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Final Report

Client: **Delegation of the European Union to The Republic of South Africa**

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Acronyms and Abbreviations

AAB	Adjustments Appropriation Bill
AB	Appropriation Bill
ADR	alternative dispute resolution
AFROSAI-E	African Organisation of Supreme Audit Institutions in English-speaking Africa
AGSA	Auditor-General South Africa
AGA	autonomous government agency
ALM	Asset and Liability Management (Division of NT)
AO	Accounting Officer
ASB	Accounting Standards Board
AT	Assessment team
BAS	Basic Accounting System
BBBEEA	Broad Based Black Economic Empowerment Act
bn	billion
BS	budget support
CA	chartered accountant
CDS	Capacity Development Strategy
CFI	Consolidated Financial Information
CFO	Chief Financial Officer
CIPC	Companies and Intellectual Property Commission
CIT	corporate income tax
COA	chart of accounts
COFOG	classification of functions of government
COGTA	Department of Cooperative Governance and Traditional Affairs
CPI	consumer price index
CPO	Chief Procurement Officer
DAPP	Departmental Annual Performance Plan
DFID	Department for International Development (UK)
DG	Director General
DHA	Department of Home Affairs
DO	Diagnostic Overview
DORA	Division of Revenue Act
DORAB	Division of Revenue Adjustment Bill
DORB	Division of Revenue Bil
DPME	Department of Performance Monitoring and Evaluation (the Presidency)l
DPSA	Department of Public Service and Administration
ERF	Economic Reporting Format
EU	European Union
EUD	Delegation of the European Union
ENE	Estimates of National Expenditure
FFC	Financial and Fiscal Commission
FMCMM	Financial Management Capacity Maturity Model
FMIP	Financial Management Improvement Programme
FY	fiscal year (1 April – 31 March in national government)
GBE	government business enterprise
GBS	general budget support

GDP	gross domestic product
GDP-R	regional gross domestic product
GFS	Government Finance Statistics
GIA	group internal audit
GIZ	Deutsche Gesellschaft fur Internationale Zusammenabeit
GoSA	Government of South Africa
GRAP	generally recognised accounting practice
GTAC	Government Technical Advisory Centre
HRM	human resource management
IA	internal audit
IAT	Institute of Accounting Technicians
ICT	information and communication technology
ID	identification document
IDC	International Development Cooperation (National Treasury)
IFMS	Integrated Financial Management System
IGR	Intergovernmental Relations (Division of National Treasury)
IIA	Institute of Internal Audit
IIASA	South Africa Institute of Internal Audit
IMF	International Monetary Fund
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISA	International Standards on Auditing
ISSAIs	International Standards for Supreme Audit Institutions
JBC	Joint Budget Committee
LBC	Large Business Centre (SARS)
LG	local government
LOGIS	asset management system
m	millions
MCB	Ministers Committee on Budget
MDAs	ministries, departments and agencies
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MF	Minister of Finance
MinMEC	Ministers and Members of the Executive Council
MTBPS	Medium Term Budget Policy Statement
MTEC	Medium Term Expenditure Committee
MTEF	Medium Term Expenditure Framework
MTFPS	Medium-term Fiscal Policy Strategy
MTSF	Medium-term Strategic Framework
NA	National Assembly
NBR	National Business Review
NCOP	National Council of Provinces
NDP	National Development Programme
NPA	National Prosecuting Authority
NRF	National Revenue Fund
NT	National Treasury
OAG	Office of the Accountant General (National Treasury)
OCPO	Office of the Chief Procurement Officer
ODA	official development assistance
OECD-DAC	Organisation for Economic Cooperation and Development – Development Assistance Committee

PAA	Public Audit Act
PAIA	Promotion of Access to Information Act
PALAMA	Public Administration Leadership and Management Academy (now renamed the National School of Government)
PAYE	pay as you earn
PBMR	Pebble Bed Modular Reactor (former GBE)
PERSAL	personnel and payroll software
PBO	Parliamentary Budget Office
PCU	project coordination unit
PE	public enterprise
PEFA	Public Expenditure and Financial Accountability
PETS	Public Expenditure Tracking Survey
PFM	public financial management
PFMA	Public Finance Management Act
PFM-PR	Public Financial Management (PEFA) Performance Report
PI	performance indicator
PIT	personal income tax
PMG	Paymaster General
PPE	plant, property and equipment
PPP	public-private partnership
PPPFA	Preferential Procurement Policy Framework Act
R	Rand, South African currency
RAF	Road Accident Fund
RDP	Reconstruction and Development Programme (Fund)
SA	South Africa
SAA	South African Airways
SACCI	South African Chamber of Commerce Institute
SACU	Southern African Customs Union
SADC	Southern African Development Community
SAIPA	South African Institute of Professional Accountants
SAPS	South African Police Service
SARB	South African Reserve Bank
SARS	South African Revenue Service
SBS	sector budget support
SCAG	Standing Committee on the Auditor General
SCM	supply chain management
SCOA	Standard Chart of Accounts
SCOPA	Standing Committee on Public Accounts
SECO	State Secretariat for Economic Affairs, Switzerland
SITA	State Information and Technology Agency
SLGP	Strengthening Local Governance Programme
SNG	sub-national government
SOE	state-owned enterprise
SASSA	South African Social Security Agency
TOR	terms of reference
TSA	treasury single account
UIF	Unemployment Insurance Fund
USAID	United States Agency for International Development
VAT	value added tax
WGC	whole-of-government consolidation

National currency and exchange rates
Currency unit = South African rand (ZAR)
At 11 September 2014, USD 1.00 = ZAR 10.94
Euro 1.00 = ZAR 14.14

Fiscal year: 1 April – 31 March (national and provincial departments)

Integrated Summary Assessment

I. Integrated Assessment of PFM Performance

The integrated assessment summary describes the public financial management (PFM) performance of the Republic of South Africa covered under the six key dimensions defined in the PEFA framework. While donor practices are a separate section in the main assessment of PFM systems, processes and institutions, they are described as an integral part of the summary assessment insofar as they affect central government PFM systems in each of the six key dimensions.

A. Credibility of the budget

Budget credibility, already high in 2008, has been maintained when analysed at the aggregate level. The very small variances between original expenditure budgets and actual expenditure outcomes (PI-1) where expenditure outturns were between 0.3% and 1.1%, even at the individual vote level (PI-2), show that expenditure budgets are realistic and that budget discipline is good, reflecting a strong link between budget formulation and execution. The small variance between original budgeted and actual revenue outturns (PI-3), also supports this finding and was due to good revenue estimation during the period covered by the assessment. The technical expertise and experience over the years, combined with the three separate revenue forecast models, one by the South African Reserve Bank, the second by the South African Revenue Service, and the third by the Tax Policy Unit of the National Treasury, provides adequate checks and balances, with very small differences for predictable revenue forecast. The global economic recession did not affect the revenue forecast too much. The revenue committee made up of officials of these three institutions debates and agree on a realistic revenue estimate which forms part of the three-year projections of Medium Term Budget Policy Statement submitted to the National Assembly. The Public Finance Management Act allows for in-year budget adjustments mid-year for reprioritisation and reallocation of revenue for commitment of expenditure. Over the three years under review - 2010/11, 2011/12, 2012/13, the final budget outturns did not vary significantly from the original estimates.

The March expenditure spikes that characterised departmental spending towards the end of the fiscal year have ceased following the Treasury's directive to departments to be cautious about fiscal dumping and also due to some budget cuts that were effected in departmental budgets. Stock of expenditure arrears is insignificant in relation to total departmental expenditure. Reliable and complete data on the stock of arrears is generated through routine procedures monthly, but does not include an age profile. Data for expenditure arrears in public entities is not available.

It turns out that development assistance by way of general budget support and sector budget support remains small in quantum (below 1% of total government expenditure). Although a marginal improvement from 2008, the predictability or otherwise of total direct budget support has an insignificant impact on central government revenue outturns. The focus on predictability of donor funds however is the effective dialogue between government and donors relating to improvement in PFM systems and procedures. Information on forecast disbursements from donors on project and programme aid to government has seen a marginal improvement, while information on actual disbursement of cash flows still remain a challenge, notwithstanding the fact that a couple of development partners provide such information to government (see D-2).

Extra-budgetary expenditure tends to undermine budget credibility; this is however not the case in South Africa as there are no unreported extra-budgetary expenditures. Known off-budget expenditures are those from donor funded projects but these remain insignificant. About 69% of donor funds are expensed outside the Reconstruction and Development Programme account.

The Assets and Liabilities Management Unit of the National Treasury compiles and reports annually the risk profile of all Public Entities and Central Government, reflecting the amount of guarantees provided by the Government. Public Private Partnership arrangements were phenomenal prior to 2010 but these have reduced significantly in comparison to government guarantees. Officials stated that total PPP exposure stood at R6 billion while total government guarantees were R400 billion as at May 2014 (PI-17).

B. Comprehensiveness and transparency

Budget formulation and execution is currently based on economic, administrative, programme and sub- programme, and project classification that produces consistent documentation according to GFS/COFOG standards at the functional as well as sub-functional level. The chart of accounts for the Central Government budget monitoring is derived from, and is an extension to the GFS 2001 standard and so facilitates ready monthly reports based upon that standard. Since 2008 the chart of accounts has also included a field to track the source of funds, and so donor funds can now be individually reflected directly in the budget and financial reporting documentation.

The comprehensiveness of budget documentation, already very high in 2008, remains at this high level. There continues to be comprehensive coverage of central government operations, as defined in IMF-GFS. Donor project expenditure, even if it is not fully accounted, is insignificant in relation to aggregate expenditure.

Intergovernmental fiscal relations are transparent and provinces and municipalities get sufficiently reliable data for efficient planning and budgeting. Formula-based horizontal allocations are used for both block grants and conditional grants to provinces and municipalities.

The National Treasury oversees fiscal risk arising from public enterprises, non-commercial public entities and provinces and municipalities. The Treasury publishes each month within a week, total government borrowings, revenue and expenditure. It also monitors and publishes quarterly provincial and municipal fiscal risk reports (PI-9)

The fiscal information available to public covers the entire budget cycle i.e. budget formulation and planning, budget execution, and external scrutiny and audit. Public access to key fiscal information in South Africa is transparent, generally comprehensive, user-friendly and timely.

C(i). Policy-based budgeting

A clear annual budget calendar exists that is generally adhered to and the calendar allows six to eight weeks for departments to meaningfully complete their detailed estimates of revenue and expenditure. There is also sufficient time for departments to revise their budgets in line with cabinet approved allocations (over and above the budget base line where appropriate).

The National Treasury issues comprehensive and clear budget circulars for an integrated recurrent and capital budget process. The previous Medium Term Expenditure Framework (MTEF) approved aggregate budget serves as a budget ceiling for the next MTEF cycle and this together with the fiscal objectives and principles are annually explained in the MTEF guidelines. Departments reprioritise their budgets in line with the aggregate ceilings indicated in their indicative baselines and further revise their baselines after Cabinet approval of national allocations.

In the three years reviewed for assessment of budget credibility, the budget was signed into law 3-4 months after the start of the fiscal year, which is allowed by the law. 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. Sector strategies are prepared and in most cases adequately costed, but there are a few exceptions which are not yet fully costed - to reflect both investment cost and forward linked recurrent expenditure.

Debt sustainability analysis for external and domestic debt is carried out every year by the National Treasury. The external debt to GDP stood at 43% as at end of fiscal year 2012/13 (PI-17). The Reserve Bank publishes quarterly bulletins on the financial market functionalities and central government economic performance.

A change since 2008 is that detailed Annual Performance Plans (APPs) are now prepared for all line departments and that there are now links to the Medium Term Fiscal Policy Strategy (MTFPS), and to the National Development Plan (NDP) finalised in 2011.

C(ii). Predictability and control in budget execution

Regarding issues related to the transparency of taxpayer obligations and liabilities; the effectiveness of measures for taxpayer registration and tax assessment; and the effectiveness in collection of tax payments, SARS has built on earlier strengths and the performance indicator ratings remained high, with the exception of the poorer performance in respect of tax arrears (PI-15, dimension (i)).

The budget execution process provides a well advanced spending horizon of twelve months to each department for expenditure commitment. Cash flows are prepared and updated monthly on a rolling basis. Departments prepare procurement plans and annual performance plans which are submitted to the National Treasury. Monthly statements on government debt and net cash position are published on the Treasury website.

Controls in personnel and payroll administration remain strong. PERSAL remains the personnel and payroll software. There is a direct link between the established post database, the personnel database and the payroll database. There are audit trails for any changes to personnel and payroll records. It takes a maximum of one month for changes to personnel and payroll records to be updated. Monthly payroll reconciliations take place, with a physical head count signed off by the head of each unit prior to payment of salaries. It however turns out that the departments of defence and police do not form part of the regular personnel and payroll system. Officials stated that these represent 15% to 20% of total government personnel.

There have not been any significant changes to procurement within the assessment period even though there are ongoing reform efforts, which have led to the creation of the Office of the Chief Procurement Officer in 2013. The Preferential Procurement Policy Framework Act (PPPFA) remains the main legal framework governing government procurement, supported by the Treasury Regulations. The Constitution and the subsidiary legislation prescribe fairness, equitable, transparent, competitive and cost-effective procurement practices across all government departments and public entities. Justification for the use of procurement methods other than open competition remains the responsibility of the Accounting Officer of a department (PI-19).

Internal controls for non-salary expenditure have declined marginally. This was due to the decline in understanding of internal control rules and procedures. Information gathered from officials indicates that the decline could be attributed to the fast pace of reforms which leads to more complex procedures, the decline in staff discipline in some instances and the high rate of staff turnover leading to new entrants who might be less experienced (PI-20).

Internal audit functions declined marginally. This was as a result of the drop in dimensions (ii) and (iii) of PI-21 (frequency of distribution of internal audit reports and extent of management response). Internal audit reports were not submitted to the National Treasury. However, under specific circumstances, the Treasury receives copies; a unit with the Office of the Accountant General reviews these reports and provides technical support to the affected department closely with the audit committees. The Treasury has issued directives to all department and public enterprises, beginning 2014/15 fiscal year, to send copies of quarterly internal audit reports and other performance status reports to the National Treasury. It should be noted that the Public Finance Management Act places the internal audit function as part of the primary responsibility of the Accounting Officer in a department and not the National Treasury.

C(iii). Accounting, recording and reporting

Reconciliation of Treasury bank accounts and suspense accounts as well as acquittal of cash advances to staff for official duties remain resolute and timely (PI-22). There still remain some donor-assisted government project bank accounts held in commercial banks that do not form part of central government reconciliation mechanisms.

The Standard Chart of Accounts provides adequate financial information on resources received (cash and kind) by front line service delivery units (PI-23). There is a marginal decline in the quality of financial information, as reported by the Auditor General in his annual audit reports for the fiscal years 2010/11 to 2012/13. Nonetheless, in-year budget execution reports are produced and published in a timely manner. Annual financial statements are prepared by each department, audited, tabled in Parliament and submitted to the National Treasury. The Auditor-General submit consolidated statements for departments to Parliament (PI-25). As it turns out, donor reporting on actual cash flows for projects and programmes are not submitted to government in order for those reports to be included in the aggregated government financial reporting. Some donations in kind, very insignificant, are reported (D-2). The use of country systems by donors has remained unchanged when considered at an aggregate level, though some gains have been made in the case of the European Union (D-3)

The Accountant General Office continues to make progress in the transition to comprehensive financial reporting in accordance with national and international standards, but it will not be possible to achieve full consolidation of the government finances until the departments as well as public entities are using accrual accounting.

Donors are committed, as part of the Paris Declaration and Accra Agenda for Action, to use country systems (procurement, budget execution, financial reporting and audit). Analysis of available data suggests that a little over R2 billion of development assistance representing about 31% of ODA (as defined by OECD-DAC) is routed through the RDP. Between 63% and 81% of these funds use country systems; nonetheless, there still remains 69% of ODA which is not routed through the RDP fund and therefore does not use country systems.

C(iv). External scrutiny and audit

The legislature remains strong as far as review of budget documents is concerned. It has five months to review all budget related documents submitted by the Executive, applying the rules (standing orders) governing parliamentary procedure. These procedures apply equally during the main budget process from February to July, as well as the adjusted budget in October; the rules are well respected by both executive and the legislature. The review process involves detailed analysis of the macro fiscal framework, the economic outlook and the budget estimates. The Standing Committee on Appropriations tables submissions and recommendations received from the various portfolio committees in the plenary for debate. The passing of the Money Bills Amendment Procedure and Related Matters Act 2009 has strengthened parliament to the extent of amending budget estimates presented by the executive. These powers are yet to be exercised by the legislature. Further, the Parliamentary Budget Office (PBO) has been created, though very new; it is still undergoing organisational capacity building. It is anticipated that the PBO will provide technical and professional advice to the legislature on budget matters (PI-27). In South Africa, the Auditor General has both complete administrative and financial independence in accordance with INTOSAI standards. This is attained by the power to charge fees for professional audit work, which allows him/her to recruit competent and professional expertise to perform all manner of audits.

External audit is carried out in accordance with international standards. This is partly due to the nature of issues raised which may require lengthy processes to be resolved. The Auditor General's reports now cover both financial, systems and performance audit, and remain timely. The overall score on PI-26 is no better than in 2008, however, because management response to audit reports is not yet timely and systematic. Audited reports are submitted on time to the legislature for scrutiny. The Standing Committee on Public Accounts (SCOPA) conducts extensive public hearing of all departmental audit reports with adverse or qualified audit opinion, by requiring Accounting Officers and political heads to attend for further questioning. Over the assessment period, there has been a slight delay in the completion of review of audit reports, from two months from the date of receipt to five months. Once adopted by the plenary, SCOPA recommendations become legally binding and require full executive implementation; however, some actions still remain unimplemented.

Table 0.1 Overall summary of PFM Performance Scores - 2014 Assessment

PFM Performance Indicator (PI)		Scoring Method	Dimension Ratings				Overall Rating
A. PFM-OUT-TURNS: Credibility of the budget							
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	A			A
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	A				A
PI-4	Stock and monitoring of expenditure payment arrears	M1	A	B			B+
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	A	B		A
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	A	A			A
PI-10	Public access to key fiscal information	M1	A				A
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	B	A	A
C(ii) Predictability and Control in Budget Execution							
PI-13	Transparency of taxpayer obligations and liabilities	M2	A	A	A		A
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	A	A	A		A

PFM Performance Indicator (PI)		Scoring Method	Dimension Ratings				Overall Rating
PI-15	Effectiveness in collection of tax payments	M1	D	A	A		D+
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	A	B	A		A
PI-18	Effectiveness of payroll controls	M1	A	A	A	A	A
PI-19	Competition, value for money and controls in procurement	M2	C	D	D	D	D
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	A	B	C		C+
PI-21	Effectiveness of internal audit	M1	A	C	B		C+
C(iii) Accounting, Recording and Reporting							
PI-22	Timeliness and regularity of accounts reconciliation	M2	B	A			B+
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	C	A	B		C+
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	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	A	A			A
D-2	Financial info provided by donors on project and program aid	M1	C	D			D+
D-3	Proportion of aid that is managed by use of national procedures	M1	D				D

II. Assessment of the impact of PFM weaknesses

South Africa continues to maintain its impressive record of fiscal discipline. The PFM systems provide a sound basis for resource allocation according to priorities. The bottom-up perspective of departmental participation in budget preparation through the three-year medium term macro fiscal framework provides a sound basis for budget implementation. The effectiveness of cash management allows for commitment and payment for expenditure in a predictable manner, as well as prompt payment of staff remuneration, which are indications of efficient service delivery. There remain challenges with regard to procurement management and other non-salary expenditure. The chart of accounts and BAS are capable of reporting on resources received by primary schools and clinics.

There are two key features in South Africa's PFM system:

- Parallel roles and responsibilities of both national government and provincial government. At the national government level, it prepares and submits bills and regulations for parliamentary approval, provide policy guidance, general planning and budgeting, revenue mobilisation and cash management, as well as preparing consolidated (or aggregated) financial reports to parliament after audit. The Provinces are mainly responsible for service delivery and monitoring municipalities. National government therefore transfers a lot of responsibilities with the matching funds to provinces which ensure shared responsibility between national government and provincial government. This PEFA assessment is at the central/national government level and only when a provincial PEFA is conducted will strengths and weaknesses be revealed at the sub-national government level. It is our understanding that a number of provincial PEFAs are currently under way. We are not certain whether these PEFA reports will be made public.

- Transverse and Bespoke Computerised Systems: these include BAS, ARABAS, LOGIS, PERSAL and the Tax Administration Software. These software applications operate using the wide area network backbone provided by SITA. The bespoke nature allows for easy and ready maintenance solutions at all times

Aggregate Fiscal Discipline

As indicated in the detailed assessment of indicators (PI-1, PI-2, PI-3, PI-16 and PI-17), South Africa still maintains a very good score as far as aggregate fiscal discipline is concerned. This involves a credible three-year fiscal forecast for both revenue and expenditure as well as debt service, providing the needed top-down discipline for expenditure commitment as a result of a well administered budget release and cash management system. Further, there a comprehensive and transparent debt management framework that provides confidence in the economy for businesses. These positives are negatively impacted by the weakness in procurement management (PI-19).

Strategic Allocation of Resources

Having achieved fiscal discipline, the next step is achieving strategic allocation of resources. There are a number of positive steps that are already in place for South Africa to achieve strategic allocation of resources; these include budget classification (PI-5), orderliness and participation in budget process (PI-11) and multi-year perspective in fiscal planning and expenditure policy (PI-12).

The government adopted the National Development Plan (NDP) 2030 in 2011. This now serves as the global long-term policy framework of government out of which 5-year medium development plans are developed and linked to annual budgets. Even though donor influence in terms of direct budget support is low, the alignment of EU budget support to national strategies has a positive impact in relation to the developmental national agenda (D-1, D-2 and D-3). Officials stated that, in spite of the small size of ODA in relation to the total government budget, implementation of programmes and projects funded by donors suffers when delays arise from the release of these funds. There has also been an effective government-donor collaboration and dialogue in terms of improvement in PFM. The current chart of accounts and the accounting software provide sufficient and reliable information on resources (cash and kind) received by primary schools and clinics (PI-23). This is made possible by provincial financial reports prepared quarterly and consolidated annually.

Efficient Service Delivery

The governance framework in South Africa is a parallel structure, which places shared responsibility between national government and provincial government; much of the service delivery is undertaken by provinces and municipalities. National government's main role is policy development, oversight and resource management and allocations to provincial and municipal spheres for the provision of the required public services.

Therefore, monitoring of transfers to sub-national government coupled with effective supervision and evaluation at the national level contribute to efficient service delivery. The Intergovernmental Fiscal Relations unit within the National Treasury performs the role of coordinating fiscal relations between national, provincial and local government as well as promoting sound provincial and municipal financial planning, reporting and management. Significant success stories can be told in the area of revenue administration (PI-13, PI-14, PI-15(ii), PI-15(iii)). Even though there is room for improvement in widening the tax net, SARS has been successful in reaching known taxpayers to collect revenue to enable government to deliver the needed services.

There is also good cash and debt management for liquidity purposes; this reduces government borrowing and avoids payment of excessive interest on borrowing thereby providing considerable confidence in the financial market. Areas of major concern remain with procurement (PI-19) and control of non-salary expenditure (PI-20).

III. Change in performance since the 2008 assessment

The PEFA performance indicators represent high-level aggregate measures and therefore do not necessarily capture all details. Inconsistencies in the application of the methodology and the assessment itself as a result of changes in methodology, different definitions or assumptions, different sources of data etc. may not necessarily facilitate a direct comparison of the scores. While the PEFA methodology provides a direct basis for tracking performance over time, the changes in scores, for the above-mentioned reasons, need to be interpreted with care to be meaningful.

Direct comparison with the scores from the previous assessment can be made for the majority of performance indicators. For the following three indicators i.e. PI-2, PI-3 and PI-19, the methodology for scoring and calibration of indicators has been revised since January 2011; PI-2 and PI-3 ratings were re-calculated for 2008 on the new methodology and it was found that there was no change in performance; PI-19 ratings, however, are not directly comparable.

The table below summarises the changes in performance since the 2008 assessment.

Table 0.2 Summary of Changes in Performance since 2008 Assessment

Change in performance	Number of PIs	Performance indicators
Improvement in performance	4	PI-9, PI-12, D-1, D-2
Slippage in performance	2	PI-4, PI-21
No change in performance	24	PI-1, PI-2, PI-3, PI-5, PI-6, PI-7, PI-8, PI-10, PI-11, PI-13, P1-14, PI-15, PI-16, PI-17, PI-18, PI-20, PI-22, PI-23, PI-24, PI-25, PI-26, PI-27, PI-28, D-3
Ratings not comparable	1	PI-19

The table below summarises the comparability of scores and the change in performance since 2008. In fact the table is misleading, as the PEFA methodology can show improvements only in the few indicators where the former score was below A. It does not show improvements where A ratings remain at A (there is no A+ rating in the methodology). In fact the text refers to continuous improvement in systems and capacity building across all critical dimensions.

Table 0.3 Change in performance since 2008 assessment

	PFM Performance Indicator	Scoring Method	2008	2014	Change
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	A	
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	A	A	
PI-4	Stock and monitoring of expenditure payment arrears	M1	A	B+	
PI-5	Classification of the budget	M1	A	A	
PI-6	Comprehensiveness of information included in budget documentation	M1	A	A	
PI-7	Extent of unreported government operations	M1	A	A	
PI-8	Transparency of inter-governmental fiscal relations	M2	A	A	

	PFM Performance Indicator	Scoring Method	2008	2014	Change
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	B+	A	
PI-10	Public access to key fiscal information	M1	A	A	
PI-11	Orderliness and participation in the annual budget process	M2	B	B	
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	B	A	
PI-13	Transparency of taxpayer obligations and liabilities	M2	A	A	
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	A	A	
PI-15	Effectiveness in collection of tax payments	M1	D+	D+	
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	A	A	
PI-17	Recording and management of cash balances, debt and guarantees	M2	A	A	
PI-18	Effectiveness of payroll controls	M1	A	A	
PI-19	Competition, value for money and controls in procurement	M2	D+	D	
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	C+	C+	
PI-21	Effectiveness of internal audit	M1	A	C+	
PI-22	Timeliness and regularity of accounts reconciliation	M2	B+	B+	
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	C+	C+	
PI-25	Quality and timeliness of annual financial statements	M1	A	A	
PI-26	Scope, nature and follow-up of external audit	M1	B+	B+	
PI-27	Legislative scrutiny of the annual budget law	M1	A	A	
PI-28	Legislative scrutiny of external audit reports	M1	B+	B+	
D-1	Predictability of Direct Budget Support	M1	D	A	
D-2	Financial info provided by donors on project/program aid	M1	D	D+	
D-3	Proportion of aid that is managed by use of national procedures	M1	D	D	

Key

Improved	Slipped	Not Comparable	No Change

IV. Prospects for PFM Reforms

The move towards South Africa's PFM reform strategy continues to be premised on an incremental, single, systematic and sequenced reform strategy, emphasising on achieving first, fiscal discipline, then strategic allocation of resources, and finally efficient delivery of services. Over the past couple of years, South Africa has achieved the first step - fiscal discipline at the national level. Decentralisation, being part of the core PFM reform, requires the same or equal level of expertise at the sub-national level to first, achieve fiscal discipline, but more importantly move towards efficient service delivery, which is the primary responsibility of provinces and municipalities. At present, this remains a challenge. Central government is involved in a number of capacity building programmes aimed at sharpening the skills of central government staff as well as improving the level of capability of sub-national staff.

Improvement in any PFM environment requires the full support of the political class; luckily, South Africa enjoys this backing. The National Treasury being the backbone of PFM reform continues to play a very important role with the full participation of its dedicated staff within all divisions. The effective coordination of the PFM Implementation Unit demonstrates the involvement of all stakeholders for the achievement of the single reform agenda

Past success stories concerning the legal and regulatory framework and institutional arrangements governing PFM continue to push the reform agenda. These include:

- The enactment of the various PFM laws (PFMA, MFMA, PPPFA, among other);
- Improvement in the Chart of Accounts for effective financial reporting;
- Strengthening Audit Committees to effectively discharge their legal mandate;
- Better alignment of government policy, planning and budgeting; this has facilitated the adoption of the National Development Plan 2030 in the year 2011;
- Strengthening the Reserve Bank to better play its monetary policy role;
- Empowering the South African Revenue Service to improve on domestic revenue collection; and
- Empowering the Office of the Auditor General to perform an independent audit framework that meet INTOSAI standards; this they have done well.

The National Treasury established a government component, called the Government Technical Advisory Centre (GTAC) and it was established in 2013 with the mandate to assist organs of state, including the Centre of Government Departments, in building their capacity for efficient, effective and transparent financial management. The legal framework that established the GTAC allows the GTAC to perform general advisory support upon request from departments or public entities, provide procurement/contract management support for large capital assets, general feasibility studies support and other services as required by the Minister of Finance.

Government is currently focusing attention on provinces and municipalities to build capacity and impact lessons learnt from central government to better provide basic services to the masses.

A number of legislative amendments have also been passed. The current Treasury Regulations 2005 is being revised. When completed, it is foreseen to strengthen the existing PFM environment and which will contribute to providing better services to the people.

Over the years, there has been a strong donor coordination and involvement in the success story of PFM reform in South Africa. This continues to play a significant role even though donor flows remain small in relation to the national budget. One example is the NT initiative on the establishment of the Office of the Chief Procurement Officer, which after establishment, received some capacity building support from donors in order to ensure a more competitive procurement environment.

1 Introduction

1.1 Objective of the PFM-PR

The overall objective of this assignment is to compile a comprehensive Public Financial Management - Performance Review (PFM-PR) in accordance with the 2011 PEFA methodology, in order to provide an analysis of the overall performance of PFM systems of the Republic of South Africa, as well as to follow up on progress made since the last PEFA assessment conducted in 2008.

The specific objectives of the assignment are to:

- Compile an objective assessment report aimed at providing an exhaustive and overall evaluation of the performance of the public financial management of the country under review on the basis of the indicators of the 2011 Performance Measurement Framework, to identify the main PFM strengths and weaknesses of the country, and to evaluate to what extent the institutional mechanisms set up by the partner country contribute to planning and the implementation of the reforms of the public financial management system;
- Update the 2008 overview of PFM performance in accordance with the 2011 PEFA Performance Measurement Framework at national government level;
- Establish and explain the level of improvement in performance, based on the PEFA indicator scores in comparison to the results found during the previous evaluation;
- Assess the possible reasons or factors that could have contributed to the change in scores, such as changes in definitions, improved availability of or access to information and different approaches to professional judgements, amongst others; and
- Provide a shared information pool with regards to overall public finance management performance in the country.

The experts were also tasked to ensure that (i) all factors that affect a change in rating(s) are explained indicator by indicator; (ii) the performance change is identified and (iii) any reader can track the change from the previous assessment.

1.2 Process of preparing the PFM-PR

1.2.1 Assessment team

The assessment team comprised three independent consultants – Davina F. Jacobs (Team Leader), Tony Bennett (funded by SECO), and Charles Hegbor. Individual terms of reference were provided to the consultants, based on the Concept Note.

1.2.2 Role and involvement of various stakeholders

A number of interlocutors were interviewed. Similarly, official documentation was reviewed including legal and regulatory frameworks and official government financial reports. Annexes 1 and 2 provide details of people interviewed and documents consulted respectively.

1.2.3 Assessment process

The assessment process was under the supervision of the Oversight Committee, headed by the Deputy Director General of the Budget Office. The assessment was sponsored by the European Union and SECO which drafted the terms of reference (TOR). The TOR was circulated to the

Government. At the start of the mission a presentation of the PEFA methodology was made to National Treasury Officials as well as separately to the Donor Coordination Forum. An Inception Report was prepared and disseminated to the EU and a number of government officials who were to participate in the interview process.

A near-final aide-memoire was prepared and a presentation of the preliminary findings was made to the National Treasury, EUD and SECO representatives. There was also a stakeholder workshop to present the draft final report to a wider group of stakeholders involved in this re-assessment. The draft report was shared with the Government and its cooperating partners for their comments and inputs. A copy was also sent to the PEFA Secretariat for quality review. This final report addresses all comments received (see Annex 6).

1.2.4 Quality Assurance

A robust quality assurance has been put in place through the PEFA Secretariat PEFA CHECK system. The criteria for the PEFA Secretariat to give the PEFA CHECK endorsement are as follows:

1. A quality review of the Concept Note is obtained from the PEFA Secretariat and at least three other PFM institutions/experts before the assessment work starts, and the Concept Note is revised and forwarded to the reviewers. This was done.
2. The draft assessment report is submitted to all reviewers for their comments, and the draft report is revised and forwarded to the reviewers with a table showing the assessment team's responses to all comments. This is in progress.
3. The management and quality assurance arrangements are described in the report, including the names and posts of the Oversight Team, the Assessment Manager, the Assessment Team, and reviewers (invited and actual), and dates of the draft and final Concept Notes, and of the reviewed draft report. This was done.

1.3 Methodology

The PEFA methodology framework, as revised in January 2011, was adopted. This involves the use of the PFM performance measurement framework to measure the strength of PFM reforms. An effective and orderly PFM measurement framework requires three levels of budgetary outcomes, namely:

1. Effective controls of the budget totals and management of fiscal risks contributing to maintaining aggregate fiscal discipline;
2. 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
3. Managing the use of budgeted resources contributing to efficient service delivery and value for money.

This 2014 repeat PEFA assessment was carried out between June and August 2014. The field mission was carried out between 23 June and 22 August 2014. Meetings were arranged with the assistance of the National Treasury. A National Treasury official accompanied the consulting team on many of the interviews. Other actions included, amongst others:

- Review of legal and regulatory documentation, budget documentation and financial and audit reports;
- Assessment of the requirements for further analysis and evaluation of PFM practice in the central government, based on interviews with government officials in the National Treasury,

South African Reserve Bank, the Parliament, the Office of the Auditor-General, Departments of Health, Basic Education, among others;
- Development partners including the European Union, World Bank, SECO, and USAID were interviewed;
- Quantitative analysis of official financial and budgetary data;
- Assessments of PFM procedures and systems; and
- The application of professional judgment.

An important consideration in the assessment is an appreciation of the quality, comprehensiveness and accuracy of data that is used to determine the budget credibility indicators. The reliability of these indicators can only be as good as the accuracy of the financial data upon which they were calculated.

1.4 Scope of the assessment

The assessment covers the central government, that is, the National Government and public entities at the national level. The point of time or period of assessment of each indicator and dimension is in accordance with the PEFA Field Guide. Indicators PI-1 to 3 cover FY 2010/11 to 2012/13 for lack of data on 2013/14. Other indicators cover the last completed FY, that is 2013/14, or the time of assessment – July/August 2014, or as prescribed.

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 Republic of South Africa. Six main dimensions were addressed:
1. *Budget credibility*: the original approved budget should be the total budget approved by the National Assembly. The budget should reflect the intended outputs of the National and Sector Medium Term Development Plans;
2. *Budget comprehensiveness and transparency*: the budget and the fiscal risk oversight are comprehensive and fiscal and budget information are accessible to the public;
3. *Policy based budgeting*: budget policy from the national level should have a bottom-up and a top-down perspective;
4. *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;
5. *Accounting, recording, and reporting*: adequate records and information are produced, maintained and disseminated to meet expenditure and decision-making control, management and reporting;
6. *External audit and scrutiny*: A high quality external audit established to scrutinize Government finances.

The assessment also looked into revenue sources and its expenditure, application of procurement and contracting procedures at the national level.

2 Country Background Information

2.1 Description of country economic situation

2.1.1 Country context[1]

Since 2004, South Africa's overarching national development policy and strategy has been articulated in the previous Medium Term Strategic Framework (MTSF) which was valid for a five-year period that coincides with the national and provincial electoral cycle. The current MTSF (2009-2014) is based on the ruling African National Congress (ANC) party's 2009 election manifesto, which indicated that the party would "speed up change in people's lives" with a focus on creating more jobs and decent work, fighting poverty and hunger, providing quality education and health care for all, developing the rural areas and improving the safety and security of communities. The MTSF (July 2009) indicates ten priority areas that should guide planning and resource allocation during this electoral mandate period with a view to reaching "new heights in terms of growing the economy, reducing unemployment and poverty and promoting greater equity and social cohesion."

These ten priority areas have since been developed into twelve outcomes or development impacts that relate to, inter alia, economic growth, employment, education and training, health, public service reform and the environment. An action plan with a number of outputs and time-bound performance indicators accompanies each outcome. Ministers signed service delivery agreements related to the outcomes. The national development policy and strategy described above is well defined, credible and relevant.

Since the inaugural meeting of the National Planning Commission (NPC) in May 2010, a thorough diagnostic of the challenges facing South Africa has been carried out. In this work, the Diagnostic Overview (DO) places poverty, inequality, and unemployment at the heart of South Africa's problems. It identifies nine major challenges that have an impact on these central problems: (i) too few South Africans are employed; (ii) poor educational outcomes; (iii) high disease burden; (iv) divided communities; (v) public service performance is uneven; (vi) spatial patterns marginalise the poor; (vii) corruption; (viii) resource intensive economy; and (ix) crumbling infrastructure. In addition the NDP-2030 includes analysis of other areas not covered in the DO, notably, land reform, migration, crime and justice, the role of parliament, and the role of South Africa in the region. The analysis in both the DO and in the NDP-2030, accords with the analysis in other documents, notably the New Growth Path (NGP) which identifies the core challenge as mass joblessness, poverty, and inequality. Of the major challenges discussed, three are identified in the NDP-2030 as critical - jobs, education, and capacity.

In their diagnostic, the development plans are frequently forthright and bold in their analysis of the constraints, challenges, and perspectives that face the country. This is no exception in the "Diagnostic Overview" (DO) and the "National Development Plan – 2030" (NDP – 2030).

2.1.2 Overall government reform programme

The 1994 transition in Government to a democratic state brought the realisations that an overhaul of the system of budget management was required, not only to fulfil the demands of the new constitutional framework, but also as a tool to bring about the improved substantial outcomes sought in terms of fiscal sustainability, improved alignment of spending with the new national priorities and the maximisation of existing resources towards these priorities.

[1] See Inception Note, dated June 2014.

The South African public expenditure management system has undergone substantial reform since the mid-1990s. While the early reforms shaped macroeconomic stability and strengthened public spending, the more recent emphasis of the reform programme has been on efficient resource allocation and effective service delivery. The highlights of the reform programme have been: the roll-out of a new intergovernmental system that requires all three levels of government to formulate and approve their own budgets; the introduction of 3-year rolling spending plans for all national and provincial departments under the Medium Term Expenditure Framework (MTEF); new formats for budget documentation that include a strong focus on service delivery information; and the enactment of new financial legislation. In addition, changes to the budget process, especially the introduction of function budgeting, have allowed role-players to deliberate on key policy choices and on the matching of available resources to plans (using budget programme structures), rather than item-by-item cost estimates.

Underlying the reforms were the following principles:

- *Comprehensiveness and integration* – The main national budget framework coordinates, integrates and disciplines policy and budget processes for the country at national, provincial and, increasingly, at local level.
- *Political oversight and a focus on policy priorities* – Choices between priorities are political in the final instance. The South African system recognises this and structures the integration of political and administrative practices to ensure that funding choices align with the priorities of government, and that political oversight is reinforced.
- *Using information strategically* – The reform process systematically set out to improve the timeliness, quality and usefulness of information on the allocation and use of funds, both internally and externally, to improve public policy and funding choices and to enable accountability.
- *Changing behaviour by changing incentives* – Responsibility was devolved to spending departments for spending choices and use of funds within approved ceilings and against policy commitments.
- *Ensuring budget stability and predictability while facilitating change at the margin* – The budget process includes various mechanisms to manage uncertainty and maximise funding and policy predictability over the medium term, while promoting alignment with policies at the margin, through the use of rolling baselines, a contingency reserve and a disciplined budget process, amongst other measures.
- *Collaboration* – the budget process involves key departments at the centre of government to inform allocation decisions, taking high level government priorities into consideration.

2.1.3 Rationale for PFM Reform

At present, the MTEF and Medium Term Strategic Frameworks form an integral part of the budgeting process, enforced by a comprehensive legislative environment. Strengthening of the budget and expenditure cycle are continuing through initiatives aimed at training and the development of professional skills for all segments of the PFM process, the implementation of growth-enhancing policies and processes, as well as the assessment and application of benchmarks. All relevant legislation is in place and the oversight and control functions of the Parliament and the Office of the Auditor General are considered to be mature and independent. The reform agenda focuses on processes to improve current planning, budgeting, and monitoring and evaluation systems through increased capacity building among other things, rather than continuing to introduce new frameworks and guidelines.

Coordination functions are implemented by a wide range of stakeholders. Driving the PFM development agenda is the National Treasury (see Annex 4), implementation and coordination is done through ten programmes: (i) administration; (ii) economic policy, tax, financial regulation and research; (iii) public finance and budget management; (iv) asset and liability management; (v) financial accounting and reporting; (vi) international financial relations; (vii) civil and military pensions, contributions to funds and other benefits; (viii) technical and management support and development finance; (ix) revenue administration and (x) financial intelligence and state security.

Other institutions responsible for facilitating monitoring PFM activities in government include, amongst others, the Standing Committee on Public Accounts, Portfolio Committees, Standing Committees on Finance and on Appropriations, the Auditor-General of South Africa and the Standing Committee on the Auditor-General, Audit Committees, Department of Cooperative Governance and Traditional Affairs, the Minister's Committee on the Budget (MinComBud), Medium Term Expenditure Committee, the Ministers and Members of the Executive Council (MinMEC), the Budget Council, Department of Performance Monitoring and Evaluation and the South African Local Government Association.

The establishment of the Department of Performance Monitoring and Evaluation in the Presidency in 2009 brought about a variety of initiatives to monitor and evaluate performance of government as a whole in line with the national outcomes as outlined in ministerial Delivery Agreements that are signed with the President, informed by the MTSF and NDP.

With regard to *monitoring tools*, the National Treasury's Financial Management Capability Maturity Models (FMCMMs) are now fully implemented at National and Provincial Departments and work is continuing to roll these out at local government level. The model is based on questionnaires that are completed by surveyed departments. The questionnaires, once completed, are signed off by the appropriate Head of Department and Chief Financial Officer prior to submission to National Treasury. A consolidated report is then prepared and presented to the Standing Committee on Public Accounts (SCOPA). The Department of Performance Monitoring and Evaluation (DPME) has also development a Management Performance Assessment Tool that is provided to departments for self-assessment in the four pillars of management, namely, strategic management, governance and accountability, human resource and systems management, and financial management. Results of the assessments are tabled in Parliament and also shared with departments' top management to implement improvement plans on relevant areas. DPME has also developed a National Evaluations Framework that is used by all departments to assess the impact of their programmes. There is an annual evaluations programme that is tabled in Parliament.

2.2 Description of budgetary outcomes

2.2.1 Fiscal Performance

Due to faster growth and improved revenue collections and base-broadening efforts, higher tax revenue has allowed for an improvement in the fiscal balance, and part of this revenue has gone to fund public spending for social development[2]. Government now realises the importance of policy initiatives that place increasingly greater emphasis on growth and development, as substantial progress has already been made in reversing the inequalities of the previous political dispensation.

Significant improvements in the tax base and the functions of SARS were evident and gross tax revenues have averaged at about 25% of GDP[3] over the past decade, with revenues from personal

[2] Health, education, housing and local amenities – the "social wage" – has more than doubled in real terms over the past decade and now accounts for almost 60% of public expenditure (see the 2013 Budget Review, page 8).

[3] Nominal Tax Revenue is expected to recover to 25.9% of GDP in 2013/14 and reach 26.5% in 2016/17, as indicated in the 2014 Budget Review

income tax, VAT and corporate income tax accounting for the lion's share of total budget revenue. As the global economic crisis took hold in 2009/10, economic growth has been weaker than anticipated and revenue collection below projections, leading to a budget deficit of 4.0% in 2013/14 (down from 4.3% in 2012/13)[4]. As a result, government is taking additional steps to ensure that expenditure remains firmly under control. The 2014 Budget Review pronounced that Government remains committed to countercyclical fiscal policy. The fiscal stance maintains an expenditure ceiling, supported by policies to improve spending efficiency. Together with an improving revenue outlook, fiscal policy balances sustainability with continued support to the economy. Table 2.1 below provides a summary of selected economic indicators.

Table 2.1: Selected Economic indicators (in percent of GDP, unless otherwise specified)

	2010/11	2011/12	2012/13 (estimated)
Real GDP growth (in percent)	3.1	3.5	2.5
Real GDP growth per capita (%)	2.3	2.8	1.3
CPI (annual average) (%)	4.3	5.0	5.7
CPI (end of period) (%)	3.5	6.1	5.6
Revenue including grants	27.3	28.1	27.9
Expenditure and net lending	32.5	32.1	32.7
Overall fiscal balance	-5.1	-4.0	-4.8
Gross government debt	36.0	39.8	42.7
External terms of trade	7.3	2.3	-2.2
Current account balance	-2.8	-3.4	-6.3
Total external debt	28.8	28.1	35.8
Gross official reserves (in US$ billions)	43.8	48.9	50.7

Source: IMF Article IV October 2013

2.2.2 Allocation of Resources

Table 2.2.A and Table 2.2.B depict government resource allocation within the different expenditure classifications. Total revenue including grants averaged 27.9% of GDP, with a tax revenue component of 25%. Total expenditure averaged 32% of GDP, indicating an excess of expenditure over revenue of about 4.1% over the period. While wages and salaries were between 11.3% and 11.7% of GDP, goods and services averaged 5.3%.

South Africa has a three-tier governance structure - national government, provincial government and local governments/municipalities. The structure allows for shared responsibilities in terms of service delivery to citizens. A large part of central government revenue (about 90%) is transferred as block grants to provinces and municipalities for service delivery. Allocation of resources to primary service delivery units such as primary healthcare facilities and schools can be tracked and reported on by provinces and municipalities

[4] *Budget Review 2014*

Table 2.2.A: Summary of Central Government Operations (R billion)

	2010/11	2011/12	2012/13 (Budget)
Total Revenue including grants	757.2	837.0	891.7
- Tax	692.7	756.4	827.2
- Non-tax	64.4	80.6	64.5
- Grants	0.0	0.0	0.0
Total Expenditure	877.5	954.2	1,055.9
Recurrent expenditure	800.3	890.4	983.2
- wages and salaries	309.8	345.5	376.6
- goods and services	144.4	161.3	172.2
- transfers and subsidies	279.9	307.1	346.2
- Interest payment	66.2	76.5	88.3
Capital expenditure	55.7	62.4	71.2
Payment for financial assets	21.5	1.4	1.5
Overall balance	-120.4	-117.2	-164.1
Primary balance	-54.1	-40.7	-75.8
Structural balance	-63.3	-86.2	-111.0
Gross government debt	990.6	1,187.8	1,342.5

Source: IMF Article IV October 2013

Table 2.2B: Summary of Central Government Operations (% of GDP)

Particulars	2010/11	2011/12	2012/13 (Budget)
Total Revenue including Grants	27.7	28.2	27.8
- Tax	25.3	25.4	25.8
- Non-tax	2.4	2.7	2.0
-Grant	0.0	0.0	0.0
Total Expenditure	32.1	32.1	32.9
Recurrent expenditure	29.3	29.9	30.6
- wages and salaries	11.3	11.6	11.7
- goods and services	5.3	5.4	5.4
- transfers and subsidies	10.2	10.3	10.8
- Interest payment	2.4	2.6	2.8
Capital expenditure	2.0	2.1	2.2
Payment for financial assets	0.8	0.0	0.0

Source: IMF Article IV October 2013

Table 2.2.C: Consolidated Government Expenditure by Functional Classification (% of total expenditure)

	2010/11	2011/12	2012/13
General public services	14.5	15.2	15.1
Defence	3.5	3.6	3.8
Public order anf safety	9.4	9.4	10.0
Economic affairs	15.0	12.3	10.5
Environmental protection	0.6	0.6	0.5
Housing and community amenities	10.1	10.7	10.3
Health	11.9	12.3	12.7
Recreation and culture	0.9	0.8	0.7
Education	19.3	20.2	21.1
Social protection	14.9	14.8	15.2

Total	100.0	100.0	100.0

Source: Budget Reviews 2013 and 2014, Table 6. Data for 2010/11 and 2011/12 are actual outcomes, whereas data for 2012/13 are estimated outcomes.

2.3 Description of the legal and institutional framework for PFM

2.3.1 Legal and institutional framework for PFM

South Africa's PFM laws derive their source from the 1996 Constitution. Prominent among them are the Public Finance Management Act 1999, the Municipal Finance Management Act 2003, the Preferential Procurement Policy Framework Act 5 of 2000 and the annual Division of Revenue Acts.

The Constitution

The Constitution provides the foundation for all the subsidiary PFM legislations in South Africa. Any new enactments or amendments must conform to the dictates of the 1996 Constitution. It provides the roles and responsibilities of each role player in public finance management, including provincial government and municipal authorities. Article 100 and 216 empowers the central government to take over the functions and administration of sub-national government that fails to perform its constitutional mandate, providing further conditions under which the National Treasury suspends funding to these institutions of government. Important Articles in the Constitution concerning PFM include the following:

- The general guidelines for the regulation of financial affairs of all levels of government (See Chapter 13);
- The role of the National Revenue Fund to which all government revenues must be deposited (See Section 213);
- The allocation of resources between the three levels of government (See Section 214);
- The powers assigned to the National Treasury to prescribe measures to ensure transparency and expenditure control in all government spheres (See Section 216);
- The requirement that public procurement be done in a fair, equitable, transparent, competitive and cost-effective manner (See Section 217);
- Guidance on the issuance of Government's loan guarantees and on disclosure of this information (See Section 218);
- The role of the Office of the Auditor-General (See Section 188);
- The establishment of an independent Fiscal and Finance Commission to advise the Parliament and other authorities on fiscal matters (See Section 220);
- Bill of Rights (See Chapter 2) that provides for public access to information as well as the right to appeal on a Department of State's decision.

Public Finance Management Act

The PFMA and its related amendments is the main PFM subsidiary legislation that governs public finance management in South Africa. It outlines the duties of national, provincial and municipal government in relation to the level of service provision required under each unit of government. This Act replaces the previous Exchequer Act. The PFMA also regulated public entities in terms of financial management, in addition to the Companies' Act that provides specific rights and obligations for public commercial entities. The PFMA establishes the two main government funds - the National Revenue Fund where all government revenue, both domestic and foreign are deposited, and the Reconstruction and Development Programmes Fund where all development assistance funds are deposited. Appropriation out the NRF is only by parliamentary approval, while the RDP is based on financing agreements with each development partner and national priorities. Financial reporting is a crucial part of PFM, therefore the Act makes provision for different types of reporting at specific intervals by both national, provincial and municipal government. It also outlines the stages for introducing Money Bills to the legislature.

Municipal Finance Management Act (MFMA)

The MFMA is an extension of the PFMA passed in 2003 for purposes of decentralisation and local governance. The Act provides clear guidelines for municipal financing, budgeting reporting, and performance monitoring and service delivery.

Division of Revenue Act (DORA) and Intergovernmental Fiscal Relations Act

Each year, parliament passes DORA. This Act divides revenue from central government to provinces and municipalities and across provinces and municipalities. Prior to passing the DORA, the Finance and Fiscal Commission (FFC), a constitutional body advises parliament on the modality for revenue division according to different indicators such as geographical location, population, needs of the community, among other. The Intergovernmental Fiscal Relations Act provides the level of stakeholder consultation required prior to passing the DORA

Procurement Law and Regulations

The Preferential Procurement Policy Framework Act 2001 is the main subsidiary procurement legislation. In addition to this, other regulations such as the Treasury Regulations and the Revised Preferential Regulations of June 2011 provide the legal and regulatory regime for government procurement, as well as the Broad Based Black Economic Empowerment Act (BBBEEA 2003, Supply Chain Management Regulations and Circulars. The PPPFA empowers the Accounting Officer as the sole authority for authorising procurement

Money Bills Amendment Procedure and Related Matters Act 9 of 2009

The Money Bills Amendment Procedure and Related Matters Act 9 was enacted in 2009. This Act empowers parliament to, among other things amend budget estimates submitted by the Executive for the next fiscal year. It established clear procedures and circumstances under which amendments to the money bill can be made. It turns out that parliament, since the enactment of this Act, has not yet exercised these powers provided for by the law.

Public Audit Act 25 of 2004

The Public Audit Act 2004 establishes the office of the Auditor General. It provides for the independence of the Auditor General and his/her staff and empowers him/her or his authorised representative to perform financial, systems, IT and performance audit of all government departments, agencies and public entities and report its findings to the National Assembly.

2.3.2 The Institutional framework for PFM

Legislature

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. Further, the National Assembly has oversight responsibilities over the Executive government. It also has powers to summon provincial and municipal authorities for questioning. In order to carry out its constitutional mandate effectively, the National Assembly established a number of committees to perform specific duties, among them including the following:

- Standing Committee on Public Accounts (SCOPA): It is responsible for scrutinising all audit reports submitted by the executive and the Auditor General. It has powers to summon members of the executive political heads and accounting officers both at national government and sub-national government to answer queries relating to their areas of administration.

- Standing Committee on Finance: It is in charge of scrutinising the macro-fiscal framework submitted by the National Treasury on behalf of the Executive.
- Standing Committee on Appropriations: It is responsible for reviewing budget estimates from the executive as well as monitoring and reviewing in-year implementation and expenditure of departments.
- Standing Committee on the Auditor General: It provides oversight over the Auditor General and assures the Auditor General and his office of its independence.

Both the NCOP and the National Assembly scrutinise the Division of Revenue Bill before passing it into law. The Money Bills Amendment Act, which was passed in 2009, has empowered the National Assembly to amend all money bills submitted by the executive; this must be done following specific procedures. These powers are yet to be exercised.

Executive

This body runs the government machinery. It has 38 departments, 9 constitutional bodies, 9 provinces and 283 local authorities. The President who is elected on a 5-year term of office by national political election heads the executive. He/she appoints members of the cabinet to assist in running the affairs of the state. Each province is headed by an elected premier. Mayors are the heads of municipalities

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 appeals, high courts and magistrate courts. All matters of legal interpretation are handled by the courts.

Auditor-General

The Auditor General is established by Article 188 of the Constitution. Further, the Public Audit Act provides specific powers and duties that the Auditor General must perform, including auditing all state organs and public entities, at least annually. He/she is appointed by the President subject to Parliamentary approval.

Audit Committees

Section 38(1)(a) of the PFMA and Treasury Regulation 3.1.13 establish and detail the responsibilities of audit committees. Per the legal and regulatory framework, a committee must consist of at least three members chaired by an independent private citizen. It is responsible for overseeing the activities of accounting officers in each department and ensuring the full implementation of all audit recommendations, whether from the internal audit unit, Auditor General or SCOPA.

The Minister’s Committee on the Budget (MinComBud)

This committee reviews all government policy documents and budget estimates before submission to cabinet for approval and onward submission to the National Assembly for consideration and approval.

The Medium Term Expenditure Committee (MTEC)

It is responsible for analysing MTEF budget submissions from each department to ensure it is in line with national priorities. It makes recommendations to the Minister’s Committee on the Budget for resource allocation.

The Ministers and Members of the Executive Council (MinMEC)

Discussions are held at this council to consider issues of national and provincial interest affecting specific sectors of the economy. This council is made up of the National Minister of Finance and his Provincial counterparts with support from selected sector departments.

The Budget Council

It is responsible for coordinating financial matters between national government and provincial government to ensure equitable distribution of resources. It consists of the Finance Minister and his deputy and the finance members of the nine executive councils of the provinces

The National Treasury

The National Treasury is the pivot of PFM in South Africa. It provides leadership in all matters relating to public finance management as enshrined in the PFMA. It is headed by the Finance Minister who has overall responsibility for financial management of the government. All money bills emanate from the National Treasury. These bills are submitted to the National Assembly for approval. The National Treasury has a number of units or divisions responsible for specific assignment as follows:

- Budget Office: coordinate the formulation and preparation of departmental and national budget
- Assets and Liabilities Management Unit: for reconciling and updating all central government cash positions, loans, guarantees, PPP and other investments
- Office of the Accountant General; for providing policy leadership in preparation of in-year and annual financial reports, as well as policy issues relating to internal audit; also responsible for the administration of the NRF and the RDP
- International Development Cooperation (IDC): responsible for donor coordination and external resource mobilisation
- Intergovernmental Fiscal Relations: for coordinating the affairs of all provinces and municipalities, ensuring proper use, accountability and reporting of central government transfers to sub-national government
- Tax Policy Unit: domestic tax policy issues and ensuring all sectors of the economy are effectively captured in tax policy
- Public Finance Division: for coordinating departmental expenditure monitoring and evaluation

As part of the administrative network for public finance management, the State Information Technology Agency (SITA) provides network infrastructure backbone for various transverse softwares such as PERSAL, LOGIS, BAS, ARABAS, among others. The network infrastructure support from SITA is robust and secure that enables easy usage of the various application software. The IFMIS implementation and rollout has been on the table for a decade. It is foreseen that the new Accountant General will work towards the realisation of implementing the IFMIS in the near future.

National Departments

At present, there are 38 national departments headed by political heads appointed by the Executive President. Each department has a Director-General who is the Accounting Officer responsible for ensuring the efficient use of public funds allocated to that department, accounting for the use of the funds and reporting periodically to the executive and parliament.

Public Enterprises

There are a number of public entities in South Africa, at national level and provincial and municipal levels. The current number of public entities as at May 2014 is as follows:

- Schedule 2 - Major Public Entities - 21
- Schedule 3A - National Public Entities - 154

- Schedule 3B - National Government Business Enterprises - 26
- Schedule 3C - Provincial Public Entities - 70
- Schedule 3D - Provincial Government Business Enterprises - 16

The Department of Public Enterprises is the shareholder for 8 out of the 21 major public entities. These 8 entities operate as full commercial entities. They include:

- Alexkor Limited
- Broadband Infrastructure Company (Pty) Limited
- Denel (Pty) Ltd
- Eskom
- South African Express (Pty) Limited
- South African Airways (Pty) Limited
- South African Forestry Company Limited
- Transnet Limited

South Africa Reserve Bank

Article 223 of the Constitution establishes the South African Reserve Bank, as the Central Bank. It provides banking services to the government as enacted by the Parliament. It publishes quarterly bulletin and annual economic outlook and provides monetary policy framework for the economy.

The new Parliamentary Budget Office (PBO):

This has been established and an official appointed to oversee the full operationalization of the office. The PBO will provide independent, objective and professional advice and analyses to Parliament on matters related to the budget and other money bills.

Office of the Chief Procurement Office (OCPO)

In the discipline of Supply Chain Management (or public procurement), the Minister of Finance established in April 2013 the *Office of the Chief Procurement Office (OCPO)* in the National Treasury. The OCPO was created with the aim to improve public sector supply chain management processes, to curb fraud and corruption, and to derive maximum value for every rand that is spent.

The PFM Capacity Development Strategy

In line with the strategy, the National Treasury developed the PFM talent pipeline policy, framework and practise notes on PFM recruitment, development and retention strategies as well as talent pipeline aspects. It finalised the Knowledge and Information diagnostic study, and the Knowledge Management Framework was developed and submitted for approval.

2.3.3 The key features of the PFM system

South Africa has two financial years; April 1 to March 31 for both national government and provincial government, and July 1 to June 30 for municipalities. Policy development is the responsibility of central government. Service delivery is the responsibility of provincial government and municipalities. The national government provides oversight for provinces, while provinces monitor the activities of municipalities; they also deliver on concurrent functions such as Education and Health. There are two houses of parliament; the National Council of Provinces and the National Assembly. In February each year the Minister of Finance presents the Estimates of National Expenditure to the National Assembly which is passed into law between June and July to authorise the commitment and payment of expenditure in the new fiscal year. Section 29 of the PFM Act of 1999 mandates departments to spend not exceeding 45 per cent of the total amount appropriated in the previous budget prior to passing the new Appropriations Act within the first four months of the new fiscal year, and 10% thereafter. The National Treasury operates a Treasury Single Account (TSA) held at the Reserve Bank; this facilitates the reconciliation and ascertains government cash balance in real time. The TSA is facilitated by the use of four participating commercial banks. The South African Revenue Service uses these commercial banks for collection of domestic tax revenue, which are swept daily into the NRF. The country has a good administrative network for data and internet connectivity and allows for easy usage of all transverse software applications such as the PERSAL, LOGIS, BAS and ARABAS.

South Africa adopts modified cash accounting for preparing in-year and annual financial statements. Each department, as stipulated by the PFMA, prepares annual financial statements, which are audited individually by the Auditor General. The National Treasury also prepares a consolidated (or aggregated) financial statement which is also audited annually by the Auditor General in accordance with Public Audit Act 2004. Each department has an audit committee whose responsibility is to ensure the implementation of all audit findings (internal and external). SCOPA issues recommendations after reviewing audit reports submitted by the Auditor General; these are adopted by the plenary.

3 Assessment of PFM Systems, processes and institutions

3.1 Budget credibility

The budget is the Government's statement of policies for the coming year and their revenue and expenditure consequences. The credibility of the statement is assessed by comparing actual outcomes with the original budget. The adjusted budget is not counted, as the original approved budget is more relevant as a standard baseline. Indicators PI-1 and 2 examine the credibility of the main expenditure budget on the National Revenue Fund, while PI-3 examines the credibility of the revenue budget. PI-4 provides a check that the reported expenditure data does not omit significant arrears. PI-1 and 2 use expenditure data from the audited accounts for the past three years (2010/11, 2011/12 and 2012/13). The accounts for 2013/14 were not finalized and available at the time of the field assessment.

The PEFA framework allows debt service payments and externally funded project expenditure to be omitted from budget and outturn data as these items are not normally under the control of the host government: this makes the comparison fairer to the government. The data were obtained from the National Budget Reviews and Estimates of National Expenditure, which do not include externally funded project expenditure. They include state debt charges, but these have been excluded from the assessment calculations.

3.1.1 PI-1 Aggregate expenditure out-turn compared to original approved budget

Annex 5 and Table 3.1 below show that aggregate expenditure fell short of the original budget by 1.1% in 2010/11, was practically equal to budget in 2011/12, and was just 0.8% below the budget in 2012/13. These variances result in a score of A, as in the 2008 assessment based on the years 2005/06 – 2007/08. For the organisational breakdown of the variance each year, see PI-2 (i) below.

An analysis of selected economic categories shows that variances were highest on capital asset payments, ranging from 14.4% over budget to 7.8% below budget. Other categories such as current payments on personnel and goods and services showed very small variances. Transfers to provinces and municipalities were regularly 0.5-0.6% over budget (see Table 3.1 below). A contributory factor is the low proportion of expenditure on capital assets, which is more variable, and the high proportion on transfers and subsidies, which is less variable. The level of compliance with the budget, and thereby its credibility, is impressive.

Table 3.1: Comparison of Budget Estimates against Actuals (primary expenditure, R million)

	2010/11	2011/12	2012/13
Primary original expenditure estimates	746,785	812,345	879,977
Primary expenditure outturn	738,914	812,063	873,284
Aggregate expenditure deviation	7,871	282	6,693
Aggregate expenditure deviation,%	1.1%	0.03%	0.8%

Table 3.2.: Variance from budget of selected economic categories

	2010/11	2011/12	2012/13
Current payments, excl. interest	+0.2%	-1.7%	-1.4%
Transfers and subsidies	-0.7%	+0.8%	+0.5%
o/w Transfers to provinces and municipalities	+0.5%	+0.6%	+0.6%

Payments for capital assets	+14.4%	+7.5%	-7.8%

Source: Estimates of National Expenditure 2010-2014, Tables 1 and 4.

PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
PI-1	Composition of expenditure out-turn compared to original approved budget	A	A	In no year has the actual expenditure deviated from budget by more than 5%
Change in performance: No change				

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

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 outcomes against the original budget at a sub-aggregate level. In the main government budget and accounts, there is an administrative classification with 38 heads of expenditure that are voted by Parliament and a number of direct charges against the National Revenue Fund (see PI-5). Annex 5 shows the original budgets and actual outcomes for the 20 largest heads,[5] with all other heads and direct charges combined into a single line, in accordance with the PEFA framework.

The method of assessing this indicator changed in 2011. Allowance is now made for any change in the total resource envelope, which is equal to the total actual expenditure. Budgets are adjusted by the ratio of the actual resource envelope to the budgeted resource envelope.[6] Variances are then measured against these adjusted budgets. It should be made clear that the term 'adjusted budget' is a PEFA term, and has no reference to the adjusted budgets approved by Parliament, which may be quite different. Annex 5 also shows the breakdown of the variance after adjusting budgets proportionately for the actual resource envelope (recurrent and capital together).

(i) Extent of variance in expenditure composition

Annex 5 shows that the variance in expenditure composition was 2.4% in 2010/11, 2.6% in 2011/12, and 1.7% in 2012/13. This results in a score of A, as in the 2008 assessment, a high level of fiscal marksmanship.[7] The preparation of the medium-term framework, the fiscal calendar and strategic plans have all contributed to the realism of each year's budget, which has been closely adhered to.

(ii) The average amount of expenditure actually charged to the contingency vote

A second change made in 2011 was the separation of the contingency budget and actual contingency expenditure, which is made the subject of a new dimension ii. It is good practice to charge contingency expenditure to the benefiting heads, and to transfer the budget also to the benefiting heads. This is done in the National Government, resulting in a score of A on dimension ii.

[5] The provincial equitable share is a direct charge against the NRF. As it is the largest single budget (about 32% of total expenditure) it is counted as one of the 20.

[6] On the principle that the original budget was an optimal budget in which expenditure on all heads had equal marginal benefits.

[7] To make the scores comparable with the 2008 assessment, the data for 2005-06, 2006-07 and 2007-08 were re-worked on the new method. The composition variances thus calculated were 5.5%, 2.3% and 3.6%, which would still rate an A. It may be noted that the average composition variance has fallen from 4.1% to 2.2%.

PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
PI-2	Composition of expenditure out-turn compared to original approved budget	A	A	Scoring Method M1.
(i)	Variance in expenditure composition excluding contingency items	A	A	Variance did not exceed 5% in any of the last three years
(ii)	Average amount of expenditure actually charged to the contingency vote	N/A	A	No expenditure was charged to the contingency vote
Change in performance: Performance was previously assessed according to a different method, but a re-calculation of the 2008 rating on the new method shows no change in the A rating, and some reduction in the average composition variance. No comparison has been made on PI-2 dimension (ii), which was not used before 2011.				

3.1.3 PI-3 Aggregate revenue out-turn compared to original approved budget

The principal sources of domestic revenue[8] were from taxes on international trade and transactions, income tax, and taxes on domestic goods and consumption. In 2012/13 tax revenue constituted approximately 99% of total government revenue. Customs, Income Tax and VAT constituted 5%, 58% and 27% respectively for a total of 90% of government revenue. Other smaller but significant tax revenue contributions include the general fuel levy (7%) and the taxes on property (2%). Non-tax revenue is principally departmental revenues which are approximately 1% of total central government revenue.

A comparison of budgeted versus actual revenues demonstrates actuals exceeding revenue estimates in 2010/11, 2011/12 and 2012/13 by up to 6% but showing a decreasing trend of outturns over estimates over the three years reviewed (see Table 3.3 below).

The Economic Policy Unit of the National Treasury is responsible for the preparation of macroeconomic forecasts. The process of estimating revenues involves the usual consideration of macroeconomic indicators prepared by the Treasury but that also considers independent estimates prepared the South Africa Reserve Bank. Revenue forecasts are prepared by the Revenue Analysis Committee with membership from the Fiscal Policy Unit, the South African Revenue Service (SARS), the South African Reserve Bank (SARB) and headed by the Chief Director: Tax Policy in the NT. Three-year as well as annual revenue projections are made. These are updated on a six monthly basis and incorporated into the adjustment budget.

In recent years the nominal total tax revenue declined from 27.6 per cent of GDP in 2007/08 to 24.4 per cent in 2009/10 as a result of the 2009 recession, tax revenue is now expected to recover to 25.9 per cent of GDP in 2013/14, supported by strong growth in corporate income tax and customs duties. Nominal total tax revenues are estimated to grow at an average of 10.4 per cent per year over the medium term, reaching 26.5 per cent of GDP in 2016/17.[9] Overall the tax policy framework in South Africa has proven resilient in a period of global volatility. Buoyant tax revenue collections, however, depend on improved tax compliance and strong economic growth, as outlined in the National Development Plan (NDP).

[8] Domestic revenues excludes SACU payments.
[9] See Chapter 4, 2014 Budget Review, available at www.treasury.gov.za.

Of particular challenge to accurate revenue forecasts have been the cyclical dynamics of both the domestic and global markets. It is important to note that the ramifications of any new Tax policy initiatives are factored in to develop three year revenue forecasts. Revenue forecasts are updated bi-annually as part of the budget process and also feed into the adjustment budget process held in October.

A large part of the positive revenue performance experienced in recent years has also been due the result of continuous effective taxpayer education (see PI-13) and effective tax collections (see PI-15).

Table 3.3: Comparison of Budgeted and Actual GoSA Revenue Receipts (domestic revenue, Rand)

	2010/11	2011/12	2012/13
Revenue Estimates	643,239	729,858	799,341
Revenue Outturns	680,005	748,749	804,465
Deviation, R Millions	36,766	18,891	5,124
Deviation %	106%	103%	101%

Source: Budget Review 2010-2013, Chapter 4.

PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
PI-3	Aggregate domestic revenue out-turn compared to original approved budget	A	A	Actual domestic revenue was between 97% and 106% of budgeted domestic revenue in all years.
Change in performance: No change				

3.1.4 PI-4 Stock and monitoring of expenditure payment arrears

Prompt settlement of invoices from suppliers and contractors is very important for business liquidity, especially for small and medium enterprises that have little access to credit. 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 Note No. 34 of 2011, which requires a monthly report from each department on the number and amount of invoices that were paid after 30 days and invoices older than 30 days not paid.

According to NT-OAG, there are arrears due to suppliers and contractors, but no arrears of salaries or pensions (all are paid on their due dates), nor of debt service, nor of transfers and subsidies. For all categories, expenditures are recognised when the final authorisation is entered in the system, and they are paid in accordance with an agreed payment schedule. At 31 December 2012, arrears by national departments were R 612m. Arrears at 31 December 2013 had been reduced to R 243m.

Table 3.4: Arrears as a Percentage of Annual Expenditure (R millions)

	31 December 2013	31 December 2012
1. National departments – arrears	243	612
2. Expenditure of national departments for FY 14 and 13	554,114	512,628
3. % arrears to total expenditure (1/2)	0.04%	0.12%

Source: National Treasury Annual Reports on Payments to Suppliers within 30 Days, for calendar 2012 (February 2013) and calendar 2013 (May 2014)

It is not currently a legislative requirement that *public entities* effect their payments within 30 days from receipt of invoice. According to NT-OAG, NT is in the process of issuing a revised set of Treasury Regulations that will require public entities to also effect their payments within 30 days. Currently, therefore, there is no central information on expenditure arrears by public entities. However, this PEFA indicator is confined to budgetary central government, so it is scored on the arrears of national departments alone.

The consolidated annual financial statements of the national departments for FY 2012/13 disclose R 2,314m current payables (note 26.1). Only current payables are considered here as non-current payables by definition cannot be in arrears. Most of the current payables consist of amounts owing to other government entities, advances received, and clearing accounts. True arrears are within the heading "Other Payables' which amount to R 656m. This is not further analysed by creditor, nor by age (0-30 days, 30-60 days, etc.).

The department-wide and country-wide implementation of the financial management software system, BAS, facilitates the comprehensive tracking of arrears by each spending unit. These are reported by departments to the NT-OAG but not consolidated or disclosed. The annual Consolidated Financial Information disclosure on payables is presented within the financial notes. These are not aged (up to 30 days, and more than 30 days). The NT-OAG is developing an automated invoice tracking system that would include age analysis, and also allow access by suppliers to see the status of their invoices.

It was argued in the 2008 assessment that arrears should be measured against the expenditure of departments (salaries and goods and services, excluding transfers and subsidies). This gave higher arrears percentages. The rating is here based on total expenditure in accordance with the PEFA framework, which allows that transfers and subsidies could also be in arrears (though they are not in arrears in South Africa).

PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
PI-4	Stock and monitoring of expenditure payment arrears	A	B+	Scoring Method M1.
(i)	Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and a recent change in the stock	A	A	Arrears for departments are insignificant in relation to total expenditure.
(ii)	Availability of data for monitoring the stock payment arrears	A	B	Reliable and complete data on the stock of arrears is generated through routine procedures monthly, but does not include an age profile.
Change in performance: Apparent slippage in the availability of central data at the end of the financial year with an age profile.				

Planned reforms

NT 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 effect their payments within 30 days.

3.2 Comprehensiveness and transparency

3.2.1 PI-5 Classification of the budget

The Estimates of National Expenditure (ENE), the MTEF budgetary framework, is structured on the basis of administrative, economic, programme, sub-programme and project classifications. The revenue budget is classified into recurrent and capital revenues, with each segregated by tax type and further by administrative head. Further, revenues are classified as tax and non-tax revenue and by own sources and external grants. This classification is used for formulation, execution and financial reporting of the budget. The programme, sub-programme and project classifications employed for the budget are used to produce documentation consistent with COFOG at both the functional and sub-functional levels. The chart of accounts for the Central Government budget monitoring is derived from, and is an extension to the GFS 2001 standard and so facilitates ready monthly reports based upon that standard. Since 2008 the chart of accounts (COA) has included a field to track the source of funds, and so donor funds can now be individually reflected directly in the budget and financial reporting documentation (see the use of this segment in the discussion on D1-D3). Overall, the COA now has 7 segments: (i) responsibility; (ii) objectives, (iii) fund; (iv) item; (v) project, (vi) infrastructure; and (vii) assets.

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. As mentioned in the earlier 2008 PEFA Report, since 2005 the consolidated budgetary account has been extended to allow the incorporation of public enterprises and autonomous government agencies into a single consolidated financial reporting framework. This has been achieved in spite of the difference in accounting reporting standards; modified cash basis for budgetary entities and the accrual accounting standard in the case of extra-budgetary institutions. Currently, 192 public entities including all major commercial public enterprises constituting approximately 99% of commercial public enterprise expenditure are reflected in the consolidated financial reporting framework.

The institutional arrangements of government reflect the programme/sub-programme/ project structure and so permit clear lines of accountability for delivering on the budgetary programmes. Budgetary reports include presentations using a functional classification based upon 5 clusters and 16 functions. It should be noted that there is very close alignment if not coincidence of the programme (and project) structure with a functional structure. The advantages include relative simplicity, and the facilitation of the incorporation of posts directly into programmes. A possible disadvantage is that it could limit the design of cross-cutting programmes and objectives.

PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
PI-5	Classification of the budget	A	A	The budget formulation and execution is based on economic, administrative, programme, and project classification that can produce consistent documentation according to GFS/COFOG standards at

PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
				the functional as well as sub-functional level. The chart of accounts is derived from and is an extension to the GFS 2001 standard.
Change in performance: No change.				

3.2.2 PI-6 Comprehensiveness of information included in budget documentation

The budget documentation presented to parliament 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. Only proposed budget estimates are prepared and published in the budget documentation. The approved votes, which so far never differ from the proposed allocations, are gazetted and promulgated as appropriation acts of parliament. These are made available to Departments and are the basis for the preparation of draw-down schedules (cash flow projections) against which cash management is focused and expenditure is controlled. The MTEF format includes forward estimates (budget year plus two forward years), revised estimates for the year prior to the budget year, actual audited outcomes from three years previous to the budget year.

Budget documentation (2012/13) is comprehensive, and consists of the following main components:

- The Budget Speech by the Minister of Finance which outlines all new tax policy initiatives and an explanation of their impacts on revenues as well as proposed policies along with the explanation of allocation shifts and expenditure consequences;
- The Budget Review which includes:
  - The economic policy and outlook;
  - The fiscal policy framework;
  - Three year forward revenue estimates;
  - The summary of debt stock and guarantees with one year forward estimates and a profile of contingent liabilities;
  - The division of revenue and intergovernmental transfers;
  - The Macro-economic Framework (three year forecast);
- The Estimates of National Expenditure which contain the votes, programme and sub-programme appropriations with three year forward estimates, as well as the adjusted appropriation of the year previous to the budget along with the audited outcomes for the previous three years. It separately highlights any public-private partnerships that are being undertaken by any of the Departments.
- Also presented to parliament are:
  - 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
  - The Department Annual Performance Plans (APPs) which set out the strategic plans and objectives for the coming year.
  - 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 contains the information pertaining to the overall macroeconomic and fiscal framework within which the medium term expenditure framework has been developed. These then form the basis for the Estimates of National 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 National Expenditure presents a breakdown by programme and sub-programme of proposed expenditure. The table below summarises the availability of budget information.

No.	Budget documentation benchmarks	Availability	Notes
1.	*Macro-economic assumptions*, incl. at least estimates of aggregate growth, inflation and exchange rate	Yes	Estimates for GDP growth, inflation, interest rates, population growth, the exchange rate, and balance of payments position among a host of other assumptions are presented in the macro-economic framework
2.	*Fiscal deficit*, defined according to GFS or other internationally recognised standard	Yes	Fiscal deficit defined according to GFS is presented in the Macroeconomic Framework
3.	*Deficit financing*, describing anticipated composition	Yes	The composition by way of domestic versus foreign debt is presented and further the breakdown of domestic debt instruments, to be used for financing the debt, is described.
4.	*Debt stock*, incl. details at least for the beginning of the current year	Yes	There is statement of outstanding public debt segregated between foreign and domestic debt which details type of debt.
5.	*Financial assets*, incl. details at least for the beginning of the current year	Yes	Information on financial assets segregated as current and non-current assets is included in the budget documents which details the categories of financial assets.
6.	*Prior year's budget out-turn*, presented in the same format as the budget proposal	Yes	Yes, prior year's budget (budget year -2) out- turn is included.
7.	*Current year's budget* (revised budget or estimated out-turn), presented in the same format as the budget proposal	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 classification used, incl. data for current and previous year	Yes	The budget includes summarised data according to the main heads of classification for both revenue and expenditure.
9.	*Explanation of budget implications of new policy initiatives*, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs	Yes	The Budget Speech outlines all new tax policy initiatives and an explanation of their impacts on revenues as well as proposed policies along with the explanation of allocation shifts and expenditure consequences.

PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
PI-6	Comprehensiveness of information included in budget documentation	A	A	Budget documentation fulfils all 9 benchmarks. The Budget documents are comprehensive.
Change in performance: No change.				

3.2.3 PI-7 Extent of unreported government operations

Fiscal information such as the budget, execution reports and financial statements should include all budgetary and extra-budgetary activities in order to allow a complete overview of revenues, expenditures and public financing.

i) Level of extra-budgetary expenditure (other than project expenditures financed by donors) that is not included in fiscal reports

This assessment covers only central government. According to the IMF-GFS, which is the classification followed by the PEFA framework, central government includes all entities controlled by the Government, directly or indirectly, including autonomous government agencies that are set up with separate legal personality, if they perform government functions and are not public corporations (public enterprises that sell at economic prices to the public). This definition is followed by the PFMA, which schedules all public entities, distinguishing non-commercial entities at central government level (schedules 1 and 3A) from commercial entities that count as public corporations (schedules 2 and 3B). Schedules 3C and 3D cover provincial non-commercial and commercial entities respectively. The schedules are kept up to date by the Treasury. The number of public entities, not counting any subsidiaries, at present is as follows:

Schedule 1: Constitutional institutions – 9
2: Major public entities, incl. Eskom, Transnet, etc. – 21
3A: National public entities, incl. Accounting Standards Board, 23 Sector Education and Training Authorities – 154
3B: National government business enterprises, incl. 13 water authorities, and Passenger Rail Agency of South Africa – 26
3C: Provincial public entities – 70
3D: Provincial government business enterprises - 16

The annual Consolidated Financial Information statements include a large number of public entities and government business enterprises, which are supervised by the Asset and Liability Management Division of the National Treasury. These are included also in the National Budget and Monthly Consolidated Departmental Returns, so they are fully reported.

All revenues are brought into the National Revenue Fund, except for hospital and school fees that are statutorily exempted (PFMA section 5), and can be spent directly by the collecting departments up to the budgeted level. They are included in departmental and consolidated budgets and financial statements.

There are three social security funds – the Social Security Agency South Africa (SSASA), the Unemployment Insurance Fund (UIF), and Road Accident Fund (RAF). These are all within the consolidated budgets and annual financial statements of public entities (Consolidated Financial Information 2011/12 and 2012/13).

SSASA and the UIF make surpluses each year. The RAF expenditure exceeded its government revenue (from an earmarked fuel levy) by R 17.2 bn in 2011/12 (the latest available financial statements). This is 2.6% of total central government expenditure for that year. In previous years, the Treasury has issued guarantees and made equity injections to cover its deficits. The fuel levy and RAF expenditure are included in the consolidated financial information.

ii) Income/expenditure information on donor-funded projects

All international technical assistance and grants should be paid into the Reconstruction and Development Programme (Fund), which is separated from the National Revenue Fund, and produces its own annual report and financial statements. However, Departments incur expenditure on RDP-related projects by means of transfers from the RDP, so they are included in the consolidated estimates (Annual Budget Review Statistical Table 3.5 and Table 3.6) and in consolidated expenditure (Table 3.7).[10] Departmental accounts include summaries of donor funding, in cash and in kind, by donor and by project.[11] Aid in kind is valued at the date of receipt and included in budgets and accounts. It is not clear whether the RDP covers all external assistance, as some assistance may be channelled direct to implementing agencies, but the relatively small share of external funding make it very improbable that it exceeds 1% of total expenditure.

PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
PI-7	Extent of unreported government operations	A	A	Scoring Method M1.
(i)	Level of unreported extra-budgetary expenditure	A	A	No unreported expenditure is known.
(ii)	Income/expenditure information on donor-funded projects	A	A	Donor-funded project expenditure is insignificant.
Change in performance: No change.				

3.2.4 PI-8 Transparency of inter-governmental fiscal relations

Legal framework

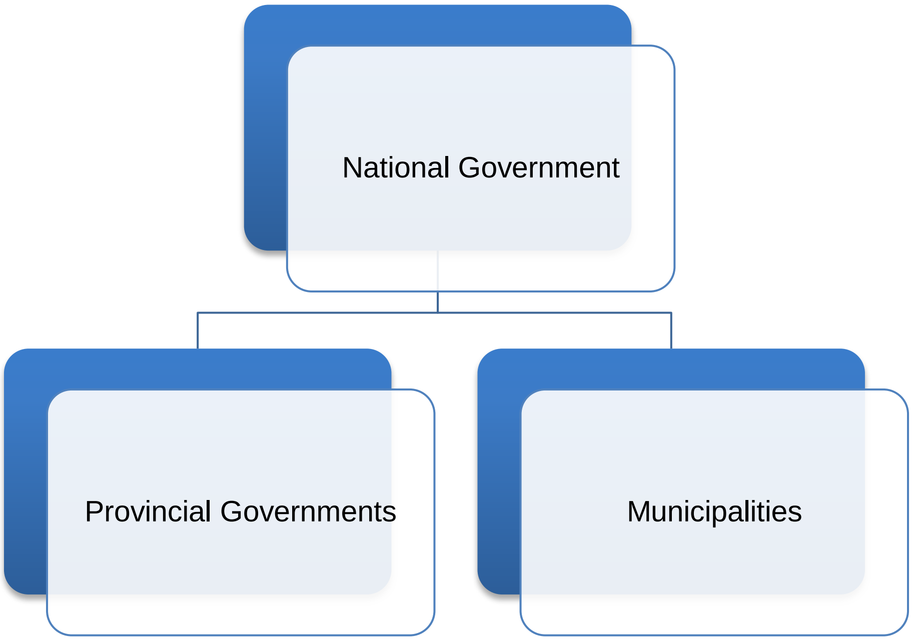
Fiscal relations among the levels of government are determined by the Constitution and the Intergovernmental Fiscal Relations Act, 97 of 1997, Intergovernmental Relations Framework Act, 13 of 2005, and Public Service Commission Act, 46 of 1994.

Organisation and structure

South Africa government has three spheres of government:

[10] The RDP accounts for 2012/13 show that R 1,975m was received and R 1,097m transferred to RDP projects.

[11] For instance, donor funding to DOH in 2012/13 was R 423 m against total expenditure of R 27,899 m. (1.5% of the total). The SCOA allows tracking of expenditure by source of funds as well as functionally by programme and project. This may make the continued separation of the RDP unnecessary.



The National Government, through the National Treasury, makes allocations to Provincial Governments and Municipalities directly. For purposes of PEFA assessment, the “first tier” of sub-national government comprises both Provincial Governments and Municipalities. This assessment therefore, like the 2008 assessment, rates the dimensions of PI-8 with reference to both spheres.

Provinces and municipalities are assigned key service delivery functions such as education, health, social development, housing, roads, and provision of electricity, water and municipal infrastructure.[12] They have significant autonomy to allocate resources to meet basic needs and respond to provincial and local priorities, while giving effect to national objectives. The national government provides leadership, formulates policy, sets the regulatory framework, and monitors implementation.

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. The objectives are to provide for (i) the equitable division of revenue raised nationally among the three spheres of government; (ii) the determination of each province’s equitable share; (iii) to provide conditional grants from the national government’s share; (iv) to promote predictability and certainty in respect of all allocations to provinces and municipalities so they may plan their budgets over a multi-year period and better coordinate policy, planning and budgeting; and (v) to promote transparency and accountability in the resource allocation process, by ensuring that allocations are reflected in the budgets of provinces and municipalities and the expenditure of conditional allocations is reported on by the receiving governments. Currently, Provincial Governments are funded 97% from the National Government and 3% from own revenues. Municipalities are funded 35% from higher levels (of which 96% is from National Government and 4% from Provincial Governments) and 65% from own revenue.

[12] The scope and operational clarity of devolved and shared functions and the adequacy of allocations to meet required service delivery standards are not relevant to a PEFA assessment.

Table 3.5 below shows the division of revenue over the last three years.

Table 3.5: Division of national revenue between central and sub-national governments

	2010/11 R millions		2011/12 R millions		2012/13 R millions	
National Departments	356,027	48%	382,712	47%	412,706	47%
Provinces	322,822	44%	362,488	45%	388,238	44%
Municipalities	60,904	8%	68,251	8%	76,430	9%
Total	739,753	100%	813,451	100%	877,374	100%

Source: Outcome data from National Budget Review each year.

The National Treasury publishes allocations in the Gazette within 14 days of the DORA being passed. Provinces and municipalities have the assurance that allocations will be made in full: shortfalls of national revenue are absorbed at national level and not passed to lower levels of government. The timing of payments to provinces is agreed at the start of the year between Provincial Treasuries and NT in accordance with the expected pattern of requirements. Payments are weekly. However, if a province does not comply with reporting or other statutory requirements, or if funds are not spent, or under-expenditure is not satisfactorily explained, NT may after giving due notice to a province withhold the allocation for up to 30 days. This rarely happens. In FY 2012/13, transfers to provinces were 1.0% over the original budget. Transfers to municipalities consist of equitable share and conditional grants, as for provinces. The eight metropolitan municipalities also receive a share of the fuel levy. In FY 2012/13, transfers to municipalities were 1.2% below original budget.[13] Unspent conditional allocations lapse at year end and are returnable to NT, unless NT permits rollover to next year, for example to meet commitments made before the end of the year. The extent of recall of conditional grants is "very small".

The Division of Revenue Act, like the MTEF, provides a rolling three-year framework of allocations, so that sub-national 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.

For the 2014/15 budget, the formula components of the equitable share (total to provinces R, 362.5 billion) are as follows:

- An education component (48 per cent) based on the size of the school-age population (ages 5 to 17) and the number of learners (Grade R to 12) enrolled in public ordinary schools.
- A health component (27 per cent) based on the risk profile of each province and its health system caseload.
- A basic component (16 per cent) derived from each province's share of the national population
- An institutional component (5 per cent) divided equally between the provinces.
- A poverty component (3 per cent) based on income data. This component reinforces the redistributive bias of the formula.
- An economic output component (1 per cent) based on GDP-R data. GDP-R is a measure of regional gross domestic product produced by Statistics South Africa.

The Explanatory Memorandum to the Division of Revenue sets out the provincial and municipal allocations, details the equitable share formula and explains how the division takes into account the

[13] In FY 2012/13, equitable share transfers to provinces exceeded original budget by 1.3% and conditional grants were 0.3% below budget. Equitable share transfers to municipalities fell short of budget by 1.9% and conditional grants were 0.6% below budget (2012 and 2014 National Budget Reviews).

recommendations of the Financial and Fiscal Commission. The memorandum is available as Annexure W1 of the Budget Review on the National Treasury website (www.treasury.gov.za).

i) Transparent and rules-based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from central government (both budgeted and actual allocations)

The equitable share of national revenue is horizontally allocated in a well-regulated, transparent and predictable manner. According to Intergovernmental Relations Division, Provincial Treasuries are able to check their allocations, and some do.

Each conditional grant is determined according to a framework that is specified in the DORA. Provincial departments maintain project portfolios (User-Asset Management Programmes), which are negotiated and approved by the Provincial Treasuries and National Treasury. After approval they are included in the MTEF and are transparent and predictable over the next three years, except for fine-tuning and updating.

ii) Timeliness of reliable information to SN governments on their allocations

The MTEF framework provides firm guidelines for the early preparation of budgets by the provinces, though minor adjustments may be made after cabinet approval of the bid allocations. In the case of the local authorities their later fiscal calendar (1 July to 30 June) provides an opportunity to base their budget preparation on the tabled proposed budgets well ahead of their own budget submittals.

At the time of this assessment, the last completed financial year for both provinces and municipalities was FY 2013/14. The DORA for 2013/14 was passed 10 June 2013. Provinces start their budget preparation in May and continue till August, so the final allocations are not known until after detailed budgeting has started. However, the MTEF process ensures considerable stability in budgets, particularly in the equitable share. According to Intergovernmental Relations Division, the proposed allocations overall for the budget year are 95% reliable.

iii) Extent of consolidation of fiscal data for government according to sectoral categories

Provincial and municipal annual financial statements are consolidated by the NT-OAG into an annual report together with central government departments and social security funds. All levels use the same chart of accounts. The outcomes for a year are published in the National Budget Review for two years later. Expenditure is shown in Statistical Tables 5 (economic classification) and 6 (functional classification). This is published about 11 months after the end of the year (the expenditure data for 2012/13 is shown in the 2014 NBR published 26 February 2013).

PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
PI-8		A	A	
(i)	Transparent and rules-based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from central government	A	A	The horizontal allocation of transfers from the National Treasury to Provincial and Municipal Treasuries is determined by transparent and rules-based systems.
(ii)	Timeliness of reliable information to SN governments on their	A	A	Provincial and municipal governments are provided sufficiently reliable information on their allocations before they start their annual

PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
	allocation			budgets
(iii)	Extent of consolidation of fiscal data for government according to sectoral categories	B	B	Fiscal information on general government covering all national and provincial departments and practically all municipalities is consolidated and published 11 months after the end of the year.
Change in performance: Substantially all sub-national governments have now institutionalised their fiscal reporting, but no change in timeliness.				

Ongoing reforms

The local government infrastructure grant system is being reviewed to investigate the efficiency and effectiveness of these grants. The review stems from the 2011 Census data and calls for reform across government and by other stakeholders. For example, the FFC has raised concerns about the proliferation of grants, parliamentary committees have issued caution over the frequent underspending on infrastructure grants, and sector departments and municipalities have raised the issue of funding gaps in the grant system (2014 DORA, pp. 103/04.

3.2.5 PI-9 Oversight of aggregate fiscal risk from other public sector entities

(i) Extent of central government monitoring of PEs and AGAs

The fiscal oversight of public sector entities is carried out by the Asset and Liability Management (ALM) Division of the National Treasury. The Division assesses the risks to the Government arising from exposure to 21 major public enterprises (PFMA schedule 2), 26 other national government business enterprises (schedule 3B) and 154 non-commercial public entities (autonomous government agencies, schedule 3A).

The Department of Public Enterprises, as shareholder, is responsible for management and operational oversight of the eight largest commercial public enterprises out of the 21 major public entities: Eskom (electricity generation), Transnet (freight), Alexcor (diamond mining), Denel (defence supply), Broadband Infraco (telecommunications), SAA (airline), SA Express (airline) and SAFCOL (forestry). A leisure company (Aventura) and PBMR (nuclear energy) are under liquidation. Broadband Infraco is 74% owned by government: the rest are 100% owned. These are all public corporations as defined by IMF-GFS and outside the scope of this assessment, except for any fiscal risk to the government arising from their operations. SAA and Broadband Infraco currently suffer losses (R 1168m and 181m respectively in FY 2012/13). SA Express failed to report. The others make profits (total R 9,407m in 2012/13). The Consolidated Financial Information for 2012/13 shows that at 31 March 2013 the Government had explicit contingent liabilities of R 305.1 billion, including R 103.6 billion in respect of ESKOM bonds.

Most major public enterprises (PFMA schedule 2) have powers to borrow from the financial markets on the authority of their boards of directors but without a written authority issued by the Ministry of Finance. Smaller public enterprises (schedule 3B) have borrowing powers, subject to Ministry of Finance approval (see Section 66(3) of the PFMA). Few of the non-commercial public entities (schedule 3A) have borrowing powers.

The Asset and Liability Management (ALM) Division of the Treasury is responsible for cash and debt management, and the management of liabilities and fiscal risk. ALM is also responsible for the oversight and risk assessment of public-private partnerships (PPPs). ALM has established an internal ratings scheme that categorises these public entities according to their respective risk profiles. The risk analysis incorporates both quantitative as well as qualitative criteria. The qualitative aspects include industry prospects, market position, corporate governance and the quality of management. The quantitative dimensions for establishing risk level rely upon such key financial ratios as return on equity, cost to income ratio, debt to equity, interest cover and earnings before tax, interest and depreciation, as well as financial characteristics like turnover and assets. ALM chairs a committee, the Fiscal Liability Committee, with representatives from Public Finance, Budget Office, Economic Policy and Legal Divisions of the Treasury, which advises the Minister of Finance and portfolio ministers on applications for guarantee and other instruments that may bind the National Revenue or Provincial Revenue funds. Quarterly reports on fiscal risk are made to the Minister.

All public entities including public enterprises submit audited financial statements to the ALM and the NT-OAG annually. They are consolidated into the Consolidated Financial Information.

(ii) Extent of central government monitoring of SN governments' fiscal position

As stipulated in the PFMA the Government may only borrow money that binds the National Revenue Fund with the authorisation of the Minister of Finance. The issue of a guarantee requires the authorisation of the responsible Cabinet minister with the concurrence of the Minister of Finance. The Central Government may not issue guarantees to local authorities. While both provinces and municipalities may borrow, they cannot generate fiscal liabilities for the central government. However, these would still be implicit contingent liabilities to the central government which would bail out a sub-national government in the event of sub-national fiscal failure.

Provincial departments submit financial reports in accordance with the PFMA. These are consolidated into budget statistical tables (see Annexure B, National Budget Review). The net fiscal position of provinces and the public entities for which they are responsible is monitored quarterly by the National Treasury.

Municipal in-year reporting is governed by the 2003 MFMA. Municipal Budget and Reporting Regulations were issued in 2009. The municipal FY ends on 30 June and they keep their accounts on an accrual basis. Municipal reporting is now well institutionalised with most municipalities producing monthly statements that are posted to the municipality website, and quarterly financial reports to the National Treasury and Provincial Treasury within five days of tabling in the Council. The Intergovernmental Relations (IGR) Division of the Treasury prepares quarterly summaries for all 278 municipalities about two months after the end of the quarter. Consolidation, including elimination as far as possible of inter-municipal transactions, is made annually. The consolidation of financial and debt information includes an assessment of fiscal risk. IGR has a good handle on most fiscal risks, with the possible exception of pension liabilities. Every two years IGR Division issues a Local Government Budget and Expenditure Review that summarises the municipal finances and provides extensive analysis.[14]

PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	B+	A	Scoring Method M1.
(i)	Extent of central government monitoring of AGAs/Pes	B	A	All major AGAs and PEs submit fiscal reports to the Treasury at least annually, and fiscal risk is assessed and reported to the Minister of

[14] The latest LG Review was issued in September 2011 and covers actual outcomes 2006/07 to 2009/10 and estimates for 2010/11 to 2012/13. The next issue is expected December 2014.

PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
				Finance quarterly.
(ii)	Extent of central government monitoring of SN governments' fiscal position	A	A	The net fiscal position of provinces and municipalities is monitored at least annually and fiscal risk is assessed and reported.
Change in performance: Improvement in Dimension (i) as all major AGAs and PRs now submit reports to Treasury at least annually.				

3.2.6 PI-10 Public access to key fiscal information

Fiscal transparency will depend on whether information on the budget and its execution by the government is easily accessible to the general public or at least the relevant interest groups. Such transparency requires that the Government makes relevant information widely available in a comprehensive, understandable and timely fashion.

Public access to key fiscal information is underpinned by the *Constitution* (1996). It also stipulates that this information should be timely, accessible and accurate to foster transparency of public administration.[15] The *Promotion of Access to Information Act* (2000) 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. Restrictions are in particular on information relating to private individual tax records maintained with the South African Revenue Service and information pertaining to the security services, and the economic and financial welfare of the Republic. Nevertheless, the Act provides for the disclosure of this information when public interest prevails.

The information available to the public covers the entire budget cycle i.e. budget formulation and planning, budget execution, and external scrutiny and audit. Public access to key fiscal information in South Africa is transparent, generally comprehensive, user-friendly and timely. The main source of information is the internet[16], though relevant information is also made available through other means such as university libraries and printed media. Further to promoting public access, the website of the National Treasury offers the possibility for the public to comment on draft documents. The importance of dissemination of fiscal information is recognised by both the government as well as the public.

Budget documents are made available to the public at the time they are tabled by the Minister of Finance in the Parliament. Parliamentary sessions on budget discussions are open to the public and are broadcasted on national TV and radio. The budget is also broadly discussed in the printed media. Following the Budget Speech in the Parliament, a succinct and easy to read version of the Budget called "*People's Guide to the Budget*" is published in print and on the National Treasury website in five languages. A National Treasury Budget Highlights and Tax Pocket Guide is also available to the public.

In-year execution reports and audit reports are routinely made available through the National Treasury and Auditor-General Office website. The Auditor General's Manual on the Promotion of Access to Information Act (PAIA) provides guidelines on the provision to the public, free of charge, of a number of reports including annual reports of the AG, audit reports of national departments, public entities, provincial departments, general reports on provincial, national and local government

[15] See Annex 2 for a full list of documentation used in this Assessment.
[16] See treasury.gov.za.

audit outcomes and others. Resolutions on audit report findings are also made available to the public.

With regards to public information on procurement, there is a Tender Bulletin published weekly where bids for procurement are announced. This is accessible via National Treasury website or with subscription.

Civil society organisations have confirmed easy access to public information particularly on budget documentation and timely financial reporting. What is lacking is a lot more information on performance. Budget documents are comprehensive: citizen budgets are also accessible to the public. However, they have argued that in-year reports provide less detail but rather aggregated at a programme level, making it difficult to monitor and track resources received by primary service delivery units.

Table 3.6: Public access to fiscal information

Elements of information for public access	Yes/No	Availability and means
Annual budget documentation when it is submitted to the legislature	Yes	These are made available to the public through the internet and public libraries when it is submitted to the legislature. The annual budget documentation includes all elements mentioned in PI-6.
In-year budget execution reports within one month of their completion	Yes	The public has ready access to regular and reliable information on budget implementation. These are made available to the public within one month (15 days) of their completion.
Year-end financial statements within 6 months of completed audit	Yes	These are made available immediately upon completion. Departmental information is made available within three months after the end of the year; consolidated information within 5 months.
All external audit reports on consolidated operations within 6 months of completed audit	Yes	The Consolidated Financial Statement and the Audit Report are made available typically within 7 months after end of fiscal year and within 1 month of completed audit. Other audit reports are made available upon their completion.
All contract awards (with value above approx. USD 100,000 equivalent) published at least quarterly	Yes	Contract awards above R 80,000 are published on the National Treasury website. Nevertheless, the information is not segregated by contract amount and there is no overall list of awarded contracts but rather individual contracts. The information is published once the contract has been awarded.
Resources available to primary service unit (such as elementary schools or primary health clinics) at least annually	Yes	These are made available to the public through the Provincial Budgets and Expenditure Review (see PI-23).

PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
PI-10	Public access to key fiscal information	A	A	All of the six listed elements of information are made available to the public access via the web and other means.
Change in performance: No change.				

3.3 Policy-based budgeting

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

South Africa's budget process adopts a medium term expenditure framework (MTEF). The role of the medium term expenditure framework, 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 of and adherence to a fixed budget calendar

The budget procedures are guided by a definite budget calendar and budget circulars submitted in July which are clear and serve as useful preparation guidelines that are generally adhered to. The calendar allows for the meaningful completion of Departmental budgets.

Table 3.7: Budget Preparation and Approval Calendar

	FY2010/11	FY2011/12	FY2012/13	FY2013/14
Budget Circular issued by National Treasury	June 2010	June 2011	June 2012	June 2013
Budget proposals from Government Departments due	August 2010	August 2011	August 2012	August 2013
Budget estimates submitted to Parliament	February 2010	February 2011	February 2012	February 2013

(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions

The top-down budget process is disciplined by the macro-fiscal framework which emerges out of careful economic as well as policy considerations, as well as a bottom-up process based upon sector strategy priority considerations. The bottom-up process also take into account the priorities highlighted in the NDP.

(iii) Timely budget approval by the legislature or similarly mandated body

It should be noted that in South Africa the budget never gets its final approval until after the fiscal year has begun even though the budget is always presented four to six weeks prior to the end of the fiscal year. In practice approval of the budget occurs three to four months after the start of the fiscal year. For the fiscal years under review, the Appropriations Act was signed into law in June or July. All expenditure must be preceded by an authority to incur expenditure through the issuance of a General Authorisation Warrant upon approval of the appropriations bill. Pending the General

Authorisation Warrant a continuation warrant for up to 33% of the previous year's budget is issued to facilitate on-going expenditure. Pending the General Authorisation Warrant a continuation warrant is issued for up to 45% of the previous year's budget to be spent in the first four months of the new financial year to facilitate on-going programmes.

Table 3.8: Timeliness of Parliamentary approval of Budget Appropriations

Budget year	Date that Parliament passed the Appropriations Bill
FY2010/11	17 June 2010
FY2011/12	14 July 2011
FY2012/13	12 July 2012
FY2013/14	22 July 2013

Source: www.gov.za.

PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
PI-11	Orderliness and participation in the annual budget process	B	B	Scoring Method M2.
(i)	Existence of and adherence to a fixed budget calendar	A	A	A clear annual budget calendar exists that is generally adhered to and the calendar allows six to eight weeks for Departments to meaningfully complete their detailed estimates of revenue and expenditure. There is also sufficient time for Departments to re-work approved bids (up and above the base line) after the approval by cabinet of the bid allocations.
(ii)	Guidance on the Preparation of budget submissions.	A	A	The National Treasury issues comprehensive and clear budget circulars for an integrated recurrent and capital budget process. The previous MTEF allocations serve as firm budget allocation guidelines but may be subject to usually relatively minor adjustments through a bid process up and above these allocation guidelines. The bid allocations are approved by Cabinet. Such approval of finalised ceilings allows Departments about a further 4 weeks to incorporate any amendments.
(iii)	Timely budget approval by the legislature	D	D	In the three years reviewed under this indicator, the budget was signed into law more than two months after the start of the fiscal year.
Change in performance: No change.				

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

(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 Line Departments' Annual Performance Plans and Strategies, as well as the guidance given by the NDP. The MTEF is based upon three year rolling aggregate forecasts. The forecasts are allocated on the basis of cluster, economic and program classifications. These multi-year estimates are directly linked to the annual budget ceilings and are updated annually on a rolling basis. Forecast sector and cluster expenditures estimates serve as budgetary ceilings in the budget preparation process.

(ii) Scope and frequency of debt sustainability analysis

The Government has evolved a very careful debt portfolio and funding strategy that establishes a fixed versus floating rate domestic debt ratio; has been extending and smoothening the maturity profile of its debt instruments; sought to minimize debt service costs (subject to acceptable risk levels) and limiting the foreign debt to total debt ratio. The Government articulates its debt management strategy as part of its broader fiscal policies in the Budget Review where it sets, under the Assets and Liability Management chapter, its net borrowing targets over a three year prospective frame. Such projections detail the domestic and foreign components as well as the breakdown between short term and long term debt.

Debt sustainability analysis is carried out by the National Treasury annually and the risk benchmarks and debt portfolio projections presented in the Budget Review. Debt sustainability is assessed in terms of the risk benchmark of 15% of GDP for the foreign loan component. In the case of total net debt, a risk benchmark of 50% of GDP is adopted with a current performance of 53%. Two other risk factors are considered and assessed. These are currency compositions of the debt and contingent liabilities.

The implementation of the debt management strategy aims to lead to a number of positive outcomes including declining budget deficits (as a % of GDP), declining government debt (as a % of GDP), declining debt service costs, increased diversification of funding instruments, a smooth redemption profile of domestic bonds and increasing sovereign credit ratings. In recent years, with the impact of the global financial crisis and recession in South Africa in 2009, these targets were difficult to achieve over the short term.

The South Africa Reserve Bank publishes statistics on both external and domestic debt in its Quarterly Bulletin and Annual Report.

(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. Most Line Departments prepare Annual Performance Plans and also Sector Strategies (3 year planning horizon) aligned with the national strategic framework (NDP). With the introduction of the NDP in 2011, government is now aiming to link policies and budgets closer (at least for the first five year period). Most of the sectors now prepare strategies and in most cases are fully costed to reflect both investment cost and forward linked recurrent expenditure. Efforts are also underway to fully cost all sector strategies going forward.

(iv) Linkages between investment budgets and forward expenditure estimates

The National Treasury managed MTEF process involves the inclusion of investments that take into account forward linked recurrent cost implications. The Capital Budgets Committee which was a subcommittee of the MTEC during the period under review, responsible for overseeing the inclusion of new investments in the MTEF, required full life cycle cost considerations and focused particularly on maintenance costs. It was also responsible for removing completed projects from the base line, where necessary, to facilitate the reallocation of resources within the MTEF.

The Departments select projects based upon program priorities that are determined by the NDP. The Medium Term Budget Policy Statement also 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.

PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	B	A	Scoring Method M2.
(i)	Multi-year fiscal forecast and functional allocations	A	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 Analysis	A	A	DSA for external and domestic debt is carried out every year by both the National Treasury as well as the South Africa Reserve Bank.
(iii)	Existence of costed sector strategies	D	B	All Departments prepare linked strategies and most of them are fully costed to reflect both investment cost and forward linked recurrent expenditure.
(iv)	Linkages between investment budgets	A	A	The selected investments have links to the NDP framework. The selection of investment is based upon sector and program priorities.
Change in performance: Improvement since all Departments prepare linked and costed strategies.				

3.4 Predictability and control in budget execution

3.4.1 PI-13 Transparency of taxpayer obligations and liabilities

(i) Clarity and comprehensiveness of tax liabilities

The South African Revenue Service (SARS) was established as a public entity in 1996, incorporating all tax administration functions into a single entity. The SARS Act brought SARS into existence as an administratively autonomous entity in 1997. The principal acts that SARS administers are: Customs and Excise Act, Estate Duty Act, Income Tax Act, Skills Development Levies Act, Stamp Duties Act, Tax Administration Act, Transfer Duty Act, Unemployment Insurance Contributions Act and Value Added Tax Act. South Africa is a member of the Southern Africa Customs Union (SACU). The member countries pay their customs proceeds to an account held by SARS. Based on a formula, funds are allocated and disbursed by the National Treasury each quarter to the different member countries.

SARS seeks to ensure that taxpayers are properly educated about their tax obligations and encouraged to register and comply. Only where that fails do they take any necessary administrative enforcement measures. This three-step approach to compliance, education and service has improved revenue collection. There is evidence of increasing compliance reflecting society's maturing attitudes towards taxation.

Compliance

The individual register increased significantly from 5.9 million in 2009/10 to 15.4 million in 2012/13 mainly as a result of a change in the registration requirements and partially due to improved compliance. There was also a significant increase in PIT on-time filing from 57.8% in 2008/09 to 86.1% in 2012/13 and this is largely attributable to e-filing which makes it easier to submit tax returns and to the introduction of administrative penalties for outstanding returns.[17]

Legal Policy and Interpretation

SARS's Legal and Policy Division facilitates the uniform and correct application of the legislation through Interpretation Notes, guides, drafts for public comments and operation of an Advance Tax Ruling (ATR) system that aims at promoting clarity, consistency and certainty in the interpretation and application of the tax laws. It also engages in comprehensive consultative processes prior to introducing any new laws and regulations. The complete set of tax legislation is available on the Internet.

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

Outreach campaign

SARS organises annual tax information campaigns. During 2013/14 a total of 3,658 general education workshops were run which were attended by 189,055 taxpayers. There were 495 income tax workshops and 147 VAT workshops that were attended by 19,125 and 4,291 taxpayers respectively. These campaigns are also aimed at non-registered taxpayers and demonstrate the rationale, benefits and consequences of not complying. There are also publications, forms and tools to educate and to assist on filing tax returns that provide practical information on tax liabilities and administrative procedures, including the procedures for administrative dispute resolution. A Help Desk, on-line support and mobile offices are available during the tax return period to ensure that taxpayers receive clear guidance and support for filing. SARS also makes use of all available means of communication such as print media, radio, television, text messaging and billboards. The principal language for the large corporate payers is English. SARS has translated the personal income tax return forms into six of the eleven official languages of South Africa to facilitate tax filing.

Administrative procedures

The Tax Administration Act was promulgated in 2012 and is intended to provide a single body of law that outlines common procedures, rights and remedies across taxes and to achieve a balance between the rights and obligations of both SARS and taxpayers in a transparent relationship. The Tax Administration Act has further limited the discretionary powers provided to SARS in the waiving of application of interest. The exceptional reasons for applying this discretion are provided in the legislation. Interest rates are linked to those generally set in terms of the PFMA for debts owing to the state and approximate market rates. Understatement penalties have been encoded into a table in the Tax Administration Act and are based on taxpayer behaviour. For income tax, penalties are automatically applied for late filing. Any debt due and penalties (other than late payment penalties)

[17] The results of a recent public opinion survey also provides further evidence that compliance is improving as a majority of society has displayed a positive attitude towards tax compliance and this is reflected in the 'attitude to compliance' index which was calculated at 67.4% - where a score closer to 100 indicates an overall positive attitude.

accrue interest. No principal owed or interest accrued between the assessment and the date of debt settlement can be waived. The taxpayer may lodge an objection and present a case to reduce the penalties.

There is clear legislation and procedures with respect to customs and excise duties and levies. The complete set of customs and excise legislation is available on the Internet. SARS has modernised its customs platform, with the result that 98% of declarations are submitted electronically with greater end-to-end control. In determining customs duties the customs officers have no discretion on how duties are set and very limited discretion on how duties are applied. The commodity codes are clearly specified for different classes of goods, supported by publicly available manuals. The commodity codes, values and other information declared are processed on self-assessment principles. Values are based upon commercial invoices and are compared against a standard pricing database. The volumes and item specifications are verified on a sample basis using x-ray scanners and physical inspection. There are post-clearance procedures that use separate inspectors to check on volumes and item specifications after the goods have been cleared. The combined procedures do not provide for much discretion in the application of duties.

The clearing of goods may only be done by registered accredited clearing agents or directly by registered importers and exporters. The accreditation process involves extensive education on customs procedures including the procedures for administrative dispute resolutions. Customs forms are available on the SARS website. There is also information on clearing procedures and requirements.

(iii) Existence and functioning of a tax appeals mechanism

A Tax Ombudsman, appointed by the Minister of Finance in terms of the Tax Administration Act, is available to assist taxpayers with procedural difficulties they may be experiencing with SARS in both the tax and customs fields.

Assessments and Penalties

For VAT, penalties are applied for late filing automatically and the debt due and penalties (other than late payment penalties) accrue interest. Similar to income tax, no interest accrued between the assessment and the date of debt settlement can be waived and no tax principal can be waived.

All waivers of tax, penalties or interest as part of the settlement of disputes have to be reported to the Auditor-General, to the Minister of Finance and to the National Assembly to ensure full transparency and external and public scrutiny of tax waiving and dispute settlement.

Where there are objections to assessments and penalties applied, dispute resolution may be pursued. This is strictly controlled by written policies and procedures and a hierarchical referral mechanism. The administrative tax appeal is a two-stage process: objection and alternative dispute resolution (ADR). An objection can be submitted directly by a taxpayer to SARS. SARS has internal procedures to determine whether an objection can be immediately allowed (as in such cases as calculation error or clear error in law) or if it is to be disallowed. If disallowed, the taxpayer may request ADR and appeal to the Tax Court. All tax assessments include a notice that the taxpayer has the right to object and appeal. Where ADR is not pursued or the taxpayer does not accept the outcome of the ADR process the case is referred to a judicial process through the Tax Court and, if necessary, higher courts. SARS publishes a guide to the objection and appeal process for taxpayers. Data on objections and appeals lodged are maintained and permit disaggregating the information by period, procedure and tax type.

In respect of Customs there are limited discretionary powers with respect to the application and waiving of penalties and interest. Where there are objections to assessments on imported goods the importer may submit an internal administrative appeal to SARS. The appeal mechanism in the case of customs includes appeals on the application of tariff classifications, valuation or rules-of-origin determinations and the penalties applied. The appeal is made to separate panels at the customs branch office where the decision was taken, the relevant regional office, or the Head Office of SARS, depending on the nature and value of the dispute. Where the taxpayer does not accept the resolution of the internal administrative appeal process the taxpayer may request alternative dispute resolution. If the ADR process does not resolve the dispute, the case may be referred to a judicial process through the High Court and, if necessary, higher courts.

The table below shows the appeals processed.

Table 3.9: Breakdown of revenue and customs cases dealt with through litigation in 2012/13

Revenue Appeal cases		Customs Appeal cases	
Tax Court	**Quantity**	**Magistrate Court**	**Quantity**
Won	11	Won	0
Lost	2	Lost	0
Total cases	13	Total cases	0
High Court		**High Court**	
Won	10	Won	4
Lost	4	Lost	2
Total cases	14	Total cases	6
Supreme Court of Appeal cases		**Supreme Court of Appeal cases**	
Won	5	Won	2
Lost	3	Lost	0
Total cases	8	Total cases	2

Source: SARS annual report.

Note: 333 cases were also dealt with through the alternative dispute resolution process at head office level and 2,379 at regional level. 44 matters were dealt with through the Tax Board.

PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
PI-13	Transparency of taxpayer obligations and liabilities	A	A	Scoring Method M2.
(i)	Clarity and comprehensiveness of tax liabilities	A	A	For all major taxes the obligations are well specified in the Acts and in regulations. The SARS issues specific public information that ranges from general guidance to detailed sector, entity and tax specific documents. Waiving of tax, penalties and interest is subject to policy notes and rules detailed in manuals and any waiving has to be reported to the Auditor-General, the Minister of Finance and the National Assembly.
(ii)	Taxpayer access to information on tax liabilities and administrative	A	A	For all major taxes SARS provides education and support to taxpayers and has

PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
	procedures			made it a priority to provide information that is as accessible and clear as possible. The website contains a set of useful regulations, documentations, guides and tools. A help desk and call centres during the filing period are also in place to respond to public demand for information. SARS also makes use of all available mass communication means such as print media, radio and television, text messaging and mobile offices. All new legislation and regulations are subject to a wide consultative process.
(iii)	Existence and functioning of a tax appeals mechanism	A	A	For all major taxes SARS applies an administrative appeal mechanism referred to as the alternative dispute resolution process. Clear policies and rules have been developed. A guide on the appeal system has been published by SARS and data available demonstrates that the system is operational and that appeals receive due attention.
Change in performance: No change.				

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

(i) Controls in the taxpayer registration system

Tax payer registration

Domestic Tax

A fundamental initial step in administering taxes at SARS is taxpayer registration. By using third party data SARS has adopted international best practice by compiling and maintaining a complete database of citizens and businesses that are required by law to register; these include individual and business taxpayers in their own right, as well as others such as employers with tax withholding responsibilities. Registration and numbering of each taxpayer underpins key administrative processes associated with filing, payment, assessment, and collection at SARS.

There are three main product registry files within the complete tax database system. These are the Income Tax file registry, the VAT file registry and the Customs file registry. There are direct links between the customs database and the VAT database based upon Customs IDs and VAT IDs, via the Single Registration system described below. These links facilitate linkages between the Customs Registry files and the Income Tax Registry files. All registered tax payers require bank accounts whose account numbers serve as direct links between the system and the financial sector. The refund on VAT payments is always subject to checks using electronic risk engines as well as third party databases.

SARS worked closely with the Department of Home Affairs (DHA) and the Companies and Intellectual Property Commission (CIPC) during fiscal 2014 to verify SARS' personal income tax (PIT) and company income tax (CIT) records. By cross-referencing the PIT and CIT records with information held by these State agencies SARS was able to improve the accuracy of its data and also identify a large number of individuals and companies not registered as taxpayers. More than 300,000 companies on the CIPC database that were not on SARS' records have been registered as taxpayers. More work requires to be undertaken with DHA, CIPC as well as the Master of the High Court to ensure appropriate integration between our respective systems and data bases.

All companies which are registered with the Companies and Intellectual Property Commission (CIPC) are now automatically registered with SARS. Employees of a company that has registered its employees via one of SARS electronic channels do not need to come into a SARS branch to register. Once registered as a taxpayer, registration for a new product such as IT, PAYE and VAT (although VAT registration may need a further review process if an issue is highlighted by the SARS risk engine) can occur within minutes via use of electronic channels. Once registration is finalised, clients are given a new registration number electronically.

The Single Registration system provides SARS with real-time information about the tax and customs products used by a registered entity, be it an individual, company or trust. SARS will now be able to ensure that such entities are compliant across all tax products before issuing refunds or granting credits. This has improved risk management around the registration of new taxpayers as well as VAT product registration.

The completion of the first phase of the Single Registration project is an important milestone in the implementation of a scalable, consolidated accounting and financial management platform within SARS. This integrated platform provides better oversight across all the taxes, duties, levies and charges it collects. It also enables taxpayers to take more responsibility for their tax affairs and the maintenance of their accounts with SARS.

Targeted registration drives are undertaken against identified "high risk" trade categories such as the transport and construction industries and mobile teams are used on a door-to-door basis in more remote regions. The system permits a view of the registered taxpayer base from a variety of perspectives, including: entity type, associated entities (related parties), industry segment, geographic location, turnover, etc.

Customs

As stated above, the customs registration database is linked to the taxpayers and traders' single registration. In this way it is directly linked to other government registration systems and to the financial sector through the inclusion of bank accounts for all entries. Only registered importers and exporters can import and export. Specific procedures exist for foreign operators.

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

Tax assessment

Automated risk engines

SARS introduced the first of a new generation of standalone automated risk screening platforms in the 2007/08 financial year. This first platform focused on PIT and in its first version consisted of three rule sets, a set of empirical rules in part derived from the pre-existing rules, an advanced statistical scoring model, and a declaration variance rule set that compared third party data with the declared values.

This risk engine was expanded to a two tier model in the 2010/11 financial year to complement the dual verification / auditing function introduced that year where a first level of verification was introduced to expand coverage through a dedicated desk audit and the refocusing of audit focus onto field audits for more in-depth work.

In the following financial year (2011/12) the VAT risk engine was introduced and was an immediate success. The nature of the tax type lent itself more towards a statistical approach (limited third party data available) and in large part the risk screening is based on trend analysis of the vendors own historical declarations.

Late in the same financial year the CIT risk engine was also introduced. The CIT model leaned heavily on the same approach as the VAT risk engine, but was hampered by the limited information on the CIT return (most fields were not mandatory and often a return had only a few fields populated e.g. turnover and taxable profit along with a hard copy of the annual financial statements). The CIT risk engine had an immediate impact but nowhere near the extent to which the VAT risk engine performed and a redesign of the CIT return followed in 2013/14 which provides for far more detailed (and tailored to industry) disclosure that can only enhance the accuracy of the risk engine.

One feature the CIT risk engine did bring was the required ‘reconciliation’ between all the taxes (CIT, VAT, PAYE and Customs) to highlight inconsistencies between the different declarations.

Since inception the cumulative yields of the different risk engines totals R51.4bn (as at 31 March 2014 and yield is measured as the adjustment in SARS favour from the time a return is selected by the respective risk engine up to the point the resulting case is finalised). There have been savings of R14.1bn, R15.7bn and R16.7bn respectively in the last three years (2011/12 -2013/14),

The 2013/14 hit rate of successful interventions during the screening of PIT transactions improved from 25.2% to 29.8%, VAT from 22.9% to 24.9%, Customs from 12.8% to 17.4% and Excise from 3.6% to 9.1%. The CIT hit rate fell from 12% to 9.9%. Total revenue from these interventions amounted to R16.9 billion. This is a 7.1% improvement on the previous year. The Customs risk engine was integrated with the recently introduced Customs Information Management System.

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

Audit coverage

SARS surpassed its 2013/14 audit coverage target of 6% of the total number of registered PIT, CIT, VAT/Excise and PAYE taxpayers. The SARS Compliance Audit, Customs Audit, Operations Audit and Large Business Centre (LBC) Audit units conducted more than 1.8 million audit cases. This was 75% above target and 14% ahead of the 2012/13 financial year. An increase in the inflow of cases to these units as well as a successful drive to conclude cases were the main reasons for this improvement.

The in-depth audit coverage target for the 2013/14 financial year, 0.15% of the combined number of registered PIT, CIT, VAT/Excise and PAYE taxpayers above the tax threshold, was attained. Nearly 20,000 high-risk, complex and high-impact audit cases were conducted by Compliance Audit, Operations Audit and LBC Audit. This was 20% above target but 45% below the mark achieved in the 2012/13 financial year. The reduction in the number of audits completed is the result of a strategic decision to dedicate more time to complete in-depth audits, thereby making them more effective.

Audits performed by the audit function at the LBC are informed by risks identified and approved by a separate Risk and Intelligence function. The risk function has an objective methodology to identify taxpayers for potential audit based on pre-determined tax risk criteria together with their contribution to tax revenues. The predetermined tax risk criteria are informed by an analysis of the LBC Corporate Compliance landscape performed on an annual basis. Once taxpayers are identified, these taxpayers are risk profiled having regard to financial data, tax return data, information in the public domain and business review discussions with these taxpayers. Once these risk profiles are drafted they are presented and approved by the LBC National Risk Committee. Only approved risk profiles are forwarded for audit. At the end of the audit, feedback is provided to Risk to refine their risk processes and intelligence.

In the 2013/14 year, the LBC revised audit assessments totalled R15billion with cash banked, through debt collections, settlements and reversed refunds, from audit related activities of approximately R5billion. The function had an audit success (hit) rate of 75%.

Criminal Investigations and prosecutions

More than 330 criminal investigation cases were finalised and handed over to the National Prosecuting Authority (NPA) during the 2013/14 financial year. The NPA successfully prosecuted 267 cases for contravention of SARS Acts during the year under review.

Enforcement Investigation projects

As of March 2014 a total of 42 project-based cases were finalised for the month of which 30 (71%) were from the illicit economy.

At end March 2014, 145 focused-area investigation projects had yet to be completed. Investigations into organisations that intended to benefit from illegal activity account for 39 of these projects while 103 concern legitimate enterprises involved in illegal activities. A further three projects have not been allocated.

Tactical interventions

The Tactical Interventions Unit conducted more than 26,000 “disruption and detection” interventions, intended to combat smuggling, during the 2013/14 financial year. These interventions resulted in nearly 8,000 detentions, close to 6,000 seizures and around 200 referrals for arrest.

Customs declarations

Customs do not consider goods to be cleared until they have satisfied themselves that the declaration is in all respects correct. If Customs are not satisfied that the declaration is valid in all respects, the goods are not released from Customs control until the declaration is amended. After amendment and payment of any additional duties, taxes and penalty [if required] the goods are released from Customs control and are then considered cleared. The automated risk engine generates risk cases for further assessment by Customs and further action if necessary. These cases are processed in real-time within 4 hours of case generation. The time of inspection is dependent on the clearing agent making the necessary arrangements to have the goods available for Customs inspection.

Post Clearance Audits/Inspections (audit interventions of entities after release from Customs control) are also made. These audits can occur up to 2 years after clearance. An audit plan is compiled and informed by risk product analysis received from Case Selection.

Fraud

In South Africa tax evasion, whether through fraudulent declarations or non-registration, is a criminal offence with the associated penalties including fines and prison terms. The Penalty Committee that reviews decisions with respect to penalties may refer a case to the Enforcement Unit for criminal investigation if there is evidence of a deliberate attempt not to disclose information honestly. In the case of employees tax, provisional tax and VAT the penalty applied for late payment is 10% and for understatement of Income Tax and VAT up to 200%, depending on the taxpayer’s behaviour. Although these penalties act as deterrents and are consistently administered, legislation empowers SARS to seize monies held by non-compliant taxpayers who do not settle their debts in the ordinary course of business. The links of the tax registries to bank accounts makes it practical to seize whatever monies are paid into the tax payer's account. SARS has a clear policy to enforce payment and has developed the capacity to do so thus providing a strong disincentive for taxpayer to contravene the legislation.

Customs fraud through such means as under-declaration is a criminal offence with the associated penalties including fines and prison terms. The penalties for underpayment (in terms of the internal penalty policy guideline) range from a fixed amount to 25% of the underpayment or value of the goods depending on the categorisation of the offence. Interest is automatically applied to the unpaid amounts. Although these penalties act as deterrents and are consistently administered the legislation empowers Customs to detain, seize and render goods held by non-compliant taxpayers liable to forfeiture. Where under-declarations are found, claims may be made against the Clearing Agent.

PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	A	A	Scoring Method M2.
(i)	Controls in taxpayer registration system	A	A	Taxpayers are registered in databases for income tax, VAT that have direct links with each other and with the Registrar of Companies and through the inclusion of bank accounts with the Financial Sector. The Customs database is linked to the Income Tax through VAT.
(ii)	Effectiveness of penalties for non-compliance with registration and declaration obligations	A	A	Penalties for all major taxes are set high enough to deter against non-compliance with registration and filing. In addition SARS is empowered to bond the businesses revenues and bank accounts to cover any unpaid tax liabilities.
(iii)	Planning and monitoring of tax audit and fraud investigation programs	A	A	Tax audit and fraud investigation are based upon clear risk assessment criteria undertaken independently by the Business Intelligence Unit. Audits are carried out by the Audit Unit on the basis of cases prepared by the Business Intelligence Unit. Reports are used to provide feedback from audits to risk assessment and for fraud investigation. The Customs post clearance inspections and audits are also selected independently by Business Intelligence Unit.
Change in performance: No change.				

Planned reforms

The introduction of the Single Registration system now requires SARS to embark on a large-scale consolidation of taxpayer information. Some taxpayers are not only registered for several different tax and customs products but are also registered in a variety of capacities. These might include, for example, registration as an individual person and a closed corporation or as a holding company and a subsidiary. Once this consolidation has been completed SARS will then identify all the different tax and customs products that are applicable to each taxpayer. This exercise will greatly improve the quality of the information SARS holds about each taxpayer and the products they use. It will enable SARS to remove duplicate or erroneous information. This register will provide SARS with a profile of every registered entity that displays all the tax and customs products they use, comprehensive information about each entity and details of relationships between entities. The strategic benefit of this initiative will enhance client service, increase compliance, improve revenue collection and advance SARS' objective of establishing a comprehensive "cradle-to-grave" profile of every registered taxpayer and trader.

3.4.3 PI-15 Effectiveness in collection of tax payments

(i) Collection ratio for gross tax arrears

An analysis of the debt book as at 31 March 2014 shows:

- A new system, Service Manager, has replaced the old legacy debt collection system and has allowed for better monitoring of the collectors' performance and the debt management function.
- The debt book for 2013/14 is R82.6 billion in comparison to R82.3 billion for 2012/13. These numbers include objections, appeals and insolvency cases that are not collectable. Excluding these, the collectable portion of the debt book is R65.5 billion for 2013/14 and R64 billion for 2012/13.
- Debt as a percentage of revenue has decreased from 13.0% in 2010/11 to 9.2% in 2013/14 the lowest it has been in 16 years. The target is to be at 6% by 2017/18 in line with other revenue agencies around the world.
- The debt book has decreased from a high of R88.6 billion in 2011/12 to R82.6 billion in 2013/14 and has now stabilised.
- The 2013/14 number of R82.6 billion contains R8.3 billion in strategic assessments which have been raised against aggressive tax structures over the last two years and which are uncollectable. These cannot be written off as currently in law they are under dispute. It is expected that legislation will be amended in 2014/15 to allow for these to be temporarily written off, i.e. treated as doubtful debts.
- There are R4.3 billion in credits for 2013/14 and R5.6 billion in credits for 2012/13 that could be offset against the debt book.
- Excluding the uncollectable debt (objections, appeals and insolvencies) and the credit offsets the debt book would be R61.2 billion for 2013/14 and R58.5 billion for 2012/13.
- Administrative penalties were introduced in 2010 and have contributed to the increase in the debt book. The penalties are aimed at increasing taxpayer compliance.
- There has been an increased use of technology and SMS message campaigns saw R4 billion cash collected from over 3 million messages sent.
- The cost to income ratio of debt collection for 2013/14 was 3.6% and is a 21.1% increase in productivity compared to 2012/13.
- Collections per full time employee rose 32.9%
- Customs tax arrears are very low (constituting less than 2% of total debt) and only arise as a result of internal audit findings of payment discrepancies for which recovery procedures have been initiated and for any fines levied by Customs arising from improper or incomplete customs declarations.

For PEFA assessment, tax arrears are the stock of arrears gross of objections, appeals and insolvencies (insofar as debts are not realised or written off), and gross of credits. The collection ratio is the percentage of opening arrears that are collected or cleared during the year. Table 3.10 shows that this was 26.5% in 2012/13 and 39.2% in 2013/14, an average of 32.9%. The table also shows that tax arrears are significant (over 2% of annual collections).

Table 3.10: Collection of tax arrears 2012/13 and 2013/14

	2012/13	2013/14	Average of last two years
1. Tax arrears at start of year (R m)	88,608	82,250	
2. Arrears collected (R m)	23,648	32,256	
3 Collection ratio (2/1) %	26.5%	39.2%	32.9%
4. Total tax revenue collected (R m)	813,834	899,793	
5. Arrears/collections (2/4) %	10.9%	9.1%	10.0%

(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration
Income Tax, VAT and other non-Customs revenue

The transfer of revenue collected is reliant on the national data network and benefits from an efficient and well-developed country-wide banking system. Revenue collection is facilitated via the four major banks in South Africa namely ABSA, Nedbank, First National and Standard. These banks participate in the cash management function of central government. All balances at these participating banks are cleared to the National Revenue Fund on a daily basis. SARS operates 236 bank accounts to facilitate the payment process.

For income tax and VAT there are a number of ways of filing and paying taxes:

- Electronically via the Payments at Bank channels or per cheque at any one of the four participating banks' branches;
- Payment to a SARS branch office;
- Mail to a SARS branch (filing and payment);
- Using a drop box (filing and payment);
- E-filing (filing of returns as well as payments).

Irrespective of the filing method, the processing remains the same. Payments are processed separately from filing of returns but linked by taxpayers' ID and bank details. Payments are processed immediately and cash deposited into the SARS bank account for same day transfer to the National Treasury as sweepings at the end of each day. Reporting is done monthly in terms of Section 32 of the PFMA within 30 working days after the end of the month.

All payments to SARS are submitted via an electronic platform or converted to an electronic submission at point of service. Bank reconciliations are performed daily on receipt/upload of the electronic bank statements. Returns/declarations are processed separately and accounted for as a debit on the taxpayer's record in the relevant core tax system or SAP (in respect of accounts already migrated to accrual accounting) until reconciliation with the payment. Electronic reconciliation between returns/declarations and payments received are performed systematically in the taxpayer's record using a "payment reference" (or PRN), and where applicable, defined payment allocation rules. Transaction volumes pose no threat to processing capacity.

E-filing treatment of tax returns facilitates direct access to the SARS system for generating the assessment debit. Once a payment is made the two entries are then reconciled.

Customs revenue

The transfer mechanism of revenue collected by Customs is efficient and has effective controls. It is also reliant on the national data network. All customs outposts are directly on line and are able to deposit their collections on the same day to their nominated bank account.

Tax and customs revenue collection is through the four participating banks - ABSA, Nedbank, First National and Standard Bank. All bank account balances at these participating banks are cleared (swept) to the National Revenue Fund on a daily basis.

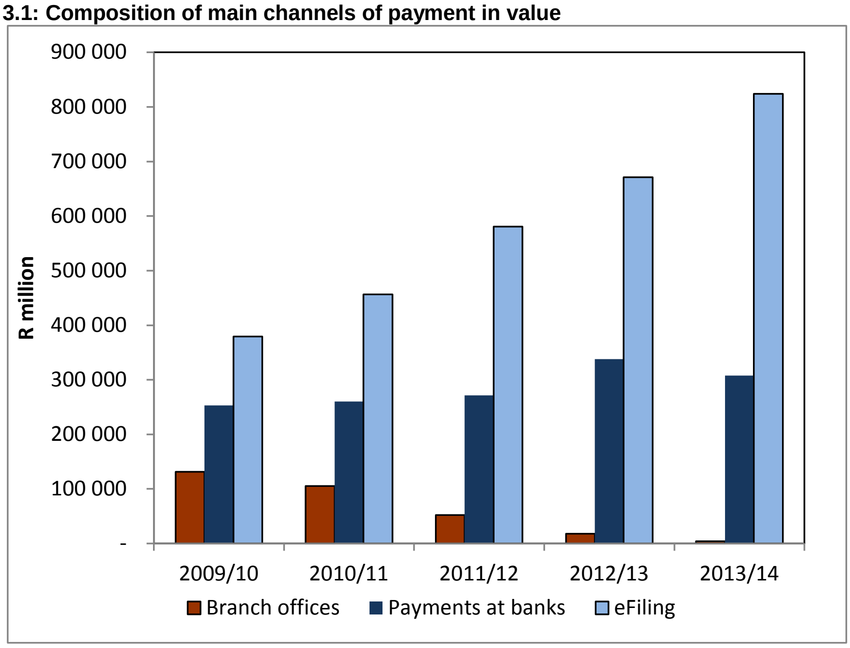
The reporting and reconciliation mechanisms are based upon computerised receipting and cash book systems. This applies to all taxes, customs, and excise duties. A standard cash receipting system is in place at all SARS offices where cash takings are reconciled daily. All receipts received via offices, SARS e-filing, and the approved banking institutions, are automatically updated to the accounting system. Bank statements are uploaded daily to the accounting system, and bank reconciliations performed automatically. Transfers to the National Revenue Fund are performed daily based on bank reconciliations and independent confirmation to the Treasury.

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

Revenue and Customs collections

Since the previous assessment, various steps were taken to encourage taxpayers to prefer electronic payment channels (e-filing and payment at bank) as opposed to making payments at branch offices so as to reduce the risks associated with cash collections and also to improve allocations and a quicker update of taxpayer records. The graph below shows the progress in migrating taxpayers to electronic payment channels from 2009/10 to 2013/14. Payments at branch offices reduced from R166.5bn (21.8% of total payments) in 2008/09 to only R4.3bn (0.4%) in 2013/14.

Figure 3.1: Composition of main channels of payment in value



PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
PI-15	Effectiveness in collection of tax payments	D+	D+	Scoring Method M1
(i)	Collection ratio for gross tax arrears, being percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year	D	D	Although the collection of current debt is strong and well managed, historical debt is significant and not reduced. The total debt stock stands at 10% of revenue collection in 2012 and the collection ratio is about 33% in the last two years.
(ii)	Effectiveness of transfer of tax collections to the Treasury by the revenue administration	A	A	SARS operates a very efficient collection system that enables an effective transfer of tax collection to the Treasury Single Account daily.
(iii)	Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	A	A	Reconciliations between tax assessments and collections and between collections and receipts by the Treasury are done daily. Reporting is done monthly in Section 32 within 30 days of the close of the month.
Change in performance: No change.				

Ongoing reforms

The 2014/15 Annual Performance Plan has set an objective of a reduction in the level of debt due by taxpayers and traders. During FY 2014/15 SARS will:

- Seek to improve and maximise process efficiency through automation, improved workflow management and real-time processing of transactions
- Continue to increase the productivity and competence of staff members through better training interventions, work allocation and performance management
- Improve its methods of analysing taxpayer and trader data and behaviour to develop better compliance interventions and debt management strategies
- Integrate SARS systems and processes with external parties including other government departments that form a critical dependency in our collection cycle
- Effectively manage third-party appointments to collect debt on SARS' behalf.

3.4.4 PI-16 Predictability in the availability of funds for commitment of expenditures

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.

(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 Public Finance Management Act 1999. Departmental annual pro-forma cash flow statements are prepared and submitted to the National Treasury, based on which expenditure commitment ceilings are set for each Department, once the National Assembly approves the national budget - which in practice occurs two months after March 31st 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 Finance Minister in accordance with the

Appropriations Act passed by Parliament, 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 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.

The monthly statement of "Loans Extraordinary Payment, Receipts and Cash Balance" released by the National Treasury in conjunction with the Assets and Liabilities Management Division - for loans and grants, and the South African Revenue Service - for domestic tax revenue, combines effectively the actual cash position of the government within a week after the close of the previous month, and serves as a good basis for predicting the availability of funds for expenditure commitment.

(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 National Treasury. The National Treasury consolidates all departmental cash flows into a national cash flow schedule. The Minister of Finance issues a general annual budget release warrant to each department following from the ceilings derived from the cash flow statements. Both the departmental cash flow and the consolidated national cash flow statements are updated monthly on a rolling basis following 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 National Revenue Fund Account, for payment of expenditure incurred.

The Tax and Loan Accounts operated by the National Treasury and managed by the four commercial banks allow the Treasury to know at first hand in real time the cash position of the government at any time. This information is available due to the timely deposit of tax revenue inflows from the SARS and loan receipts.

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

The PFM Act 1999 and the Treasury Regulations 2005, Sections 43 and 76(3), and Chapter 6.3 respectively stipulate the legal and regulatory framework for budget and expenditure virement within Departments. Department budget reallocations across divisions within the same vote are allowed; this can be initiated and authorised by the Minister or Accounting Officer in charge of that Department up to 8% of the original approved budget without recourse to the Minister of Finance. However, the Accounting Officer is mandated to report on the virement to the sector Minister and the Minister of Finance within seven days.

The Public Finance Division within the National Treasury is responsible for monitoring and compilation of all departmental virements, which are then reported to Parliament at least once a year. Officials from the Public Finance Division indicated that there is a very high level of compliance regarding the legal and regulatory procedures on budget reallocations. The Budget Office corroborated this. Only 4 out of about 40 departments (10%) requested for revisions in their budgeted drawings once a year over the last three years.

The Minister of Finance, by legal powers vested in him or her under Section 30 of the Public Finance Management Act 1999, can prepare and present a supplementary national budget to the National Assembly for approval as and when required; in practice this usually occurs once a year midway through the fiscal year, around October.

PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
PI-16	Predictability in the availability of funds for commitment of expenditures	A	A	Scoring Method M1
(i)	Extent to which cash flows are forecasted and monitored	A	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 horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	A	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 adjustment to budget allocations, which are decided above the management of Line Ministries	A	A	Departmental budget reallocations across divisions within the same vote are allowed up to 8% of the original approved budget allocation. The Finance Minister, in practice submits once a year a supplementary budget to parliament as and when required which is backed by Section 30 of the Public Finance Management Act 1999. There was no supplementary budget within the assessment period spanning 2010/11 to 2012/13.
Change in performance: There is no change in performance				

3.4.5 PI-17 Recording and management of cash balances, debt and guarantees

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 include government guarantees, loans, public-private partnership (PPP) arrangements, among others are equally assessed under this indicator.

(i) Quality of debt data recording and reporting

South Africa's total gross government debt stood at 43%[18] of GDP in 2012/13 fiscal year. Over 15 years of rigorous and continuous debt recording and reporting framework with ARABAS debt management software that uses Microsoft Excel Spreadsheets for extracting and performing statistical analyses , integrated with government cash balances has led to an efficient and reliable data on government debt at any point in time. The efficiency has led to confidence in the financial market, ensuring stability and providing a consistent risk management profile in terms of financial and debt instruments, as well as reducing government cost of borrowing through the use of available investment portfolios for surplus government cash balances held at commercial banks and the South African Reserve Bank. The clarity of responsibilities and separation of powers

[18] IMF Article IV - South Africa Report October 2013

between the National Treasury and the South African Reserve Bank referencing fiscal and monetary policy respectively provide sufficient market confidence and fairly stable business environment.

The Assets and Liability Management (A&LM) Unit within the National Treasury is responsible for managing government debt, reporting on nature of debt either foreign or domestic, the creditors profiles, the maturity period and accrued interest payable. It uses a separate excel spreadsheet to record government guarantees issued on behalf of public entities that have been granted the approval by the Minister of Finance to borrow. A division within the A&LM tabulates total government exposure on Public Private Partnership (PPP) arrangements. Government debt profile is forecast over the medium term using the different benchmarks such as foreign debt to GDP ratio, domestic debt to GDP ratio, the contingent liability to GDP ratio, among others.

As part of the Section 32 PFMA requirement, the National Treasury publishes within a month after the close of the previous month, a monthly statement on loans and extraordinary payments, receipts and cash balances in addition to a statement of national revenue, expenditure and borrowing. Though there is no publication of total government exposure on PPPs, the National Treasury maintains an up-to-date record of all PPPs. In addition to these publications, the South African Reserve Bank publishes a quarterly bulletin on government foreign borrowings, domestic borrowings and monetary developments in terms of interest rates and financial markets. Officials say that while total government guarantees stood at about R400 billion, government exposure on PPPs stood at about R6 billion as of May 2014.

Referencing the quality assurance strategy for government debt, the Auditor-General in 2013 appointed independent external experts on debt to carry out an audit of government gross debt.

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

The Assets and Liabilities Management Unit within the National Treasury is responsible for consolidating government net cash position. The ARABAS module has an interface with the SARB through which daily update of government cash balances and total debt portfolio are determined for cash flow purposes and the payment of government expenditure. The National Treasury operates two main revenue funds - the National Revenue Fund (NRF), into which all government revenues are deposited, and the Reconstruction and Development Programme (RDP) Fund into which external development assistance funds are lodged.

The Treasury operates a Treasury Single Account that allows it to ascertain at real time on a daily basis the total cash balance via daily bank statement transcripts received from the Central Bank. Linked to the NRF is the Tax Collecting Agency's Deposit Accounts held in four participating commercial banks for the daily collection and transfer of domestic tax revenue from SARS to SARB.

Further, some government departments collect internally generated funds (IGFs). These departments maintain Departmental Deposit Accounts held at commercial banks into which these IGFs are lodged; closing balances are swept daily into the Exchequer account via Departmental Paymaster General (PMG) Accounts held at SARB. It should be noted that the Accountant General authorises the opening of these commercial bank accounts. Each government department maintains a PMG account, which is a sub-NRF account through which departmental cash transfers from the National Treasury regarding annual budget allocations and annual cash flow plans updated on a rolling monthly basis are deposited for payment of expenditure. At the close of business each day, all departmental payments are aggregated into the consolidated PMG account and set off against the Exchequer account. The balance in the Exchequer account is then either funded (debit balance) by drawing from the Tax and Loan accounts or invested (credit balance) by transfer into the Tax and Loan accounts for Treasury Investments.

Whiles the NRF and RDP bank accounts are reconciled daily, it turns out that some donors operate bank accounts held either at commercial banks or outside South Africa for funding projects and programs initiated through some government departments, which do not form part of the banking arrangements of the central government

(iii) Systems for contracting loans and issuance of guarantees

Article 218 of the 1996 Constitution, the PFM Act 1999 and the Treasury Regulations Section 16 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.

The National Treasury prepares a medium term debt profile that set clear targets on the limits of government borrowing; this is submitted to the National Assembly as part of the budget review process. Whiles Schedule 3A public entities have no borrowing powers, Schedule 3B entities can borrow but with the approval of the Minister of Finance. Eight out the 21 Schedule 2 public entities are full commercial entities; they have borrowing powers under the Companies' Act against their balance sheet. Where a guarantee is required, the necessary applications are forwarded to the relevant ministry for their vetting and recommendation to the Finance Minister.

The Fiscal Liability Committee made up of representatives from the NT-Public Finance, NT-Intergovernmental Fiscal Relations, NT-Legal, NT-Assets and Liabilities Management, NT-Economic Policy, NT-Budget Office scrutinises the guarantee application by the borrowing public entity to ensure the financial viability of the entity, the risk profile and the potential exposure to central government, and advises the Minister of Finance accordingly. The Assets and Liabilities Management Unit maintains a separate software application for all government guarantees and reports annually to Parliament during the budget review process. PPP arrangements were prevalent a decade ago but are minimal in recent times. Government exposures on PPPs are not published but are recorded and updated frequently by the National Treasury.

PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
PI-17	Recording and management of cash balances, debt and guarantees	A	A	Scoring Method M2
(i)	Quality of debt data recording and reporting	A	A	The National Treasury compiles a comprehensive national debt (both foreign and domestic) using the ARABAS, which is capable of providing daily updates. Further, the Treasury prepares and publishes a monthly statement on government debt within a month after the end of previous month. The South African Reserve Bank also publishes quarterly bulletin on government borrowings and data on the financial market.
(ii)	Extent of consolidation of the Government's cash balances	B	B	The NRF and RDP fund are reconciled daily.. There are other donor accounts used for funding programs and projects initiated through

PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
				government departments that remain outside this arrangement as well as cash balances of public entities.
(iii)	Systems for contracting loans and issuance of guarantees	A	A	The Minister of Finance is the sole authority for contracting central government loans and issuing guarantees. Debt ceilings are set in the medium term against fiscal target.
Change in performance: There is no change in performance				

Ongoing reforms

In 2011, the National Treasury contracted a local software development firm to rewrite the debt management software, to replace the current software known as ARABAS. The new software has four modules:

- Foreign debt module - this module is up and running since 2012. The platform manages all foreign debt
- Domestic debt module - this module is also up and running since 2013
- Retail bond market module - this module is been tested and is expected to be fully implemented by end of November 2014. It is linked to the SWIFT payment system. Currently, ARABAS still manages the retail bond market platform.
- Money market module - this module will be used for money market instruments as well as for bank reconciliation and is expected to be completed and fully operational by March 2015.

It is therefore anticipated that by March 2015, the current ARABAS debt management software will be fully replaced with the newly locally made bespoke software.

3.4.6 PI-18 Effectiveness of payroll controls

Chapter 10 of the 1996 Constitution and the Public Service Act 1994, amended by Act No. 30 of 2007 are the constitutional and legal frameworks that regulate public sector human resource administration in the Republic of South Africa. Chapter 4 of the Public Service Act 1994 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 the1996 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 within 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.

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

Departments have direct authorised access to the human resource interface within 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.

Further, PERSAL has an early warning of personnel and payroll management in terms of any irregularities: this is referred to as "VULINDELA". It is noted that the departments of Defence and Police manage their own personnel and payroll systems. Officials stated that these represent approximately 21% of total government personnel.

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

Changes to personnel and payroll are timely. 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 received his/her remuneration. 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 on government payroll is paid through a dedicated personal bank account via an electronic payment system administered by the National Treasury. No staff, either permanent or casual is paid with cash. Audit trails are in-built within 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 has a password that allows access to PERSAL.

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

Payroll audit is a routine exercise aimed at ensuring elimination of personnel ghost. This occurs every month as part of the payroll processing framework within the software application - PERSAL. Heads of units in each department perform staff head count each month and sign off personnel control sheets, which are then forwarded to the central payroll processing centre for payment. 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 annual payroll audit during financial audit of each department.

PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
PI-18	Effectiveness of payroll controls	A	A	Scoring Method M1
(i)	Degree of integration and reconciliation between personnel records and payroll data	A	A	The personnel and payroll software, PERSAL links the post database to the personnel and payroll databases. This provides efficiency in data consistency and monthly reconciliation process
(ii)	Timeliness of changes to personnel records and the payroll	A	A	Changes to personnel and payroll databases are effected within one month and retroactive salary adjustments, which are very rare, are done within the next month pay period
(iii)	Internal controls of changes to personnel records and the payroll	A	A	PERSAL has an in-built audit trail, which ensures authorised access to staff are properly monitored and tracked.
(iv)	Existence of payroll audits to identify control weaknesses and /or ghost workers	A	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

PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
				is a monthly reconciliation process that ascertains physical staff counts, which are signed off and reported by the head of each unit within departments before salaries are paid
Change in performance: There are no changes				

Ongoing reforms

Plans are far advanced to implement the IFMIS. This will result in the use of the HR module that is currently been run on PERSAL.

3.4.7 PI-19 Competition, value for money and controls in procurement

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

Section 217 of the Constitution of the Republic of South Africa, 1996 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. Procurement must also be consistent with the Preferential Procurement Policy Framework Act, (PPPFA) 2000 and with the Broad Based Black Economic Empowerment Act (BBBEEA) 2003. The legislation empowers each organ of state as defined in the PFM Act 1999 to set up its own preferential procurement policy within the framework stipulated in Section 2(1)(a) to (g). The Minister of Finance, by the powers vested, 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) however apply to all public entities that were hitherto exempted from the previous regulations. As shown in the table below, only 3 out of the 6 requirements of the PEFA procurement measurement framework have been met.

Number of requirements met	Elements of the legal and regulatory framework for procurement	Availability
Only 3 out of the 6 requirements have been met	Be organised hierarchically and precedence is clearly established.	√
	Be freely and easily accessible to the public through appropriate means.	√
	Apply to all procurement undertaken using government funds.	√
	Make *open* competitive procurement the default method of procurement and define clearly the situations in which other methods can be used and how this is to be justified.	**X**
	Provide for public access to all of the following procurement information: government procurement plans bidding opportunities, contract awards, and data on resolution of procurement complaints.	**X**
	Provide for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature.	**X**

(ii) Use of competitive procurement methods

The PPPFA and General Procurement Guidelines do not clearly state that open competitive procurement is the default method. Accounting officers are allowed to procure by other means where competitive bids are “impractical”. Further, the Act does not provide for the membership of the tender committee. The Treasury Regulations, Section 16A 6.2 outlines the establishment of five levels of procurement committees, namely the adjudication committee, evaluation committee, selection committee, bidding procedures committee and the approval committee. The PPPFA states that the procuring entity shall justify the use of procurement methods other than open competition with the approval of the accounting officer but fails to provide further details in terms of the criteria under which justification will be granted except for emergencies. Nonetheless, the National Treasury Practice Note No. 8 of 2007/2008, which took effect from 1 December 2007 provides procurement thresholds where specific procurement methods should be used.[19] Government uses 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 within departments. The Department of Defence, SAPS, State Security, National Treasury, Telecommunication and Postal Services and the newly established Department of Small Business Development are not utilising LOGIS. The Supply Chain Management Unit within the National Treasury conducts ex-post audit of departmental procurement activities to check on compliance but there is no systematic system of collating data on the use of procurement methods other than open competition. 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 however, no information on annual procurement plans as well as 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 independent 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 3 out of the 7 requirements.

Complaints are reviewed by a body 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.	Ξ
(ii)	is not involved in any capacity in procurement transactions or in the process leading to contract award decisions	Ξ
(iii)	does not charge fees that prohibit access by concerned parties	√
(iv)	follows processes for submission and resolution of complaints that are clearly defined and publicly available	**X**
(v)	exercises the authority to suspend the procurement process	√

[19] Up to R 2,000: petty cash. R 2,000-10,000: verbal or written quotations. R 10,000-500,000: formal written quotations. Over R 500,000: competitive bidding.

Complaints are reviewed by a body which:		
(vi)	issues decisions within the timeframe specified in the rules/regulations	X
(vii)	issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority)	√

PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
PI-19	Competition, value for money and controls in procurement	D+	D	Scoring Method M2
(i)	Transparency, comprehensiveness and competition in the legal and regulatory framework	n/a	C	3 out of 6 requirements have been met.
(ii)	Use of competitive procurement methods	n/a	D	There is no reliable data to score this indicator
(iii)	Public access to complete, reliable and timely procurement information	n/a	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 independent administrative procurement complaints system	n/a	D	There exists an administrative complaint body in each department, but the system does not meet criteria (i), (ii) and one of the other five criteria
Change in performance Scores are not comparable. The revised methodology (introduced in January 2011) uses 4 dimensions instead of 3 and is more comprehensive.				

Ongoing reforms

The Office of the Chief Procurement Officer has been created as a unit under the National Treasury. Recruitment and appointment of new staff is ongoing.

3.4.8 PI-20 Effectiveness of internal controls for non-salary expenditure

Apart from the main PFM Act, 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, amongst 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 39 and 40 of the PFM Act and Chapters 8 and 15 of the 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.

(i) Effectiveness of expenditure commitment controls

Expenditure commitment begins with the issuance of a purchase order emanating from the head of unit within a department and approved by the Accounting Officer or his/her delegate. This is after the passing of the national budget by Parliament and the issue of general budget release warrants by the Finance Minister, 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 Basic Accounting Software (BAS) package is used across 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. Now, a new functionality known as 'cash blocking' has been operationalised to ensure additional expenditure control. Procurement plans are not a pre-requisite to cash flow preparation. LOGIS is the procurement software for managing procurement across government. Clearance is required through BAS, which has an interface with LOGIS prior to procurement.

Payment of expenditure requires that VAT invoices are obtained from suppliers who have been duly registered with the South African Revenue Service to which Tax Clearance Certificates are issued as evidence of up-to-date supplier tax position, once goods and/or services have been received as evidenced by goods received note. Hitherto, expenditure spikes were prevalent in March; this phenomenon has been eliminated by way of dialogue between the National Treasury 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 main PFM 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 acquaint them of new accounting and reporting reforms. Each departmental head complements this training programme for new entrants.

During the last few years, however, there has been a decline in the quality of financial data. This has been largely due, as officials intimated, to the fast pace of public finance management reforms that often become too complex and principle-based, the reduction in discipline among some staff, the high staff turnover in the public sector leading to recruitment of new entrants that might lack the requisite capability, among others. In order to reverse the situation, the National Treasury is facilitating 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% in 2010/11 to 60% 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 within 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 April 2015. The Compliance Institute of South Africa has been tasked to develop a compliance framework for the public sector. 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.

PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
PI-20	Effectiveness of internal controls for non-salary expenditure	C+	C+	Scoring Method M1
(i)	Effectiveness of expenditure commitment controls	A	A	BAS has in-built expenditure commitment control mechanisms. An additional functionality known as 'cash blocking' has been operationalised as part of the existing 'budget blocking' functionality.
(ii)	Comprehensiveness, relevance and understanding of other internal control rules/ procedures	A	B	Internal controls are comprehensive and clearly spelt out in the PFMA, Treasury Regulations and other accounting and internal control manuals. The PFMA mandates accounting officers to develop an effective, efficient and transparent environment for transparent and risk-free financial management. However, their comprehension has been declining steadily leading to concerns over the quality of financial information, due to the fast pace of reforms and their complexity, as well as new entrants who might lack the requisite capability.
(iii)	Degree of compliance with rules for processing and recording transactions	C	C	There are important concerns over the level of compliance with rules and procedures even though there is general compliance in majority of transactions.
Change in performance There is no change in overall score; however, there was a slippage in dimension (ii). There has been a steady decline in compliance to laid-down procedures.				

3.4.9 PI-21 Effectiveness of internal audit

The Accountant General has the overall responsibility for the strategic content of internal audit functions across government departments. The necessary internal audit regulations are outlined under the Accountant General's authority. Specifically, the accounting officer in each department is responsible for ensuring that an internal audit unit is established and functioning efficiently with qualified members and 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. At least there should be three members of the audit committee, the majority of whom may be from either another government department or the private sector. Mandatorily, the chairperson should be from either another government department or the private sector.

(i) Coverage 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. Qualified internal auditors are engaged to head internal audit units. A large number of subordinate staff are either qualified or part-qualified. Interactions with staff within these units indicate that more than half of their time is spent on ensuring that systems are functional.

(ii) Frequency and distribution of reports

Section 38 of the PFMA defines the general responsibilities of an accounting officer. It states that the accounting officer is responsible for ensuring that all internal controls and internal audit systems are in place in order to certify an environment of efficient, effective and transparent financial risk management. The internal audit unit churns out quarterly internal audit reports within two weeks after the end of the quarter. The report raises issues of concern on systemic failures, non-adherence to rules and regulations, among others. Concerning the distribution of the quarterly reports, the accounting officer of the relevant department receives a copy. The Auditor-General receives a copy at the time of performing either interim or final audit; the Auditor-General has a representation on the Audit Committees and therefore receives copies of quarterly internal audit reports. The National Treasury does not receive a copy of the report; however, the Treasury receives copies of internal audit reports of departments where concerns are escalated that require immediate attention. A team from the Office of the Accountant General is deployed to be part of the audit committee where these concerns of higher magnitude arise. The Standing Committee on Public Accounts (SCOPA) of Parliaments interacts regularly with departmental audit committees as part of its legislative mandate of executive scrutiny. The Treasury has issued instruction to all departments and public entities to resume sending copies of all in-year management and performance reports, including quarterly internal audit reports to the National Treasury. Interactions with government officials suggest there has been no change to distribution of internal audit reports to recipients and therefore not seen as a deterioration of score; it could be an overrated score in the 2008 PEFA assessment

(iii) Extent of management response to internal audit findings

The establishment of audit committee within each department is to ensure audit findings and recommendations thereon are implemented to the latter; Section 77 of the PFM Act 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 from 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. Interactions with officials of the Office of the Director-General of the National Treasury Internal Audit Unit point to the fact that it maintains two separate registers for tracking audit findings and implementation of recommendations thereon - first, the findings register for internal audit which is tabled quarterly to the audit committee, and second, the finding resolution register. The Chief Finance Officer of a department chairs the audit findings implementation committee. It takes much longer time (over one year) to comprehensively address audit findings and recommendations, contributing to the deterioration in score.

PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
PI-21	Effectiveness of internal audit	A	C+	Scoring Method M1
(i)	Coverage and quality of the internal audit function	A	A	More than 50% of internal audit staff time focuses on systemic issues such as IT audit. All central government departments have functional internal audit units with qualified professionals. Internal audit manuals and procedures meet Institute of Internal Audit (IIA) standards.
(ii)	Frequency and distribution of reports	A	C	Each internal audit unit within departments prepare quarterly internal audit reports within 15 days after the expiration of the quarter. Copies of these reports are sent to the Auditor-General and/or his representative and the management of the auditee. The National Treasury does not receive copies of the internal audit reports, however, there are occasions where it receives copies where issues of major concern arise. Officials say there has not been any change to distribution of reports; therefore deterioration could be as a result of overrated score in 2008
(iii)	Extent of management response to internal audit findings	A	B	Management response to audit findings is slow. It takes much longer (more than one year) to address audit findings and recommendations. Not all managers respond to queries raised in these reports, which has affected the quality of financial data.
Change in performance There is a slippage in overall score. This is due to a drop in both dimensions (ii) and (iii) which deal with distribution of internal audit quarterly reports and extent of management response to audit findings respectively.				

3.5 Accounting, recording and reporting

3.5.1 PI-22 Timeliness and regularity of accounts reconciliation

(i) Regularity of bank reconciliations

The Public Finance Management Act 1999 provides the legal framework for banking arrangement of central government, provinces and public entities. The Treasury Regulation provides further guidelines. Section 7(2)(a) stipulates the mandatory approval of the National 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.

As indicated under PI-17, the National Treasury operates four Tax and Loan accounts held at the commercial banks, which allow it to ascertain in real time on a daily basis, the total cash balance via daily bank statement transcripts received from the commercial banks and verified by the South African Reserve Bank. By this means, the real time cash position of the government is known. As part of the Section 32 reports requirement of the PFMA, the National Treasury prepares and publishes each month within a month after the end of the previous month, a statement of national revenue and expenditure as well as of loans, extraordinary payments and receipts and closing cash balances. Further, public entities' bank balances, as part of central government, are not included in the reconciliation process.

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

Usually, government officials abuse the use of suspense accounts and advances to staff to carry out official assignments. In order to prevent or reduce to the barest minimum such abuses, strict legal and regulatory measures are enacted. This is no different from Section 17.1 of the Treasury Regulations and Section 40(1)(a) of the PFM Act 1999. These Sections require the accounting officer to ensure that all advances and suspense accounts are respectively acquitted and reconciled monthly to allow for the preparation of monthly financial statements, by way of proper allocation of each element of advance and suspense to the proper cost centre. Advances to staff for official travel or to carry out any official duties are acquitted monthly. The accounting system ensures that no further advances are made to staff who fail to acquit his/her cash advance. Suspense accounts are reconciled monthly but with rollover balances. Pursuant to the issuance of annual financial statements, departments and the National Treasury ensure majority of these suspense accounts are cleared within a month after the end of the financial year.

PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
PI-22	Timeliness and regularity of accounts reconciliation	B+	B+	Scoring Method M2
(i)	Regularity of Bank reconciliations	B	B	All bank accounts managed by the Treasury are reconciled daily; by the first week of the following month, the National Treasury publishes government net cash position. Public entities' bank balances, as part of central government, are not included in the reconciliation process.
(ii)	Regularity of reconciliation and clearance of suspense accounts and advances	A	A	Cash advances to staff are acquitted monthly. Suspense accounts are reconciled each month. At the end of the financial year, all departmental suspense accounts are reconciled within 30 days after the end of the fiscal year to allow for preparation of annual financial statements, even though there are a few un-reconciled balances.
Change in performance There is no change in performance				

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

Primary service delivery is devolved to provinces and municipalities. This indicator will be scored in assessments at those sub-national levels. However, it is still included here as the services are funded largely by central government grants (and was assessed in 2008).

In South Africa, Public Expenditure Tracking Surveys (PETS) are not common features as a result of the efficient rollout of the BAS application across departments and to the level of service delivery units, coupled with the Chart of Accounts that has fields for each cost centre. Even though no PETS have been conducted in the last three years, the budgeting software and the chart of account are capable of and actually capture financial information on resources in both cash and kind to the level of service delivery units including primary schools and clinics. Interactions with civil society organisations suggest that funds are transferred in a timely way from national government to primary service delivery units via provinces and municipalities. Delays only occur where the National Treasury is dissatisfied with the performance of a province or a service delivery unit and suspends transfers.

All provinces and municipalities have been interconnected via the BAS management system; they manage the basic schools and primary healthcare facilities across the country. The Accountant General prepares consolidated quarterly financial reports, known as "Section 32 Reports" captioned "Provincial Budgets and Expenditure Reports" that details the resources received and expended by primary service delivery units and submits it to Parliament, which is scrutinised by the Select Committee on Public Accounts (SCOPA).

PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
PI-23	Availability of information on resources received by service delivery units	A	A	The budget software and the BAS application provide information detailed by the chart of account, of primary schools and clinics. Quarterly and annual financial reports are prepared and consolidated by the Accountant General - known as "Provincial Budgets and Expenditure Reports" and reported to Parliament.
Change in performance There is no change in performance				

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

The legal and regulatory framework governing in-year budget execution reports are outlined under Section 32 and Part 7 Chapter 18 of the Public Finance Management Act 1999 and the Treasury Regulations March 2005 respectively. The National Treasury within 30 days after the close of the preceding month must compile and publish in the government gazette a statement of revenue, expenditure and actual borrowings of the National Revenue Fund. At least, every quarter, each Province is also mandated to prepare and submit to the National Treasury a statement of revenue, expenditure and actual borrowings pertaining to that Province for publication in the government gazette within 30 days following the preceding quarter. The financial reports must provide information on current period and period to date as the case may be, comparing budgets to actuals and variations thereon. The Treasury is required to provide a standardised reporting format across the board.

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

The accounting system should be able to produce accurate and comprehensive reports that are consistent with the budget at both the commitment and payment stages. Available evidence however suggests that the in-year budget execution reports only show expenditure at the payment level but not at the commitment stage. The in-year budget execution reports produced by the national and provincial departments and the National Treasury report on revenue, expenditure, loans and a cash flow statement reflecting changes in cash and cash equivalents in accordance with the legal and regulatory framework. The reports are consistent with the prescribed standardised format in the Treasury Regulations and compatible with the budget estimates that allow for easy comparison and analysis of budgetary outcomes.

(ii) Timeliness of the issue of reports

Evidence adduced and analysed over the assessment period indicates that monthly and quarterly in-year budget execution reports produced by the national and provincial departments, the Provinces and the National Treasury meet the reporting deadline set out in the PFM Act 2009 and the Treasury Regulations March 2005. Available evidence shows that departmental monthly reports are submitted to the National Treasury within two weeks after the end of the preceding month. While the National Treasury consolidates and reports on the National Revenue Fund monthly within 30 days in the government gazette after the end of the preceding month, the Provinces also gazette their reports quarterly within 30 days after the end of the quarter.

(iii) Quality of information

Reconciliation of cashbooks and general ledger entries to the bank statements is evidenced and a fundamental process for the preparation of monthly and quarterly financial reports. The BAS application management system, which runs across all national and provincial departments, facilitates the recording and reconciliation of financial data. In spite of these measures, there remain concerns over data accuracy as raised by the Auditor General annual audit reports for national and provincial governments for the three fiscal years 2010/11, 2011/12 and 2012/13. In 2010/11, 72%[20] of government departments and provinces had material misstatements in their annual financial statements. In 2011/12 and 2012/13, 58%[21] and 60%[22] respectively of national departments and provinces had material financial misstatements. Though these show an improvement in the quality of financial information, the level of misstatements remains high. It should be noted that even though these statistics cover the annual financial statements as submitted for audit, they reflect to a large degree the level of financial misstatements in the monthly and quarterly in-year budget execution reports as well. Responses obtained from officials on the quality of financial information suggest that some staff are unable to keep up with the pace of reforms. There is also high staff turnover and low capability of new entrants.

PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
PI-24	Quality and timeliness of in-year budget reports	C+	C+	Scoring Method M1
(i)	Scope of reports in terms of coverage and compatibility with budget estimates	C	C	In-year budget execution reports are prepared which follow the standardised reporting format approved by the National Treasury and compatible with budget estimates that allow for easy budget analysis; however, the reports capture expenditure only at the payment stage but not at the commitment level
(ii)	Timeliness of the issue of reports	A	A	In-year budget reports are prepared and gazetted timely within 15 days after the close of the month for monthly departmental reports and within 30 days for monthly national consolidated reports. Provincial quarterly reports are also prepared within 30 days after the expiration of the quarter
(iii)	Quality of information	A	B	Concerns have been raised by the Auditor General with regard to the quality of financial information which are highlighted; they do not

[20] 2010/11 Auditor-General annual report on national outcomes page 18
[21] 2011/12 Auditor-General annual report on national and provinces page 56
[22] 2012/13 Auditor-General annual report on national and provinces page 39

PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
				compromise the general usefulness of the financial information
Change in performance There is no change in the overall performance; however, there was a slippage in dimension (iii) with regard to quality of financial information.				

3.5.4 PI-25 Quality and timeliness of annual financial statements

Regulatory framework

Accounting and reporting are governed by the PFMA and its Amendment 1999, Treasury Regulations 2005, Guidelines for Implementing the Economic Reporting Format (ERF), the Departmental Financial Reporting Framework Guide (2012) and annual Report Guides. The PFMA applies to 38 national departments, 100 provincial departments, nine constitutional entities, 154 other national public entities including three social security agencies, 21 major public enterprises and 26 other national government business enterprises, 70 provincial public entities and 16 provincial government business enterprises, a total of 409 institutions. These are listed in the schedules to the PFMA and the Public Service Amendment act 2007. The National Treasury publishes changes to the PFMA schedules from time to time in the Official Gazette.

This assessment applies only to the central government, ie. national departments and national public entities, excluding public enterprises. The last annual financial statement prepared at the time of the assessment were the Consolidated Financial Statements for FY 2012/13, which ended 31 March 2013.

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 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 Chief Financial Officer.

The Office of the Accountant General (NT-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.[23] It also focuses on the preparation of consolidated financial statements and on improving the timeliness, accuracy and efficiency of financial reporting.

Fund and Institutional coverage

Public operations are accounted for through a number of funds:

1. the National Revenue Fund;
2. Provincial Revenue Funds;
3. three social security funds;
4. public entity funds;
5. local government (municipality) funds;
6. the Reconstruction and Development Programme *RDP) Fund, set up in 1994 to receive external assistance and make transfers to spending departments; and
7. enterprise funds for government business enterprises.

Accounts are prepared at four levels of consolidation or aggregation: [24]

1. national and provincial departmental accounts, which are published annually on the departmental websites. These include the accounts of public entities for which the departments are responsible.
2. the main national accounts, which consist of receipts of the National Revenue Fund, expenditure of the national departments (either voted by Parliament or allocated by statutory appropriation), including transfers to lower levels of government, and the financing of the deficit. The aggregated accounts of 192 public entities are provided as a separate section of the main accounts. These are published on the National Treasury website.[25]
3. the consolidated accounts of the national and provincial and social security funds, which net out transfers between the different levels. Annual Budget Reviews include Statistical Tables 5 and 6 showing their expenditure in economic and functional classification.
4. the consolidated national, provincial, local and social security funds, the Reconstruction and Development Programme Fund (RDPF), national public entities and government business enterprises (GBEs) controlled by the national government. This consolidation is not yet complete as information on local government (the 138 municipalities) is not readily available, and inter-departmental service transactions are not fully eliminated. This consolidates revenue, expenditure, and the financing of the deficit, published as NBR Statistical Tables 7-9.

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 (level 4 above). The 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 RDPF 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 benefiting 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 NT 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

[23] Set up under the PFMA for public sector reporting.
[24] Information from Budget Review 2013, Explanatory Notes to Statistical Tables.
[25] The documents are titled Consolidated Financial Statements. In the website they are described as Consolidated Financial Information, in recognition of their incompleteness.

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, NT 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.[26] 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 on-going 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 Standard Chart of Accounts. 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.

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.

The latest annual financial statements (level 2 above) are for FY 2012/13. These include an executive summary, a review of operating results (national departments and the NRF), the report of the Auditor General, consolidated statements of financial performance, financial position, changes in net assets, and cash flow, plus accounting policies (9 pages), and notes to the accounts (23 pages). Though the main statements 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 NT-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 NT is committed in principle to moving the national and provincial accounting bases from cash to accruals (with the strategy 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.

[26] According to the Guidelines for Implementing the Economic Reporting Format (2009), the consolidated financial statements should cover all general government departments (national, provincial and local), government controlled social security funds, and public entities that do not sell goods or services to the public at market prices (ie. at cost or higher). In other words, GBEs are not part of the government sector. They are part of the wider public sector. The NT-OAG says the accounting policy will be reviewed from time to time as more information comes to light about user needs, and as and when international and local standard setters issue pronouncements on the matter.

(i)Completeness of the 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.

Budget figures are not shown as required by GRAP 24, neither original budgets nor mid-year adjusted budgets. The NT-OAG says "as there is no publicly available budget that is reconcilable with the group of entities for the purposes of the National Government Department Consolidation, and National Public Entity Consolidation, it is deemed inappropriate to present a comparison between actual and budget information at this level of consolidation". In many places, however, the percentage of outcomes to estimates is given.

(ii) Systems

The Basic Accounting System (BAS) is installed and functional in all government entities. All cost centres 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. At present, the HRM module of the future IFMS is installed in DPSA only.

(iii)Timeliness of submission of financial statements

Each department prepares its own financial statements within two months, ie. by 31 May, and submits them to the Auditor General. They are audited by 30 June, and sent to the NT-OAG for consolidation. The draft Consolidated Financial Statements are submitted to the Auditor General by mid-August. These deadlines are met.

(iv) 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. Public entities (autonomous government agencies and public enterprises) use the accrual basis. The NT-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 NT-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 (ASB).

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. As at March 2013 there were 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.

(v) Quality of annual financial statements

In 2008/09, the NT-OAG introduced the FM Capacity Maturity Model for improving standards of accounting, reporting, risk management and internal audit. The quality of annual financial statements is assessed largely on the basis of statements as submitted for audit, rather than after corrections have been made. Out of 450 departments and public entities submitting 2012/13 accounts, 195 (43.3%) had no material misstatements. For 2011/12 the corresponding share was 38.4%.[27] This shows an improvement of 5 percentage points in one year.

The Auditor General's 2012/13 Consolidated General Report stated that there was a slow improvement in the quality of financial reporting and compliance with regulatory frameworks, but that the root causes remained as before: (i) slow management response to audit findings, (ii) lack of consequences for poor performance, and (iii) instability and vacancies in key positions.

(vi) Staffing and capacity building

The NT-OAG is responsible for addressing a range of PFM capacity building challenges within the South African Public Sector. Capacity development is a long-term project and requires collaboration and coordination with key stakeholders. The Minister of Finance approved the Capacity Development Strategy (CDS) in March 2014 for implementation. The following key initiatives were to be addressed in the CDS:

- Support the development of an enabling environment;
- Enhance organisational capacity;
- Develop and empower a corps of competent and committed high performance employees; and
- Create an environment that enables and sustains mutually beneficial stakeholder relationships.

(vii) Capacity development strategy

a. Support the development of an enabling environment

In order to support departments, National Treasury has provided PFM related policies, norms, standards and frameworks e.g. minimum competency levels, generic job descriptions, and support for Technical services, Internal Audit, Accounting services etc. Human Resource (HR) policy, norms, standards, frameworks and guidelines are being developed in collaboration with the DPSA.

b. Enhance organizational capacity

In an attempt to enhance organisational capacity within the public sector evaluating and refining PFM systems is necessary together with identifying and implementing good practices. As a result National Treasury is in the process of developing and distributing standard operating procedures and issuing the generic functional structure for the office of the Chief Finance Officer and Provincial Treasuries.

c. Develop and empower a corps of competent and committed high performance employees

The strategy seeks to attract, select, develop, empower and retain highly skilled workers, resulting in a sustainable corps of competent and committed employees in the public sector. Capacity building has been actively developing and rolling out Education, Training and Development (ETD) solutions for the public sector in conjunction with the National School of Government (NSG).

The tables below (Table 3.11, Table 3.11, Table 3.11 and Table 3.11) detail the number of management accountants, internal auditors and professional accountants in the public sector

[27] Auditor General Consolidated Report, 2012/13, figure 19.

Table 3.11: Management Accountants

Institution	Total	CIMA Public Sector Members	Students
Auditor General South Africa (Chapter 9 Institution)	21	2	19
Eskom Holdings Ltd (SOE)	170	20	150
EThekwini Municipality (Local Government)	2		2
Industrial Development Corporation (SOE)	13	5	8
National Treasury (National Department)	3	1	2
Public Investment Corporation (SOE)	7	2	5
Rand Water Board (SOE)	7		7
South African Revenue Services	33	8	25
Transnet Ltd (SOE)	43	12	31
Total	**299**	**50**	**249**

Table 3.12: Internal Auditors

Detail	Total
Number of Registered IIASA members in the Public Sector	5144
Number of Public sector learners who successfully completed the IAT and GIA learnership training programmes over the past 3 years	264
Number of IAT trainees currently registered within the Public Sector	278
New public sector enrolments for IAT and GIA learnership programmes	54
Number of Certified Internal Auditors employed in the Public Sector	
National Departments and State Owned Entities	171
Provincial Departments and Entities	30
Local Government (Municipalities and Municipal entities)	49
Total	**250**

Table 3.13: Professional Accountants

Detail	Total
Number of Registered SAIPA members in the Public Sector	65
Registered SAIPA Trainees in the Public Sector	19
Number of Registered Accounting Technicians in the Public Sector	4
Number of SAIPA accredited training centres in the Public Sector	2

Statistics from the South African Institute of Chartered Accountants (CA) indicate that the following number of qualified CAs were in the public sector as at 30 November 2013 (Table 3.14).

Table 3.14: Distribution of Chartered Accountants in Public Sector

Detail	Total
Number of Registered CAs in Public Sector	1506
National Departments	167
Provincial Departments	69
Local Government (Municipalities and Municipal entities)	49
Auditor-General, SARS and entities	1221

PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
PI-25	Quality and timeliness of annual financial statements	A	A	Scoring Method M1.
(i)	Completeness of the financial statements	A	A	The annual Consolidated Financial Statements include full information on revenue, expenditure, financial assets, and liabilities
(ii)	Timeliness of submission of the financial statements	A	A	Consolidated Financial Statements are submitted to the Auditor General within 5 months of the end of the fiscal year
(iii)	Accounting standards used	A	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.
Change in performance Steady progress in the evolution of consolidated reporting. No change in score.				

3.6 External scrutiny and audit

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

Regulatory framework and mandate

The Auditor-General of South Africa (AGSA) derives its independence, powers and mandate from the Constitution (Section 188) and the Public Audit Act 2004, which replaced the former audit provisions in the PFMA. The Auditor-General audits and reports on the financial and performance statements of national and provincial departments, municipalities and other public institutions as well as majority-owned companies receiving funds from the General Revenue Fund, and must submit audit reports to the relevant legislature (National Assembly, Provincial Council, Municipal Council).

Independence and powers

The Auditor-General is appointed by the President on the recommendation of the National Assembly and approval with a supporting vote of at least 60% of the members of the Assembly. S/he is appointed for a fixed, non-renewable term of between five and ten years and may be removed from office only with a supporting vote of at least two thirds of the members of the Assembly on the ground of misconduct, incapacity or incompetence.

The Auditor General has full powers of access to records and to staff members of auditees, including in relation to confidential, secret and classified information. He may enter property under a search warrant given by a magistrate, though this power has not been exercised as the threat is usually sufficient. AGSA has no executive powers since former surcharge powers were transferred to Accounting Officers, and Controllership functions to the Treasury. The audit philosophy is to be partners in a common objective rather than policemen. Since 2008, closer relationships have been developed with professional institutes, and building capacity of AGSA.

His independence is not just constitutional and legal, but also financial and operational. The primary source of income is not from parliamentary votes but from fees charged to auditees. He sets the fees and his annual budget in consultation with the Parliamentary Standing Committee of the

Auditor General (SCAG), with information to the Treasury.[28] He may appoint staff and set their terms and conditions of service independently of the Department of Public Service Administration. This is very necessary for AGSA to professionalise its staff.

AGSA is itself audited each year by a private firm of auditors appointed by SCAG. Reports have been unqualified.[29]

Coverage of financial audit

For FY 2012/13, the Auditor General audited every national and provincial department and 313 of the public entities in the country on the quality of their financial statements and annual performance reports, and on their compliance with legislation. The annual report for 2012/13 covers 450 auditees, substantially 100% coverage, though a few public entities failed to submit their financial statements in time for their audits to be finalised (deadline 31 August).[30]

Types of audit undertaken

AGSA has an integrated audit approach. An audit team will include specialists from different units as necessary, such as forensic audit, IT audit and environmental audit. A full range of audits is performed, including systems audits, financial and compliance audits, procurement, payroll and information technology audits. As almost all departments now produce annual performance reports that measure their service delivery against the targets set for each performance objective, AGSA audits them to determine whether the information is useful and reliable, and reports findings that are material enough to be brought to the attention of the users. [31]

Audit standards

The Public Audit Act (section 13) requires the Auditor General to set his own standards. In practice, he follows the International Standards for Supreme Audit Institutions (ISSAIs), issued by INTOSAI, based on the corresponding International Standards of Auditing (ISAs) adapted for the public sector. AGSA has played a strong role in developing ISSAIs.[32]

Timeliness of submission of audit reports

Departmental audit reports along with their audited financial statements are submitted to the legislature within five months from the end of the fiscal year, which is within three months of submission to the AG. A Consolidated Financial Information Report on departmental financial statements is prepared by the National Treasury and submitted to AGSA separately within five months from the end of the fiscal year. This is submitted to the legislature within six months of the end of the fiscal year (30 September). For the last three years, the audit reports on financial statements have been submitted on 30 September. The finding of audit reports can therefore feed into preparation of departmental plans and budgets for the second year after the audited year.

Follow up on audit recommendations

This dimension is concerned with management response to management letters and audit reports, not to parliamentary reports (which is covered by PI-28 (iii).

[28] In 2012/13, AGSA invoiced local auditees a total of R 2,199m. Overall there was a small surplus on operations. Any surplus is surrendered to NT, though NT may allow retention for good reason, such as to meet commitments made before the end of the year, and non-collection of fees. About R 0.5 billion is currently outstanding, of which 80% is due from municipalities.

[29] Integrated Report of AGSA 2012/13.

[30] AGSA Consolidated General Report on the National and Provincial Audit Outcomes, PFMA 2012/13.

[31] There has been a steady improvement in the quality of annual performance reports. The proportion of performance audits with material findings reduced from 49% in 2010/11 to 41% in 2012/13. However, some departments were well below average, such as the departments of education, health and public works (Auditor General Consolidated Audit Report 2012/13).

[32] The former Auditor General chaired INTOSAI, and AGSA provides continuing support (such as personnel and accommodation) to AFROSAI-E.

Out of 450 departments and public entities submitting 2012/13 accounts, 195 (43.3%) had no material misstatements. After corrections were made, 362 (80.4%) received 'clean' audit reports. This is an indicator of management responsiveness to audit management letters. However some findings are not addressed and audit comments have to be repeated.

Following issue of the audit report to the National Assembly, the Auditor-General reports that although formal responses are made by Accounting Officers to audit findings, the corrective measures are not carried out in a systematic or timely fashion. Audit findings are followed up by Audit Committees.

PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
PI-26	Scope, nature and follow-up of external audit	B+	B+	Scoring Method M1.
(i)	Scope/nature of audit performed (incl. adherence to auditing standards)	A	A	All mandated entities are audited annually, covering revenue, expenditure, assets and liabilities. Financial and performance audits are integrated. Financial and compliance audits follow international standards, and focus on systemic issues.
(ii)	Timeliness of submission of audit reports to the legislature	B	A	A consolidated audit report is submitted to the National Assembly by 30 September each year, six weeks after the consolidated financial report is provided to the Auditor General.
(iii)	Evidence of follow-up on audit recommendations	B	B	A formal response is made in a timely manner, but the corrective measures are not systematic or timely.
Change in performance No change in overall score. There is an apparent improvement in timeliness, but it appears that the 2008 assessment was under-rated and could have been scored A.				

3.6.2 PI-27 Legislative scrutiny of the annual budget law

(i) Scope of the legislature's scrutiny

The budget documentation is reviewed by a number of committees. There are Portfolio Committees responsible for reviewing the expenditure and policies of each of the 38 national departments. The Standing Committee on Finance, responsible for the National Treasury, covers the macro-economic policies of the Government. The Standing Committee on Appropriations is responsible for the in-year monitoring of expenditure and oversight of the implementation of corrective actions in response to the resolutions of the Standing Committee on Public Accounts (SCOPA).

The Money Bills Amendment Procedure and Related Matters Act, 2009, made changes to the legislative approval procedure for the Division of Revenue Bill (DORB), the Appropriation Bill, the Supplementary Appropriation Bill, Revenue Bills and other money bills. Before the tabling of the DORB and Appropriations Bill, the Portfolio Committees and Committee on Finance consider the fiscal framework and departmental performance and make recommendations to the House, which are provided to the Minister of Finance at least seven weeks before he tables the bills. The Minister must explain any changes made or not made to the bills (section 7 (4)). Following tabling of the Bills, the Committee on Appropriations in each House consider the DORB and Appropriation Bill as presented, and again may make recommendations within the total expenditure envelope. The 2009

Act also enabled a Parliamentary Budget Office (PBO) to provide analysis and advice to members in their reviews. The PBO has recently been set up with a Director and eight staff, and participated in the 2014/15 budget process.

An independent constitutional body, the Financial and Fiscal Commission (FFC), provides policy analysis in an annual submission to Parliament on the division of revenue.

The timeline for the last completed financial year, 2013/14, is shown in the Table 3.15 below.

Table 3.15: Parliamentary budget approval procedure

Activity	Date
1. Revenue proposals, Fiscal Framework (included in Budget Review), Appropriation Bill (AB), and Division of Revenue (DOR) Bill tabled in Parliament	27 February 2013
2. Financial and Fiscal Commission (FFC) submission to Parliament	Fiscal Framework and revenue proposals: 5 March 2013 DORA: 6 March 2013 AB: 17 March 2013
3. Committees on Finance and Appropriations report to National Assembly on Fiscal Framework, DORA and AB	Fiscal Framework: 7 March 2013 DORA: 13 March 2013 AB: 18 June 2013
4. Passing of DOR Act	26 March 2013
5. Passing of Appropriation Act	20 June 2013
6. Medium Term Budget Policy Statement (MTBPS), Adjustments Appropriation Bill (AAB), and Division of Revenue Amendment Bill (DORAB) tabled in Parliament	23 October 2013
7. FFC submission to Standing Committee on Appropriations on the 2013 MTBPS	29 October 2013
8. Committees on Finance and Appropriations submit Review and Recommendations Report on Fiscal Framework (included in MTBPS), DORAB and AAB to National Assembly	Fiscal Framework: 30 October 2013 DORAB: 1 November 2013 AAB: 6 November 2013

The National Assembly reviews the Medium Term Budget Policy Statement (MTBPS) at the beginning of the budget cycle. It also reviews and debates the budgetary documents (see PI-6) during the main budget session. The full scope of the budget review is expressed in the Constitution (see Section 215). The combined time available to the NA for the review of the budget is approximately five months. The debates are public and the media report on them. The MTBPS is presented in October with the Adjustment budget.

(ii) Extent to which the legislature's procedures are well-established and respected

The Constitution establishes a Parliament composed of two houses at the national level: the National Assembly (NA) and the National Council of Provinces (NCOP). Members of the National Assembly are designated by their parties for a five-year tenure.

The National Assembly and NCOP have a clear organisation and set of rules (standing orders) that are adhered to. The National Assembly functions on the basis of a number of committees. The Joint Rules Committee establishes all the rules of the National Assembly and the NCOP. The National Assembly rules are comprehensive, detailed and publicly available on their website. The annual parliamentary programme framework as well as the session and weekly agenda is developed by the Joint Programme Committee. Their agendas are publicly available. The rules and procedures for both Houses are generally respected.

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

The Minister of Finance tables the main original budget estimates in February each year. These Estimates of National Expenditure are referred to the various portfolio committees for review. The political head of each department is invited during the review process to provide further clarification where necessary. Submissions and recommendations from each portfolio committee are presented to the Standing Committee on Appropriations for consideration and approval. The approved submissions are finally presented to the National Assembly for debate. The Money Bills Amendment Act 2009 empowers the legislature to amend budget estimates submitted by the Minister of Finance; these powers have not been exercised so far. The final Appropriations are passed into law in July, giving the legislature a period of five months to review the budget documents and expenditure estimates.

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

Clear rules exist for in-year amendments to the budget without the ex-ante approval of the legislature defined in the PFMA. These adjustments are presented in October to the National Assembly as part of the Adjusted Estimates of National Expenditures. Unforeseeable and Unavoidable Expenditures are funded from the contingency fund. The Executive respects the rules for in-year budget adjustments.

PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
PI-27	Legislative scrutiny of the annual budget law	A	A	Scoring Method M1.
(i)	Scope of the legislature's scrutiny	A	A	The legislative review covers the details of revenue and expenditure estimates, a medium term expenditure framework, a medium term sector and fiscal policies including the impact of the changes in the new tax policy proposals.
(ii)	Extent to which the legislature's procedures are well-established and respected	A	A	The legislature's powers are enshrined in the Constitution and in the PFMA. The House rules govern a number of Budget Committees and are adhered to. Rules are generally clear and accessible.
(iii)	Adequacy of time for the legislature to provide a response to budget proposals (time allowed in practice for all stages combined)	A	A	The Legislature is involved both at the beginning and at the end of the budget preparation. The combined time that the legislature has to review the budget documentation is five months.
(iv)	Rules for in-year amendments to the budget without ex-ante approval by the legislature	A	A	Clear rules exist for in-year amendments without ex- ante approval. Excessive virements and expenditure over budget ceiling require the approval of the National Assembly of an Adjustment Budget.
Change in performance: The Money Bills Amendment Act and the establishment of the Parliamentary Budget Office has given the legislature more power over the details of the Budget. No change in overall scores.				

3.6.3 PI-28 Legislative scrutiny of external audit reports

(i) Timeliness of examination of audit reports by the legislature

The Departments prepare Annual Reports which contain sections on their policy, medium term perspective, audited financial statements, Auditor-General's opinion and Management Letter including his recommendations.

Departments submit their financial statements in a timely fashion. The Auditor-General reports some delays in the submission of the financial statements of other government institutions. These delays do not appear to affect the work of the Standing Committee on Public Accounts (SCOPA). SCOPA has 17 members and is traditionally chaired by a member of the opposition.

After the annual audited reports of departments and the Auditor General's reports are submitted to parliament in September, they are referred to SCOPA for scrutiny around November. The review process is typically completed by 31 March the following year, just in time to allow for further questions during the budget review process with regard to departments that performed poorly.

Table 3.16: Timeliness of Examination of Consolidated Audit Reports by National Assembly

	Receipt by National Assembly*	Tabled in National Assembly	SCOPA Audit Report briefing	SCOPA Report tabled in National Assembly	Report adopted by National Assembly
FY 2010/11	31 August 2011	16 January 2012	N.A.	May 2012	June 2012
FY 2011/12	31 August 2012	12 March 2013	18 October 2012	May 2013	June 2013
FY 2012/13	30 August 2013	13 November 2013	23 January 2014	May 2014	June 2014

*Submission of audit reports to Parliament per PFMA 1999, sec. 55 (3) and 1 (d).

(ii) Extent of hearings on key findings undertaken by the legislature

The examination process is subject to specific rules and procedures, which are well documented and segregate the scrutiny process into clearly identifiable steps. The scrutiny process starts with the review of the audit report and a classification of the reports according to the type of the audit opinion (adverse, disclaimer, qualified and other). There are three main kinds of follow-up procedure depending upon the type of audit opinion. These are: A - where public hearings are carried out, B - where there is follow- up without hearings, C - no further action.

Irrespective of the follow-up procedures applied to a given audit report, SCOPA summons each Department at least once every three years. The hearings are open to the public and media. The process is thorough and supported by preparation work sessions and briefs by the Auditor-General.

(iii) Issuance of recommended actions by the legislature and implementation by the executive

The Internal Audit Units and the Auditor-General report that although corrective measures are taken by the executive, resolutions are not systematically addressed across all departments. SCOPA presents its reports to the National Assembly which passes the resolutions. These are communicated to the executive by the Speaker with copies to the National Treasury and Auditor-General. Corrective measures are then implemented by the departments with implementation responsibility with the Accounting Officer and oversight responsibility with the Audit Committee. The Standing Committee on Public Accounts follows up on the resolutions and holds hearings with the respective departments. The Auditor- General reports that departments lack capacity to take effective corrective measures.

PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
PI-28	Legislative scrutiny of external audit reports	B+	B+	Scoring Method M1.
(i)	Timeliness of examination of audit reports by legislature (for reports received within the last three years)	A	B	It takes five months for SCOPA to review audit reports and present final report to the plenary for adoption
(ii)	Extent of hearings on key findings undertaken by legislature	A	A	SCOPA invites all accounting officers and political heads of departments with adverse audit findings during hearing. Depending on the nature of audit findings, public hearings are conducted.
(iii)	Issuance of recommended actions by the legislature and implementation by the executive	B	B	SCOPA issues recommendations, which are adopted by the National Assembly for executive action. Not all recommendations are implemented according to evidence available. Some of these recommendations require couple of years to implement.
Change in performance There is no change in overall score; however, there was a slippage in dimension (i)				

3.7 Donor practices

3.7.1 D-1 Predictability of Direct Budget Support

At present, the European Union is the only donor that provides budget support (both general budget support and sector budget support) to the Republic of South Africa. Available data suggests that budget support stands at less than 1% of the total government budget. The predictability or otherwise of untied budget support has no significant effect on the government budget. However, tied aid needs to be predictable so that programmes and projects are not held up. It is therefore crucial to analyse the systems that support government's developmental agenda through development partner involvement.

The Reconstruction and Development Programme (RDP) Fund

Section 13(e) of the PFM Act 1999 requires all donors to deposit aid money into the Reconstruction and Development Programme (RDP) fund held at the South African Reserve Bank and managed by the National Treasury according to its priorities and the terms stipulated in the Financing Agreements that are bilaterally agreed with donors. The decision to create the RDP fund was a political decision taken in 1994 to ensure proper use and accountability of overseas development assistance (ODA) funds. The South African Government does not recognise ODA funds as a mainstream revenue source as the National Assembly has no legal powers to appropriate ODA funds, and they might fizzle out over time. Further, ODA funds were unpredictable hence the decision to separate them from the National Revenue Fund. Currently, less than a third of external assistance is channelled through the RDP fund, which stands at a little over R2 billion. The rest consists of aid funds spent by donors directly or provided to government and non-government beneficiaries without passing through the Treasury. Funds allocated through the RDP to beneficiary departments, although not included in the original departmental annual budget estimates during the initial budget preparation stage - which then get included in the Adjusted Estimates of National Expenditure, are reported on as a line item through the in-year and annual departmental financial reports.

The South African Government has developed an aid effectiveness plan aimed at ensuring proper coordination between the government and donors; however, this is not operationalised for reasons including the pullout of donor(s) funds at any time, which might require realignment of sector working groups and portfolio leads. Therefore, the government has decided to lead through the sector departments for which aid is provided irrespective of the quantum of funds from a particular donor.

Two factors influence the predictability of EU budget support:

- Forecast amounts might in some cases not materialise relating to variable tranches based on performance targets. These tranches are incorporated in budget support programmes to incentivise performance. If targets are not met, the tranche is reduced proportionally.
- The timing of the disbursement is very dependent on: when the analysis is done, submission of disbursement file to the Delegation in South Africa, the transmission of the file by the Delegation in South Africa to EU Headquarters in Brussels, and the completion of final analysis and processing by EU Headquarters.

(i) Deviation of actual budget support from the forecasts

The EU Delegation provided GBS and SBS forecast to the National Treasury well over two months (per the Financing Agreements) before the start of financial year. The analysis in Table 3.17 below shows that total actual budget support disbursed fell short by 57.2% from forecast figures in 2010/11. However, total actual disbursements for 2011/12 and 2012/13 were above forecast figures by 3.2% and 3.9% respectively.

Table 3.17: Direct Budget Support Performance for the Period 2010/11- 2012/13 (EUR, million)

	FY 2010/11		FY 2011/12		FY2012/13	
	Forecast	Disbursed	Forecast	Disbursed	Forecast	Disbursed
GBS amount	0.00	0.00	0.00	0.00	42.00	42.00
Annual Deviation (EUR)	0.00		0.00		0.00	
Annual Deviation (%)	0.0%		0.0%		0.0%	
Sector BS amount	108.41	46.41	104.08	107.41	83.00	87.83
Annual Deviation (EUR)	62.00		(3.33)		(4.83)	
Annual Deviation (%)	57.2%		-3.2%		-5.8%	
Total BS amount (EUR)	108.41	46.41	104.08	107.41	125.00	129.83
Annual Deviation (EUR)	62.00		(3.33)		(4.83)	
Annual Deviation (%)	57.2%		-3.2%		-3.9%	

Source: National Treasury - International Development Corporation & EU Delegation

(ii) In-year timeliness of donor disbursements

An efficient budget execution framework entails the aptness and dependability of cash releases from National Treasury (Government) own resources and ODA funds. A country that relies heavily on donor budget support is at greater risk referencing budget implementation from delays in disbursement of funds by the donors. South Africa's ODA is less than 1% of total expenditure so programmes affected can be fully funded by Government and do not suffer from the consequences of delayed donor disbursements. The emphasis should be on the opportunity for engaging the

Government in PFM reform. As indicated below, the weighted delay was 162% in 2010/11, nil in 2011/12 and nil in 2012/13.

Table 3.18: Timeliness of Donor Budget Support (EUR, million)

	2010/11				2011/12				2012/13			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EU												
Total Forecast	0.00	0.00	46.41	62.00	0.00	0.00	57.50	46.58	0.00	0.00	22.50	60.50
Total Disbursed	0.00	0.00	36.35	10.06	0.00	20.74	86.67	0.00	3.00	0.00	23.25	61.58
Weighted delay	162%*				Nil				nil			

Source: National Treasury - International Development Corporation & EU Delegation. The weighted delay in 2010/11 is calculated on EUR 10.06 bn (9.2%) delayed one quarter, and out of the 62 bn due in Q4, 20.74bn (19.1%) was delayed for 2 quarters and the balance 41.26 bn (38.1%) for 3 quarters. In 2011/12 and 2012/13, disbursements were ahead of forecasts, so delay was nil.

PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
D-1	Predictability of Direct Budget Support	D	A	Scoring Method M1
(i)	Annual deviation of actual Budget Support (BS) from the forecasts provided by the donor agencies at least 6 weeks prior to the government submitting its budget proposals to the legislature	D	A	Actual disbursements were 3.2% and 3.9% above forecast in two years out of the three years. The Financing Agreements were signed more than two months before the Estimates of National Expenditure were submitted to the National Assembly
(ii)	In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)	D	A	Quarterly disbursement schedules have been agreed with the National Treasury and the actual weighted disbursement delays were 161.9% in 2010/11 and nil for 2011/12 and 2012/13, ie. delay did not exceed 25% in 2 of the last 3 years.
Change in performance There has been an improvement since 2008. Predictability and in-year timeliness compliant with quarterly disbursement schedules improved				

3.7.2 D-2 Financial information provided by donors for budgeting and reporting on project and program aid

(i) Completeness and timeliness of budget estimates by donors for project support

Donors, to assist governments the world over in their developmental agenda, use various aid modalities. Apart from the two main aid modalities, namely direct budget support and sector budget support, donors provide development assistance through the provision of special projects and programs, paid directly by the donors; some of these could be technical assistance and assistance in kind. The Estimate of National Expenditure, which is the annual operational policy document of Government, should provide a complete picture of both revenue and expenditure estimates in order to ensure efficient service delivery across the board. The analysis in Table 3.19 below shows that more than half of donors representing about 60% of the five largest donors provide estimates of project and program aid to the government before the start of the financial year, during the budget preparation process. This reflects an improvement from the previous assessment conducted in 2008.

Table 3.19: Analysis of Donor Responses

D2 Questionnaires	Belgium	EU	US Govt[33]	Canada	AfDB	Summary Analysis
What was your organization's estimated amount of project and program aid to Government for FY 2012/13?	EUR4,000,000	EUR 130,450,000	US$361,801,706	CA$4,036,811	EUR248,096,000	
Did you transmit this estimate to the government before the start of 2012/13? If so, by what date?	Letter to IDC-unit of NT with implementation of our Country Strategy paper, 13 June 2012	Yes, Financing Agreements are signed by the EU, normally during December (in this case Dec 2012). The draft proposals (Action Fiches) are signed off by the SA Government normally during July of that year	The estimates are provided in Notice of Award at the beginning of the budget period.	No. Global forecasts are not sent to Government of South Africa. Annual budgets per work plans are agreed with individual departments.	No, disbursements were driven by project implementation schedules throughout the year	More than half of donor respondents (representing 60% of the five largest donors) provide estimates of program/project support to the government before the start of the financial year
Was the estimate broken down into details and how? (by project/program only; also by nature of inputs	Letter to IDC-unit of NT of 13 June 2012 gives a detailed implementation proposal (breakdown per programme and per modality)	Yes, both, as stipulated in the Action Fiches and draft Financing Agreements (Annex called the Technical and Administrative Provisions)	All CDC funds require work plans by project/program and activities.	It was not broken down into details.	The estimates were for a specific project, i.e. Eskom Medupe Power Project	60% of donor respondent provide breakdown of estimates

[33] US Government includes USAID and Centre for Disease Control (CDC)

D2 Questionnaires	Belgium	EU	US Govt[33]	Canada	AfDB	Summary Analysis
Did you use the same budget classification as the government for programs/projects? and for inputs (personnel emoluments, purchases of goods and services, subsidies and transfers, capital expenditure)?	International Development Corporation policy and procedures were applied	Budget lines normally include: Technical assistance or services Supplies Operational costs (personnel, travel, etc) Grants where applicable Provisions for visibility Contingencies	No. We use Salaries, Fringe, Contractual, Consultant, Travel, Equipment, Supplies and Other.	No	No, it's on project component basis	40% of respondents used same budget classification as the government
Did your organization report to the Government on actual disbursement of the estimated program and project aid during 2012/13?	Notification of Government approval sent to IDC unit of NT in November 2013 Letter with overview of commitments 2013, November 2013	Yes, actual disbursements are included in the Annual Consultations Joint Conclusions Report. Information is also provided to the National Treasury as part of the budget and reporting cycles (around June and again in January).	No. They draw down funds from CDC directly.	Yes	Yes	60% of donor respondent reported on actual disbursements to government
If so, how frequently did you report on actual disbursements?	Annual letters with overview of	During Annual Consultations, yearly	As and when required	Once a year	Semi-annually at the end of each scheduled	80% report at least annually.

D2 Questionnaires	Belgium	EU	US Govt[33]	Canada	AfDB	Summary Analysis
	commitments and/or disbursements	As part of the NT cycles, per semester if requested by NT			supervision mission	
And with how long a delay after the end of the reporting period?	First report expected October 2014	Not sure	Not sure	Disbursement data is not provided on a scheduled basis, but rather upon request from IDC in National Treasury.	3 months after year end, i.e. June 2013	Varied degree of delays
Were disbursement reports made with a breakdown that is consistent with the Government's budget classification?	Yes	No, we indicate the overall disbursement per programme. Data is also captured in the RDP account where funding is channelled through this account. There is a code applied by NT for donor funds in terms of funding received.	No	No	Disbursement reports are made available to Government, but on project component and category basis, and not necessarily on Government's budget classification	80% do not report disbursements according to government classification

(ii) Frequency and coverage of reporting by donors on actual donor flows for project support

A number of donors are involved in external assistance in the Republic of South Africa; the major ones include the European Union, GIZ, DFID, USAID, France, Ireland and Belgium. Project support includes technical assistance and other donations kind. Whiles the donor community argues that they are prepared and willing to provide financial information in terms of actual donor inflows on projects and programs but for the failure on the part of government to request for such information, the government on the other hand maintains the donors are reluctant to provide the needed financial information. The consolidated annual financial statements do provide some information on donations in kind but this is incomplete.

As indicated in Table 3.20 below, more than 69% of donor aid is provided outside the realm of government systems for which no financial reports on actual cash flows are provided to the government, to form part of its aggregate financial and expenditure reporting. Further, 80% of donor respondents, representing more than 50% in value of donor aid on project and programs referencing funds that are channelled through the RDP account report at least annually to the National Treasury with varied degree of delays between three and six months.

Table 3.20: Analysis of donor funds

All figures in Rand	2010/11	2011/12	2012/13
Receipts from donors - RDP Account[34]	1,609,657,000.00	1,826,951,000.00	2,210,428,000.00
Other donor funds outside RDP Account[35]	>4.0bn	>4.5bn	>5.0bn
Total donor fund	>5.6bn	>6.3bn	>7.2bn
Receipts from donors - RDP Account	29%	29%	31%
Other donor funds outside RDP Account	71%	71%	69%
Total donor fund	100%	100%	100%

PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D	D+	Scoring Method M1
(i)	Completeness and timeliness of budget estimates by donors for project support	D	C	Most donors including the five largest provide complete financial information in a timely manner to the government during the preparation of Estimates of National Expenditure.
(ii)	Frequency and coverage of reporting by donors on actual donor flows for project support	D	D	Most donors do not provide quarterly financial reports on project and program aid on actual disbursements to the government.
Change in performance There is an improvement in the overall score as a result of improvement in dimension (i)				

[34] Source: Consolidated National Treasury annual financial statements.
[35] Source: Data and interview from donors.

3.7.3 D-3 Proportion of aid that is managed by use of national procedures

This dimension assesses the overall proportion of donor aid funds to the Republic of South Africa that are managed through national procedures. National procedures include banking, authorization, disbursement, procurement, accounting, reporting and external audit.

OECD-DAC defines ODA as follows:

Resources or flows to developing countries and multilateral institutions provided by official agencies, including state and local governments, or by their executive agencies, each transaction of which meets the following test: a) it is administered with the promotion of the economic development and welfare of developing countries as its main objective, and b) it is concessional in character and contains a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent)

South Africa defines ODA as follows:

Official resource flows from the international donor community to South Africa in the form of grants, technical co-operation and financial co-operation, where the South African Government is held at least partially responsible or accountable for the management of such resources." (Source: South Africa ODA Policy Framework and Procedural guidelines, 2003)

Development partners are committed to using country systems in providing development aid aligned with national strategies as proclaimed in the Paris Declaration 2005 and the Accra Agenda for Action 2008. The use of country systems and procedures refers to adherence to national procurement laws and procedures, disbursement of funds through the national treasury system of banking arrangements, accounting for the use of these funds using national accounting policies and procedures, producing reports that conform to country reporting requirements, and auditing the use of these funds by following national auditing standards and procedures. As indicated in Table 3.21 below, more than 69% of donor funds are routed outside the RDP account and therefore do not use country systems; this conclusion is based on the OECD-DAC definition of ODA which is in line with the PEFA framework and therefore D-3 scores a 'D'.

Table 3.21: Use of country PFM and Procurement Systems per OECD-DAC definition of ODA

	Total aid (R'billion)	Use of country systems				
		Procurement	Budget execution	Financial reporting	Audit	Weighted average
RDP Account[36]	2.2	100%	100%	100%	100%	100%
Outside RDP Account[37]	>5.0	0.0	0.0	0.0	0.0	0%
% through RDP	31%	31%	31%	31%	31%	31%
% outside RDP	69%	0%	0%	0%	0%	0%

[36] Source: Consolidated National Treasury Annual Financial Statements 2012/13

[37] Source: Data and interviews from donors - fiscal year 2012/13

Table 3.22: Use of country PFM and Procurement Systems per RSA definition of ODA

	Total Direct BS (R million)	Total program/project (R million)	Total Aid (Rmillion)	Use of country systems				
				Procurement	Budget execution	Financial reporting	Audit	Weighted average
2010/11								
EU	446.23	185.98	632.21	446.23	538.37	538.37	446.23	
	70.58%	29.42%	100.00%	70.58%	85.16%	85.16%	70.58%	77.87%
Canada	0.00	31.31	31.31	31.31	31.31	0.00	0.00	
	0.00%	100.00%	100.00%	100.00%	100.00%	0.00%	0.00%	50.00%
Belgium	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total	**446.23**	**217.29**	**663.52**	**477.54**	**569.68**	**538.37**	**446.23**	**63.94%**
2011/12								
EU	1,086.73	155.00	1,241.73	1,086.73	1,127.90	1,127.90	1,086.73	
	87.52%	12.48%	100.00%	87.52%	90.83%	90.83%	87.52%	89.17%
Canada	0.00	17.28	17.28	17.28	17.28	0.00	0.00	
	0.00%	100.00%	100.00%	100.00%	100.00%	0.00%	0.00%	50.00%
Belgium	0.00	20.24	20.24	20.24	20.24	20.24	20.24	
	0.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Total	**1,086.73**	**192.52**	**1,279.25**	**1,124.25**	**1,165.42**	**1,148.14**	**1,106.97**	**79.72%**
2012/13								
EU	1,508.88	135.55	1,644.43	1,508.88	1,524.99	1,524.99	1,508.88	
	91.76%	8.24%	100.00%	91.76%	92.74%	92.74%	91.76%	92.25%
Canada	0.00	36.58	36.58	36.58	36.58	0.00	0.00	
	0.00%	100.00%	100.00%	100.00%	100.00%	0.00%	0.00%	50.00%
Belgium	0.00	46.49	46.49	46.49	46.49	46.49	46.49	
	0.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Total	**1,508.88**	**218.62**	**1,727.50**	**1,591.95**	**1,608.06**	**1,571.48**	**1,555.37**	**80.75%**

Table 3.23: Analysis by National Treasury

Receipts Per Financial Year *(RDP Account)*				USE OF COUNTRY SYSTEMS**			
Donor (R'm)	**2010/11**	**2011/12**	**2012/13**	**Accounting and payment**	**Reporting**	**Auditing**	**Procurement**
EU	595	1,181	1,473	1	1	1	1
Global Fund	110	99	358	1	0	0	1
Canada	54	25	36	1	1	0	1
CDC of United States	51	7	34	1	0	0	1
United Kingdom	3	95	15	1	1	1	1
Norway	8	0	9	1	1	1	1
Belgium	-	3	6	1	1	1	1
Germany	2	2	5	1	0	1	1
USAID	4	2	4	1	1	1	1
Switzerland	4	3	4	1	1	1	1
Greece	-	1	1	1	1	1	1
Flanders	23	10	1	1	1	0	1
UN Agencies	5	7	1	1	1	0	1
World Health Organisation	-	-	1	1	1	1	1
IBRD	-	-	0	1	1	1	1
Portugal	-	-	0	1	1	1	1
Ireland	8	1	0	1	1	1	1
Italy	-	0	0	1	1	1	1
World Bank	1	-	0	1	1	1	1
Finland	32	8	-	1	1	1	1
Netherlands	1	5	-	1	1	1	1
Denmark	47	3	-	1	1	0	1
Australia	3	-	-	1	1	0	1
Pooled Funds (ATAF) *	4	4	2	1	1	1	1
Total RDP	**952**	**1,452**	**1,948**	**100%**	**88%**	**71%**	**100%**
Average				**90%**			

** Pooled Funds refer to the African Tax Administration Forum (ATAF) to which various African countries contribute*

*** 1 = Uses national procedures; 0 = national procedures are not used*

PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
D-3	Overall proportion of aid funds to central government that are managed through	D	D	More than 69% of development assistance funds did not use national procedures. Less than a third of such funds were routed through

PI	Dimension	Score 2008	Score 2014	Justification for 2014 score
	national procedures			the RDP account.
Change in performance There is no change in performance				

4 Donor Supported Reforms

4.1 Recent and ongoing reforms and donor assistance

Over the years a number of public financial management reforms have been introduced. One of the instruments of some of the PFM reforms in central, provincial and local government has been the Financial Management and Improvement Programme (FMIP), a partnership programme between the National Treasury (NT) and the EU. The FMIP is now in phase III. Phase I ran from 1999 to 2004, ie. before the last PEFA assessment in 2008. FMIP II lasted from 2006 (the diagnostic study) to June 2010. FMIP III is a 5-year programme that started in January 2013 with EU funding up to Euros 30 m.

The main purpose of FMIP I and II was to support the implementation of the PFMA and MFMA by strengthening the Government's capacity in the areas of accounting and reporting, internal control, and budgeting. The FMIP II, together with various divisions in NT, developed a comprehensive implementation plan to support a newly developed strategy called the Public Finance Management Capacity Development Strategy (CDS, see below). This is planned to be implemented and achieved through the development of policies and standards, human resource development, institutional and organisational capacity building and stakeholder relationship building in national, provincial and municipal financial management.

FMIP II had seven components or result areas. Result area 1 was a diagnostic study that established the baseline. Result areas 2 and 3 made a contribution to the implementation of PFMA by supporting reforms in critical areas such as budget planning and formulation, accounting, financial control, internal audit, risk management and supply chain management. At provincial level, FMIP II worked on improving compliance with PFMA in specific topics considered as priority by the Limpopo and Eastern Cape Provincial Treasuries (result area 4).

Result area 5 played a significant role in assisting the NT and four municipalities to implement the Municipal Financial Management Act (MFMA) through the placement of resident advisors. The NT and EC decided that EU support through the FMIP II should be targeted at four weak municipalities within the weakest of the nine provincial governments – Limpopo and Eastern Cape – supported by the programme.

In 2009 the Money Bills Amendment Procedure and Related Matters Act was passed, providing enhanced powers to the national parliament over the budget preparation process and enabling it to directly determine resource allocation and allotment. FMIP II supported this process by providing expertise to map the existing budget preparation and formulation process against the requirements of the new legislation.

In January 2010 the Presidency announced 12 high-level outcomes for the development of South Africa and concluded performance agreements with heads of national departments and their corresponding MECs in each of the nine provinces. FMIP II result area 7 assisted the Auditor-General with the development of a framework for the assessment of non-financial performance information.

The FMIP project outputs included: Consolidation of Government Accounts and Guide, Draft Strategy for Enhanced Sector Accountability by National & Provincial Governments, New Economic

Reporting Format Reference Guide / Training Materials, Standard Chart of Accounts (SCOA) – Consolidated Budgeting Policy, Improving Method of Financing Public Hospitals, Procedures Framework for Corporate Governance in Public Entities, Budget Baseline Analysis Tool, Programme Budget Structure Guideline, Performance Information Handbook and Tool, and Budget Cycle and Process Mapping for Money Bills Amendment Act.

The overall evaluation of FMIP II was that implementation was remarkably successful. The programme made a significant contribution to the ambitious PFM innovation and reform agenda being implemented in South Africa, aiming at achieving the financial management objectives defined in the PFMA and MFMA. It also supported pilot capacity building at the provincial and municipal levels.

To address some of the financial management challenges, the NT-OAG developed a Financial Management Capacity Maturity Model (FMCMM) in which it aims to:

- Create a new integrated framework for managing capacity building activities;
- Develop minimum competency standards required at the various levels of responsibility in government;
- Create systematic and coherent training on specific skills required to operate systems and manage assigned areas of responsibility.
- Create a conducive environment for the implementation of reforms by ensuring a minimum standard of office and IT facilities – especially in low capacity municipalities.

FMIP III (the Continuous Capacity Development in PFM Programme in South Africa) is aiming at improving FMCMM results from level 2 to level 3, or at least one point increase, in 75% of selected departments and municipalities.

Other NT initiatives outside the FMIP include the following:

- Revision of the Treasury Regulations 2013, to take effect from FY 2015/16
- Development of Strategic Support Plans for departments that were given qualified audit opinions or disclaimers by the Auditor General on their reports for FY 2012/13
- An educational survey and training materials development for Chief Financial Officers, establishment of Public Sector Expert Practice Committees as learning networks, management of the Chartered Accountants Academy, and piloting public sector qualifications in partnership with professional bodies
- Development of a web-based risk management course, completed by 1,109 persons during 2012/13
- Establishment of the Office of the Chief Procurement Officer (OCPO) to regulate government procurement, prevent bid-related fraud and raise value for money, and improvement of the system of price referencing (see PI-19)
- Reviews of the quality of internal audit in partnership with the Institute of Internal Auditors South Africa
- Development and implementation of the Modified Cash Standard, based on the national standards of Generally Recognised Accounting Practice, for financial reporting by national and provincial departments, including development of an accounting manual and standard operating procedures (see PI-25 (iii) above).
- Introduction of regular reporting on payments to suppliers and compliance with the 30-day deadline (see PI-4 above).

4.2 Institutional factors supporting reform planning and implementation

The FMIP is funded by the EU and managed by the Capacity Building Directorate of the NT-OAG, supported by a Project Coordination Unit (PCU) and assisted by a technical assistance team (TAT).

Despite delays resulting from the initial failure to put in place an effective implementation structure, the eventual creation of a dedicated PCU and an operational steering committee ensured the vigorous and effective implementation of FMIP II, and provided the framework for successful ownership of the programme, a key factor in its success. The lesson for the government, which seems to have been fully learnt from this experience, is the need to make formal arrangements for the management and supervision of such external aid programs at the outset. This includes the appointment of a fully dedicated and accountable team and director.

The lesson for the EU was the need for greater flexibility in the timing (and to a lesser degree the content) of delivery. Difficulties arose because the necessary reallocation of funds and the extension of the service contract were not endorsed by the EUD. The opportunity for extending the activities of a critical component of FMIP II was missed (FMIP Final Evaluation Report, July 2010).

Government leadership and ownership

Strong leadership and ownership have been shown by the NT-OAG Capacity Building Directorate. Consistency with national priorities was ensured by:

- the active efforts of the NT-OAG to assert ownership and control over the programme, including detailed supervision of the specific terms of reference for all long term and short term components and choice of consultants at all stages of implementation;
- Effective coordination with the responsible officials in the NT and at the provincial and municipal levels; and
- The active role played by the FMIP Steering Committee comprising all the core divisions of NT.

At the provincial and municipal levels, establishing stakeholder involvement and ownership took more effort initially, but by completion of the programme there was strong participation and appreciation by local officials.

Coordination across government

FMIP III identified the following stakeholders:

- All divisions of the NT.
- The Department of Public Service and Administration (DPSA) responsible, inter alia, for the terms and conditions of employment for the public service.
- Provincial Treasuries and CFOs.
- The Department of Co-operative Governance and Traditional Affairs (COGTA) responsible, inter alia, for the administration of local government.
- The Municipal Managers and CFOs of municipalities.
- The Public Administration Leadership and Management Academy (PALAMA) who design and administer training courses for the public service.
- The Local Government Sector Education Training Authority (LGSETA).
- The South African Local Government Association (SALGA).
- Professional accounting and financial management associations.

The Steering Committee for the programme includes the relevant senior management of the NT, DPSA and PALAMA. This was an effective coordinating instrument for FMIP I and II and has been preserved. According to Budget Office, a Budgetary Reform Working Group will replace this by March 2015. Its TOR are being developed in consultation with stakeholders.

The Steering Committee also coordinates with other PFM reform projects funded by the Government, EC and other donors. The FMIP II evaluation found that there was alignment between FMIP and other programmes funded by the EC, both through the mobilisation of supplementary finance for activities undertaken by FMIP II and through efforts to fund related activities (such as networking the offices of a municipality). The main intervention areas for PFM programmes funded by other donors have been provincial and municipal capacity building. Following the conclusion of interventions by the World Bank and DFID, the only major ongoing activity is the German-funded Strengthening Local Governance Programme (SLGP). Most support provided through SLGP is directed to the Department of Cooperative Governance and Traditional Affairs (COGTA), but alignment of activities relating to financial management is assured because the CD of the MFMA Implementation Unit in COGTA participates in the management of both SLGP and FMIP II.

Sustainability

The PFM reform agenda has a strong momentum supported by a sustained government commitment to innovation and improvement in systems. There is therefore every prospect that the benefits flowing from the FMIP will be fully sustained.

The sustainability of capacity development at the provincial and municipal levels, however, is less assured. This is because of the inherent weaknesses in provinces and municipalities that make it difficult to keep up with the pace and technical complexities of the reform agenda. Important factors affecting sustainability are the degree to which officials who have benefited from the programme retain the knowledge they have acquired and build on the foundations laid. This in turn depends on how long the trained officials stay in post. One source of capacity weakness has been high vacancy rates, especially at lower levels of government, and high rates of staff turnover.[38]

Another negative factor was the brevity of the support provided by the FMIP provincial and municipal advisors. The view widely expressed among beneficiaries after FMIP II was that the amount of time advisors had to complete their assignments (13 to 16 months) was too short for this sort of capacity building task. Whereas most donor agencies set out ambitious matrices of reform within a time frame of three to five years, a study of African experience with PFM reform suggested that, in most countries in sub-Saharan Africa, to reach a level where the country is capable of self-reliantly maintaining and developing its PFM systems, 15-25 years would be necessary.[39]

[38] Vacancy rates are high (averaging 34%) in financial management, supply chain management, internal audit and enterprise risk management (including funded and unfunded posts), placing additional pressure and responsibility on existing staff. High rates of staff turnover (averaging 14.6 months) result in high costs and a lack of skills retention. Targets were to reduce vacancies to 10% and raise average tenure to 24 months by March 2014.

[39] Goran Andersson and Jan Isaksen (2002) Best Practice in Capacity Building in Public Finance Management in Africa – Experiences of NORAD and Sida.

5 Annexes

Annex 1: PFM Performance Measurement Framework Indicators Summary

No.	Indicator	Score 2008	Score 2014	Justification for 2014 score	Comparability of scores and explanation of change since 2008 assessment
A.	PFM OUT-TURNS: Credibility of the budget				
PI-1	Aggregate expenditure out-turn compared to original approved budget	A	A	In no year has the actual expenditure deviated from budget by more than 5%	Scores are comparable. There is no change in score
PI-2	Composition of expenditure out-turn compared to original approved budget	A	A		Scores are comparable. There is no change in score
(i)	Variance in expenditure composition, excluding contingency items	n/a	A	Variance did not exceed 5% in any of the last three years.	Scores are comparable. There is no change in score
(ii)	The average amount of expenditure actually charged to the contingency vote	n/a	A	No expenditure was charged to the contingency vote.	Scores are not comparable due to change in methodology
PI-3	Aggregate revenue out-turn compared to original approved budget	A	A	Actual domestic revenue was between 97% and 106% of budgeted domestic revenue in all years.	Scores are not comparable due to change in methodology
PI-4	Stock and monitoring of expenditure payment arrears	A	B+	Apparent slippage in the availability of central data at the end of the financial year with an age profile.	.Apparent deterioration in availability of age profile.
(i)	Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and a recent change in the stock	A	A	Expenditure arrears are insignificant in relation to total expenditure	Scores are comparable. There is no change in score
(ii)	Availability of data for monitoring the stock payment arrears	A	B	Reliable and complete data on the stock of arrears is generated through routine procedures monthly, but does not include an age profile	Scores are comparable. Data on the stock of arrears does not include an age profile.
B.	KEY CROSS-CUTTING ISSUES: Comprehensiveness and transparency				

No.	Indicator	Score 2008	Score 2014	Justification for 2014 score	Comparability of scores and explanation of change since 2008 assessment
PI-5	Classification of the budget	A	A	The budget formulation and execution is based on economic, administrative, programme, and project classification that can produce consistent documentation according to GFS/COFOG standards at the functional as well as sub-functional level. The chart of accounts is derived from and is an extension to the GFS 2001 standard.	Scores are comparable. There is no change in score
PI-6	Comprehensiveness of information included in budget documentation	A	A	Budget documentation fulfils all 9 benchmarks. The Budget documents are comprehensive.	Scores are comparable. There is no change in score
PI-7	Extent of unreported government operations	A	A		Scores are comparable. There is no change in score
(i)	Level of unreported extra-budgetary expenditure	A	A	No unreported expenditure is known.	Scores are comparable. There is no change in score
(ii)	Income/expenditure information on donor-funded projects	A	A	Donor-funded project expenditure is insignificant.	Scores are comparable. There is no change in score
PI-8	Transparency of inter-governmental fiscal relations	A	A		Scores are comparable. There is no change in score
(i)	Transparent and objectivity in the horizontal allocation among SN government	A	A	The horizontal allocation of transfers from the National Treasury to Provincial and Municipal Treasuries is determined by transparent and rules-based systems.	Scores are comparable. There is no change in score
(ii)	Timeliness of reliable information to SN government on their allocations	A	A	Provincial and municipal governments are provided sufficiently reliable information on their allocations before they start their annual budgets	Scores are comparable. There is no change in score
(iii)	Extent of consolidation of fiscal data for government according to sectoral categories	B	B	Fiscal information on general government covering all national and provincial departments and practically all municipalities is consolidated and published 11 months	Scores are comparable. There is no change in score

No.	Indicator	Score 2008	Score 2014	Justification for 2014 score	Comparability of scores and explanation of change since 2008 assessment
				after the end of the year.	
PI-9	Oversight of aggregate fiscal risk from other public sector entities	B+	A		Scores are comparable. Improvement in score.
(i)	Extent of central government monitoring of AGAs/Pes	B	A	All major AGAs and PEs submit fiscal reports to the Treasury at least annually, and fiscal risk is assessed and reported to the Minister of Finance quarterly.	Scores are comparable. Improvement in score.
(ii)	Extent of central government monitoring of SN governments' fiscal position	A	A	The net fiscal position of provinces and municipalities is monitored at least annually and fiscal risk is assessed and reported.	Scores are comparable. There is no change in score
C.	BUDGET CYCLE				
C(i)	Policy-based Budgeting				
PI-10	Public access to key fiscal information	A	A	All of the six listed elements of information are made available to the public access via the web and other means.	Scores are comparable. There is no change in score
PI-11	Orderliness and participation in the annual budget process	B	B		Scores are comparable. There is no change in score
(i)	Existence of and adherence to a fixed budget calendar	A	A	A clear annual budget calendar exists that is generally adhered to and the calendar allows six to eight weeks for Departments to meaningfully complete their detailed estimates of revenue and expenditure. There is also sufficient time for Departments to re-work approved bids (up and above the base line) after the approval by cabinet of the bid allocations.	Scores are comparable. There is no change in score
(ii)	Guidance on the Preparation of budget submissions	A	A	The National Treasury issues comprehensive and clear budget circulars for an integrated recurrent and capital budget process. The previous MTEF allocations serve as	Scores are comparable. There is no change in score

No.	Indicator	Score 2008	Score 2014	Justification for 2014 score	Comparability of scores and explanation of change since 2008 assessment
				firm budget allocation guidelines but may be subject to usually relatively minor adjustments through a bid process up and above these allocation guidelines. The bid allocations are approved by Cabinet. Such approval of finalised ceilings allows Departments about a further 4 weeks to incorporate any amendments.	
(iii)	Timely budget approval by the legislature	D	D	In the three years reviewed under this assessment, the budget was signed into law more than two months after the start of the fiscal year.	Scores are comparable. There is no change in score
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	B	A		Scores are comparable.
(i)	Multi-year fiscal forecast and functional allocations	A	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.	Scores are comparable. There is no change in score
(ii)	Scope and frequency of debt sustainability Analysis	A	A	DSA for external and domestic debt is carried out every year by the National Treasury.	Scores are comparable. There is no change in score
(iii)	Existence of costed sector strategies	D	B	Most Departments prepare linked strategies and most of them are fully costed to reflect both investment cost and forward linked recurrent expenditure	Scores are comparable. Efforts are ongoing to fully cost sector strategies
(iv)	Linkages between investment budgets	A	A	The selected investments have links to the NDP framework. The selection of investment is based upon sector and program priorities.	Scores are comparable. There is no change in score
C(ii)	Predictability and control in Budget Execution				

No.	Indicator	Score 2008	Score 2014	Justification for 2014 score	Comparability of scores and explanation of change since 2008 assessment
PI-13	Transparency of taxpayer obligations and liabilities	A	A		Scores are comparable. There is no change in score
(i)	Clarity and comprehensiveness of tax liabilities	A	A	For all major taxes the obligations are well specified in the Acts and in regulations. The SARS issues specific public information that ranges from general guidance to detailed sector, entity and tax specific documents. Waiving of tax, penalties and interest is subject to policy notes and rules detailed in manuals and any waiving has to be reported to the Auditor-General, the Minister of Finance and the National Assembly.	Scores are comparable. There is no change in score
(ii)	Taxpayer access to information on tax liabilities and administrative procedures	A	A	For all major taxes SARS provides education and support to taxpayers and has made it a priority to provide information that is as accessible and clear as possible. The website contains a set of useful regulations, documentations, guides and tools. A help desk and call centres during the filing period are also in place to respond to public demand for information. SARS also makes use of all available mass communication means such as print media, radio and television, text messaging and mobile offices. All new legislations and regulations are subject to a wide consultative process.	Scores are comparable. There is no change in score
(iii)	Existence and functioning of a tax appeals mechanism	A	A	For all major taxes SARS applies an administrative appeal mechanism referred to as the Alternative Dispute Resolution process. Clear policies and rules have been developed. A guide on the appeal system has been published by SARS and data available demonstrates that	Scores are comparable. There is no change in score

No.	Indicator	Score 2008	Score 2014	Justification for 2014 score	Comparability of scores and explanation of change since 2008 assessment
				the system is operational and that appeals receive due attention.	
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	A	A		Scores are comparable. There is no change in score
(i)	Controls in taxpayer registration system	A	A	Taxpayers are registered in databases for income tax, VAT that have direct links with each other and with the Registrar of Companies and through the inclusion of bank accounts with the Financial Sector. The Customs database is linked to the Income Tax through VAT.	Scores are comparable. There is no change in score
(ii)	Effectiveness of penalties for non-compliance with registration and declaration obligations	A	A	Penalties for all major taxes are set high enough to deter against non-compliance with registration and filing. In addition SARS is empowered to bond the businesses revenues and bank accounts to cover any unpaid tax liabilities.	Scores are comparable. There is no change in score
(iii)	Planning and monitoring of tax audit and fraud investigation programs	A	A	Tax audit and fraud investigation are based upon clear risks assessment criteria undertaken independently by the Business Intelligence. Audits are carried by the Audit Unit on the basis of cases prepared by the Business Intelligence. Reports are used to provide feedback from audits to risks assessment and for fraud investigation. The Customs post clearance inspections and audits are also selected independently by the Business Intelligence.	Scores are comparable. There is no change in score
PI-15	Effectiveness in collection of tax payments	D+	D+		Scores are comparable. There is no change in score
(i)	Collection ratio for gross tax arrears, being percentage of tax arrears at the	D	D	Although the collection of current debt is strong and well managed, historical debt is significant and not reduced. The	Scores are comparable. There is no change in score

No.	Indicator	Score 2008	Score 2014	Justification for 2014 score	Comparability of scores and explanation of change since 2008 assessment
	beginning of a fiscal year, which was collected during that fiscal year			total debt stock stands at 10% of revenue collection in 2012 and the collection ratio is about 33% in the last two years.	
(ii)	Effectiveness of transfer of tax collections to the Treasury by the revenue administration	A	A	SARS operates a very efficient collection system that enables an effective transfer of tax collection to the Treasury Single Account daily.	Scores are comparable. There is no change in score
(iii)	Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	A	A	Reconciliations between tax assessment and collections and between collections and receipts by the Treasury are done daily. Reporting is done monthly per PFMA Section 32 within 30 days of the close of the month.	Scores are comparable. There is no change in score
PI-16	Predictability in the availability of funds for commitment of expenditures	A	A		Scores are comparable. There is no change in score
(i)	Extent to which cash flows are forecast and monitored	A	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	Scores are comparable. There is no change in score
(ii)	Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	A	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.	Scores are comparable. There is no change in score
(iii)	Frequency and transparency of adjustment to budget allocations, which are decided above the management of	A	A	Departmental budget reallocations across divisions within the same vote are allowed up to 8% of the original approved budget allocation. The Finance Minister, in	Scores are comparable. There is no change in score

No.	Indicator	Score 2008	Score 2014	Justification for 2014 score	Comparability of scores and explanation of change since 2008 assessment
	Line Ministries			practice submits once a year a supplementary budget to parliament as and when required which is backed by Section 30 of the Public Finance Management Act 1999. There was no supplementary budget within the assessment period spanning 2010/11 to 2012/13.	
PI-17	Recording and management of cash balances, debt and guarantees	A	A		Scores are comparable. There is no change in score
(i)	Quality of debt data recording and reporting	A	A	The National Treasury compiles a comprehensive national debt (both foreign and domestic) using the ARABAS, which is capable of providing daily updates. Further, the Treasury prepares and publishes a monthly statement on government debt within a week after the end of previous month. The South African Reserve Bank also publishes quarterly bulletin on government borrowings and data on the financial market.	Scores are comparable. There is no change in score
(ii)	Extent of consolidation of the Government's cash balances	B	B	The NRF and RDP fund are reconciled daily, giving the National Treasury the total cash position in real time. There are other donor accounts used for funding programs and projects initiated through government departments that remain outside this arrangement	Scores are comparable. There is no change in score
(iii)	Systems for contracting loans and issuance of guarantees	A	A	The Minister of Finance is the sole authority for contracting central government loans and issuing guarantees. Debt ceilings are set in the medium term against fiscal target.	Scores are comparable. There is no change in score
PI-18	Effectiveness of payroll controls	A	A		Scores are comparable. There is no change in score
(i)	Degree of integration and reconciliation	A	A	The personnel and payroll software, PERSAL links the post	Scores are comparable. There is no change in score

No.	Indicator	Score 2008	Score 2014	Justification for 2014 score	Comparability of scores and explanation of change since 2008 assessment
	between personnel records and payroll data			database to the personnel and payroll databases. This provides efficiency in data consistency and monthly reconciliation process	
(ii)	Timeliness of changes to personnel records and the payroll	A	A	Changes to personnel and payroll databases are effected within one month and retroactive salary adjustments, which are very rare, are done within the next month pay period	Scores are comparable. There is no change in score
(iii)	Internal controls of changes to personnel records and the payroll	A	A	PERSAL has an in-built audit trail, which ensures authorised access to staff are properly monitored and tracked.	Scores are comparable. There is no change in score
(iv)	Existence of payroll audits to identify control weaknesses and /or ghost workers	A	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, which are signed off and reported by the head of each unit within departments before salaries are paid	Scores are comparable. There is no change in score
PI-19	Competition, value for money and controls in procurement	D+	D		Scores are not comparable due to change in methodology
(i)	Transparency, comprehensiveness and competition in the legal and regulatory framework	n/a	C	3 out of 6 requirements have been met.	Scores are not comparable due to change in methodology
(ii)	Use of competitive procurement methods	n/a	D	There is no reliable data on use of non-competitive methods.	Scores are not comparable due to change in methodology
(iii)	Public access to complete, reliable and timely procurement information	n/a	D	The government does not make key procurement information available to the public. The absence of key	Scores are not comparable due to change in methodology

No.	Indicator	Score 2008	Score 2014	Justification for 2014 score	Comparability of scores and explanation of change since 2008 assessment
				information include procurement plans, bidding opportunities, contract awards, and resolution of procurement complaints.	
(iv)	Existence of an independent administrative procurement complaints system	n/a	D	There exists an administrative complaint body in each department, but the complaint system does not meet criteria (i), (ii) and one of the other five criteria.	Scores are not comparable due to change in methodology
PI-20	Effectiveness of internal controls for non-salary expenditure	C+	C+		Scores are comparable. There is no change in overall score
(i)	Effectiveness of expenditure commitment controls	A	A	BAS has in-built expenditure commitment control mechanisms. An additional functionality known as 'cash blocking' has been operationalised as part of the existing 'budget blocking' functionality.	Scores are comparable. There is no change in score
(ii)	Comprehensiveness, relevance and understanding of other internal control rules/ procedures	A	B	Internal controls are comprehensive and clearly spelt out in the PFMA, Treasury Regulations and other accounting and internal control manuals. However, their comprehension have been declining sturdily leading to concerns over quality of financial information, due to the fast pace of reforms and complexity, as well as new entrants who might lack the requisite capability.	Scores are comparable. There is a slippage in this score due to the understanding of rules and procedures. The fast pace of reforms, high staff turnover and reduction in staff discipline accounted for the decline
(iii)	Degree of compliance with rules for processing and recording transactions	C	C	There are important concerns over the level of compliance with rules and procedures even though there is general compliance in majority of transactions.	Scores are comparable. There is no change in score
PI-21	Effectiveness of internal audit	A	C+		Scores are comparable. There is a slippage in overall score due to a drop in dimensions (ii) and (iii)
(i)	Coverage and quality of the internal audit	A	A	More than 50% of internal audit staff time focuses on	Scores are comparable. There is no change in score

No.	Indicator	Score 2008	Score 2014	Justification for 2014 score	Comparability of scores and explanation of change since 2008 assessment
	function			systemic issues such as IT audit. All central government departments have functional internal audit units with qualified professionals. Internal audit manuals and procedures meet Institute of Internal Audit (IIA) standards.	
(ii)	Frequency and distribution of reports	A	C	Each internal audit unit within departments prepare quarterly internal audit reports within 15 days after the expiration of the quarter. Copies of these reports are sent to the Auditor-General and/or his representative and the management of the auditee. The National Treasury does not receive copies of the internal audit reports.	Scores are comparable. There is a slippage in score. Internal audit reports are not submitted to the National Treasury
(iii)	Extent of management response to internal audit findings	A	B	Management response to audit findings is slow. Not all managers respond to queries raised in these reports, which has affected the quality of financial data.	Scores are comparable. There is a slippage in score.
C(iii)	Accounting, Recording and Reporting				
PI-22	Timeliness and regularity of accounts reconciliation	B+	B+		Scores are comparable. There is no change in score
(i)	Regularity of Bank reconciliations	B	B	All bank accounts managed by the Treasury are reconciled daily; by the first week of the following month, the National Treasury publishes government net cash position. Public entities' bank balances, as part of central government, are not included in the reconciliation process.	Scores are comparable. There is no change in score
(ii)	Regularity of reconciliation and clearance of suspense accounts and advances	A	A	Cash advance to staff are acquitted monthly. Suspense accounts are reconciled each month. At the end of the financial year, all departmental suspense accounts are reconciled 30 days after the end of the fiscal year to allow	Scores are comparable. There is no change in score

No.	Indicator	Score 2008	Score 2014	Justification for 2014 score	Comparability of scores and explanation of change since 2008 assessment
				for preparation of annual financial statements, even though there are few un-reconciled balances.	
PI-23	Availability of information on resources received by service delivery units	A	A	The budget software and the BAS application provide information detailed by the chart of account, of primary schools and clinics. Quarterly and annual financial reports are prepared and consolidated by the Accountant General - known as "Provincial Budgets and Expenditure Reports" and reported to Parliament.	Scores are comparable. There is no change in score
PI-24	Quality and timeliness of in-year budget reports	C+	C+		Scores are comparable. There is no change in overall score
(i)	Scope of reports in terms of coverage and compatibility with budget estimates	C	C	In-year budget execution reports are prepared which follow the standardised reporting format approved by the National Treasury and compatible with budget estimates that allow for easy budget analysis; however, the reports capture expenditure only at the payment stage but not at the commitment level	Scores are comparable. There is no change in score
(ii)	Timeliness of the issue of reports	A	A	In-year budget reports are prepared and gazetted timely within 15 days after the close of the month for monthly departmental reports and within 30 days for monthly national consolidated reports. Provincial quarterly reports are also prepared within 30 days after the expiration of the quarter	Scores are comparable. There is no change in score
(iii)	Quality of information	A	B	Concerns have been raised by the Auditor General with regards to quality of financial information which are highlighted; they do not compromise the general usefulness	Scores are comparable. There is a slippage in score due to concerns on data accuracy

No.	Indicator	Score 2008	Score 2014	Justification for 2014 score	Comparability of scores and explanation of change since 2008 assessment
				of the financial information	
PI-25	Quality and timeliness of annual financial statements	A	A		
(i)	Completeness of the financial statements	A	A	The annual Consolidated Financial Statements include full information on revenue, expenditure, financial assets, and liabilities	Scores are comparable. There is no change in score
(ii)	Timeliness of submission of the financial statements	A	A	Consolidated Financial Statements are submitted to the Auditor General within 5 months of the end of the fiscal year	Scores are comparable. There is no change in score
(iii)	Accounting standards used	A	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.	Scores are comparable. There is no change in score
C(iv)	External Scrutiny and Audit				
PI-26	Scope, nature and follow-up of external audit	B+	B+		Scores are comparable. There is no change in overall score; however, there is an improvement in dimension (ii)
(i)	Scope/nature of audit performed (incl. adherence to auditing standards)	A	A	All mandated entities are audited annually, covering revenue, expenditure, assets and liabilities. Financial and performance audits are integrated. Financial and compliance audits follow international standards, and focus on systemic issues.	Scores are comparable. There is no change in score
(ii)	Timeliness of submission of audit reports to the legislature	B	A	A consolidated audit report is submitted to the National Assembly by 30 September each year, six weeks after the consolidated financial report is provided to the Auditor General.	Scores are comparable. There is an improvement

No.	Indicator	Score 2008	Score 2014	Justification for 2014 score	Comparability of scores and explanation of change since 2008 assessment
(iii)	Evidence of follow-up on audit recommendations	B	B	A formal response is made in a timely manner, but the corrective measures are not systematic or timely.	Scores are comparable. There is no change in score
PI-27	Legislative scrutiny of the annual budget law	A	A		Scores are comparable. There is no change in score
(i)	Scope of the legislature's scrutiny	A	A	The legislative review covers the details of revenue and expenditure estimates, a medium term expenditure framework, a medium term sector and fiscal policies including the impact of the changes in the new tax policy proposals.	Scores are comparable. There is no change in score
(ii)	Extent to which the legislature's procedures are well established and respected	A	A	The legislature's powers are enshrined in the Constitution and in the PFMA. The House rules govern a number of Budget Committees and are adhered to. Rules are generally clear and accessible.	Scores are comparable. There is no change in score
(iii)	Adequacy of time for the legislature to provide a response to budget proposals (time allowed in practice for all stages combined)	A	A	The Legislature is involved both at the beginning and at the end of the budget preparation. The combined time that the legislature has to review the budget documentation is five months.	Scores are comparable. There is no change in score
(iv)	Rules for in-year amendments to the budget without ex-ante approval by the legislature	A	A	Clear rules exist for in-year amendments without ex-ante approval. Excessive virements and expenditure over budget ceiling require the approval of the National Assembly of an Adjustment Budget.	Scores are comparable. There is no change in score
PI-28	Legislative scrutiny of external audit reports	B+	B+		Scores are comparable. There is no change in overall score even though there is slippage in dimension (i)

No.	Indicator	Score 2008	Score 2014	Justification for 2014 score	Comparability of scores and explanation of change since 2008 assessment
(i)	Timeliness of examination of audit reports by legislature (for reports received within the last three years)	A	B	It takes five months for SCOPA to review audit reports and present final report to the plenary for adoption	Scores are comparable. There is a slippage
(ii)	Extent of hearings on key findings undertaken by legislature	A	A	SCOPA invites all accounting officers and political heads of departments with adverse audit findings during hearing. Depending on the nature of audit findings, public hearings are conducted.	Scores are comparable. There is no change in score
(iii)	Issuance of recommended actions by the legislature and implementation by the executive	B	B	SCOPA issues recommendations, which are adopted by the plenary for executive action. Not all recommendations are implemented according to evidence available. Some of these recommendations require couple of years to implement	Scores are comparable. There is no change in score
D.	DONOR PRACTICES				
D-1	Predictability of Direct Budget Support	D	A		Scores are comparable. There is an improvement in overall score due to improvement in dimensions (i) and (ii)
(i)	Annual deviation of actual BS from the forecasts provided by the donor agencies at least 6 weeks prior to the government submitting its budget proposals to the legislature	D	A	Annual deviation of actual disbursements were more than 3.2% and 3.9% for two of the three years. The Financing Agreements were signed more than two months before the Estimates of National Expenditure were submitted to the National Assembly	Scores are comparable. There is an improvement in score.
(ii)	In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)	D	A	Quarterly disbursement schedules have been agreed with the National Treasury and the actual weighted disbursement delays were 181% in 2010/11, nil in 2011/12 and nil in 2012/13.	Scores are comparable. There is an improvement
D-2	Financial information provided by donors	D	D+		Scores are comparable. There is improvement in score.

No.	Indicator	Score 2008	Score 2014	Justification for 2014 score	Comparability of scores and explanation of change since 2008 assessment
	for budgeting and reporting on project and program aid				
(i)	Completeness and timeliness of budget estimates by donors for project support	D	C	Most donors representing about 60% of the five largest provide complete financial information in a timely manner to the government during the preparation of Estimates of National Expenditure.	Scores are comparable. There is improvement in score.
(ii)	Frequency and coverage of reporting by donors on actual donor flows for project support	D	D	Most donors do not provide quarterly financial reports on project and program aid on actual disbursements to the government.	Scores are comparable. There is no change in score.
D-3	Overall proportion of aid funds to central government that are managed through national procedures	D	D	More than 69% of donor funds did not use national procedures. Less than a third of such funds were routed through the RDP account.	Scores are comparable. There is no change in score.

Annex 2: List of Documents Consulted

Legal and regulatory framework

- The 1996 Constitution
- The Public Finance Management Act in 2000 (PFMA)
- Local Government: Municipal Finance Management Act (Act 56 of 2003) (MFMA).
- The Local Government: Municipal Systems Act (Act 32 of 2000) and the Municipal Systems Amendment Act (Act 44 of 2003)
- The Preferential Procurement Policy Framework Act (Act 5 of 2000) and Preferential Procurement Regulations, 2011
- Broad Based Black Economic Empowerment Act (Act 53 of 2003) and the Broad-Based Black Economic Empowerment Amendment Act (No 46 of 2013), as well as the new Broad-Based Black Economic Empowerment Codes of Good Practice
- Division of Revenue Act (DoRA), 2011, 2012, 2013
- Appropriation Acts 2011, 2012, 2013
- Financial Management of Parliament Act (Act 10 of 2009)
- The Money Bills Amendment Procedure and Related Matters Act (Act 9 of 2009)
- Intergovernmental Relations Framework Act (Act 13 of 2005)
- Public Audit Act (Act 25 of 2004)
- Customs and VAT laws
- Public Service Act 1994
- Public Service Amendment Act No. 30 of 2007
- Public Service Commission Act 47of 1997

Budget documents

- Budget Reviews, Budget Speeches, MTBPS, Estimates of National Expenditures for FY 2010/11, 2011/12, 2012/13.
- Budget Planning and Preparation Guidelines
- History on Budget Reform

Auditor-General annual reports

- Consolidated Audit Report 2012/13
- Auditor-General audit reports on national and provincial governments - 2010/11; 2011/12; 2012/13

Accountant General Reports

- National Treasury Annual Reports 2010/11, 2011/12, 2012/13
- National Treasury Consolidated Financial Statements 2010/11, 2011/12, 2012/13
- Reconstruction and Development Programme Fund Report 2012/13

South African Revenue Service (SARS)

- Tax Statistics and Tax Statistics Highlights for 2011, 2012, 2013
- SARS Compliance Programme, 2012/13-2016/17
- SARS Annual Performance Plans, 2010/11, 2011/12, 2012/13
- SARS Strategic Plan, 2014-2018/19

National Assembly

- Standing order

Other official documents

- IMF Article IV for South Africa - October 2013
- Annual financial statements - 2010/11; 2011/12; 2012/13
- Monthly in-year budget execution reports - 2010/11; 2011/12; 2012/13
- Statements of National Revenue, Expenditure and National Borrowing
- Statements on Loans, Extraordinary Payments & Receipts and Cash Balances
- Accounting manual - guide for accounting officers
- Treasury Regulations
- Standard Chart of Accounts (SCOA)
- Debt Sustainability Analysis
- Departmental Reporting Framework Guidelines
- Guide on in-year management and performance reporting
- Internal risk rating methodology
- Treasury Internal Audit Framework - revised 2009
- FMIP II & FMIP III; Final reports and progress reports
- Reporting framework guidelines - Report of Audit Committees
- Department of Basic Education Strategic Plan 2010/11
- Department of Basic Education Annual Performance Plan 2011/12
- South African Reserve Bank quarterly bulletin 2012/13
- Provincial quarterly financial reports 2012/13
- Department of Public Enterprises Annual Report 2012/13
- Status of and demand for internal auditing in South Africa - National Government Departments: 2014
- National Treasury Practice Note No. 8 of 2007/08 - Supply Chain Management, Threshold Values for Procurement

Annex 3: List of Stakeholders Interviewed

Name	Organisation	Position	Email	Telephone
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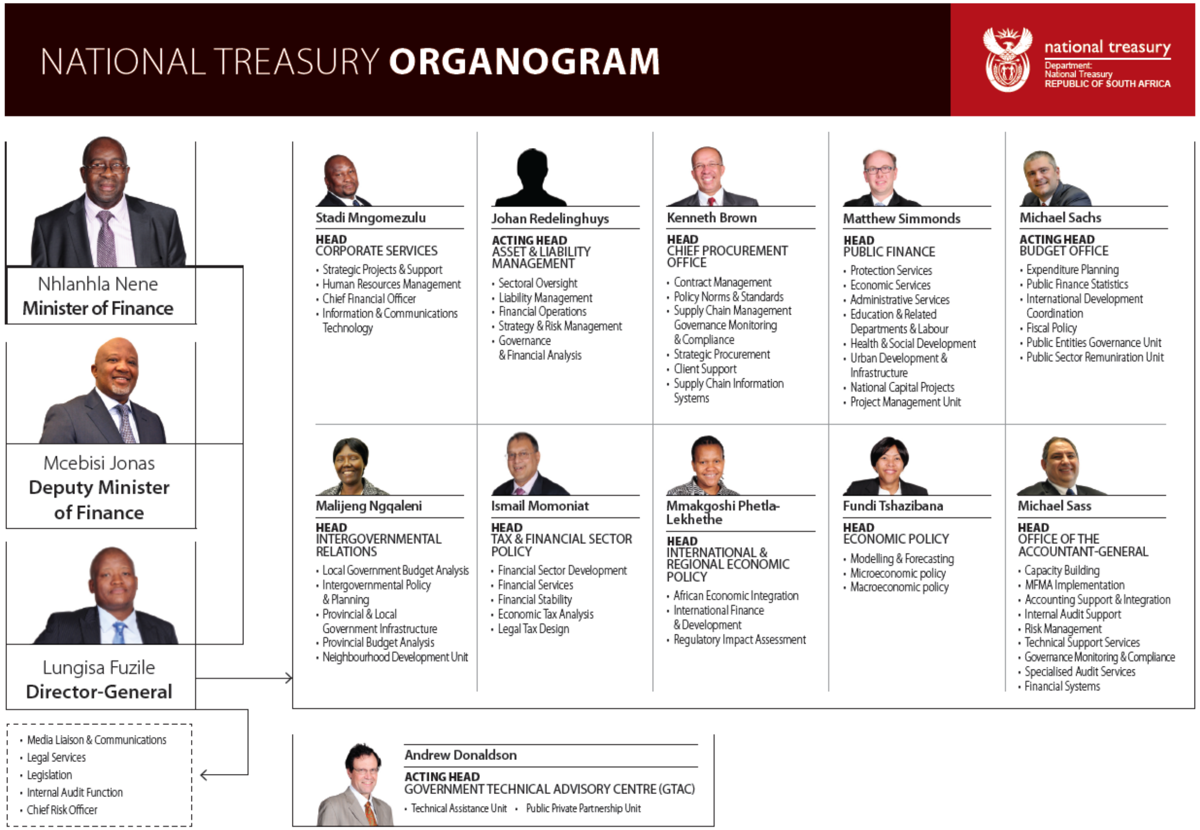
Annex 4: Management Structure of SA National Treasury



Annex 5: Data used for scoring PI-1 and PI-2

Calculation Sheet for PFM Performance Indicators PI-1 and PI-2 (as revised January 2011)

Table 1 - Fiscal years for assessment

Year 1 =	2010/11
Year 2 =	2011/12
Year 3 =	2012/13

figures in millions of rands

Table 2

Data for year =	**2010/11**					
administrative head	**budget**	**actual**	adjusted budget	deviation	absolute deviation	percent
3 Cooperative Government and Traditional Affairs	41,097	41,821	40,993	828	828	2.0%
4 Home Affairs	5,720	6,620	5,705	915	915	16.0%
5 International relations and Cooperation	4,824	4,417	4,812	-395	395	8.2%
7 Public Works	6,446	6,615	6,430	185	185	2.9%
10 National Treasury	38,715	38,226	38,618	-391	391	1.0%
15 Basic Education	10,919	8,678	10,891	-2,213	2,213	20.3%
16 Health	22,968	22,520	22,910	-390	390	1.7%
17 Higher Education and Training	23,721	23,752	23,661	92	92	0.4%
19 Social Development	95,929	94,031	95,687	-1,656	1,656	1.7%
21 Correctional Services	15,129	14,699	15,091	-392	392	2.6%
22 Defence and Military Veterans	30,715	30,442	30,638	-195	195	0.6%
24 Justice and Constitutional Development	10,251	10,587	10,225	362	362	3.5%
25 Police	52,556	53,530	52,424	1,106	1,106	2.1%
29 Energy	5,535	5,505	5,521	-16	16	0.3%
31 Human Settlements	19,216	18,917	19,167	-251	251	1.3%
33 Rural Development and Land Reform	6,770	7,123	6,752	370	370	5.5%
36 Trade and Industry	6,150	5,797	6,135	-338	338	5.5%
37 Transport	30,178	29,155	30,102	-947	947	3.1%
38 Water Affairs	7,997	7,024	7,976	-953	953	11.9%
Provincial equitable share	260,974	265,139	260,314	4,825	4,825	1.9%
Sum of rest	44,976	44,315	44,863	-548	548	1.2%
Allocated expenditure	740,785	738,914	738,914	0	17,367	
Contingency	6,000	0				
Total expenditure	746,785	738,914				
overall (PI-1) variance						1.1%
composition (PI-2) variance						2.4%
contingency share of budget						0.0%

Table 3						
Data for year =	**2011/12**					
administrative head	**budget**	**actual**	adjusted budget	deviation	absolute deviation	percent
3 Cooperative Government and Traditional Affairs	47,934	46,222	48,159	-1,938	1,938	4.0%
4 Home Affairs	5,464	5,753	5,490	263	263	4.8%
5 International relations and Cooperation	4,797	5,022	4,819	202	202	4.2%
7 Public Works	7,819	7,061	7,856	-795	795	10.1%
10 National Treasury	22,598	21,362	22,705	-1,343	1,343	5.9%
15 Basic Education	13,868	12,901	13,933	-1,033	1,033	7.4%
16 Health	25,732	25,713	25,853	-140	140	0.5%
17 Higher Education and Training	28,229	28,282	28,362	-80	80	0.3%
19 Social Development	104,733	103,139	105,226	-2,087	2,087	2.0%
21 Correctional Services	16,559	16,277	16,637	-360	360	2.2%
22 Defence and Military Veterans	34,605	34,331	34,768	-437	437	1.3%
24 Justice and Constitutional Development	11,414	11,470	11,467	3	3	0.0%
25 Police	58,062	57,933	58,335	-402	402	0.7%
29 Energy	6,090	6,174	6,119	56	56	0.9%
31 Human Settlements	22,579	22,599	22,685	-86	86	0.4%
33 Rural Development and Land Reform	8,124	7,998	8,162	-165	165	2.0%
36 Trade and Industry	6,787	6,801	6,819	-18	18	0.3%
37 Transport	35,084	41,197	35,249	5,947	5,947	16.9%
38 Water Affairs	9,936	8,165	9,983	-1,818	1,818	18.2%
Prov share	288,493	291,736	289,852	1,883	1,883	0.6%
Sum of rest	49,350	51,929	49,583	2,346	2,346	4.7%
allocated expenditure	808,255	812,063	812,063	0	21,401	
contingency	4,090	0				
total expenditure	812,345	812,063				
overall (PI-1) variance						0.0%
composition (PI-2) variance						2.6%
contingency share of budget						0.0%

Table 4						
Data for year =	**2012/13**					
administrative head	**budget**	**actual**	adjusted budget	deviation	absolute deviation	percent
3 Cooperative Government and Traditional Affairs	54,716	53,434	54,659	-1,224	1,224	2.2%
4 Home Affairs	5,296	5,514	5,290	223	223	4.2%
7 Public Works	7,994	7,204	7,986	-782	782	9.8%
10 National Treasury	21,551	21,019	21,528	-509	509	2.4%
15 Basic Education	16,344	14,886	16,327	-1,441	1,441	8.8%
16 Health	27,557	27,899	27,528	371	371	1.3%
17 Higher Education and Training	31,500	31,582	31,467	115	115	0.4%
19 Social Development	112,217	111,116	112,100	-984	984	0.9%
21 Correctional Services	17,732	17,314	17,713	-400	400	2.3%
22 Defence and Military Veterans	37,493	37,702	37,454	248	248	0.7%
24 Justice and Constitutional Development	13,080	12,911	13,066	-155	155	1.2%
25 Police	62,485	63,157	62,420	737	737	1.2%
26 Agriculture, Forestry and F	5,799	5,813	5,793	20	20	0.3%
29 Energy	6,806	6,659	6,799	-140	140	2.1%
31 Human Settlements	25,263	24,463	25,237	-773	773	3.1%
Land Reform	8,878	8,920	8,869	51	51	0.6%
36 Trade and Industry	9,092	8,286	9,083	-796	796	8.8%
37 Transport	38,829	39,328	38,788	540	540	1.4%
38 Water Affairs	8,813	8,642	8,804	-162	162	1.8%
Sum of rest	53,695	54,420	53,639	781	781	1.5%
Provincial equitable share	309,057	313,016	308,734	4,282	4,282	1.4%
allocated expenditure	874,197	873,284	873,284	0	14,735	
contingency	5,780	0				
total expenditure	879,977	873,284				
overall (PI-1) variance						0.8%
composition (PI-2) variance						1.7%
contingency share of budget						0.0%

Table 5 - Results Matrix

year	for PI-1 total exp. deviation	for PI-2 (i) composition variance	for PI-2 (ii) contingency share
2010/11	1.1%	2.4%	
2011/12	0.0%	2.6%	0.0%
2012/13	0.8%	1.7%	

Score for indicator PI-1:	**A**
Score for indicator PI-2 (i)	**A**
Score for indicator PI-2 (ii)	**A**
Overall Score for indicator PI-2	**A**

Sources: Budget data from National Budget Review each year, Statistical Table 4. Actual data from Estimates of National Expenditure each year Table 3.

Annex 6: Comments received and addressed by the AT

Page number	I (A). Comments from Government	Response by Assessment Team
General	• Overall the report is not consistently aligned or justified to both left and right margins. The line spacing in not consistent too. • Need for consistency in the use of either "Treasury" or "National Treasury". • If possible ensure that all abbreviations and/or acronyms used in the text are described/ defined. E.g. ARABAS and PPPFA (pg9); PFR (pg7) • The correct details of officials interviewed must be amended as per communication sent on 22/08/14, and updated for those interviewed after the 13/08/14. • Adaptation of the framework to the local context: After analysing the report and attending the PEFA Workshop, it becomes clear that the assigned scorings often fail to capture the particular characteristics of the country's budget processes. Such failure derives from the maladaptation of the framework guidelines to the local context and budget procedures of the country. In the particular case of South Africa, the discussion around PI-11, namely on dimension iii, suggests a scoring ("D") that does not reflect the existence of the specific legal provisions and internal mechanisms which allow for continuous government spending. Indeed, the apparent 'delay' of the budgeting process is actually beneficial for South Africa's PFM performance, by ensuring both broad consultation and functionality of the budget process • The word "insignificant" (with reference to the size of ODA as a proportion of government budget) in the report is used as though ODA/ aid is not important for RSA. In SA, the quality of ODA and its ability to spearhead new and more effective approaches for enhancing service delivery is thus considered much more important than the mere quantity of ODA. Hence, ODA must not be used as a 'gap-filler' merely replacing South African finance.	CA & Ecorys (consulting firms) to apply consistent formatting. Left aligned is easier to read and is preferred. Corrected Corrected Done The PEFA framework is globally standardised and cannot be adapted to individual governments. Failure to apply the principle of annuality results in mixing of planning and approval phases with execution phase. If new projects can be started before Parliament has approved the new budget containing them, as is claimed, there is a failure to apply separation of powers and the Parliament is losing its supremacy over finance. The international standard reflected in the PEFA framework is to complete budget approval before the FY starts. Clarification added in text.

	Therefore, despite its size relative to the government budget, it would also be important if the report can reflect the strategic nature of how ODA/ aid is used in SA (Added-Value Approach): o Innovation: developing new & more effective approaches; o Piloting and testing: pioneering new approaches for replication purposes; o Risk Mitigation: Creating an enabling environment thereby attracting investment o Catalytic initiatives/best practices: unlocking domestic resources; and activate potentials o Skills-transfer and Address Capacity Gaps: ensuring that South African institutional capacity is enhanced for sustained, long term implementation	
	• There have been repeated requests to include country comparisons within the analysis. This was also discussed at the internal NT workshop on 8/08/2014 and the stakeholder workshop on 15/08/2014. It is unclear if the Pefa methodology would object to this analysis being included within the Report. If not, can this be included?	Country comparisons are not part of the PEFA methodology nor were they within the TOR. Though interesting, they involve far higher workload, and their usefulness in the unique context of SA rather doubtful.
	• Revision of the PEFA Framework: It was mentioned during the workshop that the PEFA Secretariat is preparing the revision of the PEFA Framework. Apparently, there is a proposal to take out indicators D-1, D-2, and D-3 (the indicators assessing Donors).. However, in countries where Donors' funds are substantial, the removal of the above mentioned indicators would reduce the ability of the PEFA's Assessment to analyse the impact of Donors' budgetary practices in the country's systems. In the case of SA, it is quite important that donor practices are tracked, so we would not want it excluded.	Agreed, though outside the scope of the Assessment Team.

Page 5	• We refer to it as OAG: Office of the Accountant General (not AccG) • BBBEEA : Broad Based Black Economic Empowerment Act	Amended
Page 7;	• "The global economic recession did not affect the revenue forecast". This is not necessarily correct. Maybe the effect could have been insignificant or less pronounced. It could also be said that the forecast remained credible as it was able to take into account of external shocks such as the global economic recession, thus this does not mean it was not affected. • "Stock of expenditure arrears …… this was possible". Hope this would be revised accordingly upon receipt of the supporting documentation/ information. • • General budget support and sector budget support remains insignificant in comparison to government budget (below 1% of total government expenditure). Please incorporate with the changes underlined, and consider not using the word insignificant. • "The focus on predictability of donor funds however is the effective dialogue between government and donors relating to improvement in PFM systems and procedures." This does not sound correct; consider revising and/or be clear on what is being stated. Is predictability dependent on dialogue? And further, is dialogue only confined to PFM?	Amended Revised text substituted at PI-4 and Summary Assessment amended. Rating is now B+ (A, B)please delete the insertion on page 11(clean version) on Public entities stock arrears being high as we do not have evidence of that P. 11 says the arrears of public entities could be high (as current liabilities are very much higher than for the departments). This statement is correct. Clarified Clarified

Page 8;	• "Officials say total PPP exposure stood at R6 billion…." This must be revised to "Officials stated that total PPP exposure stood at R6 billion…" • "Rule-based horizontal allocations are used for both block grants and conditional grants to provinces and municipalities." This must be revised to "Formula based allocations are used for block grants and conditional grants are for selected institutions to provinces and municipalities." • "About 69% of donor funds are (below 1% of total government expenditure budget) expensed….." Delete the highlighted area as it is repeated several times. See the last paragraph of pg7. • "….arising from public enterprises, non-commercial public entities and provinces and municipalities". Public Entities are made of both the financial and Non-commercial; remove the term "non-commercial". • "There is also sufficient time for Departments to re-programme approved bids (up and above the base line) after the approval by cabinet of the bid allocations." We don't have budget bids at this stage as cabinet has approved the budget; this must be revised to "There is also sufficient time for Departments to revise their budgets in line with cabinet approved allocations (over and above the budget base line where appropriate)."	Corrected Not clear who are the selected institutions. The draft appears to be clear. It was requested that this be changed to Formula based as the equitable share is calculated based on statistics of each province and municipality, moreover the conditional grants is only for selected municipalities/provinces for example a sanitation grant will be for rural municipality without proper facilities hence the comment had selected institutions. Rule-based is the PEFA terminology. Formula based Is equivalent. See comment above. Repetition deleted Public enterprises and non-commercial public entities are sub-categories of 'public entities'. Need to list them separately and explicitly as both are subject to risk monitoring. No change. Corrected
Page 9;	"The previous Medium Term Expenditure Framework (MTEF) allocations serve as firm budget allocation guidelines but may be subject to usually relatively minor adjustments through a bid process up and above these allocation guidelines. The bid allocations are approved by Cabinet. Such approval of finalised ceilings allows Departments about a further 4 weeks to incorporate any amendments." This can be revised to: "The previous Medium Term Expenditure Framework (MTEF) approved aggregate budget serve as a	Revised

	budget ceiling for the next MTEF cycle and this together with the fiscal objectives and principles are annually explained in the MTEF guidelines. Departments reprioritise their budgets in line with the aggregate ceiling indicated in their indicative baselines and further revise their baselines after Cabinet approval of national allocations." • "Sector strategies are prepared but are not fully costed to reflect both investment cost and forward linked recurrent expenditure." This can be revised to "The Medium Term Strategic Framework with a five year planning horizon, aligned with the political election cycle, defines the national strategic direction. Most Line Departments prepare Annual Performance Plans and also Sector Strategies (5 year planning horizon) aligned with the national strategic framework (MTSF, in line with the NDP). Even though the sector strategies are prepared, and they are costed to reflect both investment cost and forward linked recurrent expenditure, the details of these are contained at the MDA level. These details are linked tightly to the budgets in the MDA MTEF submissions. It should be noted that the appropriation of funds in South Africa is at the level of MDA. Moreover, sector strategies are reflected in the Annual Performance Plans and Estimates of National Expenditure of departments for the MTEF period."	Amended
	• "…to the Medium Term Fiscal Policy Strategy (MTFPS), and to the National Development Plan (NDP) finalised in 2011." The correct wording is "…to the Medium Term Strategic Framework (MTSF), and the National Development Plan (NDP) finalised in 2011."	Corrected
	• "SARS has built on earlier strengths and the performance indicator ratings remained high, with the exception of the poor performance of tax arrears (PI-15, dimension (i))" This must be revised to "SARS has built on earlier strengths and the performance indicator ratings remained high, with the exception of the poor performance of tax arrears (PI-15, dimension (i). It should be noted that this is regarded a "poor" performance in terms of the way the PEFA indicator is structured, however, the South African legislation provides for a different process of dealing with tax arrears. The South African legislation prohibits the writing-off of arrears of an age-maturity that would normally be written-off in other countries."	Text at PI-15 (i) explains that SA legislation prevents writing off arrears, but notes that it is to be revised. This should improve the rating. No revision required.
	• "Departments are however required to prepare annual performance plans to guide their activities" Not sure how this is relevant here, as this is related to flow of funds not performance. There is an instruction note issued (31 May 2011)' which directs Departments	Not clear.

	to submit procurement plans to the National Treasury but this information is for (internal) planning purposes, therefore it's not published. • The preparation of procurement plans is not a pre-requisite to cash flow preparation and budget release (this statement is not true) There was an instruction note issued (31 May 2011)' which directs Departments to submit procurement plans to the National Treasury however, this information is not required to be made public .The Auditor General does check whether institutions have the procurement plans Most of the elements of PI-19 are covered and the score should be reassessed. • "There is sufficient system and near perfection referencing determination of government cash balances, with ARABAS, which has an interface with the SARB banking framework and provides daily update on government cash position." Delete this.	Amended Deleted
Page 10-11;	• "Officials stated that these represent 15% to 20% of total government personnel". Revise accordingly • "……which have led to the creation of the Office of the Chief Procurement Officer in 2013" Revise accordingly • "Justification for the use of procurement methods other than open competition remains….." Revise accordingly as it does not sound correct. • "….high rate of staff turnover leading to new entrants who might be less qualified(PI-20)". Replace qualified with the word "experienced" as this implies that people were employed without necessary qualifications. • "Internal audit reports were not submitted to the National Treasury". Revise accordingly • "The Treasury has issued directives to all department and public enterprises, beginning 2014/15 fiscal year, to send copies of quarterly internal audit reports and other performance status reports to the National Treasury." This must be revised to "The Treasury has issued directives to all department and public enterprises, beginning 2014/15 fiscal year, to send	Revised Done Comment not clear. Text appears to be correct. Done Not revised, please insert "not". Done Revised Revised

	copies of quarterly reports and other performance status reports to the National Treasury." This is not the internal audit reports; this is the expenditure and revenue quarterly reports instruction note no.2 of 2014/15. The National Treasury does not require internal audit reports be submitted because they are intended for institutional own use, as the Accounting Officer is ultimately responsible for ensuring Departmental issues are addressed. Lastly this is considered the most efficient way to promote fair internal audit processes without any undue influence.	
	• "Annual financial statements are prepared by each department and consolidated by the National Treasury in a timely manner and submitted to the Auditor-General for annual audit (PI-24)." Note that by the time when Annual Financial Statements are submitted to the National Treasury they have already been audited by the AG.	Text revised to clarify the sequence Thanks for the revision but The Departments are Audited by the Auditor General and then they submit the audited AFS to the National Treasury and to Parliament. Treasury does not submit to AG on behalf of departments. Please revise. Done
	• ".....31% of ODA is routed through the RDP…. and therefore do not use country systems". As initially discussed (under general), it is very much important to be specific/ explicit in terms of which definition of ODA was used in calculating this. Is it based on OECD-DAC or SA ODA definition? This needs to be clarified.	PEFA uses OECD-DAC definition. Text clarified.
	• "The Auditor General's reports now cover both financial, systems and performance audit, and remain timely. The overall score on PI-26 is no better than in 2008, however, because management response to audit reports is not yet timely and systematic." This must be revised to "The Auditor General's reports now cover both financial, systems and performance audit, and remain timely. The overall score on PI-26 is no better than in 2008, because in the Auditors General's view management response to issues raised in the audit reports is not yet timely and systematic. This is mainly due to the nature of issues raised which may in most cases require lengthy process to be resolved".	The draft is based on PFMA 2012/13, p. 56. Re the last sentence, we have not seen any evidence that slow response is due to the lengthy nature of resolution. Normally, a SAI accepts that many irregularities do require systems re-design, capacity building, etc to resolve. Focus is then on management plans for resolution. If these are not timely and credible, the response rate remains low. No change to text.
Page 12-14	• "The chart of accounts and BAS are capable of reporting on resources received by primary schools and clinics". This sentence is isolated. Does not relate to previous sentences.	Text changed to make this the start of a new paragraph on the quality of financial reporting. The sentence refers only to PI-23.

	• "The Provinces are mainly responsible for service delivery by monitoring municipalities. Central government therefore transfers a lot of responsibilities with the matching funds to provinces which ensures shared responsibility between central government and provincial government. This PEFA assessment is at the central government level and only when a provincial PEFA is conducted will strengths and weaknesses be revealed at the sub-national government level." This must be revised to "The Provinces are mainly responsible for service delivery by monitoring municipalities. National government therefore transfers a lot of responsibilities with the matching funds to provinces, which ensures shared responsibility between central government and provincial government. This PEFA assessment is at the national government level. When provincial PEFAs are completed strengths and weaknesses will be revealed	'Central' changed to 'national'
	• "It is our understanding that a number of other provincial PEFAs are currently under way. We are not certain whether these PEFA reports will be made public". Please revise as amended	No provincial PEFAs have been mentioned in the draft, so 'other' provincial assessments is not appropriate.
	• "Even though donor influence in terms of direct budget support is insignificant, its alignment to national strategies will have positive impact in relation to the developmental national agenda; currently, this not the case (D-1, D-2 and D-3)". That's not true, the EU Budget Support evaluation for SA conducted during 2013, looking at the period 2000-2011 found that there has been strong alignment of EU priorities to SA strategic objectives and policy priorities (MTSF), and the Budget support has been designed and implemented with significant flexibility. It is worth noting that the European Commission together with other 10 EU member states signed the SA-EU Country Strategy Paper in 2007 which is the blue print governing the development cooperation between SA and EU, and the priorities of CSP were based on the MTSF 2004-2009 and 2009-2014. See page 11-12 of the Final Evaluation report. http://ec.europa.eu/europeaid/how/evaluation/evaluation_reports/reports/2013/1322_vol1_en.pdf.	Amended
	• p. 13 4th para, last sentence. Replace with this proposed revision "National government's main role is policy development, oversight and resource management and allocations to provincial and municipal spheres for the provision of the required public services".	Amended

	5th para, 2nd sentence: replace with this proposed revision: "The Intergovernmental Fiscal Relations unit within the National Treasury performs the role of coordinating fiscal relations between national, provincial and local government as well as promoting sound provincial and municipal financial planning, reporting and management	Done
Page 15	• "The move towards South Africa's PFM reform strategy continues to premix on an incremental, single, systematic and sequenced reform strategy, emphasising on achieving first, fiscal discipline, followed by efficient service delivery, and finally strategic allocation of resources" This must be revised to "The move towards South Africa's PFM reform strategy continues to premise on an incremental, single, systematic and sequenced reform strategy, emphasising on achieving first, fiscal discipline, followed by effective resource allocation, and finally efficient service delivery"	Agree with the sequence of 'platforms'. Strategic resource allocations ensure that the right things are being done, which logically precedes doing them efficiently. Agreed with response to comment the allocation precedes efficient service delivery therefore allocation part must come before service delivery statement. OK Revised
	• "Better alignment of government policy, planning and budgeting; this has facilitated the adoption of the National Development Plan 2030 in the year 2011" Revise as recommended	OK. The document is a singular noun. Amended
	• "A number of legislative amendments have also been passed. The current Treasury Regulations 2005 is being revised" Revise as recommended	Unit is used to denote an organisational sub-division, which is appropriately capitalised.
Page 16	• "….PFM environment requires the full support of the political class; luckily, South Africa enjoys this backing". Not sure if luck explains the outcome. There has been commitment since 1994 and this has nothing to do with luck. Please can revise the sentence. • "…PFM Implementation Unit demonstrates….." use "unit" and not the capital "Unit"	Amended

	• "The Government established a unit within the National Treasury known as the Government Technical Assistance Centre (GTAC) in 2012 ……… Minister of Finance". The establishment is called, Government Technical Advisory Centre (GTAC), and has been existing prior 2012 formally called TAU – Technical Assistance Unit. Despite its current office/location within the Treasury, the GTAC was established as a government agency and not a unit. GTAC is made of a merger between TAU and other units within Treasury. Further, given its current stage of start-up, we a bit uncomfortable with the numbers of staff and consultants, as not all are permanent and some seconded. We recommend amending the paragraph as follows: "The National Treasury established a government component, called the Government Technical Advisory Centre (GTAC) and it was established in 2013 with the mandate to assist organs of state , including the Centre of Government Departments, in building their capacity for efficient, effective and transparent financial management. The legal framework that established the GTAC allows the GTAC to perform general advisory support upon request from departments or public entities, provide procurement/contract management support for large capital assets, general feasibility studies support and other services as required by the Minister of Finance."	Amended Done
Page 17-18	• Under section 1.2. Include the Oversight Committee (its composition and its role). Refer to the ToR of the assignment to include process and management of the assessment. • Also include stakeholder workshop within the process. Note, the workshop was not an "exit workshop"; it was used to discuss the draft findings with stakeholders.	Revised Revised
Page 21-22	• "The previous MTSF (2009-2014) is based on the ruling African National Congress (ANC)……" Revise as recommended • "At present, the MTEF and Medium Term Strategic Frameworks form….." Revise as recommended • "Other institutions responsible for facilitating the monitoring of PFM activities…." Revise as recommended	Revised Revised Revised

	• "There is an annual government evaluations programme that is tabled in Parliament." Revise as recommended • "Government now realises the importance of policy initiatives that place increasingly greater emphasis on growth and development, as substantial progress has already been made in reversing the inequalities of the previous political dispensation." Revise as recommended	Corrected Revised
Page 23	• Table 2.1: The correct figures for Gross government debt are; o 36.0 for 2010/11 o 39.8 for 2011/12 o 42.7 for 2012/13	Revised
Page 25-26	• "Bill of Rights (See Chapter 2) that provides for public access to information as well as the right to appeal on a Department of State's decision." Revise as recommended • "Each year, parliament passes DORA. This Act divides revenue from central government to provinces and municipalities and across provinces and municipalities" Revise as recommended • "Act, has not yet exercised these powers provided for by the law." Revise as recommended • "Standing Committee on Finance: It is in charge of scrutinising the macro-fiscal framework submitted by the National Treasury on behalf of the Executive……"Standing Committee on Appropriations: It is responsible for reviewing budget estimates from the executive as well as monitoring and reviewing in-year implementation and expenditure of departments. Standing Committee on Public Accounts: It…." Revise with correct names as amended	Revised Titles corrected Revised Revised
Page 27	• "This body runs the government machinery. In the period under review it has 38 departments" Revise as amended • "The Medium Term Expenditure Committee (MTEC): It is responsible for analysing MTEF budget submissions from each department to ensure they are in line with national priorities. It makes recommendations to the Minister's Committee on the Budget for resource	Revised

	allocation." Revise as amended • "The National Treasury: The National Treasury is the pivot of PFM in South Africa. It provides leadership in all matters relating to public finance management as enshrined in the PFMA. It is headed by the Finance Minister who is the chief finance officer of the government." Delete text highlighted in yellow, the Finance Minister is the Head of the Treasury.	Revised Revised
Page 28	• "National Departments: In the period under review, there were 38 national departments headed by political heads appointed by the Executive President" Revise as recommended	
Page 29	• "This has been established and an official seconded to oversee the full operationalization of the office." This must be revised to "This has been established and an official has been appointed to oversee the full operationalization of the office." • "The national government provides oversight for province, while provinces supervise the activities of municipalities." This must be revised to "The national government provides oversight for provinces, while provinces monitor the activities of municipalities; they also deliver on concurrent function such as Education and Health". • "National Expenditure to the National Assembly which is passed into law between June and July to authorise the commitment and payment of expenditure in new fiscal year. The PFM Act allows government to spend a third of the previous year's allocation prior to passing the new Appropriations Act." This must be revised to "National Expenditure to the National Assembly which is passed into law between June and July to authorise the commitment and payment of expenditure in new fiscal year. In terms of the PFM Act of 1999 departments are not allowed to exceed 45 per cent of the total amount appropriated in the previous budget prior to passing the new Appropriations Act."	Revised This is correct, per PFMA sec. 29 (2) b (i). It applies to overall expenditure, not individual votes or programmes. Text revised. The PFMA does not say this. The limit appears to apply to expenditure in total. Revised
Page 30	• Section 29 In terms of the PFM Act of 1999 departments are not allowed to exceed 45% of the total amount appropriated in the previous budget • The national government provides oversight for provinces, while provinces supervise monitors the activities of municipalities; they also deliver on concurrent function such as	Not now required for PEFA.

	Education and Health.	
Page 35	• "Secondly, the arrears of national public entities should be included in the numerator, and ……." The information on entities arrears is not available at this point as they were not required to report on them before but will be reporting in future.	Point noted Change made
Page 37	• The information on entities arrears is not available at this point as they were not required to report on them before but will be reporting in future. But we would appreciate it if we can be rated on PI -4 based on the information available for National Department	Changed
Page 42-43	• "Payments are monthly". Please note that payments are weekly not monthly • "Provincial and municipal annual financial statements are consolidated by the AGO" This must be OAG not AGO	The PFMA Act is not relevant in comparing actual SA practices with international standards.
Page 49	• "In practice approval of the budget occurs three to four months after the start of the fiscal year. For the fiscal years under review, the Appropriations Act was signed into law in June or July". Revise to "In practice approval of the budget occurs three to four months after the start of the fiscal year. This is not viewed as a PFM problem requiring reform, as section 29 of the PFMA provides a legal basis for MDAs to continue spending on their operations in an orderly manner. For the fiscal years under review, the Appropriations Act was signed into law in June or July". • "Pending the General Authorisation Warrant a continuation warrant for up to 33% of the previous year's budget is issued to facilitate on-going expenditure". Revise to "Pending the General Authorisation Warrant a continuation warrant is issued for up to 45% of the previous year's budget to be spent for the first four months of the new financial year; to facilitate on-going expenditure."	Revised Amended
Page 50-51	• "South Africa has adopted a multi-year perspective to its budget ………. sector and cluster expenditures estimates serve as budgetary ceilings in the budget preparation process." This can be revised to "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 Line Departments' Annual Performance Plans and Strategies, in line with	

	the guidance given by the long term country plan, the NDP. The MTEF is based upon three year rolling aggregate forecasts. The forecasts are allocated on the basis of function and sector area, and economic and program classifications. These multi-year estimates are directly linked to the annual budget ceilings and are updated annually on a rolling basis. Forecast function group expenditures estimates serve as budgetary ceilings in the budget preparation process" • "The Medium Term Strategic Framework with a five year planning horizon, aligned with the political election cycle, defines the ………are however underway to fully cost these strategies going forward." This can be revised to "The Medium Term Strategic Framework with a five year planning horizon, aligned with the political election cycle, defines the national strategic direction. Most Line Departments prepare Annual Performance Plans and also Sector Strategies (5 year planning horizon) aligned with the national strategic framework (MTSF, in line with the NDP). Even though the sector strategies are prepared, and they are costed to reflect both investment cost and forward linked recurrent expenditure, the details of these are contained at the MDA level. These details are linked tightly to the budgets in the MDA MTEF submissions. It should be noted that the appropriation of funds in South Africa is at the level of MDA". • "The South Africa Reserve Bank also carries out Debt Sustainability Analysis on an ongoing basis….." This is incorrect; the SARB do not conduct this analysis.	Amended Corrected Revised
Page 61	• "The 2013/2014 number of R82.6 billion contains R8.3 billion in strategic assessments …….. expect that legislation will be amended this financial year to allow for these to be temporarily written off, i.e. treated as doubtful debts." This can be revised to "The 2013/2014 number of R82.6 billion contains R8.3 billion in strategic assessments which have been raised against aggressive tax structures over the last two years and which are uncollectable. It is not possible to write them off as currently in law they are under dispute. We expect that legislation will be amended this financial year to allow for these to be temporarily written off, i.e. treated as doubtful debts."	Corrected Revised
Page 64	• "Reporting is done monthly in terms of Section 32 of the PFMA within 10 days after the end	

	of the month". Note that it is within 30 days and not 10.	
Page 67	• "Following the passing of the Appropriations Act by parliament, each Department prepares and submits an annual cash flow statement to the National Treasury." This can be revised to "Following the tabling of the Budget, each Department prepares and submits an annual cash flow statement to the National Treasury" • "The effectiveness of the Treasury Single Account operated by the National Treasury and managed by the South African Reserve Bank, ………………and International Development Cooperation Divisions respectively of the National Treasury, each month". This paragraph can be revised with the following "The effectiveness of the Tax and Loan Accounts operated by the National Treasury and managed by the four commercial banks, allows the Treasury to know at first hand on real time the cash position of the government at any time. This information is available due to the timely depositing of tax revenue inflows from the SARS and loan receipts". • "This was corroborated by the Budget Office; it turns out that only 4 out of about 40 departments - representing 1% requested for budget virement once a year over the assessment period". It seems that there might be confusion between virements and drawings, BO mentioned that 4 out of 40 Departments revise their drawings. All departments vire funds within a vote to different economic classifications but they need Treasury's approval to increase Compensation of Employees and Transfers to other institutions (see Treasury Regulations 6.3.1)	Revised Revised Revised
Page 68-70	• 3.4.5: "Debts include government guarantees, loans, public-private partnership (PPP) arrangements, among others are equally assessed under this indicator". Also disagree with the definition of government debt. Note that guarantees are only included in the debt once public corporations actually default and cannot pay their debt, and it is then taken over by national government. • "South Africa's total gross government loan debt stood at…." Incorporate changes as proposed.	Gross debt includes all forms of debt. No change Amended Done

	• "…reducing government cost of borrowing through the use of available investment portfolios for surplus government cash balances held at the commercial banks and the South African Reserve Bank." incorporate changes as proposed. • "The Assets and Liability Management (A&LM) unit within" incorporate changes as proposed. This also applies to last paragraph of page 70 • "Government debt profile is forecasted over the" incorporate changes as proposed. • "As part of the Section 32 PFMA requirement, the National Treasury publishes within a month…" Note that this is not a week; it is a month. • "…..Exchequer account via Departmental Paymaster General (PMG) Accounts also held at the SARB." Delete "also" and amend as proposed ("the SARB"). • "At the close of business, each day, all departmental payments are aggregated into the consolidated PMG account and set-off against the Exchequer account. The balance is then transferred into the Tax and Loan account for Treasury Investments" this can be revised with "At the close of business, each day, all departmental payments are aggregated into the consolidated PMG account and set-off against the Exchequer account. The balance in the Exchequer account is then either funded (debit balance) by drawing from the Tax and Loan accounts or invested (credit balance) is then transferred into the Tax and Loan accounts. for Treasury Investments" • "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" Revise this with "The Minister of Finance is the sole authority for contracting central government loans and either approving or concurring with the granting of guarantees for some public entities under Schedule 2 of the PFMA" • "Where a guarantee is required, the necessary applications are forwarded to the Minister for Public Enterprises for their vetting and recommendation to the Finance Minister". Revise this with "Where a guarantee is required, the necessary applications are forwarded to the	OED prefers forecast as the past participle of forecast. No change necessary. Amended Amended Amended Amended The word 'relevant' is superfluous as there is only one Minister for Public Enterprises. No change, except delete "their" as Minister is him or her. But that is not true some public enterprises may sit under a different department like the Land Bank which reports to the National Treasury,therefore relevant in this context refers to the minister responsible for the particular enterprise. Thank you. Amended.

	relevant Minister for Public Enterprises for their vetting and recommendation to the Finance Minister.	
Page 71	• Table, Last column: ○ "Further, the Treasury prepares and publishes a monthly statement on government debt within a week month after the end of previous month." Note that is within a month not a week, delete as highlighted in yellow. ○ "The NRF and RDP fund are reconciled daily, giving the National Treasury the total cash position in real time". Delete the part highlighted in yellow. • "Access to the personnel interface is controlled with passwords for only authorised staff in the human resource units of each department". You can further add: In some departments additional biometric controls (finger prints) have been introduced as well. • "It however turns out that the departments of defence and police do not form part of the regular personnel and payroll system. Officials say these represent 15% to 20% of total government personnel" This can be revised to "It however turns out that the departments of Defence and Police manage their own personnel and payroll systems. Officials stated that these represent approximately 21% of total government personnel"	Amended Deleted Added Revised
Page 75	• (i) Effectiveness of expenditure commitment controls: "Expenditure commitment begins with the issuance of a purchase order emanating from the head of unit within a department and approved by the Accounting Officer or another appropriately delegated functionary". Add the highlighted section. • It has inbuilt…. Expenditure: Consider amending to: It has an in-built commitment control mechanism that limits unbudgeted expenditure commitment. Prior to 2013, BAS only had a budget blocking functionality - for unbudgeted expenditure.	Amended Proposed amendment not clear. A mechanism that prevents a commitment that is not budgeted <u>is</u> a budget blocking functionality.
Page 76	• 1st para of (ii) comprehensiveness, relevance and understanding of other internal control rules/procedures: consider rewording as: "Apart from the main PFM Act, 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 officer and these include, amongst others, the Accounting Officers Guide to the PFMA, Accounting Officers Guide to Supply Chain Management and Guide on In-Year Management Monitoring and Reporting. These legal regulations and procedure manuals are comprehensive and provide sufficient guidance for expenditure commitment. The National Treasury has an annual continuous training program for accounting officers to acquaint them with new accounting, reporting and budgetary reforms. Each departmental head complements this training program for new entrants." • Note PALAMA is now the "National School of Government". • Replace the last sentence of "The Compliance Institute of SA… public sector" with "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."	Amended Added Added
Page 76-77	• PI-20 (iii) the justification for the score: This statement is not true. The PFMA and Treasury Regulations do not spell out the internal controls. The PFMA makes it a requirement that accounting officers must have effect, efficient and transparent systems of financial and risk management and internal controls. Notwithstanding this, the control environments in departments are still not at an acceptable level to the extent that there is regular incurrence of unauthorised, irregular and fruitless and wasteful expenditure.	The comment refers to the justification for dim (ii). The PFMA etc do indeed spell out the internal controls. The objection to this is not clear.
Page 77	• PI-21, (i)Effectiveness of internal audit, (iii) Extent of management response to internal audit findings: There are inconsistencies in the analysis. Amend taking the following into account: - private sector - There is not a requirement that audit committee members must be from the private sector. The majority of members from the audit committee may not be from the department itself and the chairperson may not be from the department. Nothing precludes the department from recruiting audit committee members from other government institutions and in this regard, the Chairperson can also be from another public sector institution. Treasury Regulations 3.1.4 and 3.1.5 are relevant in this regard. Notwithstanding the above, audit committee members and chairpersons are appointed from the private sector but such is not the case in all instances. - The chairperson should not be from the Department (not necessarily that the	Amended

	chairperson must come from private sector). - The highlighted PI-21 – is this a typo or should it read PI-20?	No, PI-21 Clarified
Page 78	• Last sentence – it is not clear which committee is chaired by the CFO. Clarify.	
Page 78	• "Available evidence from official reports from the Auditor-General's annual audit of national and provincial government reflects a slow management response to audit findings and recommendations." This should be revised to "Available evidence from official reports from the Auditor-General's annual audit of national and provincial government reflects management response to audit findings and recommendations are not all effected within 1 year."	The proposed sentence omits the reference to slow response, which is the essence of the AG's report. No change recommended. It is just giving an indication of what is deemed as long period to respond because it is exactly after one year when the AG comes back and finds that the findings have not been addressed. But we agree with insertion for dimension iii and narrative and in the table Dimension ii insertion please revise to officials **stated** that there has not any change. No reference to officials in dim (ii). Not clear.
Page 79	• PI-22: "As indicated under PI-17, the National Treasury operates four Tax and Loan accounts held at the commercial banks which allow it to ascertain at real time on a daily basis the total cash balance via daily bank statement transcripts received from the commercial banks and verified by the SARS. By this, the real time cash position of the government is known. As part of the Section 32 Reports requirement of the PFMA, the National Treasury prepares and publishes, each month within a month after the end……" Revise as proposed. • "There are is however a number of donor funded government project bank accounts held within commercial banks for which the National Treasury has no information on balances held therein; they do not form part of the normal government banking and reconciliation arrangements." Is worth noting that the NT cannot be penalized if donors use private bank accounts. In terms of policy framework donors should be using the RDP account and this could then allow for SA to reconcile all ODA provided to SA. However, donors still choose to	Revised The PEFA requirement for an A is that <u>all</u> bank accounts holding public money (including donor accounts and public entity accounts) are reconciled at least monthly. This reconciliation does not have to be performed by NT, and the dimension is not an evaluation of the

	use private bank accounts, and therefore, such practice cannot be held against the NT. This rating should reflect only the accounts that the NT has management over, the NRF and the RDP – both of which are reconciled as reflected within the report. At the workshop on the 15/08/14, there was much discussion that this refers to all Treasury managed accounts only. • 3rd paragraph, line 1: The consultants will be required to provide some evidence to put such information in a national report. In our view, there is no evidence of suspense accounts abuse by government officials. The provisions in the Treasury Regulations are aimed at preventing abuse.	NT. The B rating is confirmed. The Pefa Guidelines state that: "Two critical types of reconciliation are (i) reconciliation of accounting data, held in the government's books, with government bank account data held by central and commercial banks, in such a way that no material differences are left unexplained; and (ii) clearing and reconciliation of suspense accounts and advances i.e. of cash payments made, from which no expenditures have yet been recorded…" The scoring further states that: Score = A: Bank reconciliation for all central government bank accounts take place at least monthly at aggregate and detailed levels, usually within 4 weeks of end of period. Score = B: Bank reconciliation for all Treasury managed bank accounts take place at least monthly, usually within 4 weeks from end of month. The text shows that this indicator measures those bank accounts that are managed by Treasury/National Government, not those that are opened by donors for donor-funded projects. No. Only ratings B, C and D apply only to Treasury-managed bank accounts. These are measured by the last three indicators. We ask that the PEFA Secretariat give direction on this issue. PEFA Secretariat has confirmed the rating is correct.

Page 81	• "The reports are consistent with the laid down standardised format in the Treasury Regulations" Replace the text in yellow, with "prescribed"	Revised
Page 89, 106	• The correct reference to the DPSA is the Department of Public Service and Administration.	Amended
Page 90-91	• "Following issue of the audit report to the National Assembly, 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 fashion or completed within a year. Audit findings are followed up by Audit Committees." Revise as amended • "The budget documentation is reviewed by a number of committees. There are Portfolio Committees responsible for reviewing the expenditure policies of each of the 38 national departments........ of corrective actions in response to the resolutions of the Standing Committee on Public Accounts (SCOPA)." This can be revised to "The budget documentation is reviewed by a number of committees. There are Portfolio Committees responsible for reviewing the expenditure policies of each of the 38 national departments. The Standing Committee on Finance covers the macro-economic policies of the Government. Standing Committee on Appropriations is responsible for the in-year monitoring of expenditure and oversight of the implementation of corrective actions in response to the resolutions of the Standing Committee on Public Accounts (SCOPA)." • SCOPA presents its reports to the plenary which passes the resolution...Please delete the statement as there is no plenary.	Corrected I do not see that in the AG report. It may be true, but cannot be quoted as coming from the AG. No change. Names of committees corrected.
Page 93	• Timeless of examination of audit reports by legislature: If Parliament has not sent this through, use the information sent by NT on 28/08/2014.	Amended 'plenary' to 'National Assembly'.
Page 94	• "The Joint Budget Committee follows up on the resolutions. SCOPA and the Joint Budget Committee as well as the Auditor- General report that Departments lack capacity to take effective corrective measures." This must be revised to include the changes as proposed "The Standing Committee on	Inserted into table. Note that the table for PI-28 contained some typos on the years, which have been corrected. Column 5, showing date as Jan-May, changed to May. Jan – May is correct ,it takes a period of 4 to 5 months because every Department must appear before the

	Public Accounts SCOPA follows up on the resolutions. The Auditor- General report that Departments lack capacity to take effective corrective measures within 1 year" Note, the committee did not confirm that there was lack of capacity, that is the AG's findings	committee. Understood, but the table heading needs a date, not a period. Text amended.
Page 95-96	• D-1: Predictability of direct budget support: Analysis of how predictability works on paragraph 1 is not a representation of the situation in SA. Because of the nature on how SA uses aid, funds are ring-fenced, and this applies also for budget support (both general and support) programmes. Aid is not used as gap filler hence it cannot affect our planning however, if not predictable, it can affect projects' implementation. Therefore, it's very simplistic to say that the predictability of budget support will have "no significant effect on government budget" • After revised you may add that "Further discussions between government and the development partners are required to tackle weaknesses in the donor interface with budgeting and service delivery, systematically over time." • "South Africa's ODA is less than 1% and therefore does not suffer from the consequences of delayed donor disbursements". This will be true only if SA uses budget support to argument/ supplement its budget, which SA does not do. It will have a significant effect on the actual programmes funded by the budget support. Programmes will be affected, and not government funds.	D-1 is concerned only with untied aid that is not ring-fenced. Text changed. This is a recommendation rather than a present practice. It could be added into the para on Planned Reforms if it is in fact planned.
Page 97	• "Donors, to assist governments the world over in their developmental agenda, use different aid modalities". Substantiate/ explain what is meant here.	The point here is that if 1% is delayed or not disbursed, it can easily be made up by additional government funding to affected programmes. No change.
Page 98-99	• Table 3.7(a). Column 2: "International Development Corporation policy and procedures were applied" Is this reference to the SA Policy Framework and Procedural guidelines for management of ODA of 2003? If so, please use correct name of policy. • The assessment of US practices does not accord with our experience of the various US Agencies. In particular; (in table 3.7) it appears that the responses provided by CDC have been imputed to all US Government assistance, which we believe skews the results. That is, the CDC programme budget is $10 million (over 5 years) and should not be imputed to the	The next sentence explains what is meant. Amended

	full $361 million. While IDC does receive work plans from CDC, the same cannot be said for USAID (where the larger portion of funding is located). National Treasury does not receive work plans or budget breakdowns from USAID. It is doubtful that line departments receive this either; USAID do provide annual Implementation Letters (specifying amounts), but every year NT-IDC struggles to get the line departments to sign the said letters, because the departments are not clear on what the funds are being used for.	Amended
Page 100	• "Project support includes technical assistance and other donations in kind." Amend as proposed. Moreover, the paragraph talks about donations in kind but excludes partners such as Japan who actually provide in kind support and also report on it, thus the paragraph does not fully capture the real situation. • "The consolidated annual financial statements do provide some information on donations in kind but this is incomplete". Financial statements of whom - donors or SA government departments? • Use of the word "major" in reference to select donors PI-D1: – there needs to be some justification of how "major" is defined. This excludes many donors that SA considers important and strategic partners.	Amended The OAG Consolidated Financial Statements The five largest donors.
Page 101	• 2nd paragraph: It would be better to quote the correct definitions since both are not correctly captured. These are correct definitions: ○ OECD-DAC definition: "… (resource) flows to developing countries and multilateral institutions provided by official agencies, including state and local governments, or by their executive agencies, each transaction of which meets the following test: a) it is administered with the promotion of the economic development and welfare of developing countries as its main objective, and b) it is concessional in character and contains a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent)". ○ SA definition: "Official resource flows from the international donor community to South Africa in the form of grants, technical co-operation and financial co-operation, where the South African Government is held at least partially responsible or accountable for the management of such resources." (Source: SA ODA Policy Framework and Procedural guidelines, 2003).	Added

	In both definitions it is further required that the ODA must be administered with the promotion of the economic development and welfare of developing countries as its main objective. In SA ODA is used in a more restricted sense, hence even though other forms of assistance, such as direct support to NGOs or the private sector are essential to development and form part of aid flows to SA, Government is not accountable for the utilisation of such resources. Therefore, these forms of assistance are dealt with directly between the donor community and recipients, and fall outside South Africa's formal government-to-government development co-operation framework. Note further, this does not imply that SA does not acknowledge funds outside of the RDP account as part of ODA in the SA context. • "Total aid that flows through the government system, with direct or indirect control by the National Treasury; any development assistance outside the legally established Reconstruction and Development Programme (RDP) account does not qualify as part of ODA in the South African context" This is not correct; delete this. Where programmes are reported on from the donor and/or department, these are included as official ODA. • "On the other hand, considering ODA in the South African context where donor funds should be routed through <u>systems where the government is held at least partially responsible or accountable for the management of such resources</u>, between 63% and 81% of donor funds use country systems as indicated in Table 3.28(b) below; in this case D-3 would have scored a 'B'. The 'B' as per the assessment team's analysis is closer to that of the National Treasury analysis (Table 3.28(c)) <u>whereby an assessment was carried-out based only on all donor funds that flow through the RDP account managed by Treasury</u>; in this case D-3 would have scored an 'A'". Incorporate with the changes underlined.	Amended
Page 102	• Table 3.28(c). The table is not done in consistent with other tables.	Alternative definitions not relevant for application of PEFA framework, which addresses all donor funds to government entities or with government facilitation.
Page 104-107	• The content talks to programmes that are funded by donors, and do not take into account Government's Reform process. Recommend that the heading be changed to "Donor	

	Assistance to Government Reform Process”	Heading changed to reflect emphasis on donor-assisted PFM reforms. The sub-heading has changed, however the main heading has not. The entire section deals with mainly donor funding for PFM, and not government initiatives. We suggest you include SA government initiatives. Done.
Page 105	• Correct AGO to OAG	Done
Page 106	• “Its TOR are not yet approved by the DDG.” Replace this with the following “Its TOR are still being developed in consultation with stakeholders.”	Done
	• “The reform agenda has a strong momentum….” Please amend with the following “The broader country reform agenda has a strong momentum…..”	Changed to ‘PFM reform agenda’. The report does not address the broader reform agenda.
Page 113	• PI-12; (ii): “DSA for external and domestic debt is carried out every year by both the National Treasury as well as the South Africa Reserve Bank. DSA for external and domestic debt is carried out every year by both the National Treasury as well as the South Africa Reserve Bank.” Please note that the SARB does not do DSA, except for writing about debt to GDP ratios in the Quarterly Bulletin, also the proportion of domestic and foreign debt to the total.	Text amended

I(B). Additional Comments from NT	**Response by Assessment Team**
Comment on PI-4, on the analysis sent on email (dated 21/08/2014):	
- Use the correct wording for the OAG NT-OAG	Corrected throughout document
Comment on PI-19, on the analysis sent on email (dated 21/08/2014): NT-OAG, CPO	Corrected
1) Information in PI-19 (i) is accurate except for the fact that open competition in procurement is the default procurement position. The final score should be 5 out of 6 and not 3 out of 6 as currently stated.	
In regard to the following two, these in our opinion deserve a tick:	

- Open competitive procurement: It is a requirement that advertised competitive bids over a threshold value of R500 000 (for PFMA compliant institutions) and R200 000 (for MFMA compliant institutions)	AT cannot see, in the PPPFA or the General Procurement Guidelines, any clear definitions of situations when methods other than open competitive procurement are justified for contracts under R 500,000.
- Public access: Organs of state are compelled by both the Treasury regulations and the Municipal SCM regulations to competitively advertise bids and publicly publish the results as soon as an award has been made.	I cannot see that they do so. NT website has only a handful of contract awards and nothing since 2013. DOH website publishes lists of bids received, but I cannot see what bids were successful or contracts awarded.
Recommended amendment to the text as follows:	
Section 217 of the Constitution of the Republic of South Africa, 1996 prescribes the general constitutional principles governing procurement. 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.	Amended
The Preferential Procurement Policy Framework Act, 2000 (Act No.5 of 2000), which is the subsidiary legislation, regulates preferential procurement in government, it empowers organs of state to determine its preferential procurement policy and implement it within the framework stipulated in Section 2 of the act. The Minister of Finance, by the powers vested, exempted some state organs from the implementation of the regulations expiring 7 December 2012; these included public entities under Schedule 2, 3B and 3D to the PFMA. The revised regulations (dated 9 June 2011) however apply to all public entities that were hitherto exempted from the previous regulations. As shown in the table below, only 3 out of the 6 requirements of the PEFA procurement measurement framework have been met.	Included
2) Information in PI-19 (ii)	
It seems as though the provisions of NTR16A have not been accurately captured. We suggest the following analysis to replace the existing one:	
(ii) Use of competitive procurement methods	
Treasury Regulation 16A6.1 prescribes that procurement of goods and services, either by way of	Thresholds added to report.

quotations or through competitive bidding process must be within the threshold values as determined by the National Treasury. Practice note number 8 of 2007/2008 was issued to give effect to Treasury regulation 16A6.1 and prescribed threshold values for the following ranges of procurement.	
• R1 up to R2, 000. Petty Cash;	
• R2, 000 up to R10, 000 verbal or written quotations;	
• R10, 000 up to R500, 000 formal written price quotations; and	
• Over R500, 000 invite Competitive bids.	
The above highlight ranges of procurement apply to departments, constitutional institutions and public entities listed in schedule 3A and 3C to the Public Finance Management Act. Threshold values for ranges of procurement in the local sphere of government are different to the above highlighted thresholds in that it is a requirement that competitive bids be invited for any procurement over the threshold value of R200 000	PEFA assessment is of central government only. No change.
Both the Treasury regulations and the Municipal SCM regulations prescribes that the supply chain management system must, in the case of procurement through competitive bidding process provide for the establishment, composition and functioning of bids committees. The specification committee must be established for the drafting of specification(s) and terms of reference, the evaluation committee for the evaluation of bids and the Adjudication committee for the adjudication of bids after recommendations of the evaluation committee.	Amended
In realising that it would not be possible to invite competitive bids, Treasury regulation 16A6.4 and regulation 36 of the Municipal SCM regulations provides for accounting officers and authorities to procure goods and services by other means other than the invitation of competitive bids. The two provisions also provides for reporting requirements in a case such methods are utilised.	Noted
Treasury Regulation 16A6.6 makes provision for National and provincial treasuries to arrange transversal term contracts to cater for common procurement requirements from different organs of state. Institutions participating in such transversal terms contracts are not allowed to solicit the same requirements outside the arranged contracts.	Amended
- LOGIS:	
As discussed with the consultants, the Department of Defence, SAPS, State Security, National Treasury,	Exceptions listed in the draft.

Telecommunication and Postal Services and the newly established Department of Small Business Development are not utilising LOGIS. SAPS and Defence are both two big departments that procure quite a bit of goods and services. These departments still procure through competitive procedures – they just are not utilising LOGIS as software platform. This position need to be corrected.	
In 2012/13, Misappropriations were approximately 3% of the budget. Almost every operational decision indeed has a procurement aspect, 3 per cent of the expenditure misappropriation are related to the procurement process itself.	Noted.

II. Comments by Development Partners	Response by Assessment Team (AT)
As the assessment was undertaken in July & August 2014, we would have expected those indicators which require coverage of the "last three financial years" to use data from 2011/12, 2012/13 and 2013/14 (rather than 2010-13, as the Framework does not insist on audited financial statements, which seems to have been what guided the Team)	It is true that the Framework does not require audited financial statements. However, even unaudited FS for 2013/14 were not finalized at the time of the field assessment (July 2014). This affects PI-1 to 3 only.
In the relatively few places where ratings have changed, the reasons provided are often rather sketchy, while in the majority of cases where there is no change, there is no real attempt to 'validate' the 2008 rating (as per the "Guidance in conducting a repeat assessment")	The Good Practice when Undertaking a Repeat Assessment does not require any validation of former ratings. The Team has tried to explain why some ratings have changed.
The Summary Assessment perhaps gives undue prominence to donor funds, which are immaterial (and an argument could easily be made for excluding D1-3 altogether!)	According to GoSA, though insignificant in amount, they are very significant in regard to project and programme achievement (see above). The Team has followed the existing Framework in reporting on them.
In several places (PIs 8, 13-15, 24, 25) large chunks of Treasury documents are quoted verbatim (and without attribution): these extracts should be edited down to those points which are salient to the rating allocated	In PI-8 and 25, there are no large chunks of Treasury documents used. However, readers who are new to SA need to have the context described, so considerable use has been made of Treasury and other official sources, mostly paraphrased and adapted as

	necessary. In PI 13 to 15, the previous PEFA Report of 2008, also included a lot of explanations in the text, however, the amount of detail from SARS has been reduced in this report.
SA has a complex intergovernmental fiscal structure which is not always clearly explained, to the point that in places the scope of this (National) assessment becomes unclear (e.g. for PI-23, the majority of transfers are via unconditional grants, and hence as per clarification 23-a, are not relevant); a specific sub-chapter could be devoted to explain the intergovernmental fiscal structure, for example in the country background (chapter 2)	Intergovernmental fiscal structure is described at some length under PI-8. In the forthcoming provincial assessments, there should be a profile on intergovernmental fiscal structure in more detail, as recommended by the PEFA Secretariat in their Guidelines for Sub-National assessments.
Specific issues with PI ratings:	
PI 12 (iii) harshly rated as 'D'	Amended.
PI 17 (ii) may be 'A'	Not all cash balances covered by TSA, so B.
PI 19 (iv) overrated, as 'B'	Revised to D.
PI 22 (i) may be 'A'	Only B is justified. See response above.
D1-3 - require more work: despite being immaterial, SA chooses to treat donor funds in a non-OECD manner, which has caused disagreements between the Assessors and the responsible officials.	Changes made to text. Not clear if this meets the comment.
With regard to donor indicator D-1, there are two elements that need to be reflected in the text regarding predictability of budget support. (i) Forecast amounts might in some cases not materialise relating to variable tranches. These tranches are incorporated in budget support programmes to measure performance against agree-upon targets. When targets are not met, the payment against the respective target will be reduced proportionally to the value of the achievement. (ii) the timing of the payments is very	Text added

much dependent on when the analysis is done, when the disbursement file is submitted to the Delegation, when the Delegation submits the analysis to EU Headquarters and when the final analysis and processing is done. This impacts on predictability.	
Comments from Phil Sinnett extracted from tracked draft:	
P9. Late approval of budget.	See response to Gov't comment above
P 12 "provinces mainly responsible… monitoring of municipalities"	Text changed
p.27 38 departments or 42?	Cannot find any reference to 42. Should at present be 38.
p.27 Budget Council finance members	Re-phrased
p.27 Role of Finance Minister	Re-phrased
p.29 aggregated or consolidated accounts	Corrected
p.30 Why is the original budget the more important base for calculation of variance?	Reason given
p. 30 Why not use the unaudited accounts for 2013/14?	At the time of the field mission (July 2014), they were not finalized or available. Explained in text.
PI-3 Composition of revenue not fully explained	Data revised.
p.42 Number of metropolitan municipalities?	8. Entered in text.

p. 50 Fiscal risk on total gov't debt: 53% of GDP against benchmark of 50%.	Table 2.1 says gross debt is 42.3% of GDP in 2012/13. This refers only to external debt, while 53% is total government debt. Corrected in text.
p.52 No strategies costed? D rating of PI-12 (iii) appears harsh.	Amended.
p.56 Use of 'our' and "we" in revenue indicators.	Made impersonal.
p. 71 Re PI-22 (i), are "other donor accounts" government accounts?	Also public entity bank accounts. Donor funds are normally part of public funds and subject to national procedures. The lack of information on the regularity and timeliness of bank reconciliations of other bank accounts prevents this dimension being scored A.
p.75 PI-19 (iv) Text indicates that requirements (i) and (ii) are not met. Only 3 out of 7 are met.	Table revised, and score reduced from B to D. The overall indicator score becomes D.
p.77 PI-20 (iii) Any evidence from the Auditor General?	Yes. The % of material misstatements is improving (see PI-24 (iii)). Text changed to reflect this.
p. 77 Why is CPI deteriorating?	Transparency International does not analyse CPI scores or determine causes of change.
p. 78 Are internal audit units central or departmental?	Departmental. Text amended.
p. 81 PI-23 Beyond the scope of a central PEFA assessment?	PI-23 retained as the national government provides funding for primary service delivery, some of it tied.

p.82 Reference to BAS in municipalities	Deleted, as scope is central government only
p.84 Inventory management framework progress?	No information (and not necessary for scoring)
p.93 Table 3.8 incomplete	Now completed
p.94 Less than 1/3 of all aid is channeled through the RDP fund. What about the rest?	Text added.
III. Comments from PEFA Secretariat	**Response by Assessment Team**
Please provide details of PEFA Check ar Concept Note stage	Requested from EUD
Fiscal year and exchange rate not given	Added after abbreviations list
Institutional coverage of assessment not clear	Added to section 1.4
Section 2 on budget outcomes does not include a functional classification of expenditure	Table added
PI-4 (ii) Please clarify coverage.	See above. Coverage restricted to budgetary central government and scoring changed.
PI-8 (ii) Timing of information to provincial governments.	No dates obtained. Can confirm with forthcoming provincial assessments.
PI-12 (iii) Upward arrow not explained.	Amended.
PI-19 (iv) B rating doubtful	Rating revised to D.

PI-21 (ii) Rated C. Reason for deterioration?	Government officials indicated that there has been no change with regards to distribution of internal audit reports to recipients. This means, therefore that the 2008 score of "A" was overrated
PI-21 (iii) Rated B. Reason for deterioration?	Reason for deterioration provided
PI-28 (i) Add dates to table.	Dates added
D-1 (ii) Rated C, but delays of 0, 21.7 and 133 would suggest a B.	Disbursement delays re-calculated at 181% in 2010/11, and nil in 2011/12 and 2012/13, which is rated A. Overall score for D-1 is C+
IV. Comments from EU Brussels	**Response by Assessment Team**
PI-4 (i) Coverage of arrears assessment?	Coverage corrected to budgetary central government, and ratings changed
PI-19 (ii) No reliable data should be scored D	Score changed to D
PI-20 (iii) Evidence for C score?	Text explains that rules are complied with in a significant majority of transactions, but there are still a high percentage of “material misstatements (see also text at PI-24 (iii)).There are no error rates or rejection rates, only the Auditor General data. The score is not based on the Transparency International index.
I would have hoped for more improvement between 2008 and 2014 assessments. There is only one indicator for which government is responsible that improved (PI-9).	The table in the Summary assessment is misleading, as it can show improvements only in the few indicators where the former score was not A. It does not show improvements where A ratings remain at A (there is no A+ rating in the methodology). In fact the text refers to

	continuous improvement in systems and capacity building across all critical dimensions. Text added.
Weaknesses in certain regional and local governments.	These were outside the scope of this assessment.