

Public Expenditure and Financial Accountability Assessment

PEFA Report
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North West Province

Final Report

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List of abbreviations and acronyms

AFS	Annual financial statement
AG	Auditor-General
AO	Accounting officer
APP	Annual performance plan
BAS	Basic accounting system
CFO	Chief financial officer
CFS	Consolidated financial statement
COA	Chart of accounts
COFOG	Classification of the functions of government
DDV	Direct delivery voucher
DORA	Division of Revenue Act
ENE	Estimates of national expenditure
EPRE	Estimates of provincial revenue and expenditure
ERF	Economic reporting format
EXCO	Executive council
FMIS	Financial management information system
FY	Financial year
GCC	General conditions of contract
GDP	Gross domestic product
GDPR	Gross domestic product by region
GFS	Government finance statistics
GGP	Gross geographic product
GRAP	Generally Recognised Accounting Practice
HDI	Human development index
HLG	Higher level of government
HOD	Head of department
HR	Human resources
HSS	Housing subsidy system
ICT	Information and communications technology
IDP	Integrated development plan
IFMS	Integrated financial management system
IFPA	Institute of Public Finance and Auditors
IA	Internal audit
IIA	Institute of Internal Auditors
IMF	International Monetary Fund
IYM	In-year management, monitoring and reporting
KCM	Key control matrix
KPI	Key performance indicator
KZN	KwaZulu-Natal
LOGIS	Logistical information system
MDA	Ministries, departments and agencies
MEC	Member of the executive council
MEDPAS	Medical provisioning administration system
MFMA	Municipal Financial Management Act
MIG	Municipal infrastructure grant
MSA	Municipal Systems Act
MTEF	Medium-term expenditure framework
MTBPS	Medium-term budget policy statement
NCOP	National Council of Provinces
NDP	National Development Plan
NT	National Treasury
NWPG	North West provincial government
O&M	Operation and maintenance
OECD	Organisation for Economic Cooperation and Development
PDI	Previously disadvantaged individual

PDO	Predetermined objective
PEFA	Public expenditure and financial accountability
PERSAL	Personnel and salary administration system
PES	Provincial equitable share
PFM	Public financial management
PFMA	Public Finance Management Act
PGDS	Provincial growth and development strategy
PI	Performance indicator
PIF	Provincial infrastructure fund
PMTEC	Provincial medium-term expenditure committee
PPAC	Portfolio public accounts committee
PPP	Public private partnership
PPPFA	Preferential Procurement Policy Framework Act
PR	Performance report
PRF	Provincial revenue fund
PT	Provincial treasury
QBS	Quality based selection
QCBS	Quality and cost based selection
RDP	Reconstruction and Development Programme
REA	Revenue enhancement allocation
SALGA	South African Local Government Association
SALSA	Secretaries Association of the Legislatures of South Africa
SAMDI	South African Management Development Institute
SARB	South African Reserve Bank
SARS	South African Revenue Service
SCOA	Standard chart of accounts
SBD	Standard bidding document
SCM	Supply chain management
SCMF	Supply chain management framework
SCMO	Supply chain management office
SCOPA	Standing committee on public accounts
SDDS	Standard data dissemination standards
SN	Sub-national
SNG	Sub-national government
STB	State tender board
UNDP	United Nations Development Programme
ZAR	South African Rand

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Summary assessment

The assessment of PFM performance in North West Province reveals major strengths in a number of important areas. The assessment, however, also points to weaknesses in other core PFM systems and processes that have led to low scores in the period covering fiscal years 2011/12 to 2013/14.

Public finance management (PF) tools and capacities in the ground are not essentially commensurate with the more rapid growth of public investments and the more effective procurement and control processes required for enhancing the efficiency of service delivery and boosting more rapid and pro-business economic growth. One salient feature is that managing the use of budgeted resources in the province is always guided by a general strategic focus set forth by the national government. Yet, the overall budgetary outcomes suggest that the budget is not for the most part implemented with due regard to government policy. Also, the low predictability in the release of funds to non-salary expenditure programmes has severely restrained the efficiency in the provision of economic and social services locally.

As the provincial economy seeks to grow more rapidly, the North West provincial government faces the task of spending more efficiently and restraining the growth of consumptive expenditures and tuning up increases in the public sector wage bill and the procurement of public works within the capacity and absorptive limits of the province. The challenge of building the necessary skills and capacities locally remains high, as is the challenge of laying down the key economic infrastructure with which to sustain economic growth and ease the way for enabling a more engaging private sector and mobilising new domestic resources away from national grants.

In general, the provincial government has been provided with major building pillars for enabling an open and orderly PFM system and achieving fiscal transparency over the last three years. This has resulted in, among others:

- The transparent and sustainable medium-term expenditure framework (MTEF) mainly for the accountability in the use of cash resources and sourced by national and own revenues, with a well-managed, supervised, and regularly audited Provincial Revenue Fund (PRF);
- A well-structured budget process, including an active participation by the province's Executive Council;
- The use of a modern cash accounting system which enables regular reconciliation of government's bank accounts and advances; and
- A treasury single account (the PRF) that has progressed to cover the execution of all budgetary transactions. The assessment has also detected high risk areas including the following:
 - monitoring the fiscal risk of public entities and municipalities;
 - forecasting of the provincial budget revenue and expenditure estimates;
 - cash management;
 - procurement, and
 - Internal financial controls.

Legislation on budget and financial management, and public service has supported PFM reforms for the past two decades. It is desirable that new supplementary regulatory and institutional reforms and the upgrading of systems solutions would be established to complete the reform agenda under the cash accounting standard and in certain core areas of PFM, before the pursuance of any further efforts in favour of adopting accrual standards of accounting.

1. Integrated assessment of PFM performance

The 2014 PEFA assessment is the first in its kind for the government of the North West Province. A brief summary of the key findings is set out in the following paragraphs:

Credibility of the budget (PI 1-4)

Budget credibility was generally high over the past three fiscal years, thus reflecting budgets being spent within the projected level of funding, as indicated by the minor deviations computed on the aggregate (PI 1) and the relatively low variance in expenditure composition by administrative heads (PI 2). As part of the goal to achieve fiscal discipline, Provincial Treasury succeeded in the bid to exercise control in the use of public resources, though mainly of those relating to compensation of public workers—planned purchases of goods and services by education and health programmes and payments of capital assets by road and other public infrastructure works showed, in turn, large budget under execution ratios. Concerns lie also with the limited technical capacities and public investment management tools to manage large infrastructure projects across districts.

As noted above, control over performance of the annual budget as a whole was adversely affected by large mismatches and virements in the allocation of budgetary resources across line departments. As evidenced in PI-16, the cash flow projections of non-salary expenditures, supporting the estimation of annual votes and the in-year adjustments to budget allocations are not accurate and hence not well aligned and do not respond adequately to the service delivery units' needs for procuring and payment of essential purchases and public works in a timely manner. As a result, the budget does not end up responding strategically to the policy priorities set forth in the national and provincial development plans (see summarised in section 2 the record of development outcomes achieved by the province over the past three years). Consequently, fiscal discipline was not optimal because the government did not apply all the right tools to achieve this effectively (see weak scores in indicators PI 12, PI 19, PI 20, and PI 21).

Analysis of NWPG budgetary outcomes shows that purchases of goods and services was the second largest item in the budget, after compensation of employees, and ranked well above the national average. Compensation of employees also ranked well above the national average, as opposed to investments in capital assets and public infrastructure.

Budget resources were not allocated to contingency purposes in the past three years.

The credibility of the budget was hampered by inaccurate projections of own revenues, particularly of receipts from motor vehicle licences (PI 3) thus resulting in large deviations over the past three years.

Adequate internal controls are also enabled in the expenditure management system to counter the increases in the stock of expenditure payments arrears (accruals) thus supporting overall credibility of the budget (PI 4).

Comprehensiveness and transparency (PI 5-10)

The budget formulation, execution and reporting is based on an economic, administrative and functional/programmatic classification that is broadly compatible with GFS 2001 and COFOG standards. Recurrent and capital expenditures are itemised in a single budget framework. Budget documentation is comprehensive, and fulfils 7 of the 9 benchmarks recommended (PI 5-6).

Extra-budgetary expenditure and donations, grants, sponsorships and aid assistance operations are reported by departments as part of in-year monitoring reviews on a quarterly basis. The amounts are largely insignificant in the provincial budget. A clear institutional arrangement between national and provincial treasuries and separation of fiscal responsibilities are in effect, with fair and transparent rules for distribution of grants enabling prompt allocation and release of current and capital grants to districts (PI 7-8).

The function of monitoring the consolidated fiscal risk of public entities and municipalities is not fully enabled in the Provincial Treasury. It basically monitors the extent to which the budget is executed through the year and issues pertaining to release of funding, but does not oversee the evolving of the financial situation that may eventually endanger the overall fiscal position of the provincial government (PI 9).

Public access to key fiscal information is relatively high, which heightens the transparency and the credibility of the government of North West Province. The lack of consolidated fiscal reports for the provincial government that include both expenditure commitments and payments and domestically and externally-financed project expenditures is a weakness in financial reporting (PI 10).

Policy-based budgeting (PI 11-12)

A fixed and detailed budget calendar is issued through the Provincial Treasury for guiding line departments and public entities in the preparation of their annual budget and business plans. These are guided on the development priorities of the province and other directives to the budget preparation process including those pertaining to MTEF. The budget calendar is specific on the times of the distinct submissions by key sections of the executive. The PFM Act and the Treasury regulations are clear as to when the province's Executive Council is required to approve the annual budget. The annual budget appropriation bill for 2013/14 was approved very lately by the Provincial Legislature and by the time of the issuing of the final draft PEFA report the budget for 2014/15 was not approved by the Provincial Legislature at all (PI 11).

Medium-term planning is a major building block in the province's budgeting process. The province's budgets are elaborated on the basis of spending ceilings for every line department and programmes of the government and for the next year and the three subsequent years, on a rolling basis, issued from a fiscal policy framework geared in the National Treasury. This has resulted in the matching of functional and administrative structures

across line departments not suited though with the corresponding levels of performance and accountability between programmes, projects and activities.

Revealing, however, are the weak operational links in the annual performance plans of line departments and between the delivery of projects and the forward estimates thus hampering the budgeting of operating and maintenance expenses of public infrastructure. The provincial development strategy constitutes a major milestone for prioritising the spending targets in NWPG. However, the lack of widespread financial reviewing and costing of sectoral strategies to support coherent multi-year budgetary planning undermines the whole basis of MTEF (PI 12).

Predictability and control in budget execution (PI 13-21)

The assessment reveals a clear and transparent system of tax and non-tax revenue obligations and administrative procedures locally. Revenue collector departments, however, have failed to cross check with other local and national databases and adopt other taxpayer registration and assessment controls adequately. This has led to weak enforcement of provincial tax legislation/regulations and inadequate tax audit management. Noticeably, however, the control system observed low amounts of unpaid tax bills built over the past two years (PI 13-15).

Cash flow forecasts on both revenues and expenditure are updated by the Provincial Treasury on a monthly basis though the quality of projecting in-year expenditure commitments throughout the year is suboptimal. High variations are observed in the projections of non-salary expenditure thus endangering the reliability of in-year cash plans and the predictability in the release of funding for key purchases. As for the horizon of periodic in-year information to departments on ceilings for expenditure commitment, departments are advised with an advance of about two months of any changes in the authorised cash plans for the remainder of the fiscal year. In-year budget revisions take place through excessive use of virements and once a year a supplementary budget is approved by the Provincial Legislature through clear and transparent rules (PI 16).

The recording and periodical monitoring of cash balances are facilitated through a consolidated PRF thus resulting in better control of the total cash resources available in the Provincial Treasury. The recording and monitoring of domestic and foreign debt, other than overdraft loans, is non-existent (PI 17).

Internal audit constitutes another major area of strength, covering systemic risks dealing with almost every aspect of PFM and fulfilling high professional standards. However, a comprehensive set of internal commitment controls for procurement and human resource management is lacking for the most part. In the public payroll, controls with personnel records are strong due to implementation of PERSAL and its linkage to BAS payroll and yet, payroll auditing, dealing with delays in the submission of changes of personnel to the payroll system and attendance of public workers to the workplace covering all departments and entities, is an area requiring attention. In general, the internal audit function is performing generally well in terms of addressing systemic issues of PFM and meeting high standards of excellence thus enabling adequate follow up on actions recommended (PI 18-21).

Accounting, recording and reporting (PI 22-25)

The accounting, recording and reporting practices are areas of strength in North West provincial financial management. Reliable financial recording and accounts reporting has been enabled but there is mixed performance in financial internal controls. On one hand, it has enabled timely and frequent bank reconciliations and close monitoring of cash balances in the PRF, which has essentially led to minimal backlogs of unexplained differences over the past three years. On the other, the reporting of claims recoverable and collectables has led to increases in unretired imprests, advances and suspense account balances brought forward over the years, particularly in the largest departments. The latter poses no fiscal threat on the aggregate, but it is a recurrent practice potentially damaging the liquidity position at certain times of the year when those departments are confronted with shortage of cash resources (PI 22).

BAS has the capacity to report budget resources received by districts and service delivery units, and this feature is enabled for all primary schools across the various districts. While in-year budget reports are timely and accurate, any improvement in score would require expenditure to be captured at both commitment and payment stage. The annual financial statements are timely and include complete information on revenue, expenditure and certain key assets and liabilities (PI 23-25).

External scrutiny and audit (PI 26-28)

The quality of the external audit is of high standard and the annual audit reports and accounts are presented to

the Provincial Legislature within eight months after the end of the fiscal year. The Provincial Legislature has proven that it is able to scrutinise the annual audit reports and question several audited line departments but is ineffective in following up the recommended actions and sanctioning responsible parties.

The lack of adequate time given to the Provincial Legislature to review the budget documents, and the recurrence of certain deficiencies in public financial management, combined with the lack of specialised technical support in the Provincial Legislature scrutiny processes throughout the year, are various weaknesses identified by the assessment.

Donor practices (D 1-3)

This section did not apply to the SN PEFA assessments.

2. Assessment of the impact of PFM weaknesses

As public financial management concerns the efficiency and effectiveness of the use of public resources, the interdependence of the components of the budget cycle means that weaknesses in one part can adversely affect other parts thereby constraining the achievement of better budgetary outcomes. Conversely, improvements in one area that are not matched by corresponding changes in other areas can undermine the initial reforms. The strengths and weaknesses of North West Province's public financial management system as assessed has an impact on the three measures of budget effectiveness – aggregate fiscal discipline, allocative efficiency and efficient service delivery. This is summarised below.

Aggregate fiscal discipline

The fact that budget preparation takes place in a transparent MTEF helps to maintain aggregate fiscal discipline. This is also assisted by MEC-approved budget ceilings which are generally respected in departmental budget submissions. In spite of protracting deficiencies in certain expenditure management controls, particularly the lack of a stringent staff appointment and promotion system and of a comprehensive non-salary commitments framework, the province has preserved its ability to match revenue with expenditure. The excessive use of virements and the amendments and expansion of the budget with formal ex-post regularisation did not hinder fiscal discipline.

Strategic allocation of resources

The preparation of the budget on three-year rolling basis under MTEF helps to set the framework for relative budget priorities, which are intended to be reflected in the departments' budgetary ceilings. The strategic policy and sectoral objectives set out in the government's medium-term budget policy statement for service delivery could possibly provide the basis for guiding inter- (and intra-) sectoral allocations, including external finance. The successful implementation of BAS and the shift towards modified cash accounting with improved procedures and documentation assist in increased allocative efficiency and transparency of the budget. However, the limited transparency with respect to budget reallocations, gaps in in-year reporting on budget execution, and weak procurement practices increase the risk of misallocation without public scrutiny and proper prioritisation. Also, provincial government needs to cost the provincial development strategy and medium-term sector plans and strengthen the linkage between MTEF and subsequent year's ceilings to adopt the consistent allocation policy.

Efficient service delivery

The overall accountability process is found to be deficient in holding responsible officials liable for the misuse of public resources and poor delivery of public services in the province. Evidence from audit reports suggests that failure to comply with treasury regulations in eliminating idle cash balances and ensuring timely clearance of advances and claims recoverable has increased the operating risks and scope for mismanagement thus impairing the efficiency of service delivery.

Cash handling and control systems, human resource and procurement management and legislative scrutiny of the annual Budget Appropriation Bill are among the weaknesses identified, which are likely to limit the operational efficiency of primary service delivery. The ability for planning and management of service delivery is also undermined by deficiencies in the forecasting of own revenues and non-salary spending, and the programming of funding to the procurement of essential goods, equipment, and formation of capital assets is strained by the lack of comprehensive in-year budget reports.

On balance, the performance of PFM systems in North West Province is generally fair, thus enabling the Provincial Treasury to exercise a disciplined and transparent role in the use of available cash resources. The legal and regulatory framework and the existing PFM structures and processes in South Africa are supportive of this. BAS, PERSAL and other systems solutions seem well fitted to respond to the cash-based transactional and monitoring needs of the province while internal audit and external audit meet the highest standards of excellence. It is desirable, however, that PFM is better suited with the necessary processing tools and linkages in order to enable more informed financial planning and budgetary decisions, i.e. query through stock of available capital assets before authorising the purchase of an item of similar nature. Also, in order to enable accounting officers and programme managers to be held accountable of their decisions and the overall budgetary outcomes, it is desirable that sanctions against recurring infractions and infractors become effective and transparent.

3. Prospects for reform

The North West Province does not have a continuing agenda of PFM reform, and the assessors did not find any solid evidence suggesting the adoption of a prioritised and focused PFM reform action plan at the national level. After the federal-level PEFA assessments of 2008 and 2014, certain weaknesses prevail in PFM and are not clearly focused on the reform agenda, as evidenced in the North West PEFA report. As detailed in section 4, major efforts are well underway to enhance the effectiveness of financial managements systems in place, but ongoing reforms did not seem to have progressed meaningfully on personnel and procurement management controls. As has been shown in this assessment, there are deficiencies in PFM that must be addressed with urgency in order to strengthen the fiscal discipline and align management with international standards. Those which are most critical are internal controls which have impact on most of the provincial government's financial management operations. In particular, procurement must be brought to the forefront of reforms given the huge part of government expenditure it represents.

South Africa's prospects for reform implementation should be regarded, in general, as positive considering the impact of the reform programme so far which have made visible contributions in improving budgeting, reporting and external audit. The successful application of MTEF in budgeting and planning, and the implementation of BAS and other systems solutions to support the execution of treasury regulations are just few examples of the successful path to reform and capacity building. A continuation of the reform programmes mentioned above is vital. However, it is essential that the National Treasury and the North West Provincial Treasury continue to work jointly and have the ownership of the reform process to better facilitate the reforms and ensure their sustainability.

The National Treasury has initiated reform to upgrade and synchronise financial software, integrating it to serve as a single integrated financial management information system (IFMS). The National Treasury is to employ standard platforms customised to meet the evolving needs of the PFM systems and procedures, all of which are actions in the right direction to enable the completion of reforms under the cash accounting standard and the transitioning to an accrual basis of accounting.

4. PEFA performance indicators (2014)

Table 1: Summary of PEFA Assessment Scores, 2014

PFM Performance Indicator		Scoring method	Dimension ratings				Overall rating
			D (i).	D (ii).	D (iii).	D (iv).	
A. PFM-Out-turns: Credibility of the budget							
HLG-1	Predictability of transfers from a higher level of government	M1	A	C	A		C+
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	D				D
PI-4	Stock and monitoring of expenditure payment arrears	M1	A	A			A
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	B	A			B+
PI-8	Transparency of inter-governmental fiscal relations	M2	A	B	B		B+
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	C	C			C
PI-10	Public access to key fiscal information	M1	B				B
C. BUDGET CYCLE							
C(i) Policy-based budgeting							
PI-11	Orderliness and participation in the annual budget process	M2	A	A	D		B
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	A	NA	D	C	C+
C(ii) Predictability and control in budget execution							
PI-13	Transparency of taxpayer obligations and liabilities	M2	B	B	NA		B
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	C	B	D		C
PI-15	Effectiveness in collection of tax payments	M1	A	B	NR		NR
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	A	C	B		C+
PI-17	Recording and management of cash balances, debt and guarantees	M2	NA	B	A		B+
PI-18	Effectiveness of payroll controls	M1	B	C	A	C	C+
PI-19	Competition, value for money and controls in procurement	M2	B	D	C	D	D+
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	B	C	C		C+
PI-21	Effectiveness of internal audit	M1	A	A	C		C+
C(iii) Accounting, Recording and Reporting							
PI-22	Timeliness and regularity of accounts reconciliation	M2	B	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	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	B	D	B	D+
PI-28	Legislative scrutiny of external audit reports	M1	A	B	C		C+
D. DONOR PRACTICES							
D-1	Predictability of direct budget support	M1	NA	NA			NA
D-2	Financial information provided by donors for budgeting and reporting on project and programme aid	M1	NA	NA			NA
D-3	Proportion of aid that is managed by use of national procedures	M1	NA				NA

1. Introduction

1.1 Objectives

The objective of the Public Expenditure and Financial Accountability (PEFA) mission is to provide a comprehensive and accurate assessment on the performance of PFM systems and processes in the government of North West Province. Its specific objectives are to set a baseline for future assessments and measuring progress in the performance of PFM, and to provide a basis for National and Provincial Treasury dialogue on future PFM reforms. The PEFA assessment is funded fully by the Department of National Treasury.

1.2 Methodology

To achieve the objectives of the mission the assessors used the PFM performance measurement framework issued by PEFA secretariat (PFM performance measurement framework, revised in January 2011), and supplemented by the PEFA sub-national government (SNG) guidelines.

The PEFA assessment presents an analysis with one higher level of government (HLG-1) indicator, and 28 high level PFM indicators, which are grouped into six broad categories (each of which represents a key component of the overall PFM cycle). The PEFA assessment will not cover the three indicators pertaining to donor practices since these are not applicable to the SNG level. The performance measurement framework identifies six main dimensions of an open and orderly PFM system, as follows:

- Credibility of the budget – the budget is realistic and is implemented as intended;
- Comprehensiveness and transparency of the budget process – the budget and the fiscal risk oversight are comprehensive and the fiscal as well as the budget information is accessible to the public;
- Policy-based budgeting – the budget is prepared in order to best carry out government policies;
- Predictability and control in budget execution – the budget is implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds;
- Accounting, recording and reporting – adequate records are maintained and information is produced, maintained and disseminated to meet decision-making control, management and reporting purposes; and
- External scrutiny and audit – arrangements for scrutiny of public finances and follow-up by executive are operating adequately.

The performance measurement framework does not review factors impacting performance, such as the legal framework or existing capacities in the provincial government. It focuses on the operational performance of the key elements of the PFM system, and not on the inputs that enable the PFM system to reach a certain level of performance. It does not involve fiscal or expenditure policy analysis, which would determine whether fiscal policy is sustainable, whether expenditures incurred through the budget have their desired effect on reducing poverty or achieving other policy objectives, or whether value for money is achieved in service delivery.

1.3 Process

The PEFA assessment process was carried out in three main stages: the preparatory work and desk study, the field work, and the quality assurance review.

The preparatory work and desk study

The desk study began with the preparation of a work plan coordinated under the lead of the National Treasury and the engagement of the Department of Provincial Treasury). The desk review phase took place during the last week of September 2014 with the team assessing background documentation on the macro-fiscal situation, the budgetary outcomes and other relevant economic data, and documents available for the province in the official website (www.nwpg.gov.za).

The field study

The field study took place between 30 September and 31 October 2014. This included the inception phase, the PEFA assessment work, and the initial quality assurance review.

The inception phase consisted of a PEFA workshop targeting key stakeholders from the PT and chief financial officers (CFOs) from line departments. The purpose was to provide training on the use of the PEFA assessment framework with the application in SNG levels and to concur on a work plan discussed with the National Treasury. At the end of the inception workshop the Provincial Treasury authorities agreed on the work plan and committed

to gather the necessary evidence and interviews with the various stakeholders, as requested by the PEFA assessors.

The assessment work took place during 15 to 31 October 2014, and included gathering and reviewing of relevant data and interviews with staff of various key units in the Department of the Provincial Treasury, the Departments of Health, Social Development, and Human Settlements, the office of the Auditor General, and representatives of the African National Congress at the Provincial Legislature. The latter approach was taken as the team attempted fruitlessly to interview the Office of the Legislative's Clerk. It ended up with the elaboration of a first draft PEFA assessment reports.

An initial quality assurance review was performed during a validation meeting with the head of the budget division and the debriefing with the head of the Provincial Treasury. The PEFA consultants presented a summary table with the preliminary scores and key supporting evidence. Initial comments were received by the provincial authorities and form part of the first draft PEFA report.

The final draft PEFA report was prepared following the receipt and reviewing of comments and submitted in the second half of December 2014.

1.4 Scope

This report covers the provincial government operations, inclusive of line departments and public entities under their supervision. The financial management of municipalities and public entities are only visited in relevant indicators as prescribed by the PEFA guidelines where they have fiscal relations with the provincial government and in the context of fiscal risk assessment and transparency and timeliness of fiscal transactions.

The North West provincial government consists of 13 Votes, three district municipalities, 23 local municipalities and six provincial public entities. The finances of the provincial government are regulated by the Public Finance Management Act (PFMA) while local government finances are regulated by the Municipal Finance Management Act (MFMA). The provincial government comprises the office of the Premier, 11 line departments (inclusive of public entities under their supervision), and the Provincial Legislature. The general government of North West budget for FY 2013/14 amounted to approximately US\$3,633-million, equivalent to 20.9 per cent of local GDP, of which provincial government represents 70.7 per cent of the total, whereas district municipalities, local municipalities and public entities represent 2.5 per cent, 26 per cent and 0.8 per cent, respectively.

Most quantitative PEFA indicators require data for three years as the basis for the assessment. Data should cover the most recent completed fiscal year for which data is available and the two immediately preceding years. Thus, the PEFA assessment for North West Province is based on the experience of fiscal years 2011/12, 2012/13, and 2013/14 (except for PI-27 in which the FY 2014/15 was assessed).

The structure of the evaluation report is as follows: section 2 provides background information on the economic, budgetary outcomes, and the legal and institutional context. Section 3 explains the scores for the 29 individual performance indicators. Section 4 describes the North West Province's PFM reform efforts up to now, and the prospects for further progress. A series of annexes provide more detailed reference information, including the budget data used for the quantitative indicators (Statistical Appendix), the list of officials consulted (Annexure 1) as well as the list of documents consulted (Annexure 2).

2 Background to the province

2.1 Macroeconomic overview and development results

North West Province's economic growth and development outcomes were modest in the past three years. Economic growth performed negatively in agriculture and mining sectors; it was predominantly negative in the electricity sector and low in other economic infrastructure thus resulting in declining manufacturing and trade activity overall. As a result, the provincial economy grew by only 1.4 per cent on average—below the target of 5 per cent required for the country, and the unemployment rate equaled 26.2 per cent -- well above the 15 per cent targeted for the country (table 2).

Table 2: Selected economic and development indicators, 2011-2013

NW GVA Average annual growth (% constant 2005 prices)	2011	2012	2013
Agriculture	-2.7%	0.4%	0.0%
Mining	1.8%	-10.2%	1.4%
Manufacturing	2.8%	2.2%	0.3%
Electricity	1.1%	-3.3%	-1.3%
Construction	1.1%	3.0%	3.2%
Trade	4.6%	3.9%	1.8%
Transport	4.1%	2.8%	2.5%
Finance	5.1%	7.0%	3.5%
Community services	2.7%	2.6%	1.2%
Total Industries	2.9%	-0.4%	1.7%
NW selected development indicators	2011	2012	2013
Total population	3 496 669	3 554 571	3 611 176
Population growth rate (%)	1.7%	1.7%	1.6%
Human development index (HDI)	0.56	0.58	0.58
Gini coefficient	0.59	0.59	0.59
Percentage of people in poverty	42.3%	39.0%	42.4%
Unemployment rate, official definition (%)	26.5%	26.2%	26.2%

Source: North West Provincial Treasury (PT).

Fiscal performance

The fiscal sector in North West Province did not perform satisfactorily between 2011/12 and 2013/14 thus weakening the prospect of enhancing economic growth and overcoming the social and development challenges in the medium-term. Fiscal discipline was supported on the aggregate, nonetheless. Vulnerabilities in public finance were exacerbated by the absence of effective financial controls aimed at tightening of fiscal policy and eliminating of structural rigidities in the budget, and the growth of capital expenditure causes serious delays in implementation and capacity constraints at local level. The deteriorating fiscal position at national level strained the level of funding to the province in the first two years though it eased in the third year leading to the overall fiscal balance to revert from a surplus of 0.5 per cent in 2011/12 to a projected deficit of 0.6 per cent in 2013/14 (Table 3).

The province experienced modest increases in receipts of national revenues and little progress in the squeezing of consumptive expenditure during 2011/12 and 2012/13. Total domestic revenues rose rapidly to 15.2 per cent of GDP in 2013/14, from 14.3 per cent of GDP during FY 2011/12 and FY 2012/13. Local revenue remained unchanged in 0.5 per cent of GDP over the period. Total expenditure, on the other hand, rose more significantly, to 15.7 per cent of GDP in 2013/14, from 13.7 per cent of GDP in 2011/12. Furthermore, wages increased incrementally to 9.5 per cent of GDP in FY 2012/13, from 9.3 per cent in FY 2011/12 and 8.8 per cent of GDP in FY 2010/11.

Table 3: Summary of provincial fiscal operations (in % of provincial GDP)

	2011/12	2012/13	2013/14
Total revenue	14.3	14.3	15.2
<i>Of which: National grants 1/</i>	13.8	13.7	14.7
Total expenditure	13.7	14.1	15.7
<i>Of which: Compensation of employees</i>	8.1	8.4	8.9
Purchases	2.5	2.6	2.9
Capital expenditure	0.9	0.8	1.6
Overall fiscal balance	0.5	0.2	-0.6
<i>Financing</i>	0.2	0.2	0.8
Accumulation of reserves	0.2	0.0	0.4
Rollovers (incl. accumulation of arrears)	0.2	0.2	0.4
Overall fiscal balance, after financing	0.4	0.4	0.2

Source: *Statistical appendix, tables 1 and 2 (prepared on the basis of AGSA and PT data).*

1/ Data include Equitable Share and conditional transfers.

One salient feature during FY 2013/14 is the additional fiscal space created for the province, from increases in national grants (equivalent to 1 additional percentage point of GDP). This is attributed to increases in both the equitable share (0.5 per cent of GDP) and conditional grants (0.5 per cent of GDP), which were used primarily to cover for the budgetary needs in compensation of employees (additional 0.5 per cent of GDP), payments for capital assets (0.8 per cent of GDP) and purchases of goods and services (0.3 per cent of GDP). Increases in payments of capital assets include those allocated for major road rehabilitation and maintenance works and to the once off allocation of the newly purchased office building to house all HQ employees. Additional payments to suppliers and contractors were nonetheless offset by rollovers and accruals, equivalent to 0.4 per cent of GDP.

2.2 Allocation of resources and budgetary outcomes

Allocation of budgetary resources

Table 4 shows how the economic composition of expenditure changed albeit modestly over the past three years. Analysis of public expenditure shows that the budget concentrates mainly in compensation of employees (58 per cent), purchases of goods and salaries (18 per cent) and current transfers and subsidies (15 per cent). The remainder of the budget represents capital expenditure, which grew modestly to 10 per cent of the total in 2013/14, from 7 per cent in 2011/12.

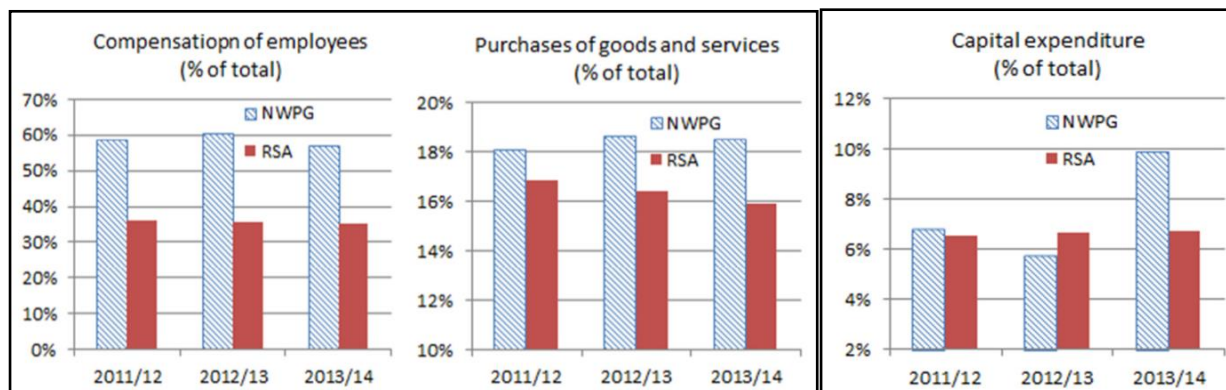
Table 4: Economic composition of provincial government expenditure (in % of total)

	Fiscal year		
	2011/12	2012/13	2013/14
Total expenditure	100.0	100.0	100.0
Current expenditure	93.2	94.3	90.1
Compensation of employees	58.6	60.0	56.7
Goods and services	18.1	18.7	18.5
Interest payments	0.0	0.0	0.0
Grants and other transfers	16.5	15.6	14.8
Capital expenditure	6.8	5.7	9.9

Sources: *Statistical appendix, table 1 (prepared on the basis of AGSA and PT data).*

Even though the share of compensation of employees in the budget decreased moderately over the past three years, it remains well above the average for the country. Noticeably, purchases of goods and salaries remained the most rigid of all economic categories in the budget, and also above the national average. Conversely, capital expenditure placed below the national average in FY 2011/12 and FY 2012/13, but then reverted rapidly and surpassed the national average by more than three percentage points in FY 2013/14 (Figure 1).

Figure 1: Comparison of province and national expenditure in selected economic categories



Sources: Department of Finance; and IMF staff estimates.

Analysis of the functional composition of provincial expenditure suggests that the high government expenses incurred in recent years shows that budgetary resources concentrate mainly in social services (78 per cent) due to the fact that Health, Social Development and Education are personnel driven. Evidence suggests that strategic allocation of budgetary resources over the past three years aimed towards the need to protect pro-poor social programmes and support increased investments in roads and energy infrastructure for enabling rapid and sustained economic growth. Noticeably, the allocation between social and economic development programmes remained so distant and disproportional, with the former combined representing a budget of almost five times (Table 5). And yet, the high government expenses incurred in recent years do not largely commensurate with the development results, primarily in education and health sectors, and economic infrastructure.

Table 5: Actual budgetary allocations by main function (in % of total)

Function	Fiscal year		
	2011/12	2012/13	Projected 2013/14
General Services	4.1	4.3	5.3
Public Order and Safety	1.4	1.8	1.7
Economic affairs	16.0	13.7	16.7
Social Services	78.3	79.7	75.9
Health	26.1	27.5	27.6
Education	41.6	42.1	38.0
Housing and Community Affairs	5.3	4.9	5.0
Social Protection	3.6	3.6	3.5
Recreation, Culture and Religion	1.7	1.6	1.7
Environmental protection	0.3	0.5	0.4
Total expenditure	100.0	100.0	100.0

Source: North West Provincial Treasury (PT).

Fiscal impact

Fiscal behavior did not change significantly to accommodate the effects of rising spending demands of recent years. The fiscal response to keeping budget on balance consisted primarily of cutting back certain non-salary expenditure items in education and health, or deferring payments and entering into expenditure accruals thus suggesting that key structural issues in provincial financial management such as low local taxation, high compensation of public workers, and procurement and contractor management remained the major challenges in the fiscal reform agenda over the past three years.

2.3 Legal and institutional framework of PFM

South Africa has nine provinces, namely, Eastern Cape, Free State, Gauteng, KwaZulu-Natal, Limpopo, Mpumalanga, Northern Cape, North West and Western Cape. Each province has its own provincial government with legislative powers vested in a provincial legislature and executive powers vested in a provincial premier and exercised together with other members of a provincial executive council.

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

MECs are accountable individually and collectively to the Provincial Legislature.

The Legislature has between 30 and 80 members elected for a five-year term. Provincial elections are held concurrently with national elections every five years. The Legislature is empowered to pass legislation in its functional areas.

The public service of North West Province consists of 13 budgetary heads. These include the following:

- Office of the Premier
- Provincial Legislature
- Department of Basic Education and Training
- Department of Health
- Department of Social Development, Women, Children and Persons with Disabilities
- Department of Sports, Arts and Culture
- Department of Public Safety and Liaison
- Department of Economic Development, Environment, Conservation and Tourism
- Department of Finance
- Department of Local Government and Traditional Affairs
- Department of Public Works, Roads and Transport
- Department of Agriculture and Rural Development
- Department of Human Settlements

Also, six public entities form part of the provincial government budget, and these comprise the following:

- Mmabana Arts, Culture and Sports Foundation
- North West Development Corporation
- North West Gambling Board
- North West Parks and Tourism Board
- North West Provincial Aids Council
- North West Provincial Arts and Culture Council

Constitution

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

Section 42 states that Parliament has the prerogative of establishing committees to oversee the activities of the Executive. Among these is the select committee on public accounts (SCOPA), which summons an executive member (minister) to account on the activities of his or her department with regard to the management of the funds allocated to that executive member by parliament. Section 100 deals with the national supervision of provincial administration and states that when a province cannot or does not fulfil an executive obligation in terms of legislation or the Constitution, the national executive may intervene by taking any appropriate steps to ensure fulfillment of that obligation.

Section 188 provides for the Office of the Auditor-General (AGSA) to audit the end-year financial statements of government agencies in all spheres. Section 214 (1) requires Parliament to pass an Act for (a) the equitable division of revenue raised nationally among the national, provincial and local spheres of government; (b) the determination of each province's equitable share of the provincial share of that revenue; and (c) any other allocation to provinces, local government or municipality from the national government's share of that revenue, and any conditions on which those allocations may be made.

Section 216(1) stipulates that: national legislation must establish a National Treasury and prescribe measures to ensure both transparency and expenditure control in each sphere of government by introducing (a) generally recognised accounting practice (GRAP), (b) uniform expenditure classifications, and (c) uniform treasury norms and standards. Section 217(1) stipulates that an organ of state in the national, provincial or local government sphere of government or any other institution identified in national legislation, contracts for goods and services, must do so in accordance with a system which is fair, equitable, transparent, competitive and cost-effective.

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

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

The foreword also states that the key objectives are to modernise the system of financial management; enable public sector managers to manage, but at the same time be more accountable; ensure the timely provision of quality information; and eliminate waste and corruption in the use of public assets.

Provincial governments have to establish provincial treasuries, “which are responsible for preparing and managing provincial budgets and enforcing uniform norms and standards as prescribed by the National Treasury and this Act.” The Act confers specific responsibilities on accounting officers, which are: (a) the operation of basic financial management systems, including internal controls in departments and entities they control; (b) to ensure that departments do not overspend their budgets; (c) to report on a monthly and annual basis, including the submission of annual financial statements two months after the end of a financial year, (section 40); and (d) to publish annual reports in a prescribed format which will introduce performance reporting.

The Provincial Treasury (or more broadly known as the Department of Finance) is required by national legislation to create an enabling environment for government to deliver effective services throughout the North West Province by prudently managing public resources. To achieve this mission, the Department of Finance is empowered by the PFMA and the MFMA which give overall prescription of how public and municipal resources ought to be managed. It is the Finance Department’s main responsibility to put systems into place to enable it to execute its mandate in ensuring the compliance of the PFMA and the MFMA by departments, public entities and municipalities

The Department of Finance is divided functionally into four different programmes: administration, sustainable resource management, assets and liabilities, and financial governance.

The roles and responsibilities of the department are divided as follows:

Programme 1: Administration

The programme provides human resource support, strategic management, communication and departmental financial management services. This programme consists of four sub-programmes, namely, office of the MEC, management services, corporate services and financial management (office of the CFO).

The administration programme consists of the following sub-programmes:

- Office of the MEC
- Management services, which incorporates departmental risk management and provincial monitoring and evaluation.
- Corporate services, which incorporates information management, human resource management and Strategic management.
- Departmental financial management (office of the CFO)

Programme 2: Sustainable resource management

The programme’s aim is to provide professional advice and support on provincial economic analysis, fiscal policy and the management of annual budget process, implementation of the provincial budgets as well as monitoring and control the North West provincial expenditure.

Sustainable resource management programme consists of the following sub-programmes:

- Programme support
- Economic analysis
- Fiscal policy
- Budget management
- Public finance (resource control)

- Infrastructure coordination
- Municipal finance management

Programme 3: Assets and liabilities

This programme's aim is to provide policy direction on the following:

- Monitoring of physical and financial assets;
- Implementation and monitoring of supply chain management (SCM) in the province;
- Implementation and management of the electronic tendering system (ETS) in the province.

Assets and liabilities programme consists of the following sub-programmes:

- Asset management
- Provincial supply chain management

Programme 4: Financial governance

The aim of this programme is to provide quality accounting services and ensuring appropriate norms and standards which enhance performance orientated financial management.

Financial governance programme consists of the following sub-programmes:

- Accounting services
- Financial systems and training
- Provincial risk management
- Provincial internal audit

Accounting officers who fail to comply with the responsibilities will face strict disciplinary sanctions, including dismissal. Similar sanctions will apply to treasury officials failing to carry out their responsibilities. The new Public Service Act regulations and the trend towards performance contracts will complement this approach. Accounting officers are expected to appoint CFOs as part of their senior management to enable them to fulfill their responsibilities.

Chapter 4 states that Parliament and provincial legislatures must appropriate money for each financial year for the requirements of the state and the province, respectively. Section 27 states that the minister must table the annual budget for the financial year in the National Assembly before the start of that financial year or, in exceptional circumstances, on a date as soon as possible after the start of that financial year, as the minister may determine.

Among others, section 77 states that there must be an establishment of an audit committee. Audit units in departments are expected to submit audit reports to the audit committee on a continuous basis. The Auditor-General takes into consideration the audit committee reports.

Detailed treasury regulations were provided to guide the implementing of the PFMA.

Preferential Procurement Policy Framework Act (Act No. 5 of 2000)

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

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

Division of Revenue Act (DORA)

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

The transfers to provinces are in two forms, as legislated under the annual DORA. The main form, accounting for about 80 per cent of transfers, is the equitable share grant, in terms of which each province receives an equitable share of tax revenues, virtually all of which are assigned to the national government. The equitable share of these revenues between provinces is determined by a formula of six components or indices of relative demand for services between provinces and considering provincial circumstances. They are:

- An education share (48 per cent) based on the size of the school age population (ages 5-17) and the average number of learners enrolled in ordinary primary schools for the past three years;
- A health share (27 per cent) based on the ratio of the population with and without access to medical aid;
- A basic share (16 per cent) derived from each province's share of the country's total population;
- A poverty component (3 per cent) based on the poor population includes falling in the first two quintiles of household incomes in the 2005 income and expenditure survey (IES);
- An economic output component (1 per cent) based on the final GDP by region (GDPR) data; and
- An institutional component (5 per cent) divided equally among the provinces.

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

The other form comprises conditional grants through which the national government supports provincial and municipal governments in implementing programmes of national priority. Section 7(7) of DORA requires that the accounting officer of the provincial education department certifies that funds have been spent in accordance with the purpose and the conditions of the grant.

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

This Act gives effect to the Constitution by setting out the process of intergovernmental consultation in enacting the DORA. It establishes the consultative intergovernmental forum for the budget process, including the process of considering recommendations made with regard to the equitable division of nationally raised revenues.

The budget council is a forum between the Minister of Finance with all MECs for Finance in all nine provinces. MECs can raise issues of provincial interest that have a bearing on their allocation of the budget. The budget forum consists of the budget council, financial and fiscal commission and the South African Local Government Association (SALGA).

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

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

The legislative branch — portfolio committees

For the above purposes the role and powers of a portfolio committees are established by the Provincial Legislature Act (Act No. 3 of 1996). Its main role is to examine the accounting and financial matters raised by the Auditor-General for investigation. To this end the Committee examines the accounting officer(s) of the various departments of the provincial administration and other institutions audited by the Auditor-General whom it is considered necessary to call before the committee on the basis of comments made by the Auditor-General in his or her reports, and particularly any criticisms which he or she may have to offer.

3 Assessment of PFM systems, processes and institutions

3.1 Credibility of the budget

The following analysis derives an estimate of the extent to which the budget is realistic and implemented as intended.

HLG-1 Predictability of transfer from higher level of government

Dimensions to be assessed (scoring method M1):

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

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

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

The North West Province funds its annual budget through two sources of income: national revenues and own provincial revenues. The former is composed of the provincial equitable share and a lump of conditional grants, which are current and capital grants from national government, respectively. The own revenue are funds generated domestically, in the province. The revenue envelope concentrates mainly in the equitable share, which accounts for 78.8 per cent of the total, and conditional grants and own provincial revenues, which are 17.8 per cent and 3.4 per cent, respectively.

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

The National Treasury transfers to the province deviated from the originally approved budget by 0.9 per cent in FY 2011/12, by 2.6 per cent in FY 2012/13 and by 1.2 per cent in FY 2013/14 (Table 6).

Table 6: Grants by national government to North West province government (*)

R million	2011/12		2012/13		2013/14	
	Budget	Actual	Budget	Actual	Budget	Actual
Equitable share	19 271	19 482	20 615	20 871	22 754	22 910
Conditional grants	4 541	4 548	4 939	4 010	4 990	5 172
Total	23 812	24 030	25 554	24 881	27 744	28 082
Difference as % of budgeted revenue		0.9%		-2.6%		1.2%
Total equitable share (earmarked grants)		1.1%		1.2%		0.7%

Source: Statistical appendix, Table 1 (prepared on the basis of AGSA and PT data).

() Data based on audited revenues for the period, except for fiscal year 2013/14.*

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

The conditional grants are distributed among eight line departments, which include Agriculture, Education, Health, Social Development, Human Settlement, Economic Development and Tourism, Roads and Public Works, and Sports, Arts, and Culture. Variances between actual and estimated conditional transfers equaled 10.1 per cent, 8.7 per cent and 4.5 per cent in FY 2011/12, FY 2012/13 and FY 2013/14, respectively¹.

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

A disbursement schedule was agreed between the National Treasury and the provincial government in each of the three years under review, by means of a Distribution of Revenue Act (DORA) before the start of the new financial year.

¹ For further details, see the data and calculations presented in the Statistical Appendix.

Indicator	Score	Explanation
HLG-1 Predictability of transfers from higher level of government	D+	Scoring method M1
i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the province for inclusion in the latter's budget	A	In none of the past three fiscal years have HLG transfers either fallen short of or exceeded the budget estimate by more than 5%.
ii) Annual variance between actual and estimated of earmarked grants	C	Variance in the release of earmarked grants exceeded 10 percentage points in one of the last three financial years under review.
iii) In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within one month of the start of the province FY)	A	A disbursement schedule forms part of the agreement between the National Treasury and the Provincial Treasury and this is agreed by all stakeholders before the beginning of the fiscal year. Actual disbursement delays did not exceed 25% in any of the three financial years under review.

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

Dimensions to be assessed (scoring method M1):

(i) The difference between actual primary expenditure and the originally budgeted primary expenditure (i.e. excluding debt service charges, but also excluding externally financed project expenditure)

(i) The difference between actual primary expenditure and the originally budgeted primary expenditure (i.e. excluding debt service charges, but also excluding externally financed project expenditure)

The ability to implement the budgeted expenditure is an important factor in supporting the provincial government's ability to deliver the public services for the year as expressed in policy statements. Budget credibility requires actual budgetary releases to be similar to voted budgets and requires appropriate fiscal discipline to be in place. On the aggregate, primary expenditure of the province deviated on the aggregate by 2.2 per cent in FY 2011/12, by 3 per cent in FY 2012/13 and by 5.5 per cent in FY 2013/14 (Table 7). The two main determinants of deviation in expenditure are increases in compensation of government employees and recurrent transfers to households (i.e. grants to low-income households, and leave gratuities).

Table 7: Comparison of original budget and actual expenditures, FY 2011/12 to 2013/14

R millions	2011/12		2012/13		2013/14	
	Budget	Actual	Budget	Actual	Budget	Actual
Primary recurrent	21 577	22 310	24 120	24 022	26 296	27 141
Of which: Compensation of employees	14 031	14 023	15 176	15 293	16 413	17 086
Purchases of goods and salaries	4 690	4 335	4 854	4 761	5 594	5 585
Transfers to households	267	1 425	1 461	1 433	1 569	1 965
Capital expenditure	2 888	1 628	2 150	1 453	2 268	2 987
Primary expenditure	24 465	23 938	26 270	25 475	28 564	30 128
Difference as % of budgeted primary expenditure		-2.2%		-3.0%		5.5%

Source: Statistical appendix table 1 (prepared on the basis of AGSA and PT data).

1/ Excludes debt service payments and externally-funded capital expenditure. Actual expenditure refers to warrants authorised and obligations issued within the fiscal year.

2/ Data refer to audited annual expenditure for the period, except fiscal year 2013/14.

Indicator	Score	Explanation
PI-1 Aggregate expenditure out-turn compared to original approved budget	A	Scoring method M1
(i) Difference between real primary expenditure and originally budgeted primary expenditure (debt service charges and also expenditure on projects from external financing excluded)	A	Actual expenditure of North West provincial government as deviated from budgeted expenditure, on the aggregate, in a range between 2% and 6% during the past three fiscal years.

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

Dimension to be assessed (scoring method M1)

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

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

According to section 25 of the PFMA, the MEC for Finance in the province may authorise the use of funds from the PRF to defray expenditure of an exceptional nature which is not provided for and which cannot, without serious prejudice to the public interest in the province, be postponed to a future appropriation by the Provincial Legislature. Despite the requirement in the budget legislation, the government of North West Province is not allocating a provision for events of contingency such as unforeseen natural disasters or health emergencies.

Table 8 shows the difference between budgeted and actual expenditure for each vote. The analysis suggests that restraint was exercised by the Provincial Treasury to keep total spending within range of available cash resources across departments, especially in the largest departments in the budget. In general, budget execution varied but moderately in the administrative composition, with social sector agencies earning the largest increases in every year buffered though by cutbacks in other departments, not affecting the goal of achieving fiscal discipline overall. In sum, expenditure composition variances observed were moderate at 4.4 per cent in FY 2011/2012, 5.4 per cent in FY 2012/13, and 3.2 per cent in FY 2013/14.

Table 8: Composition of budget execution by administrative head, 2011/12 to 2013/14

Budgetary head (vote) R millions	2011/12			2012/13			2013/14		
	Budget	Actual	%	Budget	Actual	%	Budget	Actual	%
Office of the Premier	230	202	-	236	213	-6.9%	260	356	29.8%
Legislature	152	164	10.3%	165	185	15.6%	217	211	-7.8%
Health	6 321	6 380	3.2%	6 959	7 021	4.0%	7 667	8 394	3.8%
Sports, Arts and Culture	433	408	-3.7%	447	395	-8.9%	466	468	4.8%
Human Settlements	1 139	1 298	16.5%	1 199	1 259	8.3%	1 491	1 634	3.9%
Economic Development and Tourism	456	385	-	427	386	-6.8%	486	522	1.8%
Finance	332	298	-8.3%	370	357	-0.7%	463	389	-20.4%
Basic Education and Training	10 262	10 148	-1.1%	10 872	10 736	-1.8%	11 321	11 756	1.5%
Local Government and Traditional	317	320	3.2%	332	344	6.8%	431	450	1.0%
Public Works, Roads and Transport	2 827	2 426	-	3 082	2 430	-18.7%	3 393	3 541	1.1%
Social Development	882	883	2.3%	950	922	-0.1%	1 082	1 046	-8.3%
Agriculture and Rural Development	759	691	-7.0%	851	775	-6.1%	835	858	2.6%
Public Safety	350	335	-2.2%	379	453	23.2%	452	502	5.3%
Memo: Social Sectors	19 037	19 117	2.6%	20 427	20 333	-2.6%	22 027	23 298	0.3%
Total allocated expenditure	24 465	23 938	-2.2%	26 269	25 476	-3.0%	28 564	30 127	5.5%
Composition variance (%)			4.4%			5.4%			3.2%

Source: Statistical appendix, tables 19, 20 and 21 (prepared on the basis of AGSA and PT data).

1/ Excludes debt service payments and externally-financed capital expenditure.

Expenditure analysis suggests that, across departments, economic restraint has come at the benefit of certain departmental budgets but also at the expense of others. Increases in the budget of compensation of employees have been medium to large in every social sector department, whereas the most negatively affected budgets had been those relating with purchases of goods and services and payments for capital assets budget in both economic and social sector departments. In all, the Department of Public Works, the Department of Economic Development and Tourism, and the Development of Agriculture and Rural Development have been those most negatively affected in every major category of spending over the past three fiscal years (Table 9).

Table 9: Composition of budget execution by administrative head and selected economic categories, 2011/12 to 2013/14

	2011/12	2012/13	2013/14	2011/12	2012/13	2013/14	2011/12	2012/13	2013/14
	Compensation of employees			Goods and services			Capital expenditure		
Office of the Premier	-9.2%	-7.0%	15.6%	-33.6%	-16.9%	79.9%	-17.6%	49.6%	-69.2%
Legislature	-1.4%	13.7%	7.4%	-9.3%	-2.6%	0.9%	545.2%	848.3%	-70.6%
Health	4.7%	3.5%	10.3%	-8.3%	-2.0%	-2.1%	2.5%	-7.0%	64.8%
Sports, Arts and Culture	-18.9%	-5.8%	-6.2%	15.4%	-13.1%	0.2%	-6.2%	-19.4%	-3.4%
Human Settlements	0.6%	6.1%	-7.8%	14.1%	78.6%	56.1%	10.3%	20.5%	-22.9%
Economic Development and Tourism	-5.3%	-5.9%	10.8%	-20.3%	-33.2%	-37.4%	19.2%	84.7%	853.8%
Finance	-22.3%	-29.3%	-33.0%	7.2%	33.0%	9.8%	19.0%	18.3%	-47.5%
Basic Education and Training	-0.1%	1.2%	3.6%	-13.1%	-7.1%	-3.4%	10.4%	-43.7%	21.2%
Local Government and Traditional Affairs	-5.9%	-1.4%	-2.1%	39.4%	57.6%	-38.3%	21.3%	-77.6%	187.6%
Public Works, Roads and Transport	-6.8%	-11.9%	-6.4%	-14.9%	-9.2%	-0.8%	-40.3%	-50.2%	29.0%
Social Development	0.2%	7.6%	5.6%	11.2%	-19.0%	1.0%	-13.6%	37.7%	-5.0%
Agriculture and Rural Development	0.2%	6.0%	-2.3%	11.1%	-1.4%	-2.0%	11.3%	56.8%	87.5%
Public Safety and Liaison	-7.6%	-6.6%	-0.3%	6.0%	92.8%	34.6%	-32.9%	224.5%	42.4%
<i>Memo: Social Sectors</i>	1.0%	2.1%	5.5%	1.3%	-6.4%	0.6%	5.0%	-22.2%	41.4%
Total	-0.1%	0.8%	4.1%	-7.6%	-1.9%	-0.2%	-10.9%	-32.6%	35.8%

Source: Statistical appendix tables 7, 10 and 13 (prepared on the basis of AGSA and PT data).

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

The Provincial Treasury usually makes provision for a reserve fund in the PRF to eventually use for unforeseen contingency purposes. The budget, however, does not apportion an amount or certain minimum percentage out of it in the eventuality of emergency situations.

Indicator	Score	Explanation
PI-2 Deviations in composition of expenditure out-turn compared to the original approved budget	A	Scoring method M1
(i) Degree to which the variation in composition of primary expenditure has exceeded the global deviation in primary expenditure (as defined in PI-1) in the past three years	A	Overall variance in expenditure composition exceeded between 3% and 5% over the past three fiscal years.
(ii) The average amount of expenditure charged to the contingency vote over the last three years	A	The province does not allocate a portion of the budget to any form of contingency. In contrast to the National Treasury, it is not practice that the province apportions a certain amount to emergency or other major unforeseen circumstances.

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

Dimension to be assessed (scoring method M1)

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

Actual domestic revenue, including local taxes and non-tax receipts (as a percentage of originally budgeted revenue) was 121 per cent in FY 2011/12, 132 per cent in FY 2012/13, and 119 per cent in FY 2013/14 (Table 10). Such a performance is attributed to large variations in both tax and non-tax out-turns, thus denoting the need to improving the process of revenue forecasting in key departments so as to make revenue estimates and expenditure plans funded with own revenues more realistic and credible figures in the budget system.

As noted in HLG-1 above, about 3 per cent of the province budget is funded by own domestic revenues, of which local taxes represent 1.5 per cent on average. Own revenues are concentrated mainly in motor vehicle licences (36 per cent), interest earnings (17 per cent) and gambling tax receipts (10 per cent), collected through the Departments of Police, Roads and Transport, the Finance Department, and the Department of Economic Development and Tourism, respectively.

Table 10: Comparison of budgeted and actual own revenues, FY 2011/12 to 2013/14

Budget item R'000	2011/12			2012/13			2013/14		
	Budget	Actual	%	Budget	Actual	%	Budget	Actual	%
Tax revenue	319	339	106.4%	351	449	127.9%	369	466	126.3%
<i>Of which: vehicle licences</i>	237	253	106.8%	265	356	134.5%	278	368	132.4%
Non-tax revenue	334	450	134.9%	367	499	135.9%	454	513	113.2%
<i>Of which: interest earned</i>	44	116	266.4%	40	180	455.9%	101	175	172.9%
Total domestic revenue	653	789	120.8%	718	947	131.9%	822	979	119.1%

Source: Statistical appendix, table 2 (prepared on the basis of AG and PT data).

Indicator	Score	Explanation
PI-3 Deviations in aggregate revenue out-turn compared with the original approved budget	D	Scoring method M1
(i) Real collection of domestic income in comparison with estimates in the original approved budget	D	Own domestic revenue collected was above 116% in all the three fiscal years under review.

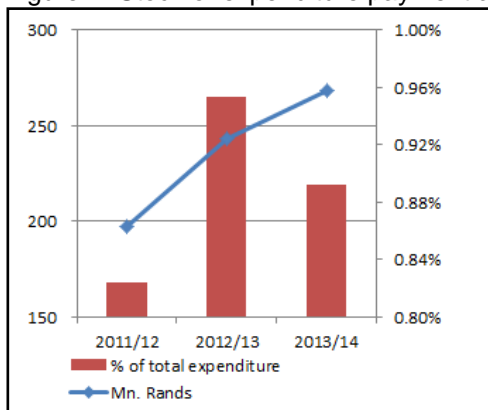
PI-4 Stock and monitoring of expenditure payment arrears

Dimensions to be assessed (scoring method M1):

(i) Stock of expenditure payment arrears

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

Figure 2: Stock of expenditure payment arrears



Sources: AG and PT

(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock

The stock of expenditure payment arrears (invoices overdue more than 30 days) equaled about 1 per cent of the total budget at end of FY 2013/14. Evidence indicates that the level of accruals in Rand amounts nonetheless grew by 11 per cent at March 2014, down from 23 per cent at March 2013 (Figure 3.1 and Table 3.6). Departmental analysis shows that the increase is mainly attributed to accumulation of unpaid invoices to pay for the replenishment of medicines and medical supplies and for essential laboratory services and municipal utilities companies by the Department of Health and for payment to road maintenance services by the Department of Public Works over the past three years (Table 9).

(ii) Availability of data for monitoring the stock of payment arrears

The Provincial Treasury is provided with the necessary information for performing the monitoring of payment arrears on behalf of the government, as required by the PFMA. Expenditure payment arrears are reported by every department as part of the accruals on a monthly basis and by age of invoices, overdue 30 days and more, as the type of controls prescribed in the Treasury regulation 8.2.3².

² Treasury regulation 8.2.3 prescribes that “unless otherwise in a contract or other agreement, all payments due to creditors must be settled within 30 days from receipt of an invoice or, in the case of civil claims, from the date of settlement or court judgement”.

Table 11: Accumulation of expenditure payment arrears, by administrative head (in R'000)

Department	2011/12	2012/13	2013/14
			30+ days
Officer of the Premier	472	434	2,530
Legislature	862	2 639	895
Health	120 085	201 119	237 056
Sports, Culture and Recreation	2 772	1 965	371
Human Settlements	0	0	0
Economic Development and Tourism	0	0	0
Finance	922	0	0
Basic Education and Training	30 179	17 842	14 929
Local Governments	2 229	225	1 841
Public Works	33 755	3 614	10 293
Social Development	5 314	5 865	145
Agriculture	292	565	605
Public Safety	385	8 646	49
Total	197 267	242 914	268 714
% of total budget	0.8%	1.0%	0.9%

Sources: AGSA and PT

Indicator	Score	Explanation
PI-4 Stock and monitoring of expenditure payment arrears	A	Scoring method M1
(i) Stock of expenditure payment arrears	A	
(ii) Availability of data in order to monitor the stock of expenditure payment arrears	A	Reliable and complete data on the stock of arrears is generated through routine procedures at least at the end of each fiscal year (and includes an age profile by department).

3.2 Budget comprehensiveness and transparency

This indicator group examined the extent to which the budget and the presentation of information within and alongside the budget provide a comprehensive and clear picture of the government's intentions with respect to the management of public financial resources for which it is accountable. In particular, these indicators describe the extent to which such information is complete (i.e. comprises the totality of public finances); easy to understand; and made available to the general public in an accessible manner. The group identifies an important aspect of comprehensiveness and transparency with respect to the timely and clear flow of fiscal information between levels of government. It also touches on the extent to which information on the activities of sub-national governments, autonomous public agencies and public enterprises is available and sufficiently transparent to manage any potential fiscal risk from these institutions.

PI-5 Budget classification

Dimensions to be assessed (scoring method M1):

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

The formulation and execution of the provincial budget are provided with administrative, functional and economic classifications which enable consistent comparisons to be made between budgets and out-turns, and between one year and the next. They are broadly consistent with the standards set out in the IMF Government Finance Statistical Manual published in 2001 (economic and functional classification) and in the United Nations classification of functions of government manual (COFOG) (administrative classification).

In order to ensure transparency and expenditure control, section 216(1)(b) of the Constitution provides for the introduction of uniform expenditure classification. During 1998, the National Treasury started a process of reclassifying the existing expenditure items of government in line with government finance statistics (GFS). A new GFS reporting format was first introduced in the Gauteng Province and subsequently rolled out to all other provinces. A revised version of standard chart of accounts (SCOA) was implemented on 1 April 2008.

The North West Province and the other provinces use the Basic Accounting System (BAS) to record financial transactions. BAS has 7 segments as per SCOA which are used when posting transactions. These segments are:

- Fund – source of money;
- Objective – departmental actions in achieving departmental missions;
- Responsibility – organisational unit in a department;
- Items – what the money was spent on or reason of receipt;
- Project – specific project on which the money was spent;
- Asset – type of asset the money was spent on; and
- Region – where the money was spent³.

The North West provincial annual budget and the MTEF are presented based on the economic reporting format (ERF) which is a classification of all government receipt and payment items for reporting purposes. ERF is supported at the more detailed level by the SCOA which serves as a data entry or collection tool, where each detailed item is recorded at the posting level. SCOA comprises of the coding of items used for classification, budgeting, recording and reporting of receipts and payments in the financial system. ERF and SCOA are used to record and report on all transactions of government, whether it is in the budget, in-year financial reports or departments' annual financial statements. The codes and items in SCOA have been centralised and coordinated by the National Treasury's SCOA Technical Committee. Therefore, the chart structure cannot be amended at the discretion of a provincial department.

³ Guidelines for implementing the economic reporting format, September 2009

Indicator	Score	Explanation
PI-5 Classification of the budget	A	Scoring method M1
(i) The classification system used to formulate, execute and report on the provincial government budget	A	The budget formulation, execution and reporting is based on an economic, administrative and functional classification that is broadly compatible with government finance statistics (GFS) 2001 and classification of the functions of government (COFOG) standards.

PI-6 Comprehensiveness of information included in budget documentation

Dimensions to be assessed (scoring method M1):

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

Section 27 (2) of the PFMA requires the MEC for Finance to table the province's annual budget.

The North West Provincial Treasury prepares and arranges publication of the following budget documents:

- Provincial budget speech which talks to the policy priorities;
- Appropriation Bill;
- Provincial Government Gazettes relating to the Division of Revenue Bill;
- Estimates of provincial revenue and expenditure (actual audited outcomes, three years prior to current year and revised estimates of the prior year to the budget year);
- Budget set out on the MTEF with forward estimates (current year plus two forward years);
- Annual performance plans per vote (including audited annual financial statements and audit reports); and
- People's guide to the budget.

The provincial budget documentation for the fiscal year 2014/15 that was presented to the North West Provincial Legislature includes comprehensive information relating to the components of inflation, recent economic performance, priority areas, macroeconomic assumptions, fiscal projections for the following year, estimates of revenue and expenditure and the medium-term outlook, among others. The estimates of provincial revenue and expenditure (the blue book or EPRE) provides for elements of information summarised in table 10.

Table 12: Summary of budget documentation

Elements of budget documentation	Availability	Notes
Macro-economic assumptions, including at least estimates of aggregate growth, inflation and exchange rate	Yes	Estimates of GDP growth in constant prices, inflation, and population growth rate are amongst the assumptions used in the macroeconomic framework as a basis for EPRE document ⁴ . Exchange rate is not explicit in the framework.
Fiscal deficit, defined according to GFS or other internationally recognised standard	Yes	A projected overall balance of the province for the current year and the balance for the previous two years are presented in the EPRE document.
Deficit financing, describing anticipated composition	Yes	Overall financing of the deficit is presented for the last two years, with anticipated sources of financing, namely, accumulation of cash reserves and rollovers by departments.
Debt stock, including details of at least for the beginning of the current year	No	A statement on (stock of) bank overdrafts and overdue payments is missing.
Financial assets, including details of at least for the beginning of the current year	No	There is no specific section describing the stock of cash reserves and the investment income accrued for the current year and the previous two years.
Prior year's budget out-turn, presented in the same format as the budget proposal	Yes	The audited outcome for the past three years, i.e. 2010/11; 2011/12 and 2012/13 are included in the 2014/15 EPRE document.
Current year's budget (revised budget or estimated out-turn), presented in the same format as the budget proposal	Yes	The 2014/2015 adjusted appropriation and revised estimates are presented in the same format as the annual budget proposal.
Summarised budget data for both revenue and expenditure according to the main budget heads of the classification used, including data for current and previous year	Yes	The budget includes summarised data according to the total provincial receipts and payments.
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 programmes	Yes	The overview of provincial revenue and expenditure for the 2014/15 MTEF outlines policy initiatives as a pre-amble to a particular vote. These policy initiatives are further explained in detail and their impact in annual performance plans.

Indicator	Score	Evaluation
PI-6 Comprehensiveness of information included in budgetary documentation	A	M1 Scoring method
(i) Proportion of information mentioned above and contained in the most recent budgetary documentation published by the central government.	A	Budget documentation fulfils seven of the nine benchmarks.

⁴ See EPRE 2014/15, "Summary of Budget Strategy and Aggregates", pages lxii to lxiii.

PI-7 Extent of unreported government operations

Dimensions to be assessed (scoring method M1):

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

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

(i) Level of unreported extra-budgetary expenditure

Section 226(1) of the Constitution states that “there is a PRF for each province into which all money received by the province must be paid, except money reasonably excluded by an Act of Parliament”. Sub-section (2) further states that, “money may be withdrawn from a PRF only (a) in terms of an appropriation by a provincial act or (b) as a direct charge (transfers to local government in that province) against the PRF, when it is provided for in the Constitution or Provincial Act”. Off-budget operations are essentially in the form of undeclared, unexplained, non-cleared and unauthorised expenditure carried forward to FY 2011/12 equaled 8 per cent of the provincial expenditure, and 1.3 per cent, 1.6 per cent and 2.5 per cent at the beginning of FY 2012/13, FY 2013/14 and FY 2014/15, respectively. The main sources of extra-budgetary expenditure are the Departments of Human Settlements, Education, and Health (table 13).

Table 13: Unauthorised expenditure in government, by administrative head

Department R'000	2011/12		2012/13		2013/14		2014/15
	Opening balance	Current year unauthorised expenditure	Opening balance	Current year unauthorised expenditure	Opening balance	Current year unauthorised expenditure	Opening balance
Office of the Premier	0	0	0	16 000	16 000	0	16 000
Legislature	285	0	0	4 502	3 516	0	3 516
Health	384 457	0	50 276	0	76 445	59 416	135 861
Sports, Culture and Recreation	2 290	0	0	0	0	0	0
Human Settlements	259 494	0	259 494	0	259 494	0	259 494
Economic Development and Tourism	440	0	0	0	0	708	708
Finance	0	0	0	0	0	0	0
Basic Education and Training	428 697	0	0	3 311	3 311	185 513	188 824
Local Government and Traditional Affairs	83 993	0	1 521	0	1 521	0	1 521
Public Works	500 632	0	238	0	238	27 587	27 825
Social Development	253 188	0	3 478	0	3 478	0	3 478
Agriculture and Rural Development	32 063	0	20 679	0	20 679	20 679	41 358
Public Safety	15 930	0	15 419	85 372	100 791	0	100 971
Total	1 961 469	0	351 105	109 185	459 304	293 903	779 376
% of total expenditure	8.017%	0%	1.337%	0.416%	1.608%	1.029%	2.453%

Sources: AGSA and PT

(ii) Income/expenditure information on donor-funded projects, which is included in fiscal reports

Section 76(1)(l) of the PFMA prescribes that the accounting officer may approve gifts, donations and sponsorships of state money and other movable property in the interest of the state. When such cash amounts exceed R100 000 per case, the approval of the relevant legislature must be sought by including the item separately in the appropriation bill.

In compliance with the above, the North West Province government recognises donor-funded grants (“Aid Assistance”) either monetary or in kind, or both, and are recorded as part as revenue in the financial statement. The corresponding expenditure is also disclosed as such. Departmental officials stated that monetary donations and sponsorships are included in the business plans of departments as part of funding of certain activities (i.e. cultural events) and are presented to donors. Once accepted by the relevant donor, the plan has to be approved by the National Treasury and gazetted as such. Funds are disbursed to the Provincial Treasury and included in the departmental budget as revenue under “grants, donor funding”. The donor funded budget and expenditure is recorded on BAS and reported through Annexes 1I, 1J and 1K. Expenditure is monitored against budget by the National Treasury through IYM and donor representative through quarterly reports. Information on donor funding is published in the departmental annual report and subsequently in the combined financial statement.

The provincial donor funded expenditure is included in fiscal reports and for the financial years 2011/12, 2012/13 and 2013/14 the expenditure is insignificant as a percentage of total expenditure—it represented 0.02 per cent, 0.01 per cent and 0.013 per cent respectively (Table 13).

Table 14: Donor-funded expenditure, by department and programme, FY 2011/12-2013/14 (*)

Department/ Programme R'000	Donor	2011/12		2012/13		2013/14	
		Domestic	External	Domestic	External	Domestic	External
Education (donation in cash)	Payment of funeral cost of a learner	32	-	-	-	-	-
Health aid assistance (donation in kind)	TEBA-Plant and equipment	-	-	-	-	277	-
	National health-vehicles	-	-	-	-	3 369	-
Public Works catering (donation in cash)	PI Enterprise	-	-	10	-	-	-
	Y Man Ventures	-	-	2	-	-	-
	Lerato Designs	-	-	1	-	-	-
Public Works (donation in kind)	Atamelang Bus Transport	-	-	8	-	-	-
	Bagale Consulting	-	-	14	-	-	-
	Pricewaterhouse Cooper	-	-	9	-	-	-
	Aurecon	-	-	14	-	-	-
	Phatwe Engineers	-	-	4	-	-	-
	Aphane Consulting	-	-	39	-	-	-
ENR Business Solutions	-	-	2	-	-	-	
Finance donations to social welfare organisations	Tsoga O Iketsetse Home Based Care Org.	4	-	-	-	-	-
Finance savings campaign	Donation of piggy banks	-	-	23	-	-	-
Mandela Day commemoration	Donation of school uniforms, shoes, bags	-	-	38	-	-	-
Sports, Arts and Culture - Women's Day celebration	AE Software	1	-	1	-	-	-
Sub-total donations and grants used		36	-	165	-	3,646	-
Plus: Local and foreign aid assistance funded expenditure		(**) 6 064		(**) 1 060		0	
<i>Total</i>		6 100		1 225		3 646	
% of total expenditure		0.02%		0.01%		0.013%	

Sources: Departmental annual financial statements and combined financial statements.

(*) Include gifts, donations and sponsorship received by businesses and individuals, and aid assistance.

(**) Local and foreign aid assistance received through the office of the Premier.

Indicator	Score	Evaluation
PI-7 Extent of unreported government operations	B+	Scoring method M1
(i) Level of extra-budgetary expenditure (as distinct from that for projects financed by donors) which is not declared, in other words does not appear in fiscal reports	B	The only form of provincial government extra-budgetary expenditure (defined as financial operations outside the approved NWP or 'unauthorised' expenditure) is reported in a minimal level, ranging between 1% and 2.5% of total expenditure and built up over the three financial years under review.
(ii) Information on income and expenditure relating to projects financed by donors that is included in fiscal reports	A	Income and expenditure data relating to donor funded programmes is included in financial reports and total amount spent is less than 1% of total expenditure).

PI-8 Transparency of intergovernmental fiscal relations

Dimensions to be assessed (scoring method M2):

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

Section 214 and 227 of the Constitution provides for the equitable division of revenue raised nationally among the national, provincial and local spheres of government where provinces and local governments are entitled to an equitable share of revenue raised nationally. This will enable the provinces and municipalities to provide basic services and perform the functions allocated to them. The Division of Revenue Act (DORA) and North West Appropriation Act are used to regulate the allocations.

(i) Transparency and objectivity in the horizontal allocation among sub-national governments

A transparent, formula-based equitable inter-governmental revenue sharing system is established between the Provincial Treasury and the various municipalities in the province with a view to enabling municipalities with the necessary and opportune funding to meet the primary service delivery needs. A provincial equitable share (PES) formula is arranged between the National and Provincial Treasuries to allocate national tax resources to municipalities through provinces in the form of an equitable share grant. This is reviewed and updated annually, based on the latest available data.

The distribution of weights by components changed slightly in recent years, with the education share dropping from 51 per cent to 48 per cent, the health share increasing from 26 to 27 per cent and the basic share component increasing from 14 to 16 per cent. The definitions of the various components and specifications on the distribution of the PES are outlined in the previous section.

(ii) Timeliness of reliable information on allocations to sub-national government

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

North West municipalities submit monthly statistics on revenue and expenditure by function (both projected and actual) to the Provincial Treasury within six months of the end of the fiscal year. The Provincial Treasury consolidates in a format pre-agreed and compatible for all municipalities together with the provincial government departments and public entities within twelve months and submits to IMF through the National Treasury for statistical purposes.

Indicator	Score	Evaluation
PI-8 Transparency of intergovernmental fiscal relations	B+	Scoring method M2
i) Transparent systems based on regulations regarding horizontal allocation between local governments of unconditional and conditional transfers from provincial government (budgeted and real allocations)	A	The horizontal allocation of provincial transfers to municipalities through the Provincial Treasury is eased through clear and fair rules and formula based systems.
ii) Punctual provision of reliable information to local governments about the allocations to be made to them by provincial government in the coming year	B	Municipalities are provided sufficiently reliable information on the allocations from national grants to be transferred to them ahead of completing their budget proposals. This allows municipalities to also prepare their annual performance plans and make any necessary adjustments at least thirty days before the start of the new fiscal year.
iii) Degree to which consolidated fiscal data are gathered and made known (at least in terms of income and expenditure) relating to general government, broken down by sector categories	B	Fiscal information (both budgeted and actual) that is fully compatible with GFS-based National Treasury fiscal reporting (by function) is collected by Provincial Treasury (municipal management) for 80%% (by value) of SN government expenditure and consolidated together with provincial departments and entities into annual reports within 12 months of the end of the fiscal year.

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

Dimensions to be assessed (scoring method M1):

- (i) Degree of province monitoring of the main autonomous public organisations and state companies*
- (ii) Degree to which the province monitors the fiscal position of local government*

(i) Extent of provincial government monitoring of public entities

In response to section 18(2)(d) and (e) of the PFMA, the Provincial Treasury has requested public entities to submit information on a monthly basis in accordance with section 40(4) of the PFMA as applicable to the provincial departments. These reports outline the category of the entity, the state of governance, progress on implementation of policies and internal controls, as well as financial performance for the period ended 31 March 2014.

According to the PFMA, Chapter 6, section 54(1), the accounting authority for a public entity must submit to the relevant treasury “such information, returns, documents, explanations and motivations, as may be prescribed or as the relevant treasury may require”. Further, section 52(a) of PFMA prescribes that “the accounting authority for a public entity listed in Schedule 3 must submit to the accounting officer for a department designated by the executive authority responsible for that public entity or government business enterprise, and to the relevant treasury, at least one month, or another period agreed with the National Treasury, before the start of its financial year, a projection of revenue, expenditure and borrowings for that financial in the prescribed format”.

To implement the above, Treasury regulations, section 26.1.1, requires that “the designated accounting officer must ensure that within thirty (30) days of the end of each quarter, the public entity submits information on its actual revenue and expenditure up to end of that quarter as well as a projection of expected revenue and expenditure for the remainder of the current financial year”.

In response to the legal and regulatory mandate, public entities were able to comply with submitting monthly, quarterly and audited financial performance reports to their respective line departments of the province and subsequently to the Provincial Treasury. However, the reliability of information pertaining to the efficient, effective and transparent financial management is not conclusive for effective monitoring of the entities’ fiscal risk issues. The extent of fiscal monitoring is bound to look primarily on issues pertaining to the in-year execution of the budget and outstanding matters such as delays in the release of funds affecting the operations of public entities overall.

Up to 2012/13 the North West provincial public entities, trading entities and other funds combined financial statements consisted of the following provincial public and trading entities.

North West provincial entities listed as schedule 3c entities (national public entities)

- Invest North West
- North West Gambling Board
- Mmabana Arts, Culture and Sports Foundation
- North West Provincial Aids Council
- North West Parks and Tourism Board
- North West Youth Development Trust Fund
- North West Provincial Arts and Culture Council
- North West Directorate of Entrepreneurial Development
- North West Youth Development Trust
- North West Provincial Heritage Resources Authority

North West provincial entities listed as schedule 3d entities (provincial public entities)

- Mafikeng Industrial Development Zone (Pty) Ltd
- North West Development Corporation
- North West Transport Investment (Pty) Ltd.

The above entities have gone through a process of merging their operations over the years, thus resulting in only six public entities as from 2013/14, which comprise the following:

- Mmabana Arts, Culture and Sports Foundation (under the Department of Sports, Arts and Culture)

- North West Development Corporation (under the Department of Economic Development and Tourism)
- North West Gambling Board (under the Department of Economic Development and Tourism)
- North West Parks and Tourism Board (under the Department of Economic Development and Tourism)
- North West Provincial Aids Council (under the Office of the Premier)
- North West Provincial Arts and Culture Council (under the Department of Sports, Arts and Culture)

(ii) Extent of provincial government monitoring of district governments' fiscal position

Section 71(6) of the MFMA (No. 56 of 2003) requires that the Provincial Treasury must, by no later than 22 working days after the end of each month, submit to the National Treasury a consolidated statement in the prescribed format on the state of municipal budget per municipality and municipal entity. This requirement is fulfilled by the Provincial Treasury.

A consolidated budget performance statement covering the financial performance of the 23 municipalities in the province was made available to the PEFA assessors for the period ending 31 August 2014. It assessed the in-year budget performance of the municipalities in respect of their budgeted revenue and expenditure, for which a low implementation ratio was reported, for the most part. For example, the year-to-date capital expenditure budget out-turn which equaled 8 per cent on average for all municipalities and operating expenditures equaled 14 per cent (39 per cent of the total spent related to bulk purchase expenditure whereas employee related costs and "other (unidentified) expenses" equaled 31 per cent and 30 per cent, respectively). The monthly performance review also assessed certain accrual accounts, both debtors (receivables) and creditors (payables), to explain the reasons of in-year budget execution and changes in the cash flow statement.

In spite of the municipalities' accrual based accounting systems and financial statements, and audit reports reporting on financial performance on a regular basis, the Provincial Treasury does not monitor issues pertaining to the evolving of the financial situation or other information relating to bank overdraft, expenditure payment arrears and other trade creditors, VAT payable, and other current payables overdue. The existing legislation and regulations are not explicit as to the extent of monitoring required for municipalities. These matters are only captured at the stage of the audited AFS by AG and, like public entities, the Provincial Treasury does not follow through on these matters for the most part.

Indicator	Score	Evaluation
PI-9 Oversight of aggregate fiscal risk caused by other public sector institutions	C	Scoring method M1
(i) Degree to which the provincial government monitors the autonomous public organisms (AGAs) and public companies (EPs)	C	All public entities submit in-year budget reports (and included in the departmental IYMs) as well as audited annual financial statements to the province government, but a consolidated overview on their fiscal risk by the Provincial Treasury is incomplete. It is desirable that monitoring reports also cover information on certain key accruals affecting the overall financial position of public entities and the rise of any fiscal risks potentially affecting the overall financial position of the provincial government over the years.
(ii) Degree to which the provincial government monitors the fiscal position of sub-provincial governments	C	The net fiscal position is monitored at least annually for the most important level of SN government, and the Provincial Treasury consolidates all IYM reports, but a consolidated overview of their fiscal position is incomplete.

PI-10 Public access to fiscal information

Dimensions to be assessed (scoring method M1):
(i) Number of the elements regarding public access to information, mentioned in table 14 that are used (an element can only be considered for the purposes of this evaluation if it fulfils all the requirements)

Table 15: Summary of fiscal information

Elements of fiscal documentation	Availability	Notes
(i) Annual budget documentation: a complete ⁵ set of documents can be obtained by the public through appropriate means when it is submitted to the Provincial Legislature	Yes, but partially as noted in PI-5	Copies of the annual budget documentation are made available to the general public when these are tabled at the Legislature. Also, budget documentation is uploaded on the Provincial and the National Treasury's website.
(ii) In-year budget execution reports the reports are routinely made available to the public through appropriate means within one month of their completion	Yes	Within one month of their completion, the Provincial Treasury publishes consolidated IYM reports through the National Treasury website on a quarterly basis.
(iii) Year-end financial statements: the statements are made available to the public through appropriate means within six months of completed audit	Yes	Print out of annual financial statements is made available through public libraries to general public by the provincial department within six months of end of financial year. Also, the public can access through their represented legislators in the Provincial Legislature after the AFS are tabled.
(iv) External audit reports: all reports on provincial government's consolidated operations are made available to the public through appropriate means within six months of completed audit	No	The report of the Auditor-General is made available to public by AGSA and respective provincial departments through the internet within eight months of the end of the year.
(v) Contract awards: awards of all contracts specific to the province and with value equivalent above approximately US\$100 000 are published at least quarterly through appropriate provincial government means	Yes	Contracts awarded are published in the North West tender bulletin.
(vi) Resources available to primary service units: information is publicised through appropriate means at least annually, or available upon request, for primary service units with national coverage in at least two sectors (i.e. elementary schools, primary health clinics)	Yes	Reports on budgetary resources availed to primary schools on a district by district level are issued on an annual basis.

⁵ 'Complete' means that the documents made publicly available contains all or most of the information listed under indicator PI-6, to the extent this information exists.

(vii) Fees and charges for major services are posted at the service delivery site and in other appropriate locations/media — utility charges such as electricity, water and sanitation are managed and reported by the municipalities, according to the Constitution	Yes	Hospital fees are posted in all primary health centres across the province and various rates of motor vehicle licences are published in the website and post boards of the Department of Police, Roads and Transport.
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Indicator	Score	Evaluation
PI-10 Public access to key fiscal information	B	Scoring method M1
Number of elements listed above regarding public access to information that are fulfilled	B	The government makes available to the public (in a complete form) five of the seven listed types of information (see Table 13).

3.3 Policy-based budgeting

This group of indicators describes the extent to which the process for establishing budget allocations permits government policy intentions to be adequately and appropriately articulated in a manner that is fiscally sustainable over at least the medium-term.

PI-11 Orderliness and participation in the annual budget process

Dimensions to be assessed (scoring method M2):

- (i) Existence and observance of a fixed budget calendar**
- (ii) Guidance on the preparation of budget submissions**
- (iii) Timely approval of the budget by the Legislature**

The provincial government's budget is produced through a reasonably orderly process which is well understood by departments and other administrative units. They have sufficient time to prepare their formal submissions after the issue of the letter of allocations and then to discuss with the Provincial Treasury.

The provincial Executive Council does approve overall spending priorities, detailed ceilings on recurrent and investment spending limits by administrative heads, before the letter of allocations is issued. The PEFA consultants were not able to determine whether the budget as approved by the Provincial Legislature before the beginning of the fiscal year to which it related in the past three financial years considered.

(i) Existence of, and adherence to, a fixed budget calendar

An annual budget calendar is established in accordance with guidelines by the National Treasury. It is a comprehensive and clear budget preparation process agreed on and followed through by provincial departments and public entities and is provided with a minimum of three months from the receipt of the draft overall MTEF and spending for the province budget council and sectoral MTEF teams to deliberate internally and with national departments and ultimately for the province executive council to approve and issue the specific provincial priorities and ceilings (letter of allocations with approved ceilings by MEC in February) to the province's departments to adjust their annual budget proposals across programmes and sub-programmes accordingly.

The general shape of an annual budget calendar has been established by practice and order since the adoption of medium-term budget plans in the province since FY 2011/12 and with the adoption of the annual performance plans in FY 2013/14 for the first time. The provincial budget memo and the Blue Book are the basis documents guiding provincial departments throughout the budget preparation process and the budget calendar. Treasury regulation 6.1 prescribes that the accounting officer of a department must comply with any annual budget circulars issued by the relevant treasury and budget circulars issued by provincial treasuries must be consistent with any budget circular issued by the National Treasury to provincial treasuries.

The budget preparation process consists of the following phases:

- Phase 1: Planning and reprioritisation (Setting policy priorities)
- Phase 2: Review of macroeconomic and fiscal framework
- Phase 3: Division of revenue
- Phase 4: Medium-term allocation process – recommendation stage (MTEC)
- Phase 5: Political scrutiny of departmental allocations
- Phase 6: Cabinet approval of the allocations
- Phase 7: Finalisation of budget documents
- Phase 8: Tabling of the budget

The stages in provincial budget preparation and extent of participation are specified in table 14.

Table 15: Critical dates for the 2015/16 national and provincial budget process

Provincial Treasuries submit validated 4th quarter (2013/14) non-financial data (QPR) based on pre-audited annual financial statements to the National Treasury	Late May 2014
Departments, public entities and constitutional institutions receive medium-term expenditure framework (MTEF) technical guidelines and databases	Early June 2014
Provincial Budget Forum	11 June 2014
Information sessions on MTEF technical guidelines and databases	June 2014
Departments submit proposals for budget programme structure revision to National Treasury	27 June 2014
Provincial budget guideline sent out to provincial departments	End June 2014
Provincial departments, public entities receiving MTEF guidelines and database and Provincial Treasury conducting workshop on the 2015/16 budget guideline	7-8 July 2014
Budget submission: narrative and database	12 July 2014
Ministers' committee on the budget: Discussion of spending and policy priorities	Mid July 2014
Provincial departments to submit first draft: - 2015 Budgets, including the Table B5 project list and EPRE and database to the Provincial Treasury - 2015/16 annual performance plan to office of the Premier and Provincial Treasury	Late July 2014
Medium-term expenditure committee (MTEC) process starts – phase 1	June 2014
MTEC process continues – phase 2	July-August 2014
National Treasury Visits: Province Specific Agenda (expenditure reviews)	July-August 2014
Provincial treasuries to submit first draft 2015 budgets to National Treasury-EPRE and database	12 August 2014
Provincial departments and public entities to submit first draft 2015-2020 Strategic Plans to office of the Premier and the Provincial Treasury	14 August 2014
Provincial Treasury submits 2015/16 first draft budget submissions and the first draft strategic plan and annual performance plan to National Treasury for purpose of MTBS	29 August 2014
MTEC process ends – phase 3	September 2014
Provincial expenditure review	8 September 2014
Provincial departments to table the annual report to the Provincial Legislature. Provincial budget forum takes place.	30 September 2014
Tabling of medium-term budget policy statement in Parliament	22 October 2014
Provincial budget Lekgotla (opening address)	24 October 2014
Estimates of national expenditure (ENE) guidelines distributed to institutions	31 October 2014
Cabinet approves 2015/16 MTEF and National Treasury issues preliminary allocation letters	Mid November 2014
Provincial Treasury issues 2015/16 MTEF preliminary allocation letters to provincial departments	
First draft of ENE chapter submitted (approved by the accounting officer of a department)	22 November 2014
Allocation letters (Cabinet approved allocations) issued	29 November 2014
Second preliminary allocation issued to provinces after benchmark exercise for 2015 budget	12 December 2014
Second Round - benchmark exercise for 2015 MTEF budgets - National Treasury	19-23 January 2015
Final allocation letters to provinces	February 2015
Provincial Treasury issues final allocation letters to provincial departments	12 February 2015
Budget tabled in Parliament (National Budget Day)	25 February 2015
Tabling of 2015/16 provincial budgets before the Legislature (within 14 days after the tabling of National Budget and Socio-Economic Perspective Document	12-20 March 2015

Source: North West Provincial Treasury.

Note: Lines marked in dark (red) refer to those activities under the responsibility of the Provincial Treasury

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

The province's Executive Council is involved in the setting of overall ceilings for recurrent and capital expenditure through the medium-term budget policy statement (MTBPS) process. The council issues an indication of the objectives which should receive priority in the allocation of resources. Although line departments are given general guidance on the shape of their submissions prior to the issuing of the letter of allocations, that document does not include ceilings for every major function or sector in which all departments should work together on the current and capital expenditure budgets and establish the various institutional linkages in the budget.

The Provincial Legislature approves expenditure ceilings by vote and approves the allocation of these funds in each vote. The accounting officer recognises that during the course of the year there may be a need for a virement between programmes and economic categories, but sets limits to the discretion of accounting officers and of the Provincial Treasury in this regard.

(iii) Timely budget approval by the Provincial Legislature within the last three years

The Provincial Legislature approved the annual budget six months after the start of FY 2013/14 and has not approved for the FY 2014/15 as of the time this assessment is submitted (see Table 16).

Table 17: Dates of budget approvals by North West Provincial Legislature

Fiscal year	Appropriation Bill (tabled)	Approved by Provincial Legislature
2012/13	29 February 2012	N/A
2013/14	11 March 2013	6 September 2013
2014/15	10 March 2014	Not approved (as of now 15 March 2015)

Source: Office of the Premier.

Indicator	Score	Evaluation
PI-11 Orderliness and participation in the annual budget process	B	M2 scoring method
(i) Existence and observance of a fixed budgetary calendar	A	A clear annual budget calendar exists, is generally adhered to and allows departments three months from receipt of the budget circular to meaningfully complete their detailed estimates on time.
(ii) Directives on the preparation of budgetary documents	A	The letter of allocations includes both current and capital expenditure ceilings (or payments for capital assets) approved by the province's MECs, at administrative unit level, together with general guidance on expenditure priorities.
(iii) Timely approval of the budget by the Provincial Legislature	D	The budget has been approved within six months from the start of the fiscal year or has not been approved at all in the past two fiscal years.

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

Dimensions to be assessed (Scoring method M2):

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

(ii) Scope and frequency of debt sustainability analysis

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

(iv) Linkages between investment budgets and forward expenditure estimates

The government is aware of the socio-economic challenges faced by the country and the province, including the negative effects of unemployment, poverty, the need for housing and other basic human development and infrastructure needs. In response to these needs. The South African government set out five key priorities, namely, (1) education; (2) job creation, (3) health, (4) crime and prevention, and (5) rural development and land reform.

The province has allocated sizable domestic resources in its budget to address these challenges. In this regard it is firmly guided by the outcome-based approach adopted at the national level since 2010/11. It re-emphasised its resolve and commitment to ensure that its budget is informed and addresses government priorities as reflected in the new growth path, the 2009 MTSF and 12 outcomes forming the basis of government's strategic and policy priorities (Table 17).

The above strategic framework comprises a range of output targets which are reflected in the service delivery agreements signed by Ministers and MECs and form the basis of the budget preparation. Departments and public entities are expected to maintain service delivery records and performance information that can be used for monitoring and evaluation purposes. The Department of Performance Monitoring and Evaluation oversees these processes at national level.

Table 18: Government's twelve outcomes

1. Improved quality of basic education	2. A long and healthy life for all South Africans
3. All people in South Africa are and feel safe	4. Decent employment through inclusive growth
5. A skilled and capable workforce to support an inclusive growth path	6. An efficient, competitive and responsive economic infrastructure network
7. Vibrant, equitable and sustainable rural communities with food security for all	8. Sustainable human settlements and improved quality of household life
9. A responsive, accountable, effective and efficient local government system	10. Environmental assets and natural resources that are well protected and continually enhanced
11. Create a better South Africa and contribute to a better and safer Africa and World	12. An efficient, effective and development oriented public service and an empowered, fair and inclusive citizenship

Source: National Planning Commission.

These outcomes involve shared responsibilities of several departments, and require effective cooperation between national, provincial and local government. Cabinet committees and inter-departmental cluster committees are responsible for the coordination and collaboration, and for monitoring implementation. Individual departments and public entities have responsibility for the specific outputs, programmes and projects that contribute to these shared objectives. The MTEF planning process is designed to achieve an allocation of fiscal resources between government programmes and entities consistent with a balanced and cost-effective promotion of these outcome priorities. Departments and entities therefore need to set out their roles and responsibilities relating to government's outcome priorities, as part of their strategic and annual performance plans and budget submissions.

In preparing these plans and submissions, departments and public entities are expected to set out the outputs and performance indicators and targets relevant to programmes and sub-programmes (other than administration programmes). This must be considered when reprioritising the budget in the preparation of revised MTEF baseline estimates. Departments must reflect their performance measures as agreed upon per sector and the performance targets set out in their annual performance plans for the upcoming financial years. By means of the formal functional PMTECs agreement must be reached between departments and the Provincial Treasury on the relevant (non-financial) outputs, performance indicators and targets to be included in departmental and entity submissions⁶.

⁶ The agreement, according to Provincial Treasury sources, is established through the budget forum engagements headed by the Provincial Treasury. The forum aims to address operational issues which are then presented at the medium-term
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Guidance on strategic and annual planning and on performance information is outlined in the framework for strategic plans and annual performance plans, available at www.treasury.gov.za/publications/guidelines.

(i) Multi-year fiscal forecasts and functional allocations

Setting of annual budget ceilings is prepared for administrative, programme and main economic categories, and for the next budget year and a period of three years on a rolling basis. At present, the budgets of departments and public entities are being aligned to annual action plans across various categories of spending, under the guidance of the Provincial Treasury and compiled into the annual performance plans.

Lacking in the sphere of budgetary planning, however, is the ability of the provincial government's budget to align in the resource envelope the performance and structures of relevant programmes and activities across strategic sectors. The substantive amount of budget information available in the system would ideally ease the way towards moving into a sector-wide approach. This would enable intertwining the various budget items throughout the life of a capital formation project to the achievement of a result for the sector, regardless of the executing agencies and service delivery units. One example of weak sector linkages is observed in the education budget, particularly in regards to the provision of new elementary and secondary school facilities and both the adequacy of basic feeding supplies (i.e. nutrition programme) and sustainability of improved school teaching services (i.e. tertiary education programme).

(ii) Scope and frequency of debt sustainability analysis

There has been no DSA performed over the three years under review as there is no borrowing allowed for the provinces. Analysis is performed by the Provincial Treasury only on the state of bank overdrafts and also age analysis of overdue bills with trade creditors is conducted at least on an annual basis. The level of these debts, however, is very low.

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

A comprehensive provincial growth and development strategy (PGDS) provides valuable strategic guidance to the province, in terms of linking the national and province priorities. It is linked up in the MTBPS and the MTEF dialogue nationwide and it is supplemented by medium-term strategy plans for key sectors of the province which are reviewed annually. Sector strategies, however, are not adequately costed thus resulting in multi-year expenditure frameworks and work plans based on insufficient realism on the estimate financing and value of public resources required to improve the quality of service delivery.

There is no meaningful costing of the national and provincial development plans which could determine the extent of public financing and serve to determine and prioritise a medium- to long-term capital investment plan and better guide in the projection of the recurrent resources required across sectors and departments, as part of the MTEF and annual budgeting processes. There is no costing of expenditure activities carried out between and in programmes, as the law allows for only limited movement of funds between programmes once the Appropriation Act has been enacted. Cost estimates for each programme are the key information inputs into the budget process. Without these inputs it is becoming difficult to provide the essential data both for analysis of budget submissions and, once approved, for populating the financial management systems through which transactions are recorded against approved allocations.

Medium-term strategic plans exist for every department in the province, and in each department there is a strategy plan for each institutional programme with its respective economic categories. Lacking, however, are strategy plans for the priority national programmes (i.e. preventive health, primary education and infrastructure) being executed across provinces, which would combine several key sectors (i.e. health care, water and sanitation, education) and executing departments. In all, the national and provincial governments do not provide substantially complete costing of investments and recurrent expenditure at the national and province programme levels.

(iv) Linkages between investment budgets and forward expenditure estimates

A work plan and a multi-year expenditure framework are prepared and regularly reviewed by every department

expenditure committee (MTEC) as a collaborative effort.

responsible for the building and equipping of new economic and social infrastructure in the province. Every department attempts to link the (budget and finalisation of) capital projects to the forward operating and maintenance expenses, but this process turns out cumbersome and inefficient, according to executing departments. According to these sources, the process is severely weakened due to recurring operating and maintenance costs not being properly assessed as part of the programme and project costing in the economic social development sector strategies and departmental performance plans in the province, as noted earlier, and to deficient project and contractor management capacities in the ground.

The process is impaired by the departments not being able to prevent and control capital projects from running into further delays in implementation, commonly attributed to local capacity constraints and deficient economic planning and technical design. This not only results in major overrun costs to the budget but in significant imprecision as to the amount of staffing and other resources required to operate those new public assets as part of the calculation of forward estimates in the MTEF process.

Indicator	Score	Evaluation
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	C+	Scoring method M2
(i) Multi-annual fiscal forecasts and functional allocations	A	Setting of annual budget ceilings by the province is prepared for administrative, programme and main economic categories, and for the next budget year and a period of three years on a rolling basis. Programmatic structures in the budget represent the functional allocations and linkages between multi-year estimates and subsequent setting of annual budget ceilings (both current and capital) had strengthened and become clearer over the three years under review.
(ii) Scope and frequency of debt sustainability analyses	N/A	Sector strategies have been prepared for most sectors in the province and sector reviews are conducted on a quarterly basis, but none of them have substantially complete costing of investments and recurrent expenditure with which to align their annual and multi-year budget ceilings.
(iii) Existence of sector strategies with cost determination	D	Sector strategies have been prepared for most sectors in the province and sector reviews are conducted on a quarterly basis, but none of them have substantially complete costing of investments and recurrent expenditure with which to align their annual and multi-year budget ceilings.
(iv) Links between investment budgets and future expenditure estimates	C	Public works and infrastructure investment plans exist for the responsible line departments and a budget is allocated for the provision of operating and maintenance. The problem for the most part lies on the capital projects not being adequately linked up to the sector strategies and the forward O&M budget estimates are included in only a few minor cases.

3.4 Predictability and control in budget execution

This group of indicators describes the extent to which managers of budget agencies are able, in practice, to commit and make expenditures consistent with their budget allocations and agreed cash plans as well as the extent to which expenditure control arrangements are effective without unnecessarily constraining the effectiveness of service delivery.

Among others, the group covers two critical aspects of PFM systems, payroll and procurement controls. Since the budgets of the provincial and sub-provincial governments largely cater to the salaries of their employees, it is imperative that effective and efficient payroll controls are in place. Likewise, since a major component of expenditure relies on procurement arrangements, it is imperative that procurement arrangements are clear, fair and transparent and that they facilitate efficient expenditures rather than hinder them. Both the payroll and procurement systems can be potentially important sources of corruption if control arrangements are weak or poorly managed.

PI-13 Transparency of taxpayer obligations and liabilities

Dimensions to be assessed (scoring method M2):

(i) Clarity and comprehensiveness of tax liabilities

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

(iii) Existence and functioning of a tax appeals mechanism

Tax receipts, including vehicle licences, averaged 46 per cent of the province's total own revenues over the three years under review. These consisted of motor vehicle licence fees — the level rose to 35.7 per cent of total own revenue in FY 2013/14, from 32.0 per cent in 2011/12, and gambling and horse racing taxes (10 per cent). The remainder of the province's own revenues consist of non-tax receipts as detailed in table 16 (the level health patient fees remained in 4 per cent).

Table 19: Composition of North West provincial government's own revenues by economic classification

Economic classification	2011/12	2012/13	2013/14	2011/12	2012/13	2013/14
	R'000			% of total		
Tax receipts	337.4	448.7	466.2	43.1%	47.4%	47.6%
Casino taxes	81.4	85.6	90.7	10.4%	9.0%	9.3%
Horse racing taxes	4.2	4.7	5.4	0.5%	0.5%	0.6%
Liquor licences	1.3	2.5	2.5	0.2%	0.3%	0.3%
Motor vehicle licences	250.5	356.0	367.7	32.0%	37.6%	37.6%
Sales of goods and services other than capital assets	269.6	277.8	279.0	34.4%	29.3%	28.5%
Of which: Health patient fees	34.6	-	40.1	4.4%	0.0%	4.1%
Transfers received	-	-	-	0.0%	0.0%	0.0%
Fines, penalties and forfeits	13.0	13.3	16.2	1.7%	1.4%	1.7%
Interest, dividends and rent on land	114.3	180.1	173.5	14.6%	19.0%	17.7%
Sales of capital assets	4.1	3.5	3.1	0.5%	0.4%	0.3%
Financial transactions in assets and liabilities	45.1	24.0	40.4	5.8%	2.5%	4.1%
Total	783.6	947.4	978.5	100.0%	100.0%	100.0%

Sources: NWPG audited IYM reports

An analysis of the province's own revenue by department shows that collection of own revenues was concentrated mainly in the Department of Public Safety and Liaison (it averaged 39 per cent of total own revenue), which is responsible for collecting motor vehicle licences, and the Department of Economic Development and Tourism (11 per cent), which is responsible for collecting gambling and horse racing taxes and liquor licences — see table 18. The revenue collected by all other departments consists mainly of interest, dividends and rent on land and the sale of goods and services other than capital assets.

Table 20: Composition of North West provincial government's own revenues

Department	2011/12	2012/13	2013/14	2011/12	2012/13	2013/14
	R'000			% of total		
Office of the Premier	548	279	1,168	0.1%	0.0%	0.1%
Legislative	5 725	2 184	1 080	0.7%	0.2%	0.1%
Health	55 908	56 729	53 385	7.1%	6.0%	5.5%
Sports, Arts and Culture	847	1 151	1 294	0.1%	0.1%	0.1%
Public Safety and Liaison 1/	281 526	389 371	404 487	35.7%	41.0%	41.3%
Economic Development and Tourism 2/	90 769	95 609	101 871	11.5%	10.1%	10.4%
Finance	115 252	188 805	176 557	14.6%	19.0%	18.0%
Education	51 819	15 471	36 614	6.6%	1.6%	3.7%
Local Government	971	1 584	1 048	0.1%	0.2%	0.1%
Public Works, Roads and Transport	175 918	188 400	184 387	22.3%	19.8%	18.8%
Social Development	838	1 297	2 712	0.1%	0.1%	0.3%
Agriculture and Rural Development	7 237	7 915	9 724	0.9%	0.8%	1.0%
Human Settlements	1 688	772	2 209	0.2%	0.1%	0.2%
Total	789 046	949 537	979 536	100.0%	100.0%	100.0%

Sources: AGSA and PT

1/ Own revenues consist mainly of motor vehicle licences.

2/ Own revenues consist mainly of gambling and horse racing taxes.

(i) Clarity and comprehensiveness of tax liabilities

The revenue generated from tax liabilities imposed by the Department of Public Safety and Liaison is predominantly attributable to motor vehicle licence fees, driving licence card renewal fees, traffic fines and abnormal loads on trucks. The National Road Traffic Act (No. 93 of 1996) (NRTA) prescribes the registration and licensing of motor vehicles, manufacturers, builders and importers, as well as the licensing of drivers of motor vehicles. The province complies with the NRTA regulation 24(2)(b) in that it determines its own registration and licence fees, which are increased, from time to time, by proclamation in the provincial Government Gazette. The annual licence fees are assessed on the basis of the vehicle's tare with separate scales for the different vehicle types, in line with the practice throughout South Africa.

The Department of Public Safety publishes the fees and levies in line with national legislation through provincial gazettes and on its website.

The Road Traffic Management Corporation (RTMC) Act (No. 20 of 1999) stipulates how levies are collected on behalf of the National Treasury. The registration and licence fees are fixed and clearly defined as per the legislation and there is no discretion allowed in the application of fees.

The North West gambling board regulates gambling activities, including race course and horse racing, in the North West Province. This institution serves as an agent of the Department of Economic Development, Environment, Conservation and Tourism to discharge this legislative mandate in a socially conscious manner to promote economic growth and development without stimulating the latent demand for gambling.

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

The motor vehicle tax liabilities are detailed in the provincial Government Gazette and regulations available to the citizenry. It is also made available on the departmental website as well as at vehicle testing stations and driving licence test sites. The RTMC sends motor vehicle licence renewal notices to vehicle owners in the province.

The gambling and horse racing licence fees are legislated in the North West Gambling Act, (No.2 of 2001) and North West Gambling Amendment Act, (No.5 of 2005). The cost of licence fees is promulgated in the North West Government Gazette. The legislation and all other information e.g. latest licence fees, are available on the website of the North West gambling board.

(iii) Existence and functioning of a tax appeals mechanism

There is insufficient evidence suggesting tax appeals mechanism or other related non-tax revenue complaints mechanism by civil society, i.e. motor vehicle or hospital fees, exists in the province.

Indicator	Score	Evaluation
PI-13 Transparency of taxpayers' obligations and liabilities	B	Scoring method M2
(i) Clarity and comprehensiveness of tax liabilities	B	Legislation and procedures for the major own tax revenues, i.e. motor vehicle licences, are comprehensive and clear. In general, the obligations and liabilities managed locally are published to the general public and any change is informed periodically through provincial Government Gazettes.
(ii) Access by taxpayers to information about responsibilities and administrative procedures in relation to taxes.	B	Taxpayers have easy access to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures for some of the major own tax revenues, while for other taxes the information is limited.
(iii) Existence and functioning of a tax appeals mechanism.	N/A	.

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

Dimensions to be assessed (scoring method M2):

(i) Controls in the taxpayer registration system

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

(iii) Planning and control of tax auditing programmes

(i) Controls in the taxpayer registration system

During the PEFA assessment two main types of tax receipts were identified in North West Province, namely, motor vehicle licences as well as gambling and horse racing taxes (PI-13 above).

Motor vehicle licences: all new motor vehicles in the province are registered and recorded on the National Traffic Information System (eNaTIS) at the point of manufacturer or entry. eNaTIS is an online system that supports the relevant legislation in terms of motor vehicle registration and licensing. eNaTIS includes the registration of all motor vehicles, and the identification and monitoring of the source of motor vehicles, through the registration of motor vehicle manufacturers, importers and builders. The system identifies the title holder and owner of every registered motor vehicle and facilitates the collection and recovery of annual licence fees, including arrears.

The South African Revenue Service (SARS) has access to the eNaTIS system for purposes of tracking an individual's or company's compliance to national tax legislation. eNaTIS, however, is not linked to any other system in the provincial government.

Gambling and horse racing taxes: the North West gambling board manages the process of private institutions' applications for gambling and horse racing licences and monitors compliance to the terms and conditions. The board maintains a database of licensees and performs regular inspections to detect illegal and non-compliant institutions.

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

Primarily in terms of the NRTA (No. 93 of 1996), penalties may be charged for failure to licence or register a vehicle. The penalties are incurred automatically from the date of non-compliance and remain on the eNaTIS until settled. According to national road traffic regulations, the penalties are calculated as 1/10th of the appropriate fee for every month or part of the month that the licence remains unpaid. The Department of Public Safety's capacity to follow up and act on defaulters is limited.

In the case of illegal and non-compliant gambling and race horse licensees, non-compliance is dealt with in accordance with the legislation in an open and transparent manner. Licensees' inability to correct issues of non-compliance and/or continued non-compliance will lead to the licence being withdrawn.

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

In his audit report of the Department of Public Safety for FY 2012/13, the Auditor-General emphasised the lack of appropriate processes and internal controls in the management of revenue. Because of its reliance on the provincial internal audit shared service, the Department of Public Safety itself has not been able to plan and conduct a tax audit over the past three years. Furthermore, the department's fraud prevention plan is outdated.

Except for periodic compliance inspections evidence of specific audit and/or fraud prevention programmes of the North West gambling board could not be provided. The board's annual reports for 2011/12 and 2012/13 include information of fraudulent transactions that indicates this matter is not adequately addressed.

Indicator	Score	Evaluation
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	C	Scoring method M2
(i) Application of controls in the taxpayer registration system	C	Local taxpayers are registered in database systems for individual purposes, which are not fully and consistently linked. The national traffic information system used by the province for management of motor vehicle licences is effective, but it is not linked to other systems of government and does not provide financial intelligence and/or control. The North West gambling board has an up-to-date database of licenced institutions. This database is not integrated with any other registration/licensing function of government, but periodic inspections proved to be successful in detecting illegal and non-compliant institutions.
(ii) Effectiveness of sanctions for failure to register and declare taxes	B	All relevant provincial legislation makes provision for penalties against possible infractors of local taxation and financial rules, but effectiveness is generally lacking due to weak administrative and internal control. systems.
(iii) Planning and control of tax audit programmes	D	A tax audit has not taken place during the period under review.

PI-15 Effectiveness in collection of tax payments

Dimensions to be assessed (scoring method M1):
(i) The collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of fiscal year, which was collected during that fiscal year (average of the last two fiscal years)
(ii) Effectiveness of the transfer of tax payments to the Provincial Treasury by the revenue administration
(iii) Frequency with which the Provincial Treasury completely reconciles accounts reflecting tax valuations, payments, records of late returns and income

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

Data on tax arrears accumulated for the past two fiscal years was gathered for the Department of Public Safety (i.e. arrears relating to motor vehicle licences,) and the Department of Economic Development and Tourism (i.e. arrears relating to gambling and horse racing taxes). The amount of arrears averaged, respectively, 0.2 per cent and 1.3 per cent of total revenues collected.

Table 21: Tax and non-tax arrears (R'000)

	2012/13	2013/14
Department of Public Safety		
Arrears balance	661	673
Total NWPG tax revenue collected	355,978	367,659
% of total taxes	0.19%	0.18%
Department of Economic Development and Tourism		
Arrears balance	1,369	1,037
Total non-tax revenues collected	92,771	87,551
% of total non-taxes revenues collected	1.48%	1.05%

Source: North West Provincial Treasury (PT).

(ii) Effectiveness of transfer of tax collections to the Provincial Treasury by the revenue administration

Revenue collection departments such as the Department of Public Safety and Liaison make use of collection agencies such as local municipalities and the South Africa Post Office. Taxes paid through these agencies are not cleared to the Provincial Treasury's revenue fund but on a weekly basis.

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

The Department of Public Safety and Liaison is one of the largest collection agency in the province. It has not been able to perform complete account reconciliations of motor vehicle licences due to lack of integration between the agency and the Provincial Treasury, as well as the delays in clearing the payments through the Provincial Treasury.

Indicator	Score	Evaluation
PI-15 Effectiveness of tax collection	N/A	M1 scoring method
(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of fiscal year, which was collected during that fiscal year (average of the last two fiscal years)	A	The total amount of tax arrears identified in the two most relevant revenue collection departments accumulated over the last two years under review is less than 2% of total own revenues collected.
(ii) Effectiveness in the transfer of recovered taxes to the Provincial Treasury by the revenue administration	B	Collections received by the Department of Public Safety are paid into the PRF on a weekly basis. The fund is controlled by the Provincial Treasury and the weekly transfers to the fund are monitored by the Provincial Treasury.
(iii) Frequency of complete accounts' reconciliation between tax assessments, collections, arrears records and transfers to the Provincial Treasury.	NR	The Department of Public Safety is the largest revenue collection in the province. Line agencies have not been able to provide information and/or evidence of complete account reconciliations between tax assessments, collections, arrears records and receipts.

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

Dimensions to be assessed (scoring method M1):

(i) Degree to which cash flow forecasts and monitoring are carried out

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

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

The availability of most of the funding committed to the Provincial Treasury is warranted through the National Treasury every year and cash resources are disbursed every week into the PRF through the South African Reserve Bank (SARB) and accounted for in the BAS-aided general ledger system. Such a flow of funding is the result of a cash inflow forecast and variance analysis elaborated by the asset and liability management division at the National Treasury on the basis of tax receipts collected by SARS and cleared into the SARB national revenue fund on a daily basis.

The cash flow planning and monitoring functions are essentially the responsibility of Asset and Liability Management Division at the NW Provincial Treasury, with major inputs from the various departmental revenue units. The availability of funds committed to departments and Public Entities is warranted by law every year and cash resources are disbursed through and charged against the provincial consolidated fund and accounted for in the BAS Treasury Ledger System. The amount of domestic funding authorised for the year is based on the annual cash projections issued to the provincial budget with inputs from National Treasury and relevant provincial departments.

The annual cash forecasts consist of equitable share and conditional grants and a draw-down schedule of monthly tranches across beneficiary departments and programmes. These form the basis with which to set the annual budget allocations for the NW Provincial Treasury in the BAS. Usually, the former grant is projected in the forecast so as to flow evenly into the NW PRF by fixed monthly and quarterly tranches at the level of voted heads and programmes whereas the latter's schedule varies in the forecast according to the nature of infrastructure and public works investments and other spending projects.

The sum of both constitute the basis of annual funding to the NW Provincial Treasury and an institutional arrangement which has resulted in a high degree of predictability and certainty in every beneficiary department and targeted programme beneficiaries for the past three financial years.

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

The degree of predictability in the availability of funds varies throughout the year, depending on the business cycle of government operations. It is only the national grants apportioned that will not change in the total for the year by any significant amount (see HLG-1 above). As a general rule, the funds granted monthly to the government budget from the National Treasury must equalise the total amount fixed for the year in accordance to a pre-established agreement between the National Treasury and the Provincial Treasury. The issue is on how to best re-estimate and re-schedule the province's cash requirements throughout the year, particularly those aimed towards the funding of non-salary expenditure commitments.

For the purposes of enhancing the predictability of own domestic funding to the execution of the budget, the Provincial Treasury, considering the revised cash needs by line departments, has established the practice of updating the annual cash flow projections on a monthly basis. A revised cash flow forecast is provided on the consolidated position, and a re-estimation/re-scheduling of future cash flows also takes place on a monthly basis, as a result. The process starts from a weekly review on daily cash flows and the cash position at the beginning of every week, and performs a forecast on cash resources available, based on the behaviour of cash flow over the past twelve months and the projected liquidity in the government bank accounts for the remainder of the budget year, on one hand, and on the salary and non-salary obligations of departments and public entities, on the other. The amount of monthly disbursements from domestic revenues to MDAs is executed in accordance to commitments caused with suppliers and contractors, with emphasis on infrastructure projects.

The Provincial Treasury is managing cash outflow requirements based on information received on current revenues, mainly from the National Treasury. It receives the cash balance through automated means from SARB on a daily basis showing net cash balance. SARS provides figures for tax revenue collected for each month and quarter to the National Treasury. Own revenue receipts are not pursued and monitored on a systematic and regular basis. Payments for expenditures are reported to the Provincial Treasury on a monthly basis on standard government fiscal reports which constitute the basis of cash outflow forecasts.

Given the heavy reliance on national revenue, the Provincial Treasury prepares a cash flow forecast for the fiscal year based on the National Treasury's revenue projections⁷. The cash flow forecast for own revenues is prepared by the respective line departments. In respect of equitable share the budget unit consolidates and monitors the performance of cash inflows through a basic Excel sheet that is updated and informed on a monthly and quarterly basis. The performance of cash inflows for own revenues are delegated for line departments to monitor, which in the case of public safety does not take place in an effective manner. Considering the annual budgetary forecast, quarterly monitoring and availability of funds information to the spending units, the monitoring system requires substantial strengthening and use of more modern forecasting tools, to further improve frequency and quality of forecasting. Empirical tests performed by the PEFA consultants indicate that the monthly cash outflow forecasts (representing the projected spending plans or cash resources required throughout the year), other than salary expenditure, are not commensurate with the procurement of goods and public works actually needed across line departments. This therefore results in large monthly deviations⁸.

Once the annual cash flow profile has been established, the National Treasury releases the provincial equitable share and other conditional grants in monthly tranches to departments for salary payments and the settlement of their invoices. Cash flow monitoring has been carried out in the Provincial Treasury and has so far not given rise to transparent disciplinary action during the course of a year to adjust budget provision across executing units. This arrangement is cause for concern, particularly given the emergence of overdrafts in recent years. In the absence of an overall revision to the budget to bring it more closely in line with actual cash availability, cash management is a task undertaken in an *ad hoc* manner by accounting officers who ultimately decide which accounts should be paid and which should remain outstanding.

Also, the limited extent to which cash flows are forecast and monitored includes the operating weakness in aligning the annual budget allocations and any variations in the departmental cash plans to the staffing and procurement plans. There is no schedule of disbursements whereby the department cash plans can explain, through the stages of procurement and other operating plans, the various expenditure activities and inputs leading to the achievement of an expected output and outcome. Such a method of financial programming does not form part of the cash flow forecasts.

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

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

In-year adjustments to the budget allocations, according to existing Treasury regulations, broadly comprise four categories: virements, request for rollover, transfer of functions between votes, and other additional funds through an adjustment process, all of which are authorised by the Provincial Treasury (Treasury regulations 6.3 to 6.6). To a large extent, the Provincial Treasury revises the budget, as a normal practice, by requesting all departments to submit their virements and other adjustment in the initially approved budgets.

Additionally, reallocations in each department's budget vote are authorised by the accounting officer through internal resolutions during the financial year. This is the most commonly accepted practice of adjusting the budget during the financial year, taking place extensively as early as the beginning of every year.

As the data presented in relation to PI-2 confirm, reallocations of expenditure between votes and virements take place frequently. The in-year adjustments pertaining social spending agencies are particularly significant, especially in the salary compensations budget at the expense of other expenditures.

As far as the authorisation for supplementary expenditure in the whole, the provincial government receives and reviews the request for additional spending by line management and verifies the changing needs in the budget against the year-to-date performance. The executive will approve, with some changes, the request for a provincial

⁷ Estimates of Provincial Receipts and Expenditures (EPRE) for the respective financial year indicating budget estimate of the last financial year, actual / revised estimates for the last financial year and budget estimates for the coming year

⁸ A statistical test covering the period April 2012 to September 2014 showed that, in general, projected pay of compensation to public workers was considerably closer to actual payments in the NWPG, with exception of certain departments such as Public Works. Conversely, cash flow forecasts were of poor quality in other expenditure variables such as purchases of goods and services, but more sharply in those relating to building and other fixed structures and acquisition of machinery and equipment in NWPG and more aggravating in the Departments of Public Works, Education and Health. Data is available for those interested in the topic.

amendment or annual adjustment appropriation bill. It will then forward the revised spending and performance plans to the Provincial Legislature for reviewing and approval, as part of the rolling process of updating the budget estimates in the three-year MTEF. The arrangement of adjusting the budget is a pre-established process set out under the existing legislation, and a relatively well informed adjustment on budget ceilings process to commit expenditure in the limits set by the expenditure provision on each major budget line. Adjustments vary often across departments.

Indicator	Score	Evaluation
PI-16 Predictability of availability of funds for commitment of expenditure	C+	Scoring method M1
(i) Degree to which cash flow forecasting and monitoring is carried out	A	A cash flow forecast is prepared for the fiscal year by the Provincial Treasury, and updated monthly on the basis of actual cash inflows and outflows provided by line departments. Evidence suggests, nonetheless, that the quality of cash flow projections for the provincial government as a whole needs to be further improved at both the Provincial Treasury and line management levels. Reviewing of evidence shows that projections of cash inflows achieved a high degree of accuracy, particularly in the projection of national grants. Problems in projections relate to own provincial revenues and outflows by line departments.
(ii) Reliability and time horizon of the periodic information during the year providing the MDAs with information about maximum limits and payment commitments	C	Departments are provided with reliable in-year information on ceilings for expenditure commitment ceilings about two months in advance. This is often not sufficient for line departments to utilise the funds efficiently and effectively, more so since departments do not have procurement plans with which to align the updated in-year projection of cash outflows to purchases of goods and services in a pre-specified schedule of annual operations (see PI-19). During the course of the financial year the challenge often intensifies because the inability to spend the funds in one month has a knock-on effect in the financial programming of the following months. In-year adjustments in budget allocations often vary as the forecasts are adjusted for the remaining of the year.
(iii) Frequency and transparency of the adjustments made to the budgetary allocations available at a level higher than MDA administrations	B	Significant in-year budget adjustments take place only once every year by means of an annual Provincial Adjustment Appropriation Bill, which is sanctioned usually within the last quarter of the year. The process is done in a fairly transparent manner and results in an overall increase of NW government spending, with certain departmental budgets gaining an increase in totals while others being reduced for the remainder of the year.

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

Dimensions to be assessed (scoring method M2):
(i) Quality of debt data recording and reporting
(ii) Degree of consolidation of the government’s cash balance
(iii) Systems for contracting loans and issuance of guarantees

In the Republic of South Africa, provincial Treasuries are severely restricted by the PFMA from borrowing unless this is within the limits as set in terms of the Borrowing Powers of Provincial Governments Act (No. 48 of 1996). Also, a provincial government, including any provincial public entity, may not borrow money or issue a guarantee, indemnity or security or enter into other transaction that binds itself to any future financial commitment denominated in a foreign currency or concluded on a foreign financial market (Art.67).

(i) Quality of debt data recording and reporting

In spite of the restriction in borrowing noted above, the province has utilised short-term domestic borrowing, i.e. bank overdrafts. Debt management, however, is highlighted by the Auditor-General as one of the most common indicators identified that negatively impact on the financial health of the provincial government. In his general report on the NW province the Auditor-General emphasised that debt management has not improved during the period under review. The 2011/12 audit report shows bank overdrafts generated from prior year unresolved unauthorised expenditure.

In general, however, this dimension does not sit well for the assessment as the provincial government does not have any authority to borrow domestic and foreign debt.

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

The Provincial Treasury maintains bank accounts i.e. the PRF, through the SARB. Additionally, separate bank accounts for suspense accounts and other minor funds carrying over insignificant balances are maintained but outside the direct control of the Provincial Treasury, namely, by line departments and public entities. The Provincial Treasury receives daily information from the SARB reporting account balances for all government of North West bank accounts, and these are reported in separate statements at the end of every month.

(iii) Systems for contracting loans and issuance of guarantees

Indicator	Score	Evaluation
PI-17 Recording and management of cash balances, debt and guarantees	B+	Scoring method M2
i) Quality of the records and reports presented on debt data	N/A	The dimension does not apply.
ii) Degree of consolidation of government cash balances	B	The Provincial Treasury monitors cash balances daily and undertakes comparisons feeding into cash management and releases related actions. Most cash balances of the PRF are calculated and consolidated, with the exception of a few minor funds and donor funded special bank accounts.
iii) Systems for contracting loans and issuance guarantees	A	Laws and regulations governing the issuance of guarantees apply to the Provincial Treasury, particularly in the case of housing loans to assist households in the lowest income categories to access housing.

PI-18 Effectiveness of payroll controls

Dimensions to be assessed (scoring method M1):

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

The national Department of Public Service and Administration is the regulator for human resources. It develops human resource management regulations, policies, norms and standards for national and provincial government, relevant ICT infrastructure with the objective to improve service delivery. The Public Service Act has been amended to include more powers for the Department of Public Service and Administration in an effort to improve budgeting for the compensation of employees and the use of public funds for human resource management. The Public Service Commission is an independent oversight body that reports to the National Assembly and carries out annual impact surveys. The departments are responsible for implementing the policies and enforcing the regulations at national and provincial departments.

Human resource management actions such as appointments are linked to delegations that apply throughout government. Promotions, as a rule, do not take into consideration technical knowledge and experience. It can only take place when a position goes vacant and a suitable candidate is found from a pool of applicants.

The PERSAL system is used to update personnel records on the payroll. The system has very strict features for access control and separation of duties. The system also has a wide variety of exception reports and management information to manage the users and information on the system. PERSAL is not integrated with BAS and the financial implication of the payroll is known once the BAS has been updated with the PERSAL information, twice a month, and the expenditure is accounted for.

Other relevant information management systems are currently being used by departments but these do not operate optimally to the needs of HR internal controls. For example, the Department of Education owns EMIS (education management information system) which has a feature that allows for recording of teachers' attendance days and hours and links to teaching and learning performance. It offers the opportunity for adopting a technological solution to avoid public workers' absenteeism and testing in selected towns and districts⁹, all of which could enhance the internal controls in PERSAL and the payroll system.

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

HR managers maintain personnel records to update PERSAL. Because PERSAL and BAS are not integrated, the departments reconcile PERSAL and BAS on a monthly basis. In addition, the Provincial Treasury runs exception reports from PERSAL and distributes these to the departments for investigation and follow up.

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

PERSAL users admit that there are retroactive transactions on PERSAL every month. They could not provide information on it and present that disjuncture between the personnel records and PERSAL users as the chief contributing factor for this.

Personnel records are maintained by the HR management unit by means of physical journals or, at best, some form of manual stand-alone system, e.g. a spreadsheet. These records, once verified and/or approved, must then be handed over to the PERSAL user. This task is not usually performed in a timely and on an automated basis, thus requiring the PERSAL transaction to be tracked down, captured and approved, which results in additional time spent on processing.

The Auditor-General in his general report for the North West for 2011/12 and 2012/13 has expressed concern on poor human resource management. The report highlights management of vacancies and acting positions, appointments, HR planning and organisation, performance management and the management of leave, overtime remuneration and suspensions as the nature of the key audit findings.

The expenditure analysis in PI-1 and PI-2 above also addresses the increases in the budget of compensation of

⁹ See, for example, the EMIS lessons and experience in Punjab featured in "The Good News from Pakistan: How a revolutionary approach to education reform in Punjab shows the way forward for Pakistan and development aid elsewhere", by Sir Michael Barber, *Reform*, March 2013.

employees at the expense of budget allocations for purchases of goods and services and payments for capital assets in recent years, thus suggesting that the planning on payroll increases and other policies in wage policy would require further scrutiny at high level management.

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

Adequate internal controls exist to ensure that personnel records are managed adequately through PERSAL. Access to personnel transactions is strictly controlled by means of access control (unique user name and password) as well as a limitation on the nature of transactions that a particular user is registered for. A transaction is not captured without a source document (placed on a file). This includes verifying the information before it is captured as well as the separation of duties between the capturer and approving authority. The source documents on file, the capturing and approval of the PERSAL transaction, forms a large part of the audit trail. In addition to these controls, a wide range of PERSAL exception reports and management information is available from PERSAL. All PERSAL transactions are backed up by the state information technology (IT) agency at least monthly with the PERSAL/BAS interface.

The process of promotions is not aligned to any performance management structure or scaled up to specific professional and technical qualifications across the salary systems in public administration. Internal controls for promoting personnel is a potential area for improvement.

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

The province's salary bill has increased drastically over the past three years. In spite of the rapid increase in the compensation budget, only a partial head count was conducted covering only the Departments of Health and Education. Lacking in the past three years is an overall head count or payroll audit covering all the provincial government departments and entities on a routine annual basis or at least for one of the last three years.

All departments make use of a monthly payroll certification that is reported to the Provincial Treasury. Attendance of personnel is for the most part subject to improvement although management information on this could not be provided.

Indicator	Score	Evaluation
PI-18 Effectiveness of payroll controls	C+	Scoring method M1
(i) Degree of integration and reconciliation between personnel registers and payroll data	B	Personnel data (PERSAL) and payroll (BAS) are not directly linked but the payroll system is supported by full documentation for all changes made to personnel records each month and checked against that of the previous month. Monthly PERSAL/BAS reconciliations form part of the monthly certification by accounting officers.
(ii) Timeliness of changes to personnel records and the payroll	C	Changes to personnel records are in most cases not updated on PERSAL in less than three months, according to audit reports in the largest departments. This causes the monthly payroll to enter a significant number of retroactive transactions.
(iii) Internal control of changes to the staff register and payroll	A	The PERSAL system has effective internal controls to ensure alignment between personnel records and the payroll system.
(iv) Payroll auditing to identify weaknesses and/or ghost workers	C	There is no evidence suggesting that head counts/payroll audits covering all the departments/entities of the province had been conducted at least once in the past three years.

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

Dimensions to be assessed (scoring method M2):

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

(ii) Use of competitive procurement methods

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

(iv) Existence of an adequate administrative procurement complaints system

Section 217 of the Constitution requires procurement to be fair, equitable, transparent, competitive and cost-effective. Aligned with this the PFMA, Treasury regulations (issued in terms of section 76 of the PFMA), the PPPF Act and regulations as well as the National Treasury practice notes, provide the framework in which the province develops its procurement policies and procedures. Given the nature of the national regulatory framework, the province does not have to develop its own provincial legislation. The National Treasury also issues procurement thresholds to which all provinces must comply. Section 3 of the PFMA stipulates that the PFMA prevails in the event of inconsistency with any other legislation and therefore takes precedence over any other legislation, except the Constitution.

Financial delegations, either determined by the Provincial Treasury or left to the discretion of departments, then determine the authorisation of procurement transactions. The regulatory framework makes provision for deviations/exemptions subject to specific provisions.

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

The province is obliged to use the regulatory framework described in the introduction to PI-19. The province's achievements with respect to the requirements of the legal and regulatory framework is summarised in table 19.

Table 22: Requirements on the legal and regulatory procurement framework

Requirement on the legal and regulatory framework	Justification
Be organised hierarchically and precedence is clearly established	Yes, the introductory paragraph describes how the regulatory framework is hierarchically structured and indicates the precedence. Both the National and the Provincial Treasuries have supply chain management units that are the custodians of the regulatory framework, perform monitoring functions, and issue practice notes.
Be freely and easily accessible to the public through appropriate means	Yes, all the different pieces of legislation are publicly available through various government websites and in libraries.
Apply to all procurement undertaken using government funds	Yes, the regulatory framework described above applies to all procurement where public funds are used. This regulatory framework also comes under scrutiny when departments and government entities are audited every year.
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	Yes, the regulatory framework provides clear and specific thresholds that apply to different open methods of procurement. The policies also include specific prescripts and control measures where deviations from the legislation are justified to be approved by accounting officers, reported and disclosed. There may be some improvements and refinement required if the Auditor-General's report on irregular expenditure is considered.
Provide for public access to all the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints	No, bidding opportunities and contracts awarded are advertised in the weekly provincial tender bulletin as the recognised media. Although departments prepare procurement plans before the start of every financial year, these plans are not made available publicly.
Provide for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature	No, although the regulatory framework contains specific prescripts regarding procurement complaints, the province does not comply with it. The province does not have an independent procurement complaints body. A no-contract signing period is non-existent and none is prescribed between award and signature. Applications for access to information are generally dealt with outside the procurement process, unless flaws are dealt with through the judicial system.

Except for a few transversal contracts the province requires individual departments to develop its own policies and procedures to cater for its uniqueness.

Departments generally have a centralised approach to procurement and a system of financial delegation generally does not exist. This, to start off with, leads to a lack of transparency in the department that filters down to end-users and ultimately suppliers. In turn it affects the competition and the figures in support of large amounts of irregular expenditure emphasise it.

(ii) Use of competitive procurement methods

Neither the Provincial Treasury nor the departments could provide data on the justification for deviating from competitive procurement methods. There is no established process and/or system to record cases where departments deviated from the procurement policy and process.

The Auditor-General reports for the three years under review elaborates on the upward spiral of irregular expenditure. The Auditor-General emphasised that although the total amount in respect of irregular expenditure in the Province decreased from R3.6 billion in FY 2012/13 to R1.8 billion in FY 2013/14, there was a limitation of scope to the value of R1.7 billion. This means that apparent irregular expenditure could not actually be classified as such, because the actual evidence was not available during the audit. By implication it means that there was no or very little progress on irregular expenditure in the province.

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

The province does not make procurement plans available to the general public. Only open tenders above the threshold of R 500 000 are advertised when the need arises. The provincial government tender bulletin is used as the recognised means of communication. Contracts awarded are also advertised in the bulletin. Although factual information could not be provided by the Provincial Treasury's supply chain management unit, it admits that less than 50 per cent of procurement operations (in Rand value) are made available to the public.

Contracts awarded are also advertised in the bulletin. Any individual or organisation who wishes to obtain information regarding any aspect of the process of awarding the contract has to apply for the information in terms of the Promotion of Access to Information Act. The province does not have a nodal point, known to the public, where the information can be requested. According to the supply chain management unit, suppliers subsequently have to start where they believe the information is available and often get sent from pillar to post to find answers.

The Provincial Treasury supply chain management has a unit that deals with general public awareness in connection with procurement policies and procedures in the community. This aims to increase the understanding among potential suppliers how doing business with government works. Data on resolution of procurement complaints are not publicly available.

(iv) Existence of an independent administrative procurement complaints system

The Provincial Treasury has a supply chain management unit. One of the sections in the unit consists of officials whose sole responsibility it is to handle procurement related enquiries. These officials, however, do not necessarily have knowledge and experience of the regulatory framework and challenges that the different sectors face. Further, they are not independent and do not have any authority to suspend the procurement process or issue decisions that are binding on all parties.

Indicator	Score	Evaluation
PI-19 Competition, value for money and controls in procurements	D+	Scoring method M2
i) Transparency, comprehensiveness and competition in the legal and regulatory framework	B	The North West meets four of the six criteria for the legal and regulatory framework for procurement.
ii) Use of competitive procurement methods	D	Reliable data on deviations, with reasons, from open competition, could not be provided. For the three years under review the Auditor-General has elaborated extensively on procurement procedures that leads to irregular expenditure.
(iii) Public access to complete, reliable and timely procurement information	C	Only bidding opportunities and contracts awarded are made public in the province. Procurement plans and data on the resolution of procurement complaints are not made available to the public.
(iv) Existence of an adequate administrative procurement complaints system	D	The provincial government does not have an independent procurement review body.

PI-20 Internal controls for non-salary expenditure

Dimensions to be assessed (scoring method M1):

i) Effectiveness of expenditure commitment controls

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

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

A good system of internal control:

- Ensures timely reporting and accurate accounting;
- Ensures that spending authorities commit themselves only to expenditure within the limits of prospective cash availability;
- Minimises the scope of fraud and mistakes; and
- Supports compliance with procurement rules and other expenditure processes.

The province uses BAS and Walker Systems for commitment control in non-salary expenditure. These two systems are not fully integrated. The accounting officer should ensure that department has, and maintains, effective, efficient and transparent systems of financial and risk management and internal control regarding performance management as required by section 38(1)(a)(i) of the PFMA.

The Auditor-General noted that there are weaknesses in internal controls that affect key areas of supply chain management, quality of annual financial statements and performance reports submitted for auditing, human resource management and IT controls.

(i) Effectiveness of expenditure commitment controls

The primary control on commitments in the province is that before a requisition is sent for capturing in the Walker system, it must be sent through to budget management unit in the respective line department to check for budget availability. There is also a control on the procurement system that ensures that orders are issued against budget and that the total amount of the purchase order does not exceed the authorised allocation. These controls are applicable to all types of expenditure and commitments are authorised in the BAS only if there is assurance that the expenditure is in line with budget, and the Provincial Treasury has made sure that cash is available.

However, five departments¹⁰ overspent their budgets with unauthorised expenditure increasing from R109 million to R294 million during the 2013/14 financial period according to AGSA and Provincial Treasury reports. This is indicative of a lack of proper budget management controls. The internal audit unit also highlighted that commitment controls are not effective because they normally result in understatements/overstatements. This can be attributed to the projection tools which are not that good. Departments tend to spend more towards the end of the financial year¹¹.

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

The Treasury regulations and the provisions in the PFMA are undoubtedly the key reference for internal controls and regulations. These are disseminated and generally understood. These cover the control and management of public finance, the control of public funds, including bank accounts, and payment controls. These controls are well understood by management as well as lower level staff, but implementation is still lacking in the province.

Existing internal Treasury rules and procedures are quite comprehensive but too basic for the sizable amount of financial transactions, since they require too many steps and excessive bureaucratic paperwork. The rules prescribe, *inter alia*, that three different officials should be involved in the preparation of an invoice before its submission to the district finance branch. They also lay down arrangements for safeguarding and accounting for stores, establishing some basic minimum controls. Further, they do not prevent commitments from being made without notification of the district finance branch, or from being undertaken outside existing budgetary provision, and thus having to be regularised later through the shifting of funds, virements (PFMA section 43), special warrants, adjustment budget, supplementary estimates and even roll over as first commitments on the following year's budget.

In the health sector, for example, hospitals do not keep adequate records of property, buildings and medical

¹⁰ The line departments are Education (R185.5 million), Health (R59.4 million), Agriculture (R27.5 million), Public Works (R20.7 million), and Economic Development and Tourism (R0.7 million).

¹¹ Such a practice is not planned as such. However, there is sufficient indication suggesting that financial planning is not adequate as the major variance detected is between funds requested per month and the actual expenditure.

equipment, other fixed assets and pharmaceutical products or other essential medical supplies. These are inventoried manually or in a basic electronic form, thus increasing the risk of error or loss.

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

The Auditor-General's general report of 2012/13 and 2011/12 highlighted the need to improve internal control deficiencies especially in areas pertaining to supply chain management, which is cause for irregular and unauthorised expenditure every year. Non-compliance with regulations persisted in the province, albeit that audit reports indicate this has resulted in reductions in recent years. Out of the 13 audited departments, only the Department of Human Settlement was scored the status of "clear" in terms of compliance.

Reportedly, irregular expenditure by the Departments of Health and Public Works has decreased in FY 2013/14 from R971.3 million to R724.4 million and R229.5 million to R105.4 million compared to prior year respectively. The Department of Health, however, increased over the same period from R25.6 million to R54.1 million. Furthermore, fruitless and wasteful expenditure decreased from R22.8 million in FY 2011/12 to R15.4 million in FY 2012/13, which is commendable although not the optimal outcome.

Indicator	Score	Evaluation
PI-20 Effectiveness of internal controls on non-salary expenditure	C+	Scoring method M1
(i) Effectiveness of controls on expenditure commitments	B	Expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations for most types of expenditure, with minor areas of exception often resulting in over execution in the budget. Financial planning and expenditure is not adequately aligned, indicating a need to improve when setting targets or efficiency in the management of expenditure.
(ii) Scope, relevance and understanding of other internal control regulations and procedures	C	Other internal control rules and procedures consist of a basic set of rules for processing and recording transactions, which are understood by those directly involved in their application. Some rules and procedures may be excessive, while controls may be deficient in areas of minor importance such as stores and inventories.
(iii) Degree of compliance with the regulations for processing and registering transactions.	C	Rules are complied with in a significant majority of transactions, but use of simplified/emergency procedures in unjustified situations is an important concern, mainly apparent in the recurring irregular expenditure every year.

PI-21 Effectiveness of internal audit

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

This indicator looks at the functioning of the internal audit unit as distinct from internal control operations. The North West internal audit unit acts as an advisory service to top management on the functioning of the systems for which management is responsible. This unit is centralised and monitors all the departments under Treasury. Headed by a chief audit executive, the unit provides monitoring as well as support services to the risk management units in each department in the province.

(i) Scope and quality of internal audit function

The provincial chief directorate of internal audit was set up as a centralised unit under sections 38(i)(a)(ii) and 76 of the PFMA and paragraph 3.2.3 of the Treasury regulations. There is an internal audit charter which profiles the role, purpose, authority and responsibility of the internal audit function in the provincial administration. The charter was prepared in accordance with the international Standards for the Professional Practice of internal audit and is reviewed annually in line with changes in legislation, professional practice and requirements of the provincial administration.

The scope of work of the internal audit is to determine whether the network of risk management, internal control, governance, compliance and reporting on predetermined objective processes as designed by the respective departmental management is adequate and functioning in an effective manner in all mandated departments. Reports on performance are compiled quarterly and annually. The internal audit units are staffed with professionals who are members of the IIA Chapter of South Africa and whose subscriptions are paid for in full by the province.

(ii) Frequency and distribution of reports

Audit reports are provided regularly to heads of departments and CFOs of audited departments and public entities. The Provincial Treasury also receives the IA reports issued by IA units in the Department of Education and the Provincial Legislature on a regular basis. The format of the reports is prescribed to cover areas like core findings, condition, cause, effect, recommendations as well as management comments and action plans. These reports are forwarded to audit committees quarterly and provided to external auditors upon request.

(iii) Extent of management response to internal audit findings

The charter requires every audit report to contain management comments. On receiving an audit report, management should return the report with their comments within 30 days. Management also must detail the course of action to be taken, the person responsible and the timeframe to address the findings. Follow ups are conducted periodically on implementation of agreed action plans.

It has been noted that 40 per cent of the departments are implementing the recommendations made by internal audit as well as those by the external audit. The internal audit reports include follow up on the actions agreed in previous internal audit reports. They provide a summary of the status of responses by audited departments, ranging from those fully implemented, in progress and those not implemented

Indicator	Score	Evaluation
PI-21 Effectiveness of internal audit	C+	M1 scoring method
(i) Scope and quality of internal audit function	A	Internal audit is operational for all provincial government entities, and generally meet professional standards. It is a shared service located in the Department of Finance (serves all departments except Education and the Provincial Legislature which have their own units). It is focused on systemic. Strategic plans are developed, endorsed by departments and approved by the respective audit committees.
(ii) Frequency and distribution of reports	A	Reports adhere to a fixed schedule and are always distributed to the audited department and the respective audit committee as well as to AGSA upon request.
(iii) Management response to internal audit findings	C	Prompt and comprehensive action is taken by many (but not all) CFOs of audited departments. Only 40% of the departments audited do respond and act upon the recommendations from internal audit.

3.5 Accounting, recording and reporting

PI-22 Timeliness and regularity of accounts reconciliation

Dimensions to be assessed (scoring method M2):

(i) Regularity of bank account reconciliations

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

(i) Regularity of bank reconciliation

The province maintains an account with ABSA for the PRF and maintains a checklist to keep track on the clearing of exceptions, daily and monthly reconciliations, cashbook and revenue reconciliations, receipts allocations review as well as checking of asset and liability account postings and allocations. All this is done to ensure an efficient and effective banking and cash management.

The CFO unit at every department is responsible for reconciling the cash movements of the other bank accounts; each department has its own bank account with its own signatories. These include the drought relief funds for agriculture and other minor special donor related funds often accounted for under equitable shares, and the suspense accounts, among others.

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

Treasury regulations require that, should it be necessary, in exceptional cases, to account for revenue and expenditure transactions in a clearing or suspense account because the classification has not been resolved, the accounting officer must ensure that¹²:

- Amounts are cleared and correctly allocated to the relevant cost centres on a monthly basis;
- Monthly reconciliations are performed to confirm the balance of each account; and
- Reports are provided to the accounting officer about un-cleared items on a monthly basis.

The accounting officer must certify that the forecast/projection for the remainder of the financial year adequately makes provision for all amounts not yet cleared from clearing and suspense accounts.

From enquiries, most departments perform reconciliation and clearance of suspense accounts and advances on a monthly basis. Evidence suggests, nonetheless, that some accounts remained uncleared over the past three years. Tables 20 and 21 show at end-year combined balances of pre-payments and advances accounts and claims recoverable and government debtors remained unchanged between 2 per cent and 3 per cent of total expenditure every year. This suggests that several departments are not complying with ultimately clearing outstanding balances as per Treasury regulations.

Table 23: Accumulation of pre-payments, advances and staff debt

Description (R'000)	2011/12	2012/13	2013/14
Staff advances	0	69	67
Travel and subsistence	394	1 234	1 555
Pre-payments	1 162	158 697	251 384
<i>Of which: Department of Basic Education and Training</i>	0	145 725	64 114
Local Government and Traditional Affairs	0	0	178 003
Advances paid	0	30 957	5 721
Staff debt	40 851	50 334	53 737
<i>Of which: Department of Education</i>	35 121	45 314	49 968
Total	42 407	241 291	312 464
% of budget	0.17%	0.92%	1.09%

Sources: AGSA and PT.

¹² Treasury regulations, sections 17.1.2 and 17.1.3.

Table 24: Accumulation of claims recoverable

Department R'000	2011/12	2012/13	2013/14
Office of the Premier	0	0	0
Legislature	0	986	986
Health	66 062	48 627	39 566
Sports, Arts and Culture	0	45	312
Human Settlements	379 299	342 244	201 242
Economic Development and Tourism	0	0	0
Finance	0	18	3 179
Basic Education and Training	5 245	1 778	2 772
Local Government and Traditional Affairs	0	0	0
Public Works	35 116	43 042	72 825
Social Development	239	542	7 917
Agriculture and Rural Development	61	242	189
Public Safety	299	0	0
Memo: Social Sectors	450 845	393 236	251 809
Total	486 321	437 524	328 988
% of budget	1.99%	1.67%	1.15%

Sources: AGSA and PT.

Indicator	Score	Evaluation
PI-22 Timeliness and regularity of accounts reconciliation	B	Scoring method M2
(i) Frequency of reconciliation of bank accounts	B	Bank reconciliation for the PRF takes place on a monthly basis, usually within 30 days from the end of the month.
(ii) Frequency of reconciliation and clearance of suspense accounts and advances	D	Reconciliation and clearance of suspense accounts and advances generally takes place on a monthly basis. But the evidence gathered shows that there are still some accounts with uncleared balances brought forward in the three years under review.

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

Dimensions to be assessed (scoring method M1):

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

Through its Gazette, the Provincial Treasury publishes information on annual allocations issued to service delivery units such as hospitals, libraries, water and sanitation, housing, schools etc. This information is readily available and free of access via website (www.gpwonline.co.za) and is published 14 days after the budget is tabled in accordance to the requirements of section 30.2 of the DORA. The use of budget resources allocated to cost centres is available in BAS, but the Provincial Treasury does not publish these reports (some form of quarterly IYM by district) through appropriate means. Service delivery units, once they receive the budget resources, do not report on the outputs and outcomes and other uses of budget allocations received.

The BAS information is not used by management and departmental budget offices to inform decisions about resource allocations to these service delivery units. An analysis of the budget allocations and expenditures of the Departments of Health, Education and Social Development for the three financial years under review revealed that the budget allocation for compensation of employees increased on average by 6.82 per cent while the budget allocation for goods and services decreased by 3.94 per cent. Furthermore, an average of 14.98 per cent of the total allocation for goods and services is spent under the programme, administration.

The Provincial Treasury or line departments do not make any monitoring and evaluation on the resources disbursed by district and primary service delivery units. So the reports prepared by departments do not provide budget resources and performance of individual units¹³. On enquiry, stakeholders noted that they are not aware of any high level reports or surveys done on the relationship between resource allocations, outputs and outcomes of service delivery units.

Budget allocations are done on a need basis and then followed by a revision of baseline or pre-determined norms and standards such as number of learners in an area, or number of households. Consequently, financial and non-financial performance of service delivery units do not influence future resource allocations as they should.

In the case of municipalities it is mainly information regarding the conditional grants from the National Treasury that are collated and monitored (see PI-8 and PI-9). The interrogation of information on the financial support from COGTA to municipalities requires more attention.

Indicator	Score	Evaluation
PI-23 Availability of information on resources received by service delivery units	A	Scoring method M1
(i) Compilation and processing of information to show the resources effectively received (in payment or in kind) by the majority of frontline service delivery units	A	Information on budgetary resources allocated to and received by primary schools and health care centres by district is available on an annual basis.

¹³ Details may be obtained from the BAS financial system but service units are not making use to report back to the Provincial Treasury on the use of financial resources.

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

Dimensions to be assessed (scoring method M1):

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

(ii) Timeliness of report presentation

(iii) Quality of information

The current legislation and Treasury regulations require that every province submits a consolidated statement on actual revenue and expenditure on a monthly basis by the 22nd of each month, in a format termed In-year monitoring (IYM) reports¹⁴. Additionally, the Provincial Treasury guidelines require all departments to submit the IYM by the 15th of every month. The report includes the following information:

- Actual revenue and expenditure for each month against the budget
- Projections of anticipated revenue and expenditure for the remainder of the financial year.
- Transfers and subsidies
- Itemised capital expenditure
- Variances from adjusted appropriations normally due to significant economic and financial events as well as unforeseen and unavoidable expenditure.
- Conditional grants received and the actual spending against them
- Suspense account affecting expenditure
- Information on existing and new infrastructure
- Cash flow projections.

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

As the financial year begins, each accounting officer provides forecasts revenue and expenditure figures for their departments for the year which forms the main budget. The in-year budget reports show a direct comparison to the main budget for the current and accumulated to date period as well as the appropriation on revenue and expenditure for the year. These are signed by the accounting officer to certify that funds have been used properly, accounted for and spent in accordance with the purposes as indicated in the budget. The Provincial Treasury uses the modified cash basis reporting standard.

These reports are produced through BAS in conjunction with the Vulindlela system. They do not include reporting for public entities and municipalities, neither do they show both commitments for the year¹⁵. Any information on expenditure commitments is provided separately on a report printed on request by the BAS m. The IYM reports show itemised capital expenditure funded by domestic sources. However no information regarding capital expenditure funded by foreign sources is available.

(ii) Timeliness of the issue of reports

The current legislation requires that every department, "within 15 days of the end of each month, must submit to the relevant treasury and executive authority responsible for that department:16

- The information for that month;
- A projection of expected expenditure and revenue collection for the remainder of the current financial year; and
- When necessary, an explanation of any material variances and a summary of the steps that are taken to ensure that the projected expenditure and revenue remain within the budget."

The PEFA consultants have reviewed the signed hard copies sent by departments to the Provincial Treasury and the evidence indicates that departments normally submit with some delay, though in the timeline prescribed. The Provincial Treasury has now implemented a central register to record the date of submissions by departments of both the soft copy and hard copies to measure the extent of compliance.

(iii) Quality of information

Quality assurance is done at the Provincial Treasury level by the directorate of public finance who reviews and analyses the information submitted by the departments to the BAS reports and the Vulindlela system. The

¹⁴ Public Finance Management Act, Section 40(4)(b) and (c) and Treasury regulations, Section 18.1.

¹⁵ Provincial Treasury sources interviewed concurred that commitment figures are included in the projections only and supported by a separate Excel spreadsheet termed "open order report" from the system.

¹⁶ Public Finance Management Act, Section 40(4)(c).

Provincial Treasury will request adjustments to be made by the department where necessary.

Indicator	Score	Evaluation
PI-24 Quality and timeliness of in-year budget reports	C+	Scoring method M1
(i) Scope of reports in terms of coverage and compatibility with budgetary forecasts	C	Classification of data allows direct comparison to the original budget (main appropriation) and information includes all items of budget estimates, by administrative heads and programmes/sub-programmes. Expenditure, however, is captured only at the payment stage.
(ii) Timeliness in the presentation of reports	A	Departments prepare their IYM reports on a monthly basis and are submitted electronically by the 15th of every month to the Provincial Treasury. It then prepares a consolidated IYM report which is then usually submitted by the 22nd of each month to the National Treasury.
(iii) Quality of the information	B	Quality checks are done by the Provincial Treasury and, in general, there are no major concerns about the accuracy of data except a few issues not compromising overall consistency whatsoever.

PI-25 Quality and timeliness of financial statements

Dimensions to be assessed (scoring method M1):

(i) *Comprehensiveness of financial statements*

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

(iii) *Accounting standards used*

The current legislation requires that the Provincial Treasury must¹⁷:

- Prepare consolidated financial statements, in accordance with GRAP, for each financial year in respect of:
 - Provincial departments in the province
 - Public entities under the ownership control of the provincial executive of the province; and
 - The Provincial Legislature in the province; and
- Submit those statements to the Auditor-General within three months after the end of that financial year.

The province prepares consolidated financial statements (CFS) annually for the year ending 31 March for all the provincial departments as well as PRF. These financials are prepared on a modified cash basis. Departments prepare financial statements in accordance with the departmental financial reporting framework prescribed by the National Treasury and the requirements of the PFMA as well as DORA.

The process of preparing consolidated annual financial statements commences with the combination of the financial statements on a line by line basis by adding like items of revenue and expenditure, assets and liabilities etc. Revenue and expenditure between the departments and the revenue fund are completely eliminated.

(i) *Completeness of the financial statements*

Each department in the North West Province prepares its own set of public accounts which is then submitted to the Auditor-General for external audit services. Another set of financials is submitted to the Provincial Treasury for consolidation.

The annual financial statements cover full information on revenue, expenditure, assets and liabilities with prior year comparative figures. A complete set of consolidated financial statements comprises:

- Departmental combined financial statements
- Accounting policies
- Consolidated statement of financial performance
- Consolidated statement of financial position
- Consolidated statement of changes in net assets
- Consolidated cash flow statements
- Disclosure notes, notes to the AFS, summary of significant accounting policies and other explanatory notes.

Assets include advances paid, staff debt and prepayments whilst Liabilities include bank overdraft and payables.

At the time of the PEFA assessment, the province's Accountant-General was still preparing the consolidated financial statements for the financial year 2013/14.

(ii) *Timeliness of submission of financial statements*

The financial legislation¹⁸ requires that the provincial Accountant-General submits the annual consolidated financials to the Auditor-General within three months from the end of the FY.

There were issues of non-submission as well as late submission of financials noted by the Auditor-General in his general report of 2012/13. The Attorney-General has not received the consolidated financial statements for public entities for 2011/12, 2012/13 and 2013/14.

Departmental consolidated financial statements were submitted by the Accountant-General for audit and certified opinion as follows:

- Official original version of the FY 2011/12 CFS received by the Auditor-General on 01/10/2013 (with a

¹⁷ Public Finance Management Act, Section 19.

¹⁸ PFMA, Section 19

- delay of twelve months).
- Official original version of the FY 2012/13 CFS received by the Auditor-General on 01/10/2013 (with a delay of three months).
- Official original version of the FY 2013/14 CFS is not yet received by the Auditor-General. **Accounting standards used**

The financial statements are prepared in accordance with GRAP as required by PFMA, which is all aligned with international standards established for the public sector by the International Public Sector Accounting Standards (IPSAS).

Indicator	Score	Evaluation
PI-25 Quality & timeliness of financial statements	A	Scoring method M1
(i) Completeness of financial statements	A	The provincial Accountant-General prepares and submits the annual consolidated financial statements for the financial year ending 31 March, which includes comparative figures as well as full information on revenue, expenditure, assets and liabilities.
(ii) Timeliness in the presentation of financial statements	A	The (departmental) consolidated financial statements had been submitted with a delay ranging from three to twelve months with consolidated financials for public entities not having been submitted over the past three years. The last financial statements submitted for audit were submitted with a delay of three months.
(iii) Accounting standards used	A	North West Province prepares the consolidated financial statements in accordance with the departmental financial reporting framework prescribed by the National Treasury and the requirements of the PFMA, compatible with IPSAS, as well as DORA (No. 5 of 2012).

3.6 External scrutiny and audit

Indicators under this section describe the degree of independence of the oversight function and the effectiveness of external scrutiny of the use of public resources by government. It is the component of the PFM system that performs the crucial function of holding the executive accountable for its use of public resources. Weakness in this component of the system undermines all other components even if the rest of the PFM system is strong. Any major problems in the accounts or in the underlying systems are expected to be highlighted and described in the audit report as well as the recommendations that the executive (and in some cases the courts) ought to act upon.

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

Dimensions to be assessed (scoring method M1):

- (i) Scope/nature of the audit carried out (including compliance with auditing standards)**
- (ii) Timeliness in submission of audit reports to the Legislature**
- (iii) Evidence of follow up on audit recommendations**

The Auditor-General is the supreme audit institution in charge of auditing all central government accounts. The Auditor-General derives its powers and mandate from the Constitution (section 188) and the Public Audit Act of South Africa (No. 25 of 2004). The Auditor General is required to plan and perform audits to obtain reasonable assurance about whether the financial statements are free from material misstatements. This includes audits and report on the financial statements of provincial departments, municipalities, and public entities receiving funds from the PRF and those audit reports must in turn be submitted to the Provincial Legislature.

(i) Timeliness of submission of audit reports to Legislature

The financial legislation requires that the Auditor General performs a provincial audit of the consolidated financial statements and submits an annual audit report to the Provincial Treasury within 3 months of receipt of financial statements¹⁹. The AGSA at the North West Province also carries its financial audits in accordance to the PFMA, MFMA and the Public Audit Act of South Africa and these are in line with INTOSAI audit standards. These audits are carried out on a sample basis and not on coverage basis for the 13 departments, as well as the six public entities.

The AGSA carries out mandatory audits which includes a report on the financial statements and on other legal and regulatory requirements; discretionary audits (report on factual findings regarding to financial misconduct based on allegations or matters of public interest); special audits (performance audits, report on actual findings, economic, efficient and effective use of scarce resources, effect of policy implementation).

For each auditee, the Auditor-General prepares an audit report as well as management report and a consolidated report for the entire province termed "General report of the provincial audit outcomes."

(ii) Timeliness of submission of audit reports to Legislature

The MEC for Finance in a province must submit the consolidated financial statements and the audit report within one month of receiving the report from the Auditor-General to the Provincial Legislature for tabling according to section 19(3) and section 19(5). The latter states that if the MEC for finance fails to submit the consolidated financial statements and the Auditor-General's report on those statements to the Provincial Legislature within seven months after the end of financial year to which those statements relate:

- The MEC must submit to the Legislature a written explanation setting out the reasons why they were not submitted; and
- The AGSA may issue a special report on the delay.

Consolidated financial statements were submitted by the MEC for Finance to the Provincial Legislature as follows:

- For FY 2011/12 the general report on the provincial audit outcomes was submitted by MEC for Finance to the North West Provincial Legislature in March 2013; and
- For FY 2012/13 the general report on the provincial audit outcomes was submitted by MEC for Finance to the North West Provincial Legislature in November 2013.

¹⁹ PFMA, Section 19 (2)

(iii) Evidence of audit's recommendations being acted upon

The Provincial Treasury, through its provincial internal audit, carries out follow-up audits to assess the extent to which audit findings are addressed and recommendations implemented. Through these reports, the internal audit summarises the status of action plans followed up, ranging from implemented, in progress and those not implemented. The internal audit will issue an audit opinion on the findings and calculate the implementation rate achieved by each department. During the interviews with the head of internal audit and the Provincial Treasury the latter showed the evidence of the follow-up notes regarding audit findings for audited departments.

The Auditor-General does follow-ups on a quarterly basis through its initiatives to encourage clean audits by means of interactions with political and administrative leadership and executive authorities. The Auditor-General provides feedback on the progress made on the implementation of key controls relevant to the audit and on the implementation of action plans. They also conduct workshops and make presentations to the officials concerned in the reporting of pre-determined objectives (PDOs) to promote the understanding of PDO requirements.

The Auditor-General made a commitment to be present at the portfolio committee on public accounts (PPAC) hearings, provide input and assessment of the action plans of departments and entities and to be present at the meeting of and interact with the portfolio committees creating a good working relationship.

The internal audit recommendations raise communication and audit findings (COMAF) for all audited departments. These give management a chance to agree or disagree with the audit finding. Management also has to include an action plan to address those recommendations, timeframe as well as the responsible person when they respond to audit findings. In their quarterly reports, the internal audit contains a section for implementation of action plans. This details the number of action plans implemented, those in progress, those where no action has been taken, as well as action plans not yet followed up. The percentage of actions not followed up was found to be generally low with the internal audit making a commitment to follow up and include in the next quarter's report.

Indicator	Score	Evaluation
PI-26 Scope, nature and follow-up of external audit	B+	Scoring method M1
(i) Scope/nature of the audit carried out (including adherence to audit standards)	A	All departments inclusive of public entities and municipalities in the provincial government are audited annually covering revenue, expenditure and assets/liabilities. A full range of financial audits and some aspects of performance audit are performed and generally adhere to auditing standards, focusing on significant and systemic issues. The Auditor-General is the supreme audit institution auditing all departments, public entities and municipalities in North West province.
(ii) Timeliness in the presentation of auditing reports to the Provincial Legislature	A	Audit reports are submitted to the Provincial Legislature within 8 months of the end of the period covered and in the case of financial statements from their receipt by the AGSA, as indicated by the last year audited.
(iii) Evidence of follow up of audit recommendations	B	A formal response is made by the audited departments in a timely manner, but there is little evidence of systematic follow up on the audit recommendations.

PI-27 Legislative scrutiny of the annual budget

Dimensions to be assessed (Scoring method M1):

- (i) Scope of examination by the Provincial Legislature*
- (ii) Degree to which legislative procedures are recognised and respected*
- (iii) Adequacy of the time for the Provincial Legislature to provide a response to budget proposals*
- (iv) Rules for in-year amendments to the budget without ex-ante approval by the Provincial Legislature*

(i) Scope of examination by the Provincial Legislature

The Provincial Legislature's review of the annual budget appropriation bill covers the EPRE or Blue Book macroeconomic and financial matters which include fiscal policies, the medium-term fiscal framework and medium-term priorities for the country and the province, as well as estimates of provincial revenue and expenditure and comparisons with previous three years.

For FY 2014/15 a brief presentation took place in the portfolio committee on provincial affairs and finance²⁰ whose focus was on enabling the achievement of mainly six out of 12 outcomes of the province, according to the priorities agreed with the national government.

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

The way in which the Provincial Legislature handles the budget is well understood, and the arrangements are generally respected. These form part of the Provincial Legislature Standing Rules and Orders of 2009. However, these arrangements do not give the Provincial Legislature any real possibility of influencing the shape of the provincial government's proposals, because specialised financial management committees, i.e. costing of provincial services over time, are not used for the most part. The effectiveness of the review is limited by time constraints. If it was not for these time constraints the committee should, among other things, be able to integrate the work of sector and technical committees to provide direction in determining priorities and budget allocations.

(iii) Degree to which the Provincial Legislature has sufficient time to respond to the Budget bills propositions, both in terms of detailed estimates and (where relevant) macro-fiscal aggregates at the start of the budget preparation cycle (time required, in practice for all stages)

The time for review the above amount of information and debate in the Provincial Legislative portfolio committee is restricted to around 10 to 14 days from start of deliberations²¹.

(iv) Rules applicable to budgetary amendments during the year which do not require the approval of the Provincial Legislature

The PFMA allows the use of the adjustment budget by means of re-appropriations among departments and the undertaking of additional spending by means of supplementary warrants issued by the Provincial Treasury with a public announcement and legislative approval. In-year budget amendments are clear to all budget institutions. Reallocations in each department's budget vote are authorised by the accounting officer through internal resolutions during the financial year, taking place extensively even from the beginning of every year. These are well explained to all departments including those that have their budgets reduced.

²⁰ Minutes of the portfolio committee on provincial affairs and finance, March 19, 2014.

²¹ See, for example, the media alert by the Provincial Legislature's media and communications unit inviting members of the media to attend the public hearing on the NW Appropriation Bill 2014/15 scheduled for 19 March 2014.

Indicator	Score	Evaluation
PI-27 Legislative scrutiny of the annual budget law	D+	Scoring method M1
i) Scope of examination by the Provincial Legislature	A	The Provincial Legislature's annual budget review covers fiscal policies, medium-term fiscal framework and medium-term priorities as well as details of expenditure and revenue. The Provincial Legislature does influence on policies and priorities set out in the budget proposal submitted by the executive.
ii) Degree to which legislative procedures are recognised and respected	B	The Provincial Legislature's procedures and rules on the reviewing and approval of the annual budget Appropriation Bill are simple but well understood and respected by members of the portfolio committee on provincial affairs and finance.
iii) Sufficiency of time for the Provincial Legislature to respond to the budgetary proposals	D	The Provincial Legislature does not spend more than two to three weeks on all stages of the budget debate and subsequent approval of the Appropriation Bill.
iv) Rules for in-year amendments to the budget without ex-ante approval by the Provincial Legislature	B	Clear simple rules exist for in-year budgetary adjustments by the provincial executive and are usually respected, but they allow extensive virements across departments.

PI-28 Legislative scrutiny of external audit reports

Dimensions to be assessed (scoring method M1):

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

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

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

The PFMA, Chapter 3, section 19 on annual consolidated financial statements (CFS), requires that the Auditor-General first audits the CFS and submits a certified audit report on the statements to the Provincial Treasury of North West Province within three months of their receipt. The MEC for Finance is then required to submit the CFS and the audit report, within one month of receiving the report from the AG, to the Provincial Legislature for tabling.

Additionally, the North West Legislature standing rule and orders, and in accordance with the PFMA (section 65), requires that provincial departments must table an annual report and financial statements in the Provincial Legislature before the consideration of the budget of such department for the next financial year by the Legislature. The member of the Executive Council responsible for a provincial department must introduce the annual report of the department by delivering an introductory speech and thereafter by submitting it to the Speaker.

Legislative scrutiny in the Provincial Legislature requires that at least one sitting day after the annual report has been introduced by the responsible MEC, it must be referred to the committee of the whole House. The responsible MEC must answer questions of the members to provide any clarity required on the report. The annual report is thereafter referred for consideration to the portfolio committee to which the budget vote of that department will be referred for consideration with the budget of the department, and report to the portfolio committee on public accounts (PPAC), finance, office of the Premier and Provincial Legislature (PAFOL) (refer to sections 114 and 133 of the Constitution).

The next step is that the relevant portfolio committee considers the annual performance report together with the financial statements and tables a report with recommendations to the whole House within such timeframes as may be determined by the Speaker or this House. The portfolio committee's report must be debated in this House. Finally, PAFOL shall consider the report of the Auditor-General on the financial statements contained in an annual report tabled in terms of the Standing Rule No. 131, including the report of the audit committee, and shall table a report with recommendations to the House within such timeframes as may be determined by the Speaker or the House.

As far as other provincial organs of state are concerned, standing rule 132 establishes that they must table an annual report and financial statements in the Provincial Legislature within the prescribed timeframes as provided for in the PFMA. The annual report and financial statements must comply with such provisions of the PFMA as may be relevant and/or required, and the report is thereafter referred to the relevant portfolio committee for consideration and report to the Provincial Legislature. The portfolio committee's report must be debated in the Provincial Legislature (refer to sections 114 and 133 of the Constitution).

The North West Standing Rule and Orders in accordance with the PFMA (section 65) states that executive authority responsible for a department must table the annual report and the audit report in the National Assembly or Provincial Legislature. The MEC responsible must introduce the annual report by delivering an introductory speech and then submit it to the Speaker.

(i) Punctuality in examination of the audit reports by the Legislature (reports received within the past three years)

The portfolio committee on provincial affairs received a presentation on the 2013/14 annual report of the Department of Finance at a meeting held on the 28 October 2014. During this meeting, a representative of the Auditor-General highlighted that the department had achieved a clean audit opinion on the 2013/14 financial statements but pointed out that irregular expenditure of R16 305 000 from prior year was still under investigation. The main findings on the report were also tabled before the PPAC.

The Department of Finance also made a presentation of its key achievements during the financial period under review.

Table 25: Schedule of meetings of the PPAC, FY 2013/14

Date of meeting	Time	Ministry/ Department	Agenda
14/01/2014	09:00	All	Public hearing – finalisation of the department accounts matter
21/01/2014	09:00	Education, Sports, Local Government, Public Works	Public hearings
22/01/2014	09:00	Madikwe, Golden Leopard, Parks Board, MIDZ	Public hearings
23/01/2014	09:00	Local Government, Sports, Public Works	Public hearings
24/01/2014	09:00	Health	Public hearings
18/02/2014	17:00	SCOPA, Finance & Local Government	Meeting with AG on the municipal performance
06/03/2014	17:00	Education	Adoption of oversight/committee reports
06/03/2014	18:00	Human Settlement	Adoption of oversight/committee reports
06/03/2014	19:00	Public Works	Adoption of oversight/committee reports

Source: North West Provincial Legislature website.

The FY 2013/14 financial statements and audit report were approved by the committee on 17 November 2014.

(i) Scope of hearings carried out by the Legislature into the main findings

In general, public hearings are called for those departments with significant audit findings. The PPAC planned to carry out in depth hearings for some departments and public entities during the month of January to February 2014.

After the presentation of the audit reports and main findings, the committee will raise its concerns and inputs for each respective department as well as public entity. They then request a submission of an action plan to respond to the Auditor-General, normally within fourteen (14) days from date of request. As part of its recommendations, the portfolio committee requests reports on investigations being undertaken, for example regarding irregular expenditure and any other issues raised by the Auditor-General that may prompt investigations.

In depth hearings on key findings take place with responsible officers from the audited entities as a routine, but may cover only some of the entities that received a qualified or adverse audit opinion. Entities that were not subject to hearings, but had disclaimer and qualified opinions, included North West Youth Development, Signal Development, North West provincial council on AIDS, North West Arts and Council.

(ii) Issuance of recommended actions by the Provincial Legislature and implementation by the executive

From evidence gathered, the committee makes recommendations based on the audit outcomes to the respective departments. These are followed by set timeframes and the implementation of recommendations that the committee expects feedback on. These recommendations are mainly informed by the Auditor-General and the Provincial Treasury's briefing to PPAC prior to its interaction with individual departments, municipalities and public entities. However, according to the Auditor-General, the follow-up on the implementation of these resolutions by the committee remains a concern.

The 2012/13 general report by the Auditor-General on the province highlighted that proactive interactions with the executive, initiated by the Provincial Legislature, to ensure delivery on agreed on objectives for the achievement of government priorities, did not take place before the tabling of the respective APPs and budgets of departments and entities.

Indicator	Score	Evaluation
PI-28 Legislative scrutiny of external audit reports	C+	Scoring method M1
(i) Timeliness in the examination of audit reports by the Provincial Legislature (reports received in the past three years)	A	The scrutiny of various annual audit reports is completed within two weeks from receipt and presentation of reports. From evidence gathered by PEFA assessors, audited financial statements are normally considered in November of each year. Evidence was shared only for the latest available financial year records (FY 2013/14).
(ii) Scope of the hearings held by the Provincial Legislature into the main conclusions	B	In depth hearings on key findings take place with MECs and heads of departments from the audited departments as a routine, but they do not cover all the entities which received an adverse audit opinion.
(iii) Measures recommended by the Provincial Legislature and implementation of these by the executive	C	Recommendations are issued by the Provincial Legislature, generally in line with external audit outcomes, but key issues remain unresolved and recur practically every year, thus suggesting actions are rarely acted upon by the executive and monitoring is inadequate by the legislative arm of provincial government.

3.7 Donor practice

In line with an agreement with the National Treasury, donor practices were not required to be assessed at a sub-national level.

4 Government reform process

4.1 Description of provincial government reforms

The PFM reform programme in the province comprises:

- Reforms that are designed and planned on a national basis for implementation across South Africa, and
- North West-specific reforms that are designed, planned and implemented by the provincial government itself.

It must be noted that due to the reforms initiated by the National Treasury, provinces, generally speaking, rarely initiate their own home-grown PFM reforms.

4.2 North West-specific reforms

The Public Financial Management (PFM) reforms of North West Province mainly consist of those formulated, inducted and overseen by the National Treasury as a whole. Broadly speaking, the South African PFM reform programme consists of the following pillar areas:

- Safer financial sector: The National Treasury issued a policy document that aims to improve the regulation and stability of the financial sector in South Africa. This is believed to serve as an enabler of economic growth, job creation, infrastructure development and sustainable development. The policy document focuses on four priorities, namely, financial stability; consumer protection and market conduct; expanding access through financial inclusion; and combating financial crime.
- Refining the MTEF guidelines: The National Treasury continuously refines the MTEF guidelines. Although it is guidelines for the MTEF, it is issued annually for the new MTEF. The province uses these MTEF guidelines to align its own economic outlook and priorities before budget inputs are called for from departments.
- Framework for strategic plans and annual performance plans: In August 2010 the National Treasury issued a framework for strategic plans and annual performance plans. This is meant to facilitate an increased understanding among all the different role players, mainly departments and public entities, of the:
 - location of the plans in the context of the government-wide monitoring and evaluation system with specific focus on monitoring outcomes;
 - regulatory prescripts for strategic and performance plans, policies, programmes and budgets;
 - role of strategic and annual performance planning in the budget process and in relation to government's broader policy, planning and prioritisation processes;
 - linkages between outcomes oriented service delivery agreements signed by the President and results based programme planning;
 - location of strategic plans and annual performance plans in the context of long-term infrastructure and development proposals;
 - distinction between different planning, budgeting and monitoring and evaluation documents, and how they relate to each other;
 - core elements of strategic plans and annual performance plans;
 - planning timeframes; and
 - prescribed format of strategic plans and annual performance plans.

The increased emphasis on the reporting on performance against the plan, including the auditing thereof since 2011/12, has resulted in the national Department of Monitoring and Evaluation now taking over the oversight and review of performance reports. Similarly, in the province, the office of the Premier performs this function in consultation with the Provincial Treasury to ensure greater linkages between plans, budgets and performance reports.

- Adoption of a uniform programme and budget structures in provincial government: Closely related to the framework for strategic plans and annual performance plans is the uniform structure for budget programmes for the 2014/15 MTEF.

The guide for the format of the estimates of provincial revenue and expenditure is updated annually and forms the basis for communicating a provincial government budget to a wide range of stakeholders, which

include the citizens of a province, the general public of the country, researchers and the international community. It further provides valuable insight into the priority areas of government, focuses on resource allocation and attempts to capture the main outputs these funds are buying.

The standardised format forms a basis for comparable provincial information. It aims to establish a degree of stability, while at the same time focus on improving the quality and consistency of budget documents across provinces.

The format gives a snapshot of the socio-economic and demographic profile of the province and illustrates how it links to the North West provincial growth and development strategy. It provides an overview of the provincial budget, the budget process, and discusses current and anticipated medium-term budget trends. Overview of provincial revenue and expenditure offers a detailed analysis of provincial receipt and payment performance, covering infrastructure, and transfers to public entities and local government. It provides information on payments by municipality, district and ward, personnel numbers and costs, and payments on training.

Estimates of provincial revenue and expenditure allow departments to compile and communicate their budgets, provides current and anticipated medium-term budget trends, provide an overview of departmental estimates based on the standardised budget and programme structures for a particular sector, focus on strategic service delivery, and gives a high level overview of performance measures and targets as defined in departmental strategic plans and annual performance plans.

- Adopting a generic organisational structure for provincial Treasuries: The National Treasury has introduced a generic functional structure for provincial Treasuries in September 2013. The North West Provincial Treasury is still in the process of organising itself according to the generic structure.
- Rollout of an integrated financial management system (IFMS): The main objective is to enhance the integrity and effectiveness of financial management, human resource management, supply chain management and reporting in the public service and contribute to effective service delivery. The IFMS includes modules for financial management (including payroll), human resource management, supply chain management (including asset and procurement management) and business intelligence. Certain modules of the IFMS are currently being piloted in certain key national departments and some provincial governments with a view to make final design updates before full implementation.

4.3 National Treasury reforms impacting on PFM in North West Province

The government of South Africa has a continuing agenda of PFM reform. Current programmes are focused on areas of weakness in PFM that have been identified by the National Treasury and development partners.

Major objectives are to:

- Improve procurement and human resource management processes, internal controls, and systems;
- Better integrate cash planning to procurement and performance plans, and cash and debt management to a commitments calendar and contractor management and deliverables;
- Adopt a comprehensive commitments' control framework so as to enable line departments and service delivery units' non-salary expenditures to better align resources allocated for the remainder of the year within the available budget;
- Consolidate and strengthen the country's public procurement system; and
- Build overall capacity among provincial treasuries and training programmes that target provincial finance officials and line managers.

In addition, a number of steps have been taken to strengthen the capacity of the Provincial Legislature to oversee the government's PFM activities, including the unprecedented dynamic legislative scrutiny by the national finance and public accounts committees; other activities provide support to district governments. Coordination among different elements of the reform programme has grown over time, but as yet these efforts are not guided by an integrated overall PFM reform plan.

4.4 Public sector capacity building

Public sector capacity building consists of three major capacity building initiatives in the North West Province. These comprise the following:

- Induction of Finance MECs, accounting officers and heads of provincial treasuries: The National Treasury

has introduced a comprehensive induction dossier for Finance MECs, accounting officers and heads of provincial Treasuries. The dossier aims to emphasise the key responsibilities, with reference to the regulatory prescripts, of the respective office bearers.

- Develop a municipal finance management technical assistance programme: The municipal finance management technical assistance programme (MFMTAP) seeks to assist in the strengthening of operational capacity in municipalities. It provides technical assistance in implementing municipal financial management reforms. Through the programme advisors are placed in municipalities. Additionally, roving advisors are allocated to provincial treasuries to assist provinces in performing their role in respect of the MFMA. Currently the area of supply chain management is being targeted while expert consultants are placed in municipalities to update policies and streamline processes not only to ensure compliance to legislation, but mainly to ensure that the supply chain management process does not impact negatively on service delivery.
- Implementation of a financial management improvement programme III (FMIP III): The FMIP III provides a national perspective to address financial management capacity constraints in the public sector. These challenges include scarce skills; high levels of vacancies and staff turnover; a lack of suitable education, training and development programmes; limited knowledge management; inadequate monitoring and evaluation; ineffective performance management; non-adherence to legislation; poor audit results; and an absence of effective partnerships. The strategy sets out the four strategic objectives listed below to address this challenge:
 - Support the development of an enabling environment;
 - Enhance organisational capacity;
 - Develop and empower a corps of competent and committed high-performance employees;
 - Create an environment that enables and sustains mutually beneficial stakeholder relationships.

This capacity development programme is essentially geared towards financial management capacity building. It draws on the successes and lessons learnt from FMIP II, as well as the conceptual tools that emanated from the feasibility study for this continuous capacity development programme for PFM and focuses on six areas, namely:

- An enabling PFM institutional environment developed and maintained in the three spheres of government;
- Enhanced organisational PFM capacity developed in the three spheres of government;
- An empowered and sustained PFM corps of competent and committed employees throughout the three spheres of government;
- An environment to sustain mutually beneficial stakeholder relationships in the PFM domain developed;
- Increased PFM capacity in provincial government; and
- Increased PFM capacity in Local Governments.

Wildeman and Jogo (2012) states that the biggest success with the implementation of the PFMA is the careful manner in which the National Treasury supported and built the capacity of officials in treasuries and service delivery departments. The National Treasury adopted a model based on the careful design of information templates and detailed circulars, thus minimising the level of subjectivity in the reporting of important financial and non-financial data. Wildeman and Jogo is of the view that it is appropriate at the start of the financial governance reforms and is partly the reason the government could meet most of the information commitments spelled out in the Constitution and the PFMA.

4.5 North West Province tax administration reform

The North West Province is in the process of developing a revenue enhancement strategy. Since the provincial equitable share is formula driven, the province realised it had to find a way of increasing its own resource base. The revenue enhancement strategy mainly focuses on motor vehicle licences.

4.6 Financial management improvement programme III

The North West provincial government has been involved in specific projects related to the FMIP III briefly described above. Its participation in the programme is focused on capacity building with municipalities throughout the province. The capacity building programme focuses on the area of supply chain management.

Annexure 1: List of officials consulted

Department: Provincial Treasury

1. Ndlela Kunene, Acting Head of Department, Finance, Economy and Enterprise Development
2. Mosimanegape Bogosi, Head of Sustainable Resources Management
3. Thabo Aaron Lehutso, Head, Budget Management, SRM
4. Lebo Mocuminyama, Senior Budget Officer, SRM
5. Ogopoleng Mokgothu, Health Budget Specialist, Budget Management, SRM
6. Disatla Kgosinyane, Human Settlements Budget Specialist, Budget Management, SRM
7. Ndinga Lucky Sidumo, Head, Public Entities Unit, SRM
8. Kitso Motsilanyane, Public Entities Specialist, SRM
9. Stanley Manpana, Macroeconomic Analysis Unit, SRM
10. Marumo Mosenogi, Macroeconomic Analysis Unit, SRM
11. Linda Ramatlape, Head, Municipal Support Unit, SRM
12. Modiko Selemale, Municipal Support Unit, SRM
13. Moitse Ledingoane, Municipal Support Unit, SRM
14. Tsholofelo Thebe, Municipal Support Unit, SRM
15. Motlogelwa E. Serapelo, Provincial Supply Chain Management
16. Molepi Moetapele, Provincial Supply Chain Management
17. Karen Horsely, Director Accounting Services, Department of Finance
18. Beauty Tsatsianyane, Deputy Director Accounting Services, Department of Finance
19. Errol Abrahams, Director Public Finance
20. Cliff Gulston, Financial Systems and Support, Department of Finance
21. Andre Nel, Chief Audit Executive, Provincial Internal Audit

Line departments

22. Eban Nieuwordt, Senior Officer, National Housing Subsidy Programme, Department of Human Settlements
23. Tsholofelo Mosepidi, Acting Director of Financial Accounting, Department of Social Development
24. Poppy Moremi, Director of Financial Accounting, Department of Health
25. Gabriel Mmila, Deputy Director of Planning, Department of Social Development
26. Kutlwano Phatudi, CFO, Community Safety and Transport Management

The National Treasury

27. Mary Matjeke, Department of National Treasury
28. Chris Adams, Department of National Treasury

Annexure 2: List of documents consulted

1. Budget Management (2014), Letter to Mr M.P. Raedani, Head of Finance Department, The Status of Governance, Functionality and Compliance by Provincial Public Entities as at 31 March 2013, February 14, 2014
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8. Consolidated Draft Municipal Budget Evaluation Reports by District, May 2014, Provincial Treasury, Municipal Support Unit, North West Provincial Government
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27. Sustainable Resource Management (2013), Evaluation Report: North West Parks and Tourism Board for

the Period Ended 30 June 2013

28. Sustainable Resource Management (2013), Report on the Status of Governance and Compliance by Provincial Public Entities as at 30 September 2013
29. Provincial Treasury (2014), North West Provincial Economic Review and Overview (PERO) 2014-2017, June 6, 2014
30. Implementing the Public Finance Management Act in South Africa: How Far Are We? (2012), by Russell Wildeman and Wellington Jogo, Economic Governance Programme, IDASA.

Annexure 3: Detailed calculations for PI-1 and PI-2

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Table 1: Summary of North West Provincial Government Fiscal Operations (In millions of Rands)

	2011/12	2012/13	2013/14
Revenue	24 819	25 828	29 062
National transfers	24 030	24 881	28 082
Equitable share	19 482	20 871	22 910
Conditional transfers	4 548	4 010	5 172
Own revenue	789	947	980
Total expenditure	23 940	25 477	30 129
Current expenditure	22 312	24 023	27 142
Compensation of employees	14 023	15 293	17 086
Purchases of goods and services	4 335	4 761	5 585
Interest payments	2	1	2
Current transfers and subsidies	3 952	3 968	4 469
Capital expenditure	1 628	1 453	2 987
Overall balance	879	352	-1 067
Financing	332	356	1 534
Accumulation of cash reserves	0	0	849
Rollovers	332	356	685
Overall balance after financing	1 211	708	467

Sources: AG, and PT.

Table 2: National and North West Provincial GDP, 2011-2014 (In millions of Rands)

	National Total	North West
2011	2 917 538 690	174 167 772
2012	3 155 195 000	181 028 979
2013	3 409 254 097	191 306 058
<u>2014</u>	<u>3 729 703 033</u>	<u>206 155 647</u>

Source: IHS Global Insight.

Table 3: North West Provincial Government Revenue and Expenditure (In % of GDP)

	2011/12	2012/13	2013/14	
Revenue		14.3%	14.3%	15.2%
National transfers		13.8%	13.7%	14.7%
Equitable share		11.2%	11.5%	12.0%
Conditional transfers		2.6%	2.2%	2.7%
Own revenue		0.5%	0.5%	0.5%
Expenditure		13.7%	14.1%	15.7%
Current expenditure		12.8%	13.3%	14.2%
Compensation of employees		8.1%	8.4%	8.9%
Purchases of goods and services		2.5%	2.6%	2.9%
Interest payments		0.0%	0.0%	0.0%
Current transfers and subsidies		2.3%	2.2%	2.3%
Capital expenditure		0.9%	0.8%	1.6%
Overall balance		0.5%	0.2%	-0.6%
Financing		0.2%	0.2%	0.8%
Accumulation of cash reserves		0.0%	0.0%	0.4%
Rollovers (accumulation of arrears)		0.2%	0.2%	0.4%
Overall balance after financing		0.7%	0.4%	0.2%

Sources: Statistical appendix tables 1 and 2.

Table 4: Composition of North West Provincial Government expenditure (In % of total)

	2011/12	2012/13	2013/14
Total	100.0%	100.0%	100.0%
Current expenditure	93.2%	94.3%	90.1%
Compensation of employees	58.6%	60.0%	56.7%
Purchases of goods and services	18.1%	18.7%	18.5%
Interest payments	0.0%	0.0%	0.0%
Current transfers and subsidies	16.5%	15.6%	14.8%
Capital expenditure	6.8%	5.7%	9.9%

Source: Statistical appendix table 1.

Table 5: Composition of NWPG budgeted and actual compensation of employees, FY 2011/12 to FY 2013/14 (In millions of Rands)

	FY 2011/12		FY 2012/13		FY 2013/14	
	Budget	Actual	Budget	Actual	Budget	Actual
Office of the Premier	112	102	117	109	134	155
Legislature	78	77	81	92	89	96
Health	3 618	3 787	3 989	4 129	4 406	4 861
Sports, Arts and Culture	175	142	167	157	184	172
Human Settlements	91	91	96	102	123	114
Economic Development and Tourism	111	105	122	115	136	151
Finance	193	150	218	154	262	175
Basic Education and Training	7 793	7 781	8 349	8 450	8 844	9 160
Local Government and Traditional Affairs	194	182	214	211	235	230
Public Works, Roads and Transport	654	610	726	640	739	692
Social Development	421	422	450	484	536	566
Agriculture and Rural Development	347	347	364	385	416	406
Public Safety and Liaison	246	227	283	264	310	309
<i>Memo: Social Sectors</i>	12 097	12 223	13 051	13 323	14 093	14 872
Total	14 031	14 022	15 176	15 293	16 413	17 085

Sources: AG, and PT.

Table 6: Composition of NWPG budgeted and actual compensation of employees, FY 2011/12 to FY 2013/14 (In % of total)

Administrative head	FY 2011/12		FY 2012/13		FY 2013/14	
	Budget	Actual	Budget	Actual	Budget	Actual
Office of the Premier	0.8%	0.7%	0.8%	0.7%	0.8%	0.9%
Legislature	0.6%	0.5%	0.5%	0.6%	0.5%	0.6%
Health	25.8%	27.0%	26.3%	27.0%	26.8%	28.4%
Sports, Arts and Culture	1.2%	1.0%	1.1%	1.0%	1.1%	1.0%
Human Settlements	0.6%	0.6%	0.6%	0.7%	0.8%	0.7%
Economic Development and Tourism	0.8%	0.8%	0.8%	0.8%	0.8%	0.9%
Finance	1.4%	1.1%	1.4%	1.0%	1.6%	1.0%
Basic Education and Training	55.5%	55.5%	55.0%	55.3%	53.9%	53.6%
Local Government and Traditional Affairs	1.4%	1.3%	1.4%	1.4%	1.4%	1.3%
Public Works, Roads and Transport	4.7%	4.3%	4.8%	4.2%	4.5%	4.0%
Social Development	3.0	3.0%	3.0%	3.2%	3.3%	3.3%
Agriculture and Rural Development	2.5	2.5%	2.4%	2.5%	2.5%	2.4%
Public Safety and Liaison	1.8	1.6%	1.9%	1.7%	1.9%	1.8%
<i>Memo: Social Sectors</i>	86.2	87.2%	86.0%	87.1%	85.9%	87.0%
Total	100.0	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Statistical appendix table 5.

Table 7: Budget out-turns and composition variance of compensation of employees (%)

Administrative head	2011/12	2012/13	2013/14
Office of the Premier	-9.2%	-7.0%	15.6%
Legislature	-1.4%	13.7%	7.4%
Health	4.7%	3.5%	10.3%
Sports, Arts and Culture	-18.9%	-5.8%	-6.2%
Human Settlements	0.6%	6.1%	-7.8%
Economic Development and Tourism	-5.3%	-5.9%	10.8%
Finance	-22.3%	-29.3%	-33.0%
Basic Education and Training	-0.1%	1.2%	3.6%
Local Government and Traditional Affairs	-5.9%	-1.4%	-2.1%
Public Works, Roads and Transport	-6.8%	-11.9%	-6.4%
Social Development	0.2%	7.6%	5.6%
Agriculture and Rural Development	0.2%	6.0%	-2.3%
Public Safety and Liaison	-7.6%	-6.6%	-0.3%
<i>Memo: Social Sectors</i>	1.0%	2.1%	5.5%
Total	-0.1%	0.8%	4.1%

Sources: Statistical appendix table 5, and author's estimates.

Table 8: Composition of NWPG budgeted and actual purchases of goods and services, FY 2011/12 to FY 2013/14 (In millions of Rands)

Administrative head	FY 2011/12		FY 2012/13		FY 2013/14	
	Budget	Actual	Budget	Actual	Budget	Actual
Office of the Premier	93	26	87	72	77	139
Legislature	57	52	56	55	80	80
Health	2 000	1 833	2 150	2 107	2 422	2 371
<i>Of which: District Health Services</i>	N/A	942	1 168	1 209	1 371	1 362
Emergency Medical Services	N/A	45	63	45	67	64
Provincial Hospital Services	N/A	454	506	470	557	569
Hospital Tertiary Services	N/A	85	83	81	95	99
Sports, Arts and Culture	133	154	159	138	162	162
Human Settlements	48	55	51	90	64	100
Economic Development and Tourism	55	44	80	53	95	60
Finance	133	143	146	195	190	209
Basic Education and Training	904	786	951	883	959	926
Local Government and Traditional Affairs	30	42	35	55	111	68
Public Works, Roads and Transport	781	665	656	596	899	892
Social Development	200	222	237	192	224	227
Agriculture and Rural Development	157	174	157	155	183	179
Public Safety and Liaison	98	104	88	170	128	172
<i>Memo: Social Sectors</i>	1 285	1 302	1 480	1 385	1 505	1 514
Total	4 689	4 335	4 854	4 761	5 593	5 585

Sources: AG and PT.

Table 9: Composition of NWPG budgeted and actual purchases of goods and services, FY 2011/12 to FY 2013/14 (In % of total)

Administrative head	FY 2011/12		FY 2012/13		FY 2013/14	
	Budget	Actual	Budget	Actual	Budget	Actual
Office of the Premier	2.0%	1.4%	1.8%	1.5%	1.4%	2.5%
Legislature	1.2%	1.2%	1.2%	1.2%	1.4%	1.4%
Health	42.6%	42.3%	44.3%	44.2%	43.3%	42.5%
Sports, Arts and Culture	2.8%	3.5%	3.3%	2.9%	2.9%	2.9%
Human Settlements	1.0%	1.3%	1.0%	1.9%	1.1%	1.8%
Economic Development and Tourism	1.2%	1.0%	1.6%	1.1%	1.7%	1.1%
Finance	2.8%	3.3%	3.0%	4.1%	3.4%	3.7%
Basic Education and Training	19.3%	18.1%	19.6%	18.5%	17.1%	16.6%
Local Government and Traditional Affairs	0.6%	1.0%	0.7%	1.1%	2.0%	1.2%
Public Works, Roads and Transport	16.7%	15.3%	13.5%	12.5%	16.1%	16.0%
Social Development	4.3%	5.1%	4.9%	4.0%	4.0%	4.1%
Agriculture and Rural Development	3.3%	4.0%	3.2%	3.3%	3.3%	3.2%
Public Safety and Liaison	2.1%	2.4%	1.8%	3.6%	2.3%	3.1%
<i>Memo: Social Sectors</i>	27.4%	30.0%	30.5%	29.1%	26.9%	27.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Statistical appendix table 8.

Table 10: Budget out-turns and composition variance of purchases of goods and services (%)

Administrative head	2011/12	2012/13	2013/14
Office of the Premier	-33.6%	-16.9%	79.9%
Legislature	-9.3%	-2.6%	0.9%
Health	-8.3%	-2.0%	-2.1%
<i>Of which: District Health Services</i>		3.5%	-0.7%
Emergency Medical Services		-28.7%	-4.9%
Provincial Hospital Services		-7.0%	2.0%
Hospital Tertiary Services		-1.9%	3.5%
Sports, Arts and Culture	15.4%	-13.1%	0.2%
Human Settlements	14.1%	78.6%	56.1%
Economic Development and Tourism	-20.3%	-33.2%	-37.4%
Finance	7.2%	33.0%	9.8%
Basic Education and Training	-13.1%	-7.1%	-3.4%
Local Government and Traditional Affairs	39.4%	57.6%	-38.3%
Public Works, Roads and Transport	-14.9%	-9.2%	-0.8%
Social Development	11.2%	-19.0%	1.0%
Agriculture and Rural Development	11.1%	-1.4%	-2.0%
Public Safety and Liaison	6.0%	92.8%	34.6%
<i>Memo: Social Sectors</i>	1.3%	-6.4%	0.6%
Total	-7.6%	-1.9%	-0.2%

Source: Statistical appendix table 8.

Table 11: Composition of NWPG budgeted and actual payment of capital assets, FY 2011/12 to FY 2013/14 (In millions of Rands)

Administrative head	FY 2011/12		FY 2012/13		FY 2013/14	
	Budget	Actual	Budget	Actual	Budget	Actual
Office of the Premier	2	1	2	3	17	5
Legislature	0	2	0	3	12	4
Health	577	592	645	600	630	1 039
Sports, Arts and Culture	26	24	35	29	38	37
Human Settlements	1	1	1	1	4	3
Economic Development and Tourism	1	1	1	1	1	12
Finance	6	7	8	9	12	6
Basic Education and Training	494	546	546	308	557	675
Local Government and Traditional Affairs	9	11	9	2	8	23
Public Works, Roads and Transport	646	386	863	430	869	1 121
Social Development	48	41	30	41	32	31
Agriculture and Rural Development	7	7	5	8	7	14
Public Safety and Liaison	2	2	4	16	13	18
<i>Memo: Social Sectors</i>	1 146	1 204	1 257	978	1 262	1 784
Total	1 819	1 621	2 150	1 450	2 200	2 987

Sources: AG and PT.

Table 12: Composition of NWPG budgeted and actual payment of capital assets, FY 2011/12 to FY 2013/14 (In % of total)

Administrative head	FY 2011/12		FY 2012/13		FY 2013/14	
	Budget	Actual	Budget	Actual	Budget	Actual
Office of the Premier	0.1%	0.1%	0.1%	0.2%	0.8%	0.2%
Legislature	0.0%	0.1%	0.0%	0.2%	0.5%	0.1%
Health	31.7%	36.5%	30.0%	41.4%	28.7%	34.8%
Sports, Arts and Culture	1.4%	1.5%	1.6%	2.0%	1.7%	1.2%
Human Settlements	0.0%	0.1%	0.0%	0.1%	0.2%	0.1%
Economic Development and Tourism	0.0%	0.1%	0.0%	0.1%	0.1%	0.4%
Finance	0.3%	0.4%	0.3%	0.6%	0.6%	0.2%
Basic Education and Training	27.2%	33.7%	25.4%	21.2%	25.3%	22.6%
Local Government and Traditional Affairs	0.5%	0.7%	0.4%	0.1%	0.4%	0.8%
Public Works, Roads and Transport	35.5%	23.8%	40.1%	29.6%	39.5%	37.5%
Social Development	2.6%	2.5%	1.4%	2.8%	1.5%	1.0%
Agriculture and Rural Development	0.4%	0.5%	0.3%	0.6%	0.3%	0.5%
Public Safety and Liaison	0.1%	0.1%	0.2%	1.1%	0.6%	0.6%
<i>Memo: Social Sectors</i>	63.0%	74.3%	58.5%	67.4%	57.3%	59.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Statistical appendix table 11.

Table 13: Budget out-turns and composition variance of payment of capital assets (%)

Administrative head	2011/12	2012/13	2013/14
Office of the Premier	-17.6%	49.6%	-69.2%
Legislature	545.2%	848.3%	-70.6%
Health	2.5%	-7.0%	64.8%
Sports, Arts and Culture	-6.2%	-19.4%	-3.4%
Human Settlements	10.3%	20.5%	-22.9%
Economic Development and Tourism	19.2%	84.7%	853.8%
Finance	19.0%	18.3%	-47.5%
Basic Education and Training	10.4%	-43.7%	21.2%
Local Government and Traditional Affairs	21.3%	-77.6%	187.6%
Public Works, Roads and Transport	-40.3%	-50.2%	29.0%
Social Development	-13.6%	37.7%	-5.0%
Agriculture and Rural Development	11.3%	56.8%	87.5%
Public Safety and Liaison	-32.9%	224.5%	42.4%
<i>Memo: Social Sectors</i>	5.0%	-22.2%	41.4%
Total	-10.9%	-32.6%	35.8%

Source: Statistical appendix table 11.

Table 14: Functional composition of NWPG expenditure (In millions of Rands)

Function	2011/12	2012/13	2013/14
General services	991.6	1 109.0	1 625.1
Public order and safety	334.9	452.6	522.3
Economic affairs	3 904.2	3 499.9	5 077.0
Environmental protection	61.6	120.7	120.3
Housing and community amenities	1 298.4	1 259.1	1 518.7
Health	6 380.3	7 013.8	8 408.1
Recreation, culture and religion	408.2	395.3	531.3
Education	10 148.1	10 736.2	11 564.0
Social protection	877.2	914.9	1 058.4
Total	24 404.5	25 501.5	30 425.2

Sources: AG and PT.

Table 15: Functional composition of NWPG expenditure (% of GDP)

Function	2011/12	2012/13	2013/14
General services	0.6%	0.6%	0.8%
Public order and safety	0.2%	0.3%	0.3%
Economic affairs	2.2%	1.9%	2.7%
Environmental protection	0.0%	0.1%	0.1%
Housing and community amenities	0.7%	0.7%	0.8%
Health	3.7%	3.9%	4.4%
Recreation, culture and religion	0.2%	0.2%	0.3%
Education	5.8%	5.9%	6.0%
Social protection	0.5%	0.5%	0.6%
Memo: Social services	11.0%	11.2%	12.1%
Total	14.0%	14.1%	15.9%

Sources: Statistical appendix tables 2 and 14.

Table 16: Composition variance of Government conditional grants expenditure, FY 2011/12

(In millions of Rands, unless otherwise noted)

	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Per cent
Administrative head						
Agriculture	128	139	128	11	11	8.4%
Basic Education and Training	556	487	557	-70	70	12.5%
Health	1 507	1 728	1 509	219	219	14.5%
Social Development	12	12	12	0	0	0.2%
Human Settlement	1 121	1 039	1 123	-84	84	7.5%
Economic Development and Tourism	1	1	1	0	0	0.2%
Public Works, Roads and Transport	1 123	1 070	1 125	-55	55	4.9%
Sports, Arts and Culture	93	72	93	-21	21	22.7%
Allocated expenditure	4 541	4 548	4 548	0.0	459	
Contingency						
Total expenditure	4 541	4 548				
Overall (PI-1) variance						0.2%
Composition (PI-2) variance						10.1%
Contingency share of budget						0.0%

Sources: AGSA, Provincial Treasury, and author's estimates.

Table 17: Composition variance of Government conditional grants expenditure, FY 2012/13

(In millions of Rands, unless otherwise noted)

	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Per cent
Administrative head						
Agriculture	223	216	181	35	35	19.3%
Basic Education and Training	1 154	923	937	-14	14	1.5%
Health	1 501	1 245	1 219	26	26	2.2%
Social Development	15	15	12	3	3	23.2%
Human Settlement	1 050	958	853	105	105	12.3%
Economic Development and Tourism	1	1	1	0	0	23.2
Public Works, Roads and Transport	894	566	726	-160	160	22.0%
Sports, Arts and Culture	101	86	82	5	5	5.5%
allocated expenditure	4 939	4 010	4 010	0.0	348	
Contingency						
total expenditure	4 939	4 010				
overall (PI-1) variance						18.8%
composition (PI-2) variance						8.7%
contingency share of budget						0.0%

Sources: AGSA, Provincial Treasury, and author's estimates.

Table 18: Composition variance of Government conditional grants expenditure, FY 2013/14

(In millions of Rands, unless otherwise noted)

	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Per cent
Administrative head						
Agriculture	260	262	270	-8	8	2.8%
Basic Education and Training	1 082	1 144	1 122	23	23	2.0%
Health	1 268	1 407	1 314	93	93	7.1%
Social Development	16	16	17	-1	1	3.5%
Human Settlement	1 345	1 345	1 394	-49	49	3.5%
Economic Development and Tourism	1	1	1	0	0	3.5%
Public Works, Roads and Transport	906	899	939	-40	40	4.3%
Sports, Arts and Culture	112	98	116	-18	18	15.6%
Allocated expenditure	4 990	5 172	5 172	0.0	231	
Contingency						
Total expenditure	4 990	5 172				
Overall (PI-1) variance						3.6%
Composition (PI-2) variance						4.5%
Contingency share of budget						0.0%

Sources: AGSA, Provincial Treasury, and author's estimates.

Table 19: Composition variance of NWPG primary expenditure, FY 2011/12 (In millions of Rands, unless otherwise noted)

	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Per cent
Administrative head						
Office of the Premier	235.0	202.0	229.9	(27.9)	27.9	12.2%
Legislature	152.0	164.0	148.7	15.3	15.3	10.3%
Health	6 321.0	6 380	6 184.8	195.2	195.2	3.2%
Sports, Arts and Culture	433.0	408.0	423.7	(15.7)	15.7	3.7%
Human Settlements	1 139.0	1 298.0	1 114.5	183.5	183.5	16.5%
Economic Development and Tourism	456.0	385.0	446.2	(61.2)	61.2	13.7%
Finance	331.6	297.6	324.5	(26.9)	26.9	8.3%
Basic Education and Training	10 262.0	10 148.0	10 040.9	107.1	107.1	1.1%
Local Government and Traditional Affairs	317.0	320.0	310.2	9.8	9.8	3.2%
Public Works, Roads and Transport	2 827.0	2 426.0	2 766.1	(340.1)	340.1	12.3%
Social Development	882.0	883.0	863.0	20.0	20.0	2.3%
Agriculture and Rural Development	759.0	691.0	742.6	(51.6)	51.6	7.0%
Public Safety and Liaison	350.0	335.0	342.5	(7.5)	7.5	2.2%
Allocated expenditure	24 464.6	23 937.6	23 937.6	(0.0)	1 061.7	
Contingency total expenditure						
	24 464.6	23 937.6				
Overall (PI-1) variance						2.2%
Composition (PI-2) variance						4.4%
Contingency share of budget						0.0%

Sources: AGSA, PT, and author's estimates.

Table 20: Composition variance of Government primary expenditure, FY 2012/13

(In millions of Rands, unless otherwise noted)

	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Per cent
Administrative head						
Office of the Premier	236.0	213.0	228.9	(15.9)	15.9	6.9%
Legislature	165.0	185.0	160.0	25.0	25.0	15.6%
Health	6 959.0	7 021.0	6 748.7	272.3	272.3	4.0%
Sports Arts and Culture	447.0	395.0	433.5	(38.5)	38.5	8.9%
Human Settlements	1 199.0	1 259.0	1 162.8	96.2	96.2	8.3%
Economic Development and Tourism	427.0	386.0	414.1	(28.1)	28.1	6.8%
Finance	370.3	356.6	359.1	(2.5)	2.5	0.7%
Basic Education and Training	10 872.0	10 736.0	10 543.5	192.5	192.5	1.8%
Local Government and Traditional Affairs	332.0	344.0	322.0	22.0	22.0	6.8%
Public Works, Roads and Transport	3 082.0	2 430.0	2 988.9	(558.9)	558.9	18.7%
Social Development	950.0	922.0	921.3	0.7	0.7	0.1%
Agriculture and Rural Development	851.0	775.0	825.3	(50.3)	50.3	6.1%
Public Safety and Liaison	379.0	453.0	367.5	85.5	85.5	23.2%
Allocated expenditure	26 269.3	25 475.6	25 475.6	0.0	1 388.3	
Contingency						
Total expenditure	26 269.3	25 475.6				
Overall (PI-1) variance						3.0%
Composition (PI-2) variance						5.4%
Contingency share of budget						0.0%

Sources: AGSA, PT, and author's estimates.

Table 21: Composition variance of Government primary expenditure, FY 2013/14
(In millions of Rands, unless otherwise noted)

	Budget	Actual	Adjusted budget	deviation	Absolute deviation	Per cent
Administrative head						
Office of the Premier	260.0	356.0	274.2	81.8	81.8	29.8%
Legislature	217.0	211.0	228.9	(17.9)	17.9	7.8%
Health	7 667.0	8 394.0	8 086.5	307.5	307.5	3.8%
Sports, Arts and Culture	466.0	468.0	491.5	(23.5)	23.5	4.8%
Human Settlements	1 491.0	1 634.0	1 572.6	61.4	61.4	3.9%
Economic Development and Tourism	486.0	522.0	512.6	9.4	9.4	1.8%
Finance	463.4	389.3	488.8	(99.5)	99.5	20.4%
Basic Education and Training	11 321.0	11 756.0	11 940.4	(184.4)	184.4	1.5%
Local Government and Traditional Affairs	431.0	450.0	454.6	(4.6)	4.6	1.0%
Public Works, Roads and Transport	3 393.0	3 541.0	3 578.6	(37.6)	37.6	1.1%
Social Development	1 082.0	1 046.0	1 141.2	(95.2)	95.2	8.3%
Agriculture and Rural Development	835.0	858.0	880.7	(22.7)	22.7	2.6%
Public Safety and Liaison	452.0	502.0	476.7	25.3	25.3	5.3%
allocated expenditure	28 564.4	30 127.3	30 127.3	0.0	970.8	
contingency						
total expenditure	28 564.4	30 127.3				
overall (PI-1) variance						5.5%
composition (PI-2) variance						3.2%
contingency share of budget						0.0%

Sources: AGSA, Provincial Treasury, and author's estimates.

Table 22: Prepayments, advances and personnel loans (In thousands of Rands, unless otherwise noted)

	2011/12	2012/13	2013/14
Education	35 121	191 039	114 131
Staff advances	-	-	-
Travel and subsistence	-	-	49
Prepayments	-	145 725	64 114
Advances paid	-	-	-
SOCPEN advances	-	-	-
Staff Debt	35 121	45 314	49 968
Health	3 898	3 565	2 994
Staff advances	-	-	-
Travel and subsistence	40	374	696
Prepayments	-	-	-
Advances paid	-	-	-
SOCPEN advances	-	-	-
Staff Debt	3 858	3 191	2 298
Social Development	382	2 555	8 095
Staff advances	-	-	-
Travel and subsistence	-	-	-
Prepayments	-	2 433	8 000
Advances paid	-	-	-
SOCPEN advances	-	-	-
Staff Debt	382	122	95
Office of the Premier	-	33	2 335
Staff advances	-	33	31
Travel and subsistence	-	-	-
Prepayments	-	-	-
Advances paid	-	-	2 304
SOCPEN advances	-	-	-
Staff Debt	-	-	-
Legislature	1 241	70	396
Staff advances	-	-	-
Travel and subsistence	-	-	-
Prepayments	1 162	-	-
Advances paid	-	-	346
SOCPEN advances	-	-	-
Staff Debt	79	70	50
Sports, Arts and Culture	442	333	26
Staff advances	-	-	-
Travel and subsistence	175	-	-
Prepayments	-	-	-
Advances paid	-	300	-
SOCPEN advances	-	-	-
Staff Debt	267	33	26
Public Safety	268	10 865	320
Staff advances	-	-	-
Travel and subsistence	-	-	-
Prepayments	-	10 539	-
Advances paid	-	-	-
SOCPEN advances	-	-	-
Staff Debt	268	326	320
Economic Development and Tourism	293	209	1 472
Staff advances	-	-	-
Travel and subsistence	146	-	-

	2011/12	2012/13	2013/14
Prepayments	-	-	1 267
Advances paid	-	-	-
SOCPEN advances	-	-	-
Staff Debt	147	209	205
Finance	189	216	214
Staff advances	-	-	-
Travel and subsistence	33	50	-
Prepayments	-	-	-
Advances paid	-	-	-
SOCPEN advances	-	-	-
Staff Debt	156	166	214
Local Government and Traditional Affairs	46	996	178 849
Staff advances	-	36	36
Travel and subsistence	-	810	810
Prepayments	-	-	178 003
Advances paid	-	-	-
SOCPEN advances	-	-	-
Staff Debt	46	150	-
Public Works, Roads and Transport	54	30 657	3 071
Staff advances	-	-	-
Travel and subsistence	-	-	-
Prepayments	-	-	-
Advances paid	-	30 657	3 071
SOCPEN advances	-	-	-
Staff Debt	54	-	-
Agriculture and Rural Development	473	672	521
Staff advances	-	-	-
Travel and subsistence	-	-	-
Prepayments	-	-	-
Advances paid	-	-	-
SOCPEN advances	-	-	-
Staff Debt	473	672	521
Human Settlements	-	81	40
Staff advances	-	-	-
Travel and subsistence	-	-	-
Prepayments	-	-	-
Advances paid	-	-	-
SOCPEN advances	-	-	-
Staff Debt	-	81	40
Total	42 407	241 291	312 464
Staff advances	-	69	67
Travel and subsistence	394	1 234	1 555
Prepayments	1 162	158 697	251 384
Advances paid	-	30 957	5 721
SOCPEN advances	-	-	-
Staff Debt	40 851	50 334	53 737
% of budget	0.17%	0.92%	1.09%

Sources: AGSA, PT, and author's estimates.

Table 23: Claims recoverable
(In thousands of Rands, unless otherwise noted)

Administrative head	2011/12	2012/13	2013/14
Office of the Premier		-	-
Legislature		986	986
Health`	66 062	48 627	39 566
Sports, Arts and Culture		45	312
Human Settlements	379 299	342 244	201 242
Economic Development and Tourism		-	-
Finance		18	3 179
Basic Education and Training	5 245	1 778	2 772
Local Government and Traditional Affairs		-	-
Public Works, Roads and Transport	35 116	43 042	72 825
Social Development	239	542	7 917
Agriculture and Rural Development	61	242	189
Public Safety and Liaison	299		-
Memo: Social Sectors	450 845	393 236	251 809
Total	486 321	437 524	328 988
% of total	1.99%	1.67%	1.15%

Sources: AGSA, PT, and author's estimates.