation in line with the ESA 93 and GFS 2001 international frameworks. Most of the difficulties and immediate efforts will be directed to the consolidation of information from different accounting bases, specifically converting accrual information from municipalities and public entities into the cash basis that is used by national and provincial governments. There is also considerable work ahead to ensure that budgeting and reporting is consistent with the formal economic reporting format and the SCOA. Parliamentary accountability will be retained without converting the budget to an accrual basis. The accrual accounting system will include reporting formats on a cash flow basis that can be compared with the budget.

Another change of policy related to the consolidation of public entities. In accordance with the definition of a public entity in the PFMA, the Accountant-General has decided that accountability to Parliament is the primary criterion for including entities in the consolidation. Consequently, if an entity has a legal or constructive obligation to account to Parliament on its finances, it is deemed also to be under the control of the national executive, and is included in the national government consolidation.

Though the main statements for individual departments are prepared on a modified cash basis, the notes provide considerable information that would be required in accrual-based accounts. It is the intention of the OAG to transit to a full accrual basis, though there is no time-phased plan for this and it is not included in FMIP III.

Although the National Treasury is committed in principle to moving the national and provincial accounting bases from cash to accruals (with the strategy being developed as part of result area 2 of FMIP II), there is an understanding that achieving full conversion will take a minimum of 15 years. There has been substantial work already on assessing the control environment through the PFM capability maturity model as well as extensive training on the GRAP standards (both were core areas of FMIP II result area 3). This work, however, has only scratched the surface with regard to the volume of work required to run the full conversion.

(i) Comprehensiveness of financial statements

The accounts show revenue and expenditure in the same detail as in the budget, and most assets and liabilities. Comparisons are made with the previous year, and previous year data are adjusted for changes in responsibilities. As departments apply the prescribed modified cash basis of accounting, the National Treasury prescribes that details certain balances and transactions must be disclosed as notes to the financial statements, for example accruals.

Consolidated budget figures are not shown as required by GRAP 24, neither original budgets nor mid-year adjusted budgets. The OAG says “as there is there is no publicly available budget that is reconcilable with the group of entities for the purposes of the national and provincial government department consolidation, and national and provincial public entity consolidation, it is deemed inappropriate to present a comparison between actual and budget information at this level of consolidation”.

Systems

The Basic Accounting System (BAS) is installed and functional in all government entities. All cost centers are on line: expenditure data is centralised. However, BAS is not linked with other governmental systems, such as LOGIS (procurement), ARABAS (debt management), or PERSAL (personnel and payroll).

The BAS is now obsolescent. It is intended that an integrated financial management system package will be purchased off the shelf, requiring minimum customisation. This was approved by the Cabinet in 2005 but progress is slow. The IFMS would include modules for procurement management and personnel and payroll management, making the LOGIS and PERSAL systems unnecessary.

(ii) Timeliness in the presentation of financial statements

Each department and public entity prepares its own financial statements within two months, i.e. by 31 May, and submits them to the Auditor-General. They are audited by 30 June, and sent to the OAG for consolidation in line with PFMA, section 19. The draft consolidated financial statements are submitted to the Auditor-General by August, which are within six months, but not in line with the PFMA requirements of three months. The Auditor-

General acknowledged this in that the province received exemption on terms of section 92.

(iii) Accounting standards used

National and provincial departments use a modified cash basis of accounting, which is presently recognised as appropriate by the Accounting Standards Board (ASB). Public entities (autonomous government agencies and public enterprises) use the accrual basis. The OAG is on a transition path to the accrual basis for departments also. The disclosure notes to the annual financial statements (AFS) include a number of items which would appear in accrual-based statements, such as provisions, payables and receivables, property plant and equipment (PPE), public private partnerships (PPP), lease commitments, and contingent liabilities. In moving towards the accrual basis of accounting, the -OAG has introduced additional requirements each year as part of the accounting reforms.

From 2005, departments were required to start disclosing their PPE. In FY 2009/10, inventory management was introduced, when departments were given three years to comply with the inventory management framework. This will align reporting formats to those of GRAP directive 5 issued by the Accounting Standards Board.

The government is also in the process of formalising the accounting reporting framework in terms of section 89 of the PFMA and section 216(1)(a) of the Constitution. At March 2013 there are 34 standards that are effective as approved by the Minister of Finance. In FY 2012/13, public entities started to apply fully the standards of GRAP for the first time. The standards applied by the entities are reflected in Directive 5 – GRAP Reporting Framework as issued by the ASB.

Indicator	Score	Evaluation
PI-25 Quality and timeliness of financial statements	**A**	**Scoring method M1**
(i) Completeness of financial statements	A	The annual consolidated financial statements for the Eastern Cape includes full information on revenue, expenditure, financial assets, and liabilities.
(ii) Timeliness in the presentation of financial statements	A	Consolidated financial statements are submitted to the Auditor-General within five months of the end of the fiscal year. The AG has reported that the province received exemption for 2013/14 in line with PFMA 92.
(iii) Accounting standards used	A	All national and provincial departmental statements and their consolidations disclose and observe the financial reporting standards of the Accounting Standards Board of South Africa, based on IPSAS.

3.5 External scrutiny and audit

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

Dimensions to be assessed (scoring method M1): ***(i) Scope/nature of the audit carried out (including compliance with auditing standards)*** ***(ii) Timeliness in submission of audit reports to the legislature*** ***(iii) Evidence of follow up on audit recommendations***

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

The provincial auditor of Eastern Cape is a deconcentrated service of the Auditor-General of South Africa (AGSA). Its mandate, investigation power and independence are legally defined into the section 188 of the Constitution and detailed into the Public Audit Act (No. 25 of 2004). There is no overlapping between national and provincial levels. A final consolidation of the departmental and other provincial entities audit reports is made in the annual national audit report.

Audit methodological proceeds applied at national and provincial levels

- ***Risk assessment* -** Terms of the engagement are communicated and agreed to ensure a clear understanding of responsibilities of the parties, the objectives of the audit, access to information and the reports to be provided.
- ***Plan the audit* -** An understanding of the auditee is obtained for risk assessment purposes and an audit plan is prepared.
- ***Perform risk assessment procedures* -** A risk assessment is performed to determine the number and type of procedures to perform.
- ***Risk response* -** Procedures are performed to obtain evidence that the financial statements and annual performance report do not contain material misstatements and that key legislation has been complied with.
- ***Prepare management report (not published)-*** The report is only provided to the management of the auditee and the executive authority at the end of the audit. It details the findings from procedures performed, identifies the root causes of these findings and makes recommendations for improvement.
- ***Prepare audit report (published) -*** The report is published in the auditees' annual report. It informs those responsible for oversight, the public and others of material misstatements in the financial statements, material findings on the usefulness and reliability of the performance report, material non-compliance with key legislation in specific focus areas, and the deficiencies in internal control that were identified during the audit.
- ***Accountability -*** The provincial auditor is responsible for auditing and reporting on the financial and performance statements of provincial departments, municipalities and all institutions being financed by public funds. Reports are submitted to the Treasury and the Eastern Cape Provincial Legislature.

The legal and functional status of the provincial auditor is in line with the INTOSAI standard of independence. His annual financing does not come from appropriations but primarily from fees directly charged to its auditees. The amounts of fees derive from its annual audit planning.

The provincial auditor is appointed by the Auditor-General of South Africa. “The Auditor-General has full powers of access to records and to staff members of auditees, including confidential, secret and classified information. He may enter property under a search warrant given by a magistrate”. The Auditor-General is itself audited each year by private auditors.

The Eastern Cape provincial auditor is composed of more than 300 agents, distributed in the 15 departments and their attached 12 public entities. For FY 2013/2014, the provincial auditor audited multiyear programmes of all departments and 12 public entities on their compliance with regulations, credibility of their financial statements and acceptable level of performances.

The provincial auditor currently applies International Standards for Supreme Audit Institutions (ISSAIs), issued by INTOSAI, based on the corresponding International Standards of Auditing (ISAs) adapted for the public sector[19]. Although, the provincial auditor masters most of the generally accepted multiyear performance standards, the “value for money” auditing approach is not yet part of the reporting targets and content.

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[19] AGSA Audit manuals

(ii) Timeliness in submission of audit reports to the Legislature

The time schedule of the provincial audit reporting to the Provincial Legislature is primarily included in section 40 of the PFMA. Audit reports are tabled in departments four months following FY ending – July. The departmental audit reports are included in the department annual reports and submitted to the Eastern Cape Provincial Legislature in September (average six months from the end of the fiscal year).

(iii) Evidence of follow up on audit recommendations

Audit recommendations are analysed by the SCOPA, discussed through hearings of department executive accountants and eventually turned into compulsory obligations as legislative resolutions. Audit findings are followed up by SCOPA. The SCOPA resolutions are mandatorily included in the content of the departmental annual reports. This is a great improvement of the management responsiveness to audit management letters. However, some findings are not addressed, and audit comments have to be repeated. Following the issue of the audit report to the Provincial Legislature, the Auditor-General reports that although formal responses are made by accounting officers to audit findings, the corrective measures are not always carried out in a systematic or timely fashion.

Table 47: Scope/nature of audits carried out and audit standards (2013)

Elements covered	Audits carried out	Audit standards applied
• Expenditures • Salaries • Transfers to public entities • Assets • Performance of predetermined objectives (programmes) • Procurement • Internal controls	• Annual audit reports of the 15 provincial sector departments; • Annual audit report of the 12 Public entities; • Specific audit report requested by executive or legislative authorities	ISSAI

Source: Provincial auditor department and consolidated reports

Indicator	Score	Evaluation
Scope, nature and follow-up of external audit	**B+**	**Scoring method M1**
(i) Scope/nature of the audit carried out (including adherence to audit standards)	A	The Eastern Cape provincial auditor each year carries out full provincial public entity audits, covering expenditures, salaries, transfers, assets, procurement, internal controls, compliance with legislation, by multiyear programmes. However, the "value for money" performance appraisal is still lacking. He applies thoroughly the AGSA audit guidelines that are totally in line with the ISSAI standards.
(ii) Timeliness in the presentation of auditing reports to the Legislature	A	For the three last FY, all consolidated provincial audit reports were submitted in September (4 months following FY ending) to the Provincial Legislature.
(iii) Evidence of follow up of audit recommendations	B	The SCOPA resolution follow-up procedures are currently operating. The annual audit report is embedded in each department annual report. But, in practice, audit reports are unofficially provided early to SCOPA allowing the legislature committees to timely organise hearings of the main audit findings. Then, recommendations are turned into legislative resolutions. Consistent with audit report evidence, SCOPA resolutions are mostly implemented; portfolio committees' resolution enforcement regulatory framework exists. Since 2014 comprehensive follow-up procedures are generally applied by the department's internal auditors or audit committees. The status of the implementation of SCOPA resolutions is part of department annual reports. However, the Auditor-General points out that some of the most important resolutions are not immediately put into practice.

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***

Background

The 2012 open budget survey gave South Africa the second highest score of 90 among the ranked countries on budget transparency. South Africa's strong ranking is underpinned by a strong budgetary process that also involves the institutionalisation of the medium-term expenditure framework (MTEF) principles into the public financial management systems. The MTEF has become the basis of annual budget preparations and the mechanism for disclosing resource and expenditure projections to the legislature

The legislative framework of budget examination by the Provincial Legislature is well detailed in the sections 76-77 of Chapter 4, and in section 215 of Chapter 13 of the Constitution.

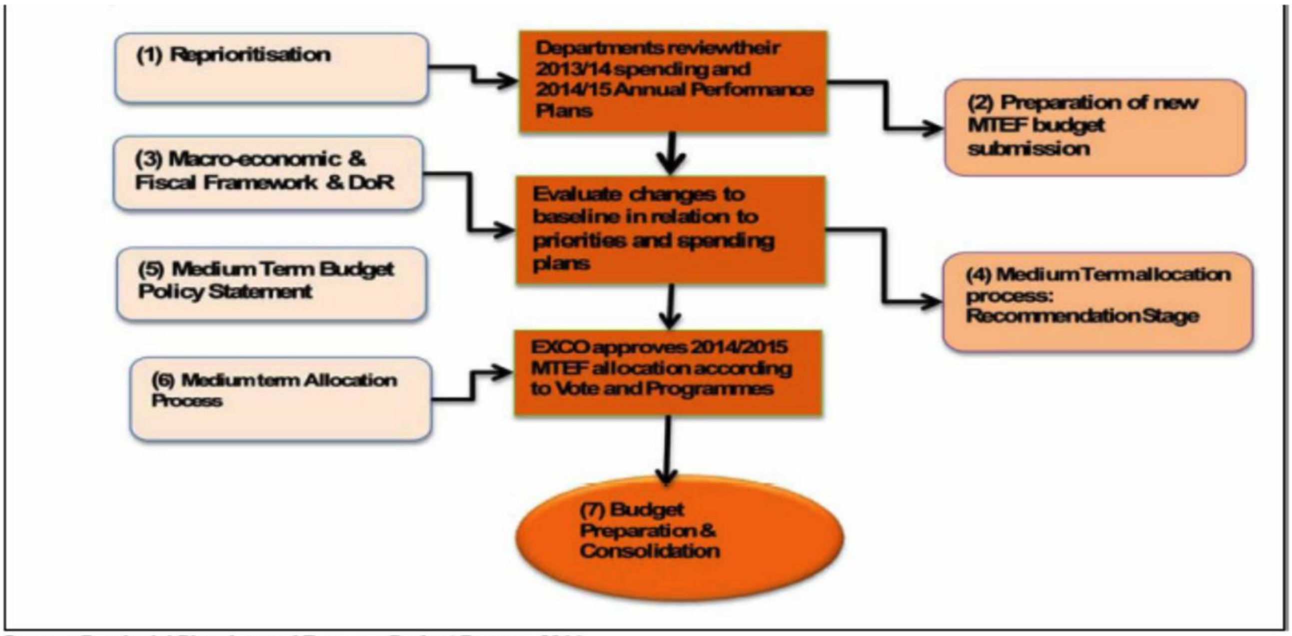
(i) Scope of examination by the provincial legislature

The provincial budget preparation process is a series of consultative meetings, workshops and seminars at both a national and provincial level between relevant stakeholders such as the executive committee (EXCO), provincial planning and treasury (PPT), provincial departments, the National Treasury, the budget council, and the financial and fiscal commission (FFC).

Departmental budgets are aligned to government's strategic policy priorities for the electoral cycle as indicated in the MTSF, programme of action, Apex priorities, the NDP, the President's twelve outcomes, the President's State of the Nation Address (SONA) and the Premier's State of the Province Address (SOPA).

The provincial strategic planning "Lekgotla", which outlines the strategic thrust over the MTEF, provided direction to departments for their respective strategic planning sessions. The final budget proposal is approved by EXCO, and is tabled in the provincial legislature in March.

Figure 2: Eastern Cape Provincial Parliamentary budget approval procedure



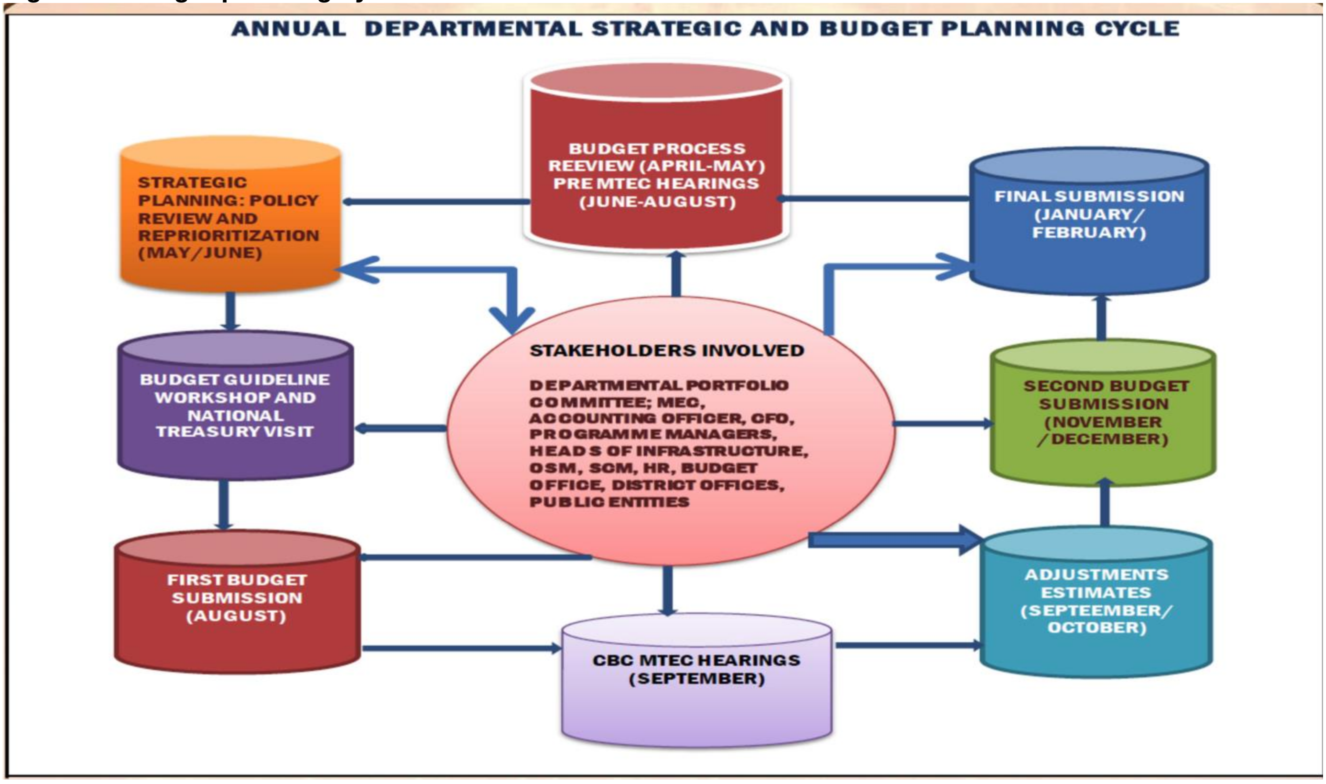
Source: Provincial Planning and Treasury Budget Process 2014

(ii) Degree to which legislative procedures are recognised and respected

In addition to the parliamentary Constitutional rights and duties, the budget process examination is thoroughly defined in sections 154-164 of the Eastern Cape Parliament Standing Rules.

The legislature publishes an audited annual report that includes, *inter alia*, its relevant and essential participation in the provincial budget process.

Figure 3: Budget planning cycle



Source: Eastern Cape PPT presentation

(iii) Adequacy of the time for the Legislature to provide a response to budget proposals

The Provincial Legislature, provincial department and PPT discuss appropriation proposals between October year T and February year T+1 (5 months)

(iv) Rules for in-year amendments to the budget without ex-ante approval by the Legislature

The adjustments budget process

In the middle of each year, the adjustments process provides an opportunity to revise the main budget in response to changes that have affected planned government spending for that year. The adjusted budget may allocate unused funds, mainly from the contingency reserve, and additional amounts that have been approved for particular types of spending, if that be the case. The adjusted budget includes the amount allocated in the main Appropriation Act as well as the effects of the adjustments. The adjusted budget estimates are also tabled in the National Assembly by the Minister of Finance, accompanied by an Adjustments Appropriation Bill. A Division of Revenue Amendment Bill that sets out how the adjustments affect the Division of Revenue Act is also tabled.

The estimates of national expenditure (ENE) describes in detail the planned spending of all national government votes over the MTEF period. The adjusted estimates of national expenditure (AENE) describes in detail the revised spending plans for the first year of the MTEF period that is the current financial year.

The PFMA specifies the type of spending the adjustments budget may provide for. The Treasury regulations, issued by the National Treasury in terms of the PFMA, provide instructions on how to comply with this Act. In October/November the Provincial Legislature receives the AENE previously voted by the National Assembly and the National Council of Provinces (NCOP).

Indicator	Score	Evaluation
PI-27 Legislative scrutiny of the annual budget law	**A**	**Scoring method M1**
i) Scope of examination by the Legislature	A	The Legislature reviews the Provincial Budget & Division of Revenue Bill, the estimates of provincial revenues & expenditures (EPRE) and the estimates for public entities revenues & expenditures (EPERE), all in line with MTEF procedure.
ii) Degree to which legislative procedures are recognised and respected	A	The Legislature's procedures for budget review are well established from the Constitution, the PFMA and its standing rules. Portfolio committees do most of the detailed work such as considering and scrutinising Bills and dealing with issues related to the work of the MECs and their respective provincial government department.
iii) Sufficiency of time for the Legislature to respond to the budgetary proposals	A	The Legislature is an essential part of the backward and forward budget process which lasts about five months between national executive, provincial treasury, departments and Legislature.
iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature		The PFMA establishes clearly the conditions and the process for tabling the in-year adjusted estimates of national expenditures and their effects on provincial budgets.

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***

Background

In terms of the Constitution of South Africa, the provincial government is accountable to the Legislature. This accountability function of the Legislature is carried out through the Portfolio Committees. Committees oversee government departments and call MECs and departmental officials to account. Portfolio committees have the right to call on MECs and departmental officials to explain their actions. This oversight function is further enhanced by the Legislature's responsibility of studying and passing the annual budgets of the provincial government departments. Through thorough scrutiny of all department audited annual reports and planned hearings, MPLs have to ensure and certify that the money allocated is spent wisely and that there is no wastage or corruption.

Portfolio committees

Portfolio committees are the engine of the Provincial Legislature and play a vital role in the process of building democracy and facilitating public involvement in the Legislature. The Committee system of the Legislature is one of the most important mechanisms for ensuring efficient, transparent government and allowing public input in the law-making process. Discussions and debates cannot be held in detail during the sittings of the House. Portfolio committees have therefore been formed to do most of the detailed work such as considering and scrutinising Bills and dealing with issues related to the work of the MECs and their respective provincial government department.

Portfolio committees play a vital role in facilitating public participation by providing forums such as public hearings for the public to air their views and make submissions regarding issues. A public hearing is a meeting where a portfolio committee hears the views of the public (usually about a Bill or a petitions-related issue). Public hearings are held in cities, towns and villages throughout the province to accommodate all the people in the province. Public hearings are advertised in the media. Local government, community structures, political parties and organisations, as well as identified stakeholders, are individually invited to attend the hearings to make submissions or raise concerns.

(i) Timeliness in examination of the audit reports by the Legislature (reports received in the past three years).

All audit reports are provided at the end of July to all departments, but are not tabled at the provincial SCOPA. Audit reports are then inserted in the department annual reports which should be tabled in the legislature no later than five months following FY ending[20]. According to the table below, annual department reports are forwarded to the Legislature portfolio committees within an average time of six months after FY ending. There were no explanations why audit reports are not copied to SCOPA while available in July.[21]

[20] Section 65-Tabling in the Legislature of the PFMA
[21] Four months following FY ending

Table 48: Timeliness in receipt of the embedded audit reports in department annual reports by EC legislature

Eastern Cape Provincial Department	2011/12			2012/13			2013/14		
	Report	Month	SCOPA Reso-lution	Report	Month	SCOPA Reso-lution	Report	Month	SCOPA Resolu-tion
Vote 1-**Officer of the Premier** 1.1-E C. Socio eco consul council	27/09/12	6		25/09/13	6		01/10/14	7	
Vote 2-**Provincial Legislature**	10/10/12	7	4	10/10/13	7		07/10/14	7	
Vote 3-**Health**	31/08/12	5	9	31/08/13	5	7	31/08/14	5	
Vote 4-**Social Development**	31/08/12	5		31/08/13	5		25/09/14	6	
Vote 5-Public Works	31/10/12	7	6	30/09/13	6	9	26/08/14	5	
Vote 6-**Education**	31/10/12	7	8	30/09/13	6	8	31/10/14	7	
Vote 7-**Local Government and Traditional Affairs**	13/11/12	8		28/09/13	6		01/10/14	7	
Vote 8-**Rural Development and Agrarian Reform.** 8.1-E C. Rural Development Ag 8.2-E C. Appropriate Tech. Unit	15/10/12	7	4	15/10/13	7	9	20/10//14	7	
	N/A			30/09/13	6		N/A		
	17/10/12	7		29/08/13	5		N/A		
Vote 9-**Economic Development** 9.1-E C. Dev. Corporation 9.2-East London Ind. Dev Zone 9.3-Coega Dev. Corporation 9.4-E C. Park and Tourism Ag. 9.5-E C. Gambling and Betting 9.6-E C. Liquor Board	17/10/12	5	4	31/08/13	5		22/10/14	7	
	05/10/12	7		10/10/13	7		N/A		
	22/10/12	7		23/10/12	7		25/08/14	5	
	20/11/12	8		21/10/13	7		10/09/14	6	
	13/09/12	6		04/12/13	9		13/10/14	7	
	04/09/12	6		16/09/13	6		13/10/14	7	
	N/A			30/08/13	5		09/09/14	6	
Vote 10-**Transport** 10.1-Mayibuye Transport Corp. 10.2-Govern Fleet Mgt Trading	31/08/12	5	4	31/08/13	5		20/10/14	7	
	N/A		5	23/05/14	14		N/A		
	31/08/12	5		31/08/13	5		20/10/14	7	
Vote 11-**Human Settlements**	20/09/12	6	5	09/10/13	7		19/09/14	6	
Vote 12-**Provincial Treasury** 12.1-E C. Planning Commission	31/08/12	5		30/09/13	6		29/09/14	6	
Vote 14-**Sports, Recreation, Arts and Culture**	28/09/12	6	5	28/09/13	6	7	07/10/14	7	
Vote 15-**Safety and Liaison**	31/10/12	7		29/09/13	6		30/09/14	6	
TOTAL			54			40			

Source: Annual department and SCOPA reports
NA: Not available for inspection

(ii) Scope of the hearings carried out by the legislature into the main findings

The provincial SCOPA analyses each department annual report, focusing on financial statements and audit reports. It considers the Auditor-General's reports and raises formal questions to which the accounting officers of the respective departments are requested to respond. Upon the evaluation of the acceptability of the written replies, the committee schedules hearings for oral responses. These hearings are attended by the department or public entities accounting officers, and their staff. At these hearings, the accounting officers are given an opportunity to respond and give further evidence to the questions raised by the committee.

Table 49: Eastern Cape Legislature - SCOPA announcement, tabling and committee reports

Fiscal years	No of resolutions	Date of SCOPA report	Months within receipt Dpt. reports	Months since FY end	Disciplinary proceedings
2010-2011	97	14/08/2012		16	
2011-2012	49	24/04/2013	6	13	
2012-2013	40	04/03/2014	5	12	

Source: SCOPA reports

SCOPA reports highlight findings and recommendations, by entity, following accounting officers' hearings. Boxes below summarise three latest FY main findings.

Box 1: SCOPA General Findings 14/08/2012

- The committee found that nearly a third of the departments that received an unqualified audit opinion would have been qualified had it not been for the intervention of the Auditor-General.
- The provincial administration incurred a total of R4.6 billion in irregular expenditure during the year under review. R3.5 billion of this amount was identified during the audit.
- The accounting officers submitted financial statements for auditing that were not prepared in all material aspects in accordance with generally recognised accounting practice and supported by full and proper records as required by section 40(1)(a) and (b) of the PFMA. The committee is concerned with this non-compliance as such errors should not exist when financial statements are submitted for auditing.
- The departments affected by the human resource operations plan task team (HROPT) have not fully implemented the recovery process of the money owed to government.
- Lack of adequate controls, leadership, and governance in the Departments of Education and Health has a negative impact the effective, efficient and economic use of public resources.

Box 2: SCOPA General Findings 24/04/2013

The Committee has further observed that there are matters which are generic in most departments and would like to make the following findings:

- There is a general disregard of compliance with the prescripts of the PFMA, the Treasury regulations and the Public Service regulations, and this is evidenced by the continuous repetitive audit findings and House resolutions.
- There is a complete failure by the executing authorities and accounting officers to take action against officers for non- compliance with laws and regulations, incompetence and underperformance as required in terms of Section 38 (1) (h) of the PFMA and Public Service Act which are the main contributors to the audit findings.
- The much publicised clean audit by 2014 in the provincial administration seems to be a pipe dream as there is no improvement in the financial management in the departments.

BOX 3: SCOPA General findings 04/03/2014

- The committee is of the view that clean administration is achievable and the milestone of clean audit reports by 2014 can be a reality if all the recommendations made by the Auditor-General and the Committee are fully implemented.
- It should also be noted that when conducting the audit, the Auditor-General always scans the environment for new risks. It follows that a proper risk management allows for compensating controls. This is one of the key aspects of ensuring a clean administration.
- The committee found that almost all the departments that received an unqualified audit opinion with emphases of matters would have been qualified had it not been for the intervention of the Auditor-General. The annual financial statements were subjected to amendments during the audit.
- The accounting officers submitted financial statements for auditing that were not prepared in all material aspects in accordance with generally recognised accounting practice and supported by full and proper records as required by section 40(1)(a) and (b) of the PFMA. The committee is concerned with this non-compliance as such errors should not exist when financial statements are submitted for auditing.
- Departments continue fail to ensure proper procurement and contract management. This is evidenced by the department's contravention of Treasury regulation 16A.
- Departments continue fail to ensure human resources management and compensation. This is evidenced by the department's contravention of the provisions of the Public Service regulations.
- There is a general lack of monitoring of the completeness of source documents in support of actual achievements and a lack of frequent review of validity of reported achievements against source documentation.
- Some departments did not have adequate systems in place to identify and disclose all irregular, fruitless and wasteful expenditure incurred during the year as required by section 40(3) (b) (i) of the PFMA. In addition, irregular, fruitless and wasteful expenditure could not be prevented as required in terms of section 38(1)(c)(ii) of the PFMA.

(iii) Issuance of recommendations by the Legislature and their implementation by the Executive

Enforcement of SCOPA resolutions

Because the budget legal framework does not provide for a final legislative approval type "vote on budget execution law", SCOPA resolutions are aimed at reconciling the audited departmental financial statements with the initial/adjusted departmental budget appropriations. Unauthorised expenditure must be recovered and charged against future budget allocated to the department, or condoned, according to section 34 of the PFMA.

The follow-up of published resolutions by SCOPA has significantly improved through the obligation to include SCOPA resolutions in the annual report content (part C, section 8 SCOPA resolutions). The implementation process is obviously formalised. The department audit committees and the internal auditors bear accountability for monitoring SCOPA resolution enforcement. Such proceedings became widespread in the 2013/2014 department annual reports.

Indicator	Score	Evaluation
PI-28 Legislative scrutiny of external audit reports	**B+**	**Scoring method M1**
(i) Timeliness in the examination of audit reports by the Legislature (reports received in the past three years)	B	Department audit reports are not copied to SCOPA even though available in July, but embedded in the department annual reports which are tabled in Legislature scrutiny 6 months following FY ending. However, SCOPA scrutiny is fully completed within 6 months from receipt of the audit report. Audit reports are incorporated into the annual reports which are usually tabled at the beginning of October during the "Taking Legislature to the People" event. There is a need to formalise the process of sourcing audited annual financial statements, including the audit report, immediately after they are finalised in July. This can be done through the amendment of the standing rules to allow for the committee to source these prior to them being tabled. Such an amendment will help in cases where the departments and entities question the legitimacy of the documents used when audit reports have not been formally tabled.
(ii) Scope of the hearings held by the Legislature into the main conclusions	A	All department audited financial statements are thoroughly scrutinised through in depth analysis and hearings of chief accountants. Resolutions are passed according to findings.
(iii) Measures recommended by the Legislature and implementation of these by the executive	B	Consistent with audit report evidences, SCOPA resolutions are mostly implemented; portfolio committee resolution enforcement regulatory framework exists. Since 2014 comprehensive follow-up procedures are generally applied by the department internal auditors or audit committees. The status of the implementation of SCOPA resolutions is part of department annual reports. However, the Auditor-General points out that some main resolutions are not immediately put into practice.

3.6 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 major PFM reforms

The main area of PFM reform activity planned (which will affect the province) involves improvements to the financial management systems and implementation of an integrated financial management system (IFMS).

The State Information Technology Agency (SITA) is responsible for IT networks, systems operations and security for all levels of government[22]. The financial systems section of the special services division in the National Treasury is responsible for: the national and provincial government systems and provides procurement, payroll and accounting software. It also provides a business intelligence platform that integrates both national and provincial governments and serves as a repository of financial data. The existing systems are deemed robust and appear to capture financial information as required, but their use is cumbersome in terms of reporting and data querying and mining.

Improvements to the financial management systems

The province currently uses BAS for financial management, PERSAL for HR management and payroll administration and FINEST for managing and generating purchase requisitions and orders. The three systems are not fully integrated. PERSAL is interfaced with BAS but FINEST is neither integrated nor interfaced with BAS. Procurement functionality in FINEST became limited after the 2007/08 fiscal period. Up until 2007/08, FINEST was also used for goods received and processing of claims/payments against orders and goods in the SCM process. The payments were then interfaced with BAS for final payments to suppliers' accounts.

To address the short-comings with regard to FINEST, there is a planned implementation of LOGIS[23] that will cover all the departments in the province. LOGIS will be implemented in phases and is anticipated to take approximately three years to complete for all departments. LOGIS should provide more functionality than is the case currently with FINEST. LOGIS supports the complete order-to-cash process of procurement and subscribes to sound supply chain management best practice. It will also offer functionality to support financial interfacing to BAS.

Implementation of integrated financial management system (IFMS)

The National Treasury has initiated a reform effort that aims to upgrade, modernise and integrate all financial software to serve as a single IFMS. The National Treasury has decided to employ standard platforms customised to meet the needs of the PFM systems and procedures. This should address the issue of cost involved in proprietary software development, as well as achieve the requisite functionality not addressed by generic ERP applications. The approach should also assure the necessary independence to provide for ready report writing, application maintenance and upgrades.

IFMS has the following features:

- It is an integrated and transversal system
- Based on industry best practices
- Developed by government for government
- Incorporates new technology
- Facilitates strategic reporting
- Supports legislation.

[22] SITA was established in 1999 to consolidate and coordinate the State's information technology resources in order to achieve cost savings through scale, increase delivery capabilities and enhance interoperability. SITA is committed to leveraging information technology (IT) as a strategic resource for government, managing the IT procurement and delivery process to ensure that the government gets value for money, and using IT to support the delivery of e-Government services to all citizens.

[23] LOGIS is a provisioning, procurement and stock control system which is highly adaptable to the requirements of any government department.

The IFMS solution will provide functionality to national and provincial departments in the following four areas:

- The IFMS supply chain management (SCM) platform aims to provide the following functionalities:
  - Full control and management of corporate catalogue;
  - Support the effective streamlining of all government procurement actions and administration;
  - Effective control over government unit's stock levels in order to reduce the capital invested in stock; and
  - Full control and visibility of all non-current and non-financial assets through the complete government cycle.

- The IFMS human resource management (HRM**)** platform will have functionality to manage the following:
  - Health and safety, in respect of policies, safety audits, occupational injuries and diseases, HIV and AIDS and employee assistance programmes;
  - Education, training and development, such as development of training policies and strategy, management of workplace skills plan, training and development plan, mentorship, bursaries, training programmes, etc.;
  - Labour relations, in terms of absconding, misconduct and grievances;
  - HR planning, such as conducting environmental scan, forecasting human resources demand, workplace analysis, identifying department priority issues, gap analysis, developing HR action and implementation plans, monitoring and evaluation;
  - Organisational management, in respect of developing organisation structure, job descriptions, interface with a third-party job evaluation system, posts detail and allocation of posts to organisation structure;
  - Termination of service, in respect of retirement, fixed-term employment contracts, resignation, severance package, employee death and termination process;
  - Remuneration management, creation and maintenance of compensatory and remuneration framework, salaries, allowances, benefits, leave, deductions, and provision of relevant services, specifications and instructions to enable inter-operability with the IFMS Payroll system;
  - Employee movement, due to re-deployment, rotation, secondment and transfer;
  - Performance management, developing and maintaining the organisational performance management framework, planning and implementing performance management;
  - Recruitment management, in terms of generating recruitment requests, agency sourcing, advertising vacant positions, selecting and placing applicants for vacant positions, and managing assumption of duty including deductions detail;
  - HR administration;
  - Career management; and
  - HR reporting, with regard to organisational structure, HR plan, recruitment, performance management, termination of service, employee movement, leave, labour relations, remuneration, health and safety, training and development, and career management.

- The IFMS Financial Management (FIN) platform seeks to support the following:
  - The establishment of an MTEF[24];
  - The financial management business processes of national and provincial departments;
  - The financial management business processes of the National and Provincial treasuries; and
  - The remuneration management business processes of national and provincial departments.

- The three IFMS platforms discussed above will feed into (and are the source data for) the IFMS business intelligence (BI) platform. The capabilities of the IFMS BI platform are summarised below:
  - *Reporting* – accessing of data and delivering information to the organisation
  - *Analysis* – exploring and analysing data interactively with rapid response
  - *Dashboards* – getting immediate visibility into metrics and KPIs[25]
  - *Data mining* – discovering hidden patterns and indicators of future performance.

A detailed project implementation plan and methodology framework has been mapped out, resources identified and project timelines established. SITA's implementation methodology includes training requirements and processes. Pre-assessments will be performed for all identified potential users of the IFMS modules. The training

[24] Medium-term expenditure framework (MTEF)
[25] Key performance indicators

will be cascaded down to address provincial training needs. The potential users will also be required to pass assessment tests before using the system.

A migration strategy will be formulated to ensure continued data integrity. The project critical success factors have also been compiled.

Modernising public procurement

Modernising procurement systems will lead to more cost-effective operations in the public sector. Design of a national price referencing mechanism is complete. Piloting with selected provinces and large national departments has will began and the system should be fully operational by 1 April 2015.

Over the next years, the office of the chief procurement officer will roll out a new national approach to procurement. Its main features will include:

- Publishing national norms and standards for procurement.
- Creating a national database to enable public monitoring of procurement plans and tenders.
- Creating a database of suppliers, service providers and contractors to streamline compliance requirements and reduce costs for small businesses.
- Establishing a formal process to consider complaints and refer cases to appropriate legal authorities.

The number of nationally negotiated contracts will be significantly expanded. Centralised contracting will be considered for a range of common goods and services, including:

- Air travel and hotel accommodation;
- Standard equipment used in schools and clinics;
- Information and communications technology infrastructure; and
- Professional services; and leasing and accommodation.

4.2 Institutional factors supporting reform planning and implementation

Government leadership and ownership

The commitment to continuing improvements in PFM in South Africa has political championship at the very 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 MECs[26], which represents 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.

4.3 Challenges

As discussed above, the main area of the planned reforms in the province is the implementation of IFMS. This therefore implies that there would be a migration from the current systems to IFMS. The complete and accurate migration of necessary data will require that the current systems be fully functioning, with no processing backlogs. Furthermore, a disciplined culture of continuous learning will need to be promoted to ensure that the staff learn to operate under the new system as quickly as possible. Other resources required, such as network bandwidth and adequate servers, must also be in place. It is also crucial that the departments are adequately staffed with skilled personnel to ensure effectiveness of controls and segregation of duties.

One of the challenges the province is currently faced with relates to the performance of BAS. A task team identified the following factors contributing to poor performance:

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[26] 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 (MECs), 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.

- Various recommendations from the SITA performance assessment report produced in January 2013 were not implemented;
- System controllers and departmental IT communication breakdown (security - network access rights);
- Departmental IT not following correct BAS release procedures, resulting in version control issues;
- LAN[27] communication problems (packet losses), which will impact BAS and other applications performance; and
- WAN[28] communication problems (packet losses and duplicate nodes), which will impact BAS and other applications performance.

However, due to the client/server architecture of BAS, the system is more sensitive to inconsistent or poor network performance since BAS requires continuous communication over the LAN/WAN to complete a transaction; and over-utilisation on the WAN and LAN devices were identified on specific routers and network segments, which will impact BAS and other applications.

Task teams of various provinces made further recommendations aimed at improving the performance of BAS. Some of these recommendations are summarised below:

- ***Implement quality of service*** (QoS) on the data lines and optimise router utilisation. It was recommended that the individual provincial departments and SITA take forward this recommendation. It should improve WAN traffic and minimise the excessive communication difficulties.
- ***Minimise the need for excessive broadcasting and unused protocols on the LAN***. Excessive broadcasting increases network traffic. It was recommended that the individual provincial department's IT section or the party responsible for the department take responsibility for this recommendation.
- ***Ensure correct version of the BAS application is utilised and codes table is marked as read only***. The impact of a wrong release version is that the latest functional improvements/corrections are not available to the department. A codes table not marked as "read only", will limit a department to only five users logging on to BAS simultaneously. Since no other users will be able to work, a perception will be created that BAS is not performing correctly. It is the responsibility of the departmental system controller to escalate the BAS notices to their provincial IT
- ***Establish a capturing centre in the province***. This facility will provide provincial departments an alternative working environment, should any individual department experience difficulty to work in its own environment.

The competencies of staff and filling of vacant posts is therefore another challenge the province faces in preparation for the implementation of IFMS.

4.4 Other issues

Expenditure payment arrears

The National Treasury is developing an automated invoice tracking system that will include age analysis, and is in the process of issuing a revised set of Treasury regulations that will require public entities to also affect their payments within 30 days.

The pre-audit ex ante supervision of payments

The National Treasury and SCOPA recommended to departments that they set up internal control units to pre-audit vouchers to ensure compliance and validity of payments before being authorised, processed and released. The high level of irregular expenditure still incurred each year is evidence, however, of the strategy not being 100% effective. Departments and the Treasury are considering centralisation of these functions to avoid or limit irregular expenditure in future.

[27] Local area network
[28] Wide area network

Annexure 1: Detailed calculation for PI-1, PI-2 and PI-3

PI-1 and PI-2 tables

Data for year =2011/12						
Provincial department	**Budget**	**Actual**	**Adjusted budget**	**Deviation**	**Absolute deviation**	**Percent**
Education	24 634 708	25 174 117	25 147 353.	26 763.5	26 763.5	0.1%
Health	14 237 249	14 892 282	14 533 524.	358 757.5	358 757.5	2.5%
Social Development and Special Programmes	1 711 206	1 691 851	1 746 816.0	(54 965.0)	54 965.0	3.1%
Office of The Premier	403 880	400 819	412 284.7	(11 465.7)	11 465.7	2.8%
Provincial Legislature	371 446	360 257	379 175.7	(18 918.7)	18 918.7	5.0%
Roads and Public Works	3 269 009	3 393 640	3 337 036.7	56 603.3	56 603.3	1.7%
Local Government and Traditional Affairs	746 085	738 943	761 610.9	(22 667.9)	22 667.9	3.0%
Rural Development and Agrarian Reform	1 509 785	1 484 433	1 541 203.5	(56 770.5)	56 770.5	3.7%
Economic Development, Environmental Affairs and	884 226	885 651	902 626.6	(16 975.6)	16 975.6	1.9%
Transport	1 453 764	1 582 911	1 484 016.7	98 894.3	98 894.3	6.7%
Human Settlements	2 424 942	2 143 154	2 475 404.8	(332 250.8	332 250.8	13.4%
Provincial Planning and Treasury	302 526	283 987	308 821.5	(24 834.5)	24 834.5	8.0%
Sports, Recreation, Arts and Culture	636 323	649 017	649 564.8	(547.8)	547.8	0.1%
Safety and Liaison	58 387	57 980	59 602.0	(1 622.0)	1 622.0	2.7%
Allocated expenditure	52 643 536	53 739 042	53 739 042	0	1 082 037	
Contingency	1 041 421	0				
Total expenditure	53 684 957	53 739 042				
Overall (PI-1) variance						**3.0%**
Composition (PI-2) variance						**2.0%**
Contingency share of budget						0%

Data for year =2012/13						
Provincial Department	**Budget**	**Actual**	**Adjusted Budget**	**Deviation**	**Absolute deviation**	**Percent**
Education	26 268 669	26 220 593	26 245 766	(25 173)	25 173	0%
Health	15 166 038	15 602 512	15 152 815	449 697	449 697	3%
Social Development and Special Programmes	1 782 421	1 751 212	1 780 867	(29 655)	29 655	2%
Office of The Premier	423 848	394 616	423 478	(28 862)	28 862	7%
Provincial Legislature	384 082	407 040	383 747	23 293	23 293	6%
Roads and Public Works	3 741 601	3 803 772	3 738 339	65 433	65 433	2%
Local Government and Traditional Affairs	788 452	788 228	787 765	463	463	0%
Rural Development and Agrarian Reform	1 694 131	1 617 094	1 692 654	(75 560)	75 560	4%
Economic Development, Environmental Affairs and Tourism	936 063	807 407	935 247	(127 840)	127 840	14%
Transport	1 322 994	1 452 471	1 321 841	130 630	130 630	10%
Human Settlements	2 574 536	2 279 064	2 572 291	(293 227)	293 227	11%
Provincial Planning and Treasury	352 143	322 106	351 836	(29 730)	29 730	8%
Sports, Recreation, Arts and Culture	705 454	647 479	704 839	(57 360)	57 360	8%
Safety and Liaison	64 373	62 207	64 317	(2 110)	2 110	3%
Allocated expenditure	56 204 805	56 155 801	56 155 801	0	1 339 034	
Contingency	1 195 265	0				
Total expenditure	57 400 070	56 155 801				
Overall (PI-1) variance						**1.9%**
Composition (PI-2) variance						**2.4%**
Contingency share of budget						0%

Data for year =2013/14						
Provincial Department R'000	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
Education	26 972 078	27 450 752	27 647 152	(196 400)	196 400	1%
Health	16 584 328	17 046 519	16 999 411	47 108	47 108	0%
Social Development and Special Programmes	2 015 205	1 942 281	2 065 642	(123 361)	123 361	6%
Office of The Premier	458 109	440 750	469 575	(28 825)	28 825	6%
Provincial Legislature	409 531	443 009	419 781	23 228	23 228	6%
Roads and Public Works	3 670 311	3 851 944	3 762 174	89 770	89 770	2%
Local Government and Traditional Affairs	840 869	1 001 538	861 915	139 623	139 623	16%
Rural Development and Agrarian Reform	1 714 488	1 731 203	1 757 399	(26 196)	26 196	1%
Economic Development, Environmental Affairs and Tourism	1 070 858	1 352 164	1 097 660	254 504	254 504	23%
Transport	1 532 362	1 517 381	1 570 715	(53 334)	53 334	3%
Human Settlements	2 830 080	2 827 992	2 900 913	(72 921)	72 921	3%
Provincial Planning and Treasury	374 872	339 119	384 255	(45 136)	45 136	12%
Sports, Recreation, Arts and Culture	715 108	727 359	733 006	(5 647)	5 647	1%
Safety and Liaison	69 979	69 316	71 730	(2 414)	2 414	3%
Allocated expenditure	59 258 177	60 741 327	60 741 327	0	1 108 467	
Contingency	1 203 621	0				
Total expenditure	60 461 798	60 741 327				
Overall (PI-1) variance						**3.1%**
Composition (PI-2) variance						**1.8%**
Contingency share of budget						0%

PI-3 table

	2011/12	2012/13	2013/14
	Actual	Actual	Actual
Revenue estimates	53 684 956	57 398 068	60 461 798
Revenue outturns	54 331 787	58 071 889	60 909 165
Deviation, R millions	646 831	673 821	447 367
Deviation %	**1.2%**	**1.2%**	**0.7%**

Annexure 2: List of contacts

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NB: Despite numerous requests for meeting, the PEFA team acknowledges that most provincial top executives were extremely busy in budget preparation at the time of the PEFA assignment and were not as readily available as wished to participate in the evaluation course. (See excerpt of provincial current budget timelines as described in PI. 27.)

Preliminary allocation letters issued to provinces – equitable share and conditional grant allocations	**End October 2014**
Provincial treasuries submit 2nd draft 2015 Budgets to the National Treasury: EPRE and database	**20 November 2014**
Technical committee on finance meeting	**21 November 2014**