# Public Expenditure and Financial Accountability Assessment

PEFA Report
Republic of South Africa
Free State province

*Final Report*
*30 June 2014*

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

**Currency Unit – Rand (ZAR)**
**US$1 = 10.10 ZAR @ 18 November 2013**
**Fiscal Year: FY 2011/12, FY 2012/13, FY 2013/14**

## List of abbreviations and acronyms

| | |
|---|---|
| ACL | Audit command language |
| AFS | Annual financial statements |
| AGSA | Auditor-General of South Africa |
| AO | Accounting officer |
| BAS | Basic accounting model |
| BBBEEA | Broad-Based Black Economic Empowerment Act |
| CFO | Chief financial officer |
| CIDB | Construction Industry Development Board |
| COGTA | Cooperative Governance and Traditional Affairs |
| COA | Chart of accounts |
| COFOG | Classification of the functions of government |
| CPAR | Country procurement assessment review |
| DDV | Direct delivery vouchers |
| DETEA | Department of Economic Development, Tourism and Environmental Affairs |
| DOH | Department of Health |
| DOPRT | Department of Police Road and Transport |
| DORA | Division of Revenue Act |
| DTI | Department of Trade and Industry |
| EMIS | Education management information system |
| ENE | Estimates of national expenditure |
| EPRE | Estimates of provincial revenues and expenditures |
| ERF | Economic reporting format |
| EXCO | Executive council |
| FICA | Flanders International Cooperation Agency |
| FMIS | Financial management information system |
| FDC | Free State Development Corporation |
| FFC | Fiscal and Financial Commission |
| FS | Free State |
| FSFRC | Free State regional steering committee |
| FY | Fiscal 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 Practices |
| 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 |
| IFPA | Institute of Public Finance and Auditors |
| IA | Internal audit |
| IMF | International Monetary Fund |
| IYM | In-year management, monitoring and report |
| KCM | Key control matrix |
| KPI | Key performance indicator |
| KZN | KwaZulu-Natal |
| LOGIS | Logistical information system |
| MDA | Ministries, departments and agencies |
| MEC | Minister of executive council |

| | |
|---|---|
| MEDPAS | Medical provisioning administration system |
| MFMA | Municipal Finance 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 |
| O&M | Operation and maintenance |
| OECD | Organisation for Economic Cooperation and Development |
| PAFOL | Portfolio committee on public accounts, finance, office of Premier and Legislature |
| PCC | President’s coordination council |
| PDI | Previously disadvantaged individuals |
| PEFA | Public expenditure and financial accountability |
| PERSAL | Personnel and salary administration system |
| PES | Provincial equitable share |
| PFM | Public financial management |
| PFMA | Public Financial Management Act |
| PGDS | Provincial growth and development strategy |
| PI | Performance indicator |
| PIF | Provincial infrastructure fund |
| PMTEC | Provincial medium-term expenditure committee |
| PPP | Public private partnership |
| PPPFA | Preferential Procurement Policy Framework Act |
| PR | Performance report |
| 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 | Select Committee on Public Accounts |
| SDDS | Standard data dissemination standards |
| SGB | School government body |
| SMGD | School management and governance developers |
| SN | Sub national |
| SNG | Sub national government |
| STB | State Tender Board |
| UNDP | United Nations Development Programme |
| ZAR | South African Rand |

## Table of contents

## List of figures and tables

# Summary assessment

Little progress on achieving structural reform and eliminating deep-seated rigidities in the budget system continues to severely hamper the efforts to ease the development conditions and economic opportunities in the province. As the economy recovers, the national authorities face the key task of restraining the growth in public expenditures, especially the public sector wage bill, in order to contain public sector debt at prudent levels, and without structural remedy and fiscal rules the province fails in its efforts to create more fiscal space and ease the business environment for enabling a more engaging private sector.

The results of the PEFA assessment indicate that the Provincial Treasury has exercised its roles and powers in the prescribed framework, by adopting fiscal policy on a prudent manner and in strict adherence to the treasury regulations. On the aggregate, it pursued restraint and control in the use of public resources, with overspending rates maintained at a low range. However, the control over the implementation of the provincial budget is contrasted by large mismatches in the distribution of public resources across departments, not strategically responding to the policy priorities and challenges noted in the PGDS. Fundamental deficiencies in budgetary planning remain largely unresolved in the province, not addressing the costing and better standardising of key development programmes and functional structures in the budget so that it allows to the drafting of more realistic budgets, the alignment of budget items and activities to expected development results, the rationalisation and reallocation of staff resources in programmes of greater need, and the prioritisation of essential expenditure and elimination of waste.

The modest increase of local funding has not been accompanied by more meaningful reform measures to penalise infractors and collect high unpaid bills to the Provincial Treasury.

Increases in expenditure have essentially been spurred by large increases in public wages and pension bills buffered with capital projects and purchases of goods and services remaining at historically low levels. Clearly, large increases in public compensations were not commensurate with the efficiency and productivity gains in basic service delivery thus reflecting more the need to adopt performance and programme budgeting, as prescribed by the National Treasury. Administration of direct cash transfers and capital projects, on the other hand, had confronted a severe deficit of capacity at local level not necessarily resulting in services benefitting the targeted beneficiary population and not improving the access of population to economic opportunities in a meaningful manner.

The institutionalisation in the use of BAS across the provincial government constitutes a major milestone in PFM reform, thus resulting in substantive improvement of financial planning, automation of financial controls, and simplifying, processing and reporting of financial transactions. Clearly, the budget preparation process is another major success of PFM reforms over the years which had led to a more active and transparent dialogue between the province and the national government throughout the budget process in recent years. Other reforms and other internal controls, however, are lagging in areas such as procurement and human resource management. PFM, as a result, is required to contribute more to enable an improved efficient service delivery, particularly in regard to the formation and recruiting of skilled personnel, the rewarding of more budget against performance, the adoption of commitment calendars to form part of the commitment controls and match the cash disbursal plans, and the timely procuring of key resources in priority programmes and districts in dire need.

## 1. Integrated assessment of PFM performance

This PEFA assessment has been undertaken for the first time to measure the performance of public financial management in the province, measured against the six core PFM objectives:

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

The present document indicates that there are major strengths in some areas of PFM, which have led to predictable funding of budget operations and adequate financial recording and reporting. Nonetheless, there are areas which require attention and strengthening in order to result in better budgetary outcomes, as follows:

**Credibility of the budget (PI 1-4)**

The arrangement between national and provincial treasuries on the horizontal allocation and disbursing of national grants has resulted in a fair, even and timely distribution of budget resources to priority programmes and districts. The adoption of performance in the use of public resources will provide new impetus to the equalisation formula, especially now that the overall fiscal situation is confronted with serious difficulties.

Provincial expenditure appears to have been reasonably well forecast on the aggregate. This has resulted to a relatively low degree of variance between expenditure and budget when the budget is presented in a disaggregated manner (e.g. by administrative unit). This is compounded by the inability of the expenditure management system to counter payments arrears which effectively distorts the credibility of the budget. The surge of budget deficits in recent years and their overall financing are also a concern.

Forecasting of local taxes and non-tax revenues denotes a concern in the Provincial Treasury and various responsible departments.

**Comprehensiveness and transparency (PI 5-10)**

The budget system is provided with a uniform accounts classification, compatible with modern international standards and the adoption of a functional classification is in firm progress.

Reporting of public entity revenue and expenditure and donor projects is integrated under direct control and monitoring of line departments, not hampering the integrity of provincial government operations. The donor funded projects and aid assistance are largely insignificant in the provincial budget.

A clear institutional arrangement between the national and province treasuries and separation of fiscal responsibilities are in effect, with fair and transparent rules for distribution of grants enabling prompt allocation and release of direct and capital transfers to priority programmes and districts.

The Provincial Treasury's monitoring capability is well in place, thus enabling an adequate oversight of province and municipal operations on a regular basis. In practice however, consolidation of SNG financial reports are uncertain, as is the extent of monitoring of PEs on a consolidated manner, and the overall assessing of PE and SNG fiscal risk is questionable

Public access to key fiscal information is relatively high, which heightens the transparency and the credibility of the government of the province. The lack of consolidated fiscal reports for the provincial government that include domestically and externally financed project expenditures is a weakness in financial reporting.

**Policy based budgeting (PI 11-12)**

While participation and orderliness in the annual budget process and the level of transparency in the fiscal transfer mechanism are key strengths of the province, the lack of widespread preparation and presentation of sectoral strategies to support a coherent multi-year budgetary planning framework undermines the whole basis for the MTEF.

Line departments are guided clearly on the development priorities of the province and other directives to the budget preparation process including those pertaining to the MTEF. The budget calendar is specific on the times of the distinct submissions by key sections of the executive. Also, the PFM Act and/or the financial regulations are clear as to when the province's Executive Council is required to approve the annual budget, and as a result, the budget is generally approved on a timely basis.

Provincial 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 and the Provincial Treasury. The province's budget is generally compatible with the unified COA and the budget classification harmonised at the national level, only awaiting the functional restructuring and organic changes in key departments that result in the matching of the functional and administrative structures and tying down levels of performance and accountability between programmes, projects and activities.

Gaps are observed in the yearly and multi-year performance plans of major line departments and weak links between the delivery of projects and the forward estimates are severely hampering the budgeting of operating and maintenance expenses of public infrastructure. The province's development strategy constitutes a major milestone for prioritising the spending targets in the province and yet, this is weakened by the lack of costing at the level of key sector development plans thus resulting in unrealistic annual budgets and prevailing gaps in medium-term financial plans.

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

The effort to increase the funding of the province's budget has been only modest in relative terms with about 5 per cent of total budget still being funded by own revenues. The effort to increase local funding is supplemented by a clear and transparent system of tax and non-tax revenue obligations and administrative procedures locally, and yet the local authorities had not been able to cross check with other local and national databases and adopt other taxpayer registration and assessment controls adequately. This has e led to weak enforcement of provincial tax legislation/regulations and inadequate tax audit management and consequently large arrears of unpaid tax bills built over the past two years.

Cash flow forecasts are performed at the Provincial Treasury on a quarterly basis and somewhat significant in-year adjustments in allocations take place once every year, on the aggregate departmental level. As for the time of the approved budget, departments are advised with an advance of two months before the start of the new 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.

The recording and monitoring of cash balances operates in an effective manner, thus resulting in high predictability gains and availability of funds for the commitment of expenditure for key expenditure programmes.

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, focused on teachers and other public workers' absenteeism, is an area requiring attention.

**Accounting, recording and reporting (PI 22-25)**

The accounting, recording and reporting practices are areas of strength in provincial financial management, but overall performance is mixed. Some issues have been highlighted due to introduction of BAS financial processing and more transparent processes. Automatic bank reconciliation had led to improved monitoring and minimal backlog of unresolved reconciling differences. This, however, is offset by an increase in uncleared advances and suspense account balances brought forward over the past three years, although the levels do not pose any fiscal threat yet.

BAS has the capacity to report budget resources received by districts and service delivery units, but this feature is not enabled. While in-year budget reports are timely and accurate, 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 financial assets and liabilities.

**External scrutiny and audit (PI 26-28)**

In general, the audit directorates are performing well in terms of addressing systemic issues of PFM and following up on actions recommended. The audit quality is of high standard and the annual audit reports and accounts are presented to the Provincial Legislature over seven months after the end of the fiscal year, and then the Legislature scrutinising the audit reports within three months from the receipt of reports– a state of affairs that is considered highly satisfactory.

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 Legislature scrutiny processes throughout the year, are key weaknesses identified by the assessment.

The scrutiny of audit reports by SCOPA by the provincial legislative committee responsible for overseeing the provincial government's financial performance has been extensive and over the past three years. However, certain actions recommended, which involve the same matters of non-compliance, had not been undertaken by the audited departments, particularly the Education Department, according to Auditor-General reports.

## 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 which are not matched by corresponding changes in other areas can undermine the initial reforms. The strengths and weaknesses of the province's public financial management system found in the assessment have 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 in maintaining 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 either.

**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 (MTBPS) 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 re-allocations, 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 accountability process is found to be deficient in holding responsible the officials liable for poor delivery of services. The lack of meaningful internal audit in personnel and procurement management and timely legislative scrutiny are among the weaknesses identified. Staff appointments and promotions and procurement practices are considered deficient which are likely to limit the efficiency of ongoing corporate activities. The ability for planning and management of quality service delivery is also affected by the deficiencies in the in-year budget reports and the adjustments to budget allocations during the year.

## 3. Prospects for reforms

The 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 assessment of 2008, certain weaknesses prevail in PFM and are not clearly focused on the reform agenda, as evidenced in the PEFA. 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 some 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 more to the forefront of reforms given the huge part of government expenditure it represents.

South Africa's prospects for reform implementation should be regarded as positive considering the impact of the reform programmes so far which have made visible contributions in improving budgeting, reporting and external audit. The successful application of MTEF in budgeting and planning, implementation of FMIS and BAS and support to the establishment of policy to guide uniformity in procurement reform processes in government, are just a few examples of successful reforms. A continuation of the reform programmes mentioned above is vital. However, it is essential that the National Treasury and the Provincial Treasury continue to work jointly and have the ownership of the reform process to better facilitate the reforms and ensure their sustainability.

## 4. PEFA performance indicators

**Table 1:Summary of PEFA Assessment Scores, 2013**

| | PFM performance indicator | Scoring method | Dimension ratings | | | | Overall rating |
|---|---|---|---|---|---|---|---|
| | | | D (i) | D (ii) | D (iii) | D (iv) | |
| **A. PFM out-turns: Credibility of the budget** | | | | | | | |
| HLG-1 | Predictability of transfers from a higher level of government | M1 | A | A | A | | A |
| PI-1 | Aggregate expenditure out-turn compared to original approved budget | M1 | A | | | | A |
| PI-2 | Composition of expenditure out-turn compared to original approved budget | M1 | A | NR | | | 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 | C | A | | | C+ |
| **B. Key cross-cutting issues: Comprehensiveness and transparency** | | | | | | | |
| PI-5 | Classification of the budget | M1 | A | | | | A |
| PI-6 | Comprehensiveness of information included in budget documentation | M1 | A | | | | A |
| PI-7 | Extent of unreported government operations | M1 | A | A | | | A |
| PI-8 | Transparency of inter-governmental fiscal relations | M2 | A | B | C | | B |
| PI-9 | Oversight of aggregate fiscal risk from other public sector entities | M1 | B | A | | | B+ |
| PI-10 | Public access to key fiscal information | M1 | B | | | | B |
| **C. Budget cycle** | | | | | | | |
| **C (i) Policy based budgeting** | | | | | | | |
| PI-11 | Orderliness and participation in the annual budget process | M2 | A | A | B | | A |
| PI-12 | Multi-year perspective in fiscal planning, expenditure policy and budgeting | M2 | B | | D | C | C |
| **C (ii) Predictability and control in budget execution** | | | | | | | |
| PI-13 | Transparency of taxpayer obligations and liabilities | M2 | B | B | NR | | B |
| PI-14 | Effectiveness of measures for taxpayer registration and t ax assessment | M2 | C | B | D | | C |
| PI-15 | Effectiveness in collection of tax payments | M1 | D | B | NR | | C |
| PI-16 | Predictability in the availability of funds for commitment of expenditures | M1 | B | C | B | | C+ |
| PI-17 | Recording and management of cash balances, debt and guarantees | M2 | | 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 | B | C | | C+ |
| PI-21 | Effectiveness of internal audit | M1 | A | A | B | | B+ |
| **C (iii) Accounting, recording and reporting** | | | | | | | |
| PI-22 | Timeliness and regularity of accounts reconciliation | M2 | A | B | | | B+ |
| PI-23 | Availability of information on resources received by service delivery units | M1 | D | | | | D |
| 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 | B | B | | B+ |
| PI-27 | Legislative scrutiny of the annual budget law | M1 | A | B | D | C | D+ |
| PI-28 | Legislative scrutiny of external audit reports | M1 | A | B | C | | C+ |
| **D. Donor practices** | | | | | | | |
| D-1 | Predictability of direct budget support | N/A | | | | | |
| D-2 | Financial information provided by donors for budgeting and reporting on projec and programme aid | N/A | | | | | |
| D-3 | Proportion of aid that is managed by use of national procedures | N/A | | | | | |

# 1. Introduction

## 1.1 Objectives

This document reports on a PFM assessment with the active engagement and leadership of the National Treasury and the Provincial Treasury by describing the performance of existing financial processes and systems of the province and rating against the laid down indicators of the PFM performance measurement framework. The study has been conducted in line with the public financial management performance measurement framework issued by the PEFA secretariat (PFM performance measurement framework, revised in January 2011), using the PEFA sub-national government (SNG) guidelines.

The performance measurement framework does not review factors impacting performance, such as the legal framework or existing capacities in the 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. This would require detailed data analysis or utilisation of other country/province-specific indicators. The framework solely focuses on assessing the extent to which the PFM system is or is not an enabling factor for achieving such outcomes.

The last dimension in the PEFA Assessment, on donor practices, is not developed in the report as this is not applicable to the province.

## 1.2 Process

The PEFA assessments presents analysis for 28 high level PFM indicators, which are grouped into six broad categories (each of which represents a key component of the overall PFM cycle), and the three indicators which assess the impact of donor practices on the PFM system do not form part of the study. The assessment is divided in six main dimensions, 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.

An indicative work plan for the PEFA assessment process was essentially agreed with representatives of the National Treasury (NT). It was devised in a manner that responds to the objectives and needs of the PFM-PR and the terms of reference set out for carrying out the PEFA assessment as well as the revised PEFA performance measurement framework and recommended guidelines for sub-national government level set forth by the PEFA secretariat. The work of the core team of PEFA assessors was supported by counterparts from the Provincial Treasury (PT) and MEC for Finance of the Free State provincial government.

The PEFA assessment process was carried out in three major phases, namely, the preparatory work and desk study, the field work study, and the first draft report.

**The preparatory work and desk study**

The desk study began with a level of coordination from 22 to 27 September 2013, in which an indicative work plan was devised by the PEFA evaluation team and communicated to the beneficiary through the local counterpart, Ernst & Young. Also during this period, the leader of the PEFA evaluation team reviewed general documents received that formed the basis of background information to the mission as well as other official documents available through websites of the National Treasury and the Provincial Treasury. In line with the nature of the SNG PEFA assessment, the PEFA team Leader prepared an extensive list of interview partners and pieces of documented evidence required for assessing the performance in each of the dimensions of the PFM system. Interviews with key province level stakeholders were agreed, both at the executive and legislative levels, representatives of relevant upstream PT, line departments and representative groups of civil society. An inception report on mission (interview) organisation and information (documents) required for starting the field work was submitted to the beneficiary for discussion on 17 September 2013.

**The field study**

The field study was designed to take place between 30 September and 25 October; with no revised timing the field visit concluded as planned. The field study consisted of three phases: the inception phase, the assessment work in the field, and the initial review process.

The ***inception phase*** consisted of a comprehensive PEFA training programme that started up at Pretoria and ended at Bloemfontein (September 20-October 8). The first programme was devised for local members of the fours provincial PEFA teams and an inception workshop for National Treasury focal officials appointed, a second one was aimed for senior-level financial management staff participating from the Provincial Treasury and line departments. The main purpose was to explain the PEFA Assessment framework with application to sub-national governments and present the methodology of field work agreed with the National Treasury including the interviews and documents required and deliverables sought.

The ***assessment phase*** took place primarily from 8 to 24 October (a supplementary field mission followed from 6 to 8 November) and the format of interviews was devised to break down the field work and the quality control process in the following order:

- Initial and follow up meetings, and joint sessions with central authorities and mid-level technical staff of the province, which included various divisions (programmes) and head units at the Provincial Treasury, and local domestic revenue collection agencies;
- General and individual meetings with senior financial management officials of five of the largest spending agencies, namely, the Department of Education, the Department of Health, the Department of Public Works, the Department of Cooperative Governance and Traditional Affairs; and Department of Human Settlements, out of interviews with six line departments requested; and
- Initial and follow up meetings, and joint sessions, with senior officials of public independent bodies, including the Auditor-General's Department, and the Legislative portfolio committee on finance and public accounts.

The purpose of the meetings was to gather all necessary background and factual information on the PFM system, supported with documented evidence requested at the onset of the mission, discuss and build a clear understanding on the functioning of the various parts of the PFM system, the performance and any operating linkages of PFM processes and systems, and the progress being made against the overall 2008 PEFA assessment on a national level, and validate the preliminary findings and scores of the 2013 PEFA assessment with a focus PT group.

A ***review process*** was performed from 17 to 25 October and consisted of progress reports with a summary table inclusive of preliminary scores and key notes and supporting analytical work and documented evidence presented to the Provincial Treasury. Initial comments were received by the PEFA assessment team and formed part of the final fieldwork phase's review process and the forthcoming draft reports. A debriefing meeting took place on 25 October.

**First draft report**

The present draft report forms the basis of the PFM-PR submitted according to plan. This report responds to all interviews and relevant documents and data gathered and initial comments received from the Provincial Treasury and other stakeholders.

## 1.3 Scope

This report covers provincial government operations, inclusive of line departments and public entities under their direct purview. The financial management of district authorities and public entities are only dealt with in relevant indicators as prescribed by the PEFA manual 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 provincial government comprises the office of the Premier, 12 main departments (inclusive of public entities under their supervision), and the Provincial Legislature. Departments supervise six autonomous public entities. The provincial government budget for 2013/14 amounted to US$2,687 million, equivalent to 15.5 per cent of local GDP, of which public entities (mainly regulatory, corporate and developmental) represent about two tenths of the total. Reportedly, there are no government entities budgeted outside the scope of provincial government.

The structure of the evaluation report is as follows:

- Section 2 provides background information on the economic, budgetary outcomes, legal and institutional context for the evaluation;
- Section 3 explains the scores for the 31 individual performance indicators;
- Section 4 describes the provincial government's PFM reform efforts up to now, jointly with the National Treasury and individual initiatives, and the prospects for further progress; and
- A series of annexes provide more detailed reference information, including the budget data used for the quantitative indicators (Statistical Appendix), and list of officials and documents consulted (see Annexures 2 and 3 respectively).

The actual status of PFM in the province is scored against the 31 high level indicators set out in the framework and measures the progress in performance of PFM systems and processes. The framework identifies six critical dimensions of performance of an open and orderly PFM system. The overall findings of this assignment are grouped under these dimensions.

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 the province is based on the experience of fiscal years 2010/11, 2011/12, and 2012/13.

# 2 Background to the province

## 2.1 Free State province: Socio-economic background

### Fiscal performance

Between 2010/11 and 2012/13 the province's overall fiscal performance did not improve. The deteriorating fiscal position at national level strained the level of funding to the province and the introduction of unfunded mandates both at national and local budget system added more pressures. Essentially there was no programme aimed to achieve both a tightening of fiscal policy and elimination of structural hurdles affecting revenue mobilisation and public expenditure management, with the former including both increases in local taxes and rationalisation in the wage bill and other non-essential expenditure.

The province met the balanced budget rule over the last three years. The main features were modest increases in receipts of national and local revenues and squeezing of primary expenditures, which combined higher wage bills at the expense of capital expenditures and purchases of essential goods and services. Domestic revenues remained unchanged in 15.5 per cent of GDP during FY 2011/12 and FY 2012/13, from 14.9 per cent of GDP in FY 2010/11. Total expenditure remained in the same line, and yet wages increased progressively 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 2).

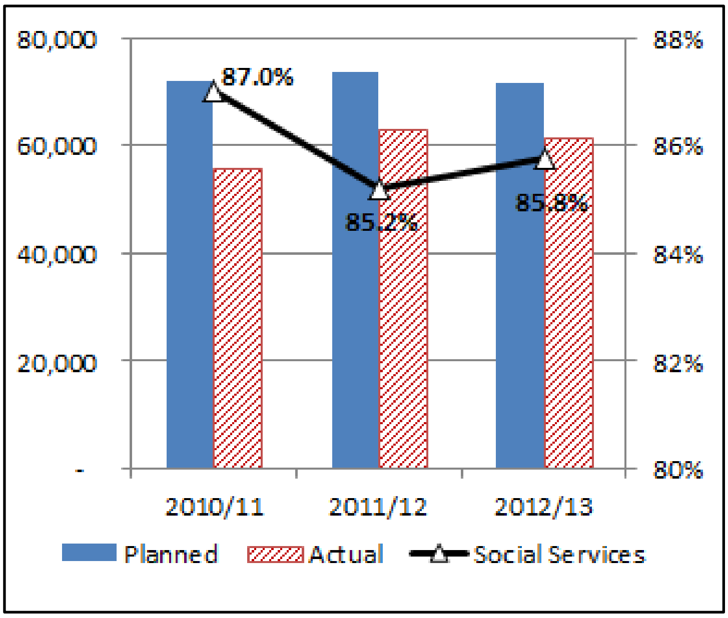
**Table 2: Summary of provincial fiscal operations**

| Percentage of provincial GDP | 2010/11 | 2011/12 | 2012/13 |
|---|---|---|---|
| **Total revenue** | **14.9** | **15.5** | **15.5** |
| *Of which*: National transfers 1/ | 14.3 | 15.0 | 15.0 |
| **Total expenditure** | **14.8** | **15.5** | **15.7** |
| *Of which*: Compensation of employees | 8.8 | 9.3 | 9.5 |
| Capital expenditure | **1.9** | **2.3** | **2.2** |
| **Overall fiscal balance** | **0.1** | **0.0** | **-0.1** |
| *Financing* | 0.2 | 0.5 | 0.3 |
| Accumulation of reserves | 0.2 | 0.3 | 0.2 |
| Rollovers (incl. accumulation of arrears) | 0.1 | 0.2 | 0.1 |
| *Overall fiscal balance, after financing* | 0.3 | 0.5 | 0.2 |

*Source: Statistical appendix, tables 1 and 2.*
*1/ Data includes equitable share and conditional transfers.*

Increases in the provincial wage bill are attributed to the job creation, residing most predominantly in the social sectors. This consists mainly of permanent posts filled and additional contractual positions in the Departments of Education, Health, Human Settlements and Social Development—these represent almost 90 per cent of total employment in the provincial government (Figure 1).

**Figure 1: Job creation in Free State provincial government**




*Source: Extracted from departmental annual performance reports.*

## 2.2 Allocation of resources and budgetary outcomes

**Allocation of budgetary resources**

Table 3 shows how the **economic composition** of expenditure remained practically unchanged over the medium term. Capital expenditure rose modestly to 14 per cent of total expenditure in 2012/13, only one percentage point from 2010/11. The share of wages and salaries remained steady at 60 per cent and grants and transfers equaled 9 per cent; conversely, purchase of goods and services fell to 16 per cent of the total in 2012/13, from 18 per cent in 2010/11. The decline in purchase of goods and services is also attributed to the provincial cost containment measures imposed by the government on non-core items; hence the decline in this economic classification.

**Table 3: Economic composition of provincial government expenditure**

| % of total | Fiscal year | | |
|---|---|---|---|
| | 2010/11 | 2011/12 | 2012/13 |
| **Total expenditure** | **100.0** | **100.0** | **100.0** |
| **Current expenditure** | **86.9** | **84.9** | **85.8** |
| Compensation of employees | 59.7 | 59.7 | 60.7 |
| Goods and services | 17.8 | 15.7 | 16.2 |
| Interest payments | 0.0 | 0.0 | 0.1 |
| Grants and other transfers | 9.3 | 9.5 | 8.8 |
| **Capital expenditure** | **13.1** | **15.1** | **14.2** |

*Source: Statistical appendix, table 1*

Analysis of the functional composition of provincial expenditures strongly suggests that the high government expenses incurred in recent years are largely not commensurate with the development results indicated above. The analysis also shows that budgetary resources concentrate mainly in social services (80 per cent) due to the fact that Health, Social Development and Education are personnel driven and as a result, general administrative services only received (10 per cent). Prioritisation did not change over the past three years to the need to protect pro-poor social programmes in response to deteriorating human development and economic disruption. And yet the allocation between social and economic development programmes remained distant and disproportional. The latter, which comprises roads' infrastructure, rural electrification, and irrigation projects, represent a budget of less than fifteen times (Table 3).

Within social services, the goal was to improve the quality of teaching and performance of students and provide new housing facilities for low income households while providing direct cash transfers to targeted vulnerable populations in the districts. As a result, the share of the education and health sectors remained invariably rigid at an annual average of 40 per cent and 30 per cent, respectively.

**Table 4: Actual budgetary allocations by main function**

| | Fiscal year | | |
|---|---|---|---|
| % of total | **2010/11** | **2011/12** | **2012/13** |
| **General services** | **9.9** | **10.3** | **9.6** |
| **Public order and safety** | **1.3** | **1.1** | **1.5** |
| **Economic affairs** | **6.7** | **6.6** | **6.6** |
| **Social services** | **80.3** | **79.9** | **80.2** |
| Health | 28.7 | 28.7 | 29.3 |
| Education | 40.4 | 40.9 | 41.1 |
| Housing and Community Affairs | 5.5 | 4.5 | 4.2 |
| Social Protection | 3.4 | 3.4 | 3.3 |
| Recreation, Culture and Religion | 2.3 | 2.5 | 2.2 |
| **Environmental protection** | **1.8** | **2.1** | **2.1** |
| **Total expenditure** | **100.0** | **100.0** | **100.0** |

*Source: Treasury Department.*

Further analysis shows that most of expenditure in priority programmes is concentrated on compensating employees, with capital expenditures being practically negligible, thus not enabling the creation of any major impact in development (Table 5).

**Table 5: Economic and administrative composition of government expenditure**

| % of total | Fiscal year 2010/11 | 2011/12 | 2012/13 |
|---|---|---|---|
| **Compensation of employees** | **59.7** | **59.7** | **60.7** |
| *Of which*: Department of Health | 62.5 | 64.2 | 65.1 |
| Department of Education | 80.1 | 77.6 | 77.3 |
| Department of Human Settlements | 2.9 | 3.7 | 6.1 |
| Department of Social Development | 43.7 | 45.3 | 48.0 |
| Department of Economic Development and Tourism | 39.1 | 37.7 | 40.0 |
| Department of Police, Roads and Transport | 22.7 | 23.2 | 23.2 |
| Department of Agriculture | 54.7 | 45.1 | 47.2 |
| Department of Cooperative Governance | 40.6 | 48.8 | 44.5 |
| ***Memo*: Social services 1/** | **66.7** | **67.0** | **67.6** |
| **Purchases of goods and services** | **17.8** | **15.7** | **16.2** |
| *Of which*: Department of Health | 28.1 | 25.6 | 23.4 |
| Department of Education | 5.3 | 5.1 | 6.4 |
| Department of Human Settlements | 6.2 | 2.8 | 2.4 |
| Department of Social Development | 11.9 | 10.8 | 9.7 |
| Department of Economic Development and Tourism | 21.0 | 18.4 | 20.4 |
| Department of Police, Roads and Transport | 28.6 | 15.6 | 24.2 |
| Department of Agriculture | 20.2 | 20.8 | 21.4 |
| Department of Cooperative Governance | 35.1 | 35.8 | 38.3 |
| ***Memo*: Social services 1/** | **14.0** | **12.8** | **12.8** |
| **Capital expenditure** | **13.1** | **15.1** | **14.2** |
| *Of which*: Department of Health | 7.8 | 8.8 | 9.6 |
| Department of Education | 3.9 | 5.6 | 5.8 |
| Department of Human Settlements | 90.8 | 93.3 | 91.4 |
| Department of Social Development | 0.8 | 2.9 | 3.5 |
| Department of Economic Development and Tourism | 9.2 | 6.7 | 8.8 |
| Department of Police, Roads and Transport | 35.0 | 49.9 | 41.2 |
| Department of Agriculture | 22.3 | 30.5 | 28.1 |
| Department of Cooperative Governance | 3.9 | 5.3 | 8.4 |
| ***Memo*: Social services 1/** | **11.3** | **11.7** | **11.7** |

*Source: Statistical appendix, tables 9-13.*
*1/ Includes Departments of Health, Education, Human Settlements and Social Development.*

**Fiscal impact**

Fiscal behaviour 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 current and capital expenditure, particularly in education and health, thus suggesting that key structural issues in provincial financial management such as low local taxation, high wages and procurement expenses had remained largely unresolved. Investments in new health and schooling infrastructure and equipment increased modestly to respectively 10 per cent and 6 per cent of total budget in 2012/13, from 8 per cent and 4 per cent in 2010/11, with approximately R15.4 million in 2011/12 donor funding for the Departments of Health and Social Development. Most noticeably, capital expenditure in social investment programmes deviated from the original budget by almost -6 per cent on average per year — health programmes alone were executed below the original budget by 15 per cent on average per year.

## 2.3 Legal and institutional framework for PFM

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

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

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

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

**The Constitution**

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

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

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

The Constitution states that Parliament will consist of

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

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

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

(1) When a province cannot or does not fulfil an executive obligation in terms of legislation or the Constitution, the national executive may intervene by taking any appropriate steps to ensure fulfillment of that obligation, including: -
    (a) issuing a directive to the provincial executive, describing the extent of the failure to fulfil its obligations and stating any steps required to meet its obligations; and
    (b) assuming responsibility for the relevant obligation in that province to the extent necessary.
(2) If the national executive intervenes in a province in terms of subsection (1) b,
    (a) notice of the intervention must be tabled in the National Council of Provinces within 14 days of its first sitting after the intervention began,
    (b) the intervention must end unless otherwise approved by the Council within 30 days of its first sitting after the intervention began, and

(c) the Council must review the intervention regularly and make any appropriate recommendations to the national executive.

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

Section 155 outlines the different categories of municipalities as extracted below:

(a) Category A: A municipality that has exclusive municipal executive and legislative authority in its area;
(b) Category B: A municipality that shares municipal executive and legislative authority in its area with a category C municipality in whose area it falls; and
(c) Category C: A municipality that has municipal executive and legislative authority in an area that includes more than one municipality.

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

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

Section 214 (1) requires Parliament to pass an Act for:
(a) The equitable division of revenue raised nationally among the national, provincial and local spheres of government;
(b) The determination of each province's equitable share of the provincial share of that revenue; and
(c) Any other allocation to provinces, local government or municipality from the national government's share of that revenue, and any conditions on which those allocations may be made.

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

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

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

**Public Finance Management Act (1999)**

The Constitution confers extensive powers on national government to determine the financial management

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

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

The principal components of the PFMA are:

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

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

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

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

The Minister of Finance is required to table the annual budget for the financial year in the National Assembly before the start of that financial year or, in exceptional circumstances, on a date as soon as possible after the start of that financial year, as the Minister may determine. The MEC for finance in a province must table the provincial annual budget for the financial year in the Provincial Legislature not later than two weeks after the tabling of the national annual budget, but the Minister may approve an extension of time for the tabling of a provincial budget.

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

Section 38 (1) (a) (i) of the Act stipulates that the accounting officer must ensure that the department has and maintains an effective, efficient and transparent system of financial and risk management and internal control. Section 38 (1) (a) (ii) stipulates that the accounting officer must ensure that the department has and maintains systems of internal audit under the control and direction of an audit committee, complying with and operating in accordance with section 76 and 77 of the Act and the Treasury regulations.

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

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

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

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

**Municipal Financial Management Act (MFMA) of 2004**

The MFMA came into effect on 1 July 2004 and follows the model of the PFMA. The National Treasury has divided the provincial governments into three categories, according to its perception (derived from a number of indicators) of capacity to implement the Act: high, medium and low. The high capacity municipalities had to start implementing MFMA almost immediately, the first benchmark being compliance with PPPFA by December 2004 and the second being compliance with most of the provisions of MFMA by June 2005. Municipalities in this category are required to prepare an implementation plan. The other categories have been given more time to prepare for implementation.

The MFMA provides for a much larger oversight role for provincial governments then hitherto. Until now, the provincial governments have mainly served as a conduit through which municipal governments submit budget performance reports for consolidation into reports submitted to the National Treasury. National government transfers to municipalities have tended to be direct rather than through the provincial governments. Provincial governments are now expected to play a far more critical appraisal role in order to guide municipalities in their implementation of MFMA and to provide technical guidance.

The end result of MFMA implementation is expected to be much improved and more transparent financial management and a sharp fall in qualified external audit reports.

**Supply Chain Management Framework and Preferential Procurement Policy Framework Act**

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

To achieve reform of the procurement system in line with the spirit of PFMA, the procurement process is being decentralised, with the national and provincial government tender boards being phased out and departments taking over responsibility for procurement through the supply chain management framework. The State Tender Board (STB) Act was repealed in 2005 under an Act to amend the PFMA. The STB regulations were amended in 2003 by means of promulgation in the Government Gazette to allow accounting officers of national departments to procure goods and services either through the State Tender Board (until the STB Act has been repealed) or through the PFMA[2]. Correspondingly, Provincial Tender Board Acts are being repealed and, under the auspices of the provincial treasuries, supply chain units are being established in provincial departments.

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

Accordingly, the National Treasury established a supply chain management office (SCMO) in December 2003. The supply chain management framework (SCMF) was promulgated in terms of section 76(4)(c) of the PFMA and section 106(1)b of the MFMA. It effectively plays a policy making and regulatory role. It issued detailed regulations in December 2003. Departments have to install SCM units in their finance department offices and

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

have to establish bid evaluation and adjudication committees (each with at least three members, one of whom should be a SCM practitioner, and none of whom should be private sector representatives or members of the legislative body). The ultimate responsibility rests with the accounting officer, who delegates SCM responsibility, in line with sections 44 and 56 of the PFMA.

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

The sole responsibility for procurement given to the accounting officer is a crucial component of the new procurement system (and of the PMFA in general). This feature means that the AO is accountable to Parliament and has to answer for mistakes. Under the STB system, such accountability was obviously passed on to STB. With STBs including private sector representatives and perhaps politicians (councilors at local government) the potential for misspending was high.[3]

The SCMO has three chief directorates.

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

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

The implementation of the SCM system is well underway and all national and provincial departments are expected to be fully compliant by 1 April 2005. Most national government departments have already stopped using the STB and the frequency of STB meetings has dwindled drastically from once a week to once every two months. The Departments of Agriculture and Defence continue to make partial use of STB, particularly in difficult cases.[4] In some cases a department has requested *ex post de facto* approval from STB for procurement, where procedures have not been followed, as has happened in the case of the Department of Housing, STB approval means that the department does not have to report the breach of procedure to the SCOPA. STB approval in this instance is rare, however.

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

The National Treasury has developed a draft regulatory framework for SCM at the local government level in line with the MFMA. If approved by Parliament under section 169 of MFMA, all local governments are expected to comply by 1 December 2004.[5] When this is accomplished, all government units in every sphere will be using uniform procurement procedures as an integral component of good financial management. Chapter 3 discusses

[3] There have been cases at the provincial level of department tender committees selecting a contractor based on price, only for the provincial tender board, dominated by private sector representatives, to overturn the recommendation and select a more expensive contractor.
[4] Scrutiny of government tender bulletin of 16 July, 2004, confirms this; the GTBs are on the National Treasury website.
[5] Rather unusually, the regulations under the Act have to be "submitted to Parliament for scrutiny". This is different from the usual procedure around the world whereby the enabling Act contains a clause delegating the responsibility to the Minister for preparing implementing regulations.

this in more detail. [6]A key provision in the MFMA in relation to procurement is section 117, which bans councillors from serving on tender boards.

**Preferential Procurement Policy Framework Act**

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

- A preference point system must be followed. For contracts with a value above R500 000 a maximum of 10 points (a preference margin of 11.11 per cent) may be allocated for specific goals provided that the lowest acceptable tender scores 90 points for price; i.e. the price quotation must be reasonably competitive as a prerequisite for being considered for a preference margin.
- For contracts with a Rand value equal to or below R500 000 and above R30 000 a maximum of
- 20 points (a preference margin of 25 percent) may be allocated for specific goals provided that the lowest acceptable tender scores 80 points for price;[7]
- Any other acceptable tenders which are higher in price must score fewer points, on a *pro rata* basis, calculated on their tender prices in relation to the lowest acceptable tender, in accordance with a prescribed formula.

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

**Division of Revenue Act (DORA)**

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

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

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

- An education share based on the size of the school age population (ages 5-17) and the average number of learners enrolled in ordinary primary schools for the past three years. The share was increased to 48 per cent for FY 2012/13 by replacing average enrolment data with 2010-2011 enrolment figures and by changing to the 5-17 school age cohort (by using 2001 Census data and the 2011 education school realities) to take account of early childhood development (i.e. the minimum school age was lowered from six to five);
- A health share (27 per cent) based on the proportion of the population with and without access to medical aid;
- A basic share (16 per cent) derived from each province's share of the country's total population; for the 2012/13 budget, this was updated with 2011 Census data;

[6] On SCM, the team benefited from a very useful meeting with Mr Jan Breytenbach, chief director, norms and standards, the National Treasury.

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

- A poverty component (3 per cent) based on the poor population includes falling in the first two quintiles of household incomes in the 2005 income and expenditure survey (IES)—the estimated size of the poor population in each province is calculated by multiplying the proportion in that province from the IES by the population figure from the 2011 mid-year population estimates;
- An economic output component (1 per cent) based on the final GDP by region (GDPR) data; and
- An institutional component (5 per cent) divided equally among the provinces.

The fiscal and financial commission (FFC) is considering moving to a costed norm approach (i.e. transfers based on estimated costs of service delivery) but insufficiency of data precludes this at present. Virtually all provincial education departments and municipalities met by the team expressed concerns over the formula.

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

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

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

The conditional grants emanate from different departments at the national level. The grants for education and water are discussed in later chapters. The National Treasury is in charge of three conditional grants: two support financial management reform in municipalities, with 39 currently participating, and one is a “restructuring” grant, currently being implemented in four municipalities.

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

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

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

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

**Municipal Systems Act (Act No. 32 of 2000)**

The Act introduces changes towards the manner in which municipalities are organised internally, the way they plan and use resources, monitor and measure their performance, delegate authority, render services and manage their finances and revenue. Critically, the MSA formalises a range of alternative service delivery mechanisms that could be used to complement traditional service rendering mechanisms/ arrangements used by municipalities. This Act also enables the integrated development plans (IDP). The IDP is a single and inclusive strategic plan that must be compiled and adopted by the municipality. IDPs must include a financial plan, performance management plan, disaster plan, and a spatial development framework in which all sector plans should be addressed.

**Municipal Structures Act (Act No. 117 of 1998 as amended in 1999 and 2000)**

The Act defined new institutional arrangements and systems for local government. Importantly, the Act laid a foundation for local government performance management and ward committee systems.

**White Paper on local government of 1998**

The White Paper on local government is a broad policy framework that proposes wholesale changes in the areas of political, administrative structures of local government, electoral systems, demarcations, finances, services, infrastructure development, planning and so forth. The White Paper maps out a vision of developmental local government that is committed to working actively with citizens to identify sustainable ways of meeting their social, economic and material needs and thereby improve their quality of life. Developmental local government envisages the transformation of municipal administrations into rationalised, representative, less bureaucratic, people centered, efficient, transparent, accountable and responsive entities.

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

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

**The legislative branch — portfolio committee**

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

**Roles**

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

**Powers**

- The committee shall have permanent referral, as they become available, of:
  - The public accounts;
  - All Auditor-General's reports on provincial accounts;
  - All reports by the Auditor-General on institutions in the province which are submitted to the Provincial Legislature;
  - All financial statements and all audit reports of all corporations where applicable; and
  - Other agencies receiving funding from the provincial government.
- The committee has the right to investigate or review all past, current and committed expenditures of government and organisations in the province, receiving funds from such government.
- The committee has the right to request the Provincial Legislature, at short notice, to refer to it any financial problem/matter that comes to its attention.
- The committee has the right to request, on its own initiative, the Auditor-General, in the existing framework, to perform specific reviews or tasks.
- The committee shall report to the Provincial Legislature at least annually, have the report debated in the Provincial Legislature and have the right to request the provincial executive authority to table a comprehensive response to the committee's report within 60 days.

- The committee shall, as determined by the Powers, Privileges and Immunities of the Provincial Legislature Act, (Act No. 3 of 1996), have the right of access to all financial information and other documents necessary for its investigations.
- The committee shall have the right to call MECs, witnesses from the civil service, expert witnesses and private citizens to testify and provide information (under oath or affirmation if necessary). This includes individuals currently responsible for matters under consideration, as well as those who were responsible at the time of the events, if not the same person.
- The committee may hold public servants accountable for their performance of the administrative duties and the implementation of activities which have been delegated to them (refer to chapter 5 of the PFMA).
- The committee has the right to meet when the Legislature is in session, recessed or prorogued.
- The committee may amend the rules through due process at any time.

# 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 transfers from a higher level of government

| |
|---|
| **Dimensions to be assessed (scoring method M1):**<br>***(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**<br>**ii)Annual variance between actual and estimated transfers of earmarked grants**<br>**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 province funds its annual budget through two sources of income: national revenues and own provincial revenues. These are transfers from national government in the form of the provincial equitable share and conditional grants as well as the provincial own revenue which is money generated from the province. The bulk of the revenue envelope comes from the equitable share which accounts for approximately 74.5 per cent of the total budget, followed by conditional grants which constitute about 22.2 per cent and its own revenue at 3.3 per cent of the budget.

***(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 provincial portion of the equitable share increased from an adjusted R16 217million in 2010/11 to R17 722 million in 2011/12, thus representing a year-on-year growth of 9.3 per cent. In 2012/13 it increased by 6.1 per cent. Simultaneously, conditional grants increased from an adjusted R 4 788 million to R5 197 million in 2011/12 thus indicating an annual growth of 25.5 per cent. In 2012/13 it increased by 10.7 per cent (Table 6). This amount includes the allocation for infrastructure development in the province.

**Table 6: Grants from National Treasury to Free State province (R millions)**

| Description | 2010/11 | | | 2011/12 | | | 2012/13 | | |
|---|---|---|---|---|---|---|---|---|---|
| | DORA | Received | % | DORA | Received | % | DORA | Received | % |
| Equitable share | 15 959.3 | 16 217.2 | 101.6% | 17 520.8 | 17 722.6 | 101.2% | 18 531.2 | 18 795.3 | 101.4% |
| Conditional grants | 4 788.1 | 4 141.5 | 86.5% | 4 975.8 | 5 197.1 | 104.4% | 5 519.6 | 5 751.2 | 104.2% |
| Total | 20 747.4 | 20 358.7 | 98.1% | 22 496.6 | 22 919.7 | 101.9% | 24 050.8 | 24 546.5 | 102.1% |

*Source: Provincial Treasury.*

***(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 of month of the start of the SN fiscal year)***

| Indicator | Score | Evaluation |
|---|---|---|
| **Predictability of transfers from a higher level of government** | **A** | **Scoring method M1** |
| 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 | A | The National Treasury transfers to the province deviated from the originally approved budget by less than 3% in every year during the past three years. It deviated by 1.9% in FY 2010/11, by1.9% in FY 2011/12 and by 2.1% in FY 2012/13. |
| Annual variance between actual and estimated transfers of earmarked grants | A | Variance in the provision of earmarked grants did not exceed 5 percentage points in any of the last three years. The equitable share grants to the province deviated from the originally approved budget by 1.6% in FY 2010/11, by 1.2% in FY 2011/12 and by 1.4% in FY 2012/13. |
| In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within of month of the start of the SN fiscal year) | A | A disbursement schedule forms a key element of the agreement between the National and Provincial Treasuries and this is agreed with the province sufficiently in advance of the new financial year. The largest of the two grants (the equitable share) and largest of the conditional grant (to the Department of Health) had been evenly distributed across the year for the past three years. |

## 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 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, in none of the past three years has the actual primary expenditure deviated from the budgeted primary expenditure by a rate less or greater than 5 per cent (Table 6).

**Table 7: Comparison of original budget and actual expenditures, FY 2010/11 to 2012/13**

| R million, unless otherwise noted | 2010/11 | | 2011/12 | | 2012/13 | |
|---|---|---|---|---|---|---|
| | **Budget** | **Actual** | **Budget** | **Actual** | **Budget** | **Actual** |
| Primary recurrent | 17 951 | 18 285 | 20 003 | 20 213 | 21 543 | 21 978 |
| Capital expenditure | 3 428 | 2 746 | 3 180 | 3 586 | 3 326 | 3 649 |
| Primary expenditure | 21 379 | 21 031 | 23 184 | 23 799 | 24 869 | 25 628 |
| Difference as % of budgeted primary expenditure | | (1.6)% | | 2.7% | | 3.0% |

*Source*: *Statistical appendix table 1.*
*1/ Excludes debt service payments and externally funded capital expenditure. Actual expenditure refers to warrants authorised and obligations issued within the fiscal year.*
*2/ Audited expenditure data except 2012/13.*

The single largest determinant of deviation in aggregate expenditure is compensation of government employees (Table 8). Annual increases in wage and salary compensations led to a series of reversals in the rest of the economic composition, particularly the purchase of basic goods and services and formation of fixed capital (the two other largest items in the budget). As noted in the previous chapter, this resulted in compensations rising and gaining a larger share in the budget with less fiscal space left for investing in a more strategic manner.

Direct transfers and grants to district authorities and households, the next largest item, represent an area of concern to the Provincial Treasury. They provided the leakages and other fiscal losses reported., Recommendations have been made by the economic analysis unit to departments that are responsible for monitoring the administration of social protection programmes with the assistance of national grants that are aimed at the most vulnerable groups of the population.[8]

[8] For further information, refer to "Unlocking Free State Province Accessibility to Conditional Grants: Strategic Alternatives to Improve the Provincial Fiscal Allocations", by Oyeyinka Omoshoro-Jones, economic analysis directorate, Free State Provincial Treasury, 2013.

**Table 8: Determinants of budget expenditure deviation, FY 2009/10 to 2011/12**

| | Budget out-turn (%) | | | Budget weights | | |
|---|---|---|---|---|---|---|
| | 2010/11 | 2010/11 | 2010/11 | 2010/11 | 2010/11 | 2010/11 |
| Primary current | 1.9% | 1.0% | 2.0% | 86.9% | 84.9% | 85.8% |
| Compensation of employees | 1.7% | 0.8% | 2.1% | 59.7% | 61.3% | 60.7% |
| Purchases of goods and services | -4.4% | -3.1% | 3.3% | 17.8% | 15.7% | 16.2% |
| Transfers and subventions | 16.9% | 10.4% | -0.8% | 9.3% | 9.3% | 8.8% |
| *Of which*:<br>Municipalities | 75.2% | 11.6% | 5.9% | 1.4% | 1.2% | 1.2% |
| Household sector | -6.9% | 37.9% | 28.6% | 1.0% | 1.2% | 1.1% |
| Non-profit organisations | 11.9% | 6.0% | -7.2% | 5.3% | 5.6% | 5.2% |
| Capital expenditure | -19.9% | 12.8% | 9.7% | 13.1% | 15.1% | 14.2% |
| *Of which*: | - | | | | | |
| Capital investments | -20.5% | 12.2% | 15.1% | 6.7% | 9.9% | 9.6% |
| Primary expenditure | -1.6% | 2.7% | 3.0% | 100.0% | 100.0% | 100.0% |

*Source*: *Statistical appendix table 1.*

| Indicator | Score | Evaluation |
|---|---|---|
| **PI-1 Aggregate expenditure out-turn compared to 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 | Provincial government's actual primary expenditure deviated from originally approved budgeted primary expenditure by less than 5% in all the past three financial years. It deviated by 1.6% in FY 2010/11, by 2.7% in FY 2011/12 and by 3.0% in FY 2012/13. |

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

| Dimensions to be assessed (scoring method M1): |
|---|
| (i) Extent to which the variance in the composition of primary expenditure exceeded the aggregate variance (as defined in PI-1) in the past three years excluding contingency items |
| (ii) The average amount of expenditure charged to the contingency vote over the last three years |

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

Table 9 shows the difference between budgeted and actual expenditure for each vote. The general overview suggests that, on average, restraint was exercised by the Provincial Treasury to keep total provincial spending in range of available cash resources. Noticeably, however, budget execution varied across spending agencies, with social spending being the most affected by sharp cutbacks in almost every department. This, however, did not affect the goal of achieving fiscal discipline overall.

According to section 25 of the PFMA, the MEC of Finance may authorise the use of funds from the provincial revenue fund 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. The province does not allocate any such provision for events of contingency, such as an unforeseen natural disaster, emergency health situations or for similar purposes, in the annual budget.

**Table 9: Composition of budget Execution by Administrative unit, 2010/11-2012/13**

| R millions | FY 2010/11 | | | FY 2011/12 | | | FY 2012/13 | | |
|---|---|---|---|---|---|---|---|---|---|
| **Budgetary Head (Vote)** | **Budget** | **Actual** | **%** | **Budget** | **Actua l** | **%** | **Budget** | **Actual** | **%** |
| Office of the Premier | 165 | 187 | 13.4 | 227 | 213 | -5.8 | 261 | 253 | -3.1 |
| Legislature | 151 | 150 | (0.7) | 209 | 196 | -6.3 | 219 | 202 | -7.5 |
| Economic Development and | 365 | 327 | (10. | 401 | 390 | -2.7 | 450 | 407 | -9.6 |
| Treasury | 175 | 163 | -6.9 | 206 | 185 | -10.4 | 219 | 206 | -5.7 |
| Health | 6 051 | 6 032 | -0.3 | 7 000 | 6 81 | -2.7 | 7 608 | 7 59 | -0.1 |
| Education | 8 399 | 8 503 | 1.2 | 9 746 | 9 75 | -0.1 | 10 35 | 10 5 | 1.5 |
| Social Development | 709 | 712 | 0.5 | 822 | 804 | -2.3 | 892 | 867 | -2.8 |
| Cooperative Governance and Traditional Affairs | 315 | 388 | 23.2 | 386 | 379 | -1.7 | 333 | 300 | -9.7 |
| Public Works | 933 | 1 027 | 10.1 | 1 259 | 1 25 | -0.3 | 1 308 | 1 25 | -4.1 |
| Police, Roads and Transport | 1 655 | 1 618 | -2.2 | 1 504 | 1 71 | 14.1 | 1 809 | 1 92 | 6.6 |
| Agriculture | 402 | 396 | -1.6 | 533 | 556 | 4.3 | 597 | 561 | -6.0 |
| Sports, Arts, Culture and Recreation | 367 | 381 | 3.8 | 492 | 480 | -2.5 | 449 | 445 | -0.9 |
| Human Settlements | 1 343 | 1 145 | - | 1 014 | 1 06 | 4.7 | 1 090 | 1 06 | -2.1 |
| Rural Development | - | - | - | - | - | - | 42 | 34 | - |
| *Memo*: Social services 2/ | 16 502 | 16 39 | -0.7 | 18 58 | 18 4 | -0.8 | 19 94 | 20 0 | 0.5 |
| Total allocated expenditure | 21 030 | 21 03 | 1.6 | 23 79 | 23 7 | 2.7 | 25 62 | 25 6 | 3.0 |
| Composition variance (%) | | | 3.0 | | | 2.4 | | | 2.1 |

*Sources: Treasury Department; and authors' own calculations.*
*1/ Excludes debt service payments and externally-financed capital expenditure. All budget figures had been adjusted as per PEFA algorithm—for further details go to www.pefa.org.*
*2/ Includes Departments of Health, Education, Social Development, and Human Settlements.*

The departmental and economic analysis of public expenditure shows that the largest overspending took place in social services. Deviations in budget execution averaged 3 per cent in compensations on an annual basis for the period assessed, twice as much the overspending observed for the province as a whole. This was largely neutralised by underspending in purchases of basic service items and infrastructure investments for the top priority programmes. These averaged -2 per cent and -6 per cent in social service programmes, on a yearly basis, respectively (see statistical appendix tables 3 and 4 for further reference).

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

The province did not allocate a portion of the budget to any form of contingency. In contrast with the National Treasury, it is not practice that the province apportions a certain amount to emergency or other major unforeseen circumstance.

| Indicator | Score | Explanation |
|---|---|---|
| **PI-2 Deviations in composition of expenditure out-turn compared to the original approved budget** | **A** | **Scoring method M** |
| (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 did not exceed by 5% in none of the past three financial years. Variances observed were 3.0% in FY 2010/2011, 2.4% in FY 2011/12, and 2.1% in FY 2012/13. The provincial budget did not allocate funds for contingency purposes. |
| (ii) The average amount of expenditure charged to the contingency vote over the last three years | NR | The province did not allocate a portion of the budget to any form of contingency. In contrast with 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*** |

During 2012/13 the government introduced the provincial revenue enhancement strategy (RES) whose purpose was to fund projects with a potential to increase the provincial own revenue. Projects of this nature were funded through the revenue enhancement allocation (REA) in the 2012/13 financial year with the intention of closely monitoring this to ensure that the desired results were achieved.

Own revenue is the only direct source available to the provincial government to fund its own priorities. Consequently, the province has boldly sought to improve revenue in this regard. It has developed and inaugurated a provincial RES that aims to improve the competency and efficiency of the current revenue process. The strategy introduces different approaches that are intended to stimulate the growth rate of collecting revenue. Provincial own receipts increased from R806.6 million in 2010/11 to R865.2 million in 2011/12, a year-on-year growth of 7.3 per cent. However, this slowed rapidly in 2012/13 thus resulting in a combined level of domestic revenues remaining practically unchanged (Table 10) and a setback in its effort towards reaching the goal of collecting R1 billion from own revenue in FY 2014/15.

At present, less than 5 per cent of the total provincial budget is funded by own revenue. This is derived mainly from motor vehicle licences (47 per cent), patient fees (21 per cent) and gambling tax receipts (4 per cent), collected through the Departments of Police, Roads and Transport, Health, and Economic Development and Tourism, respectively.

**Table 10: Comparison of budgeted and actual revenues, FY 2010/11 to 2012/13**

| R millions, unless otherwise indicated | FY 2010/11 | | | FY 2011/12 | | | FY 2012/13 | | |
|---|---|---|---|---|---|---|---|---|---|
| **Budget item** | **Budget** | **Actual** | **%** | **Budget** | **Actual** | **%** | **Budget** | **Actual** | **%** |
| Tax revenue | 330.7 | 337.7 | 102.1 | 368.9 | 410.6 | 111.3 | 402.6 | 442.7 | 110. |
| Non-tax revenue | 316.7 | 468.9 | 148.1 | 348.7 | 454.6 | 130.4 | 416.7 | 415.6 | 99.7 |
| **Total domestic revenue** | **647.4** | **806.6** | **124.6** | **717.6** | **865.2** | **120.6** | **819.4** | **858.3** | **104.7** |

*Source: Statistical appendix, table 2.*
*1/ Excludes the equitable share and conditional grants from National Treasury.*

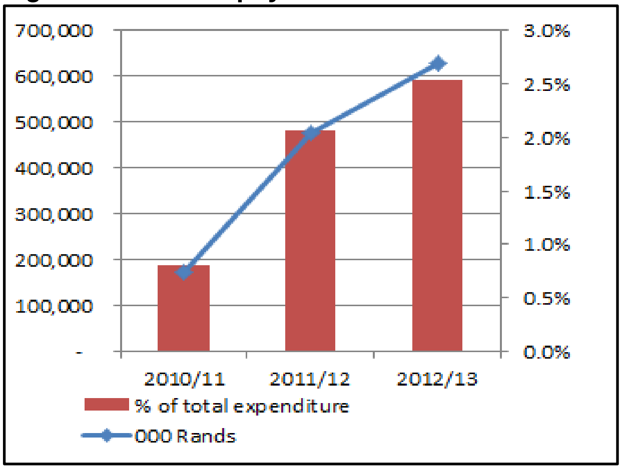
| Indicator | Score | Explanation |
|---|---|---|
| **PI-3 Deviations in aggregate revenue out-turn compared with the original approved budget** | **D** | **Scoring method M1** |
| (i) Real collection of domestic income in comparison with estimates in the original approved budget | D | Actual domestic revenue, including local taxes (as a percentage of originally budgeted revenue) was 124.6% in FY 2010/11, 120.6% in FY 2011/12, and 104.7% in FY 2012/13. The downward trajectory of own revenue out-turn is a positive breakthrough indicating the new budget estimates are more realistic but the Provincial Treasury recognises the need to further improve the process of revenue forecasting together with the responsible revenue collecting departments. |

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

| ***Dimensions to be assessed (scoring method M1):***<br>***(i) Stock of expenditure payment arrears***<br>***(ii) Availability of data to monitor the stock of expenditure payment arrears*** |
|---|

Adequate information systems exist to account for payment arrears but the monitoring capability for whole of government is weak and the growth of unpaid bills has become a concern.

**Figure 2: Stock of payment arears**




*Source: Departmental performance reports.*

***(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 total amount of payments owed by the province to suppliers and contractors increased rapidly over the past three years, to a level and by a rate considered worrying. The stock of payment arrears rose to R630 million as at the end of FY 2012/13, from R477 million as at the end of FY 2011/12, and from R173 million as at the end of FY 2010/11 (Figure 2).

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

The province's fiscal monitoring function is provided with the necessary information for monitoring the accumulation of payment arrears for the government, as required by the PFMA. Expenditure payment arrears are reported by every department as part of accruals on a quarterly and annual basis. It is a hidden item, however, in the annual performance reports for the province. (See annexure to the annual report of government, which does not itemise bills overdue 30 days or more, as defined in the Treasury regulation 8.2.3[9].)

[9] 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 unit**

| R'000 | | | 2012/13 | | |
|---|---|---|---|---|---|
| **Department** | **2010/11** | **2011/12** | **30 days** | **30+ days** | **Total** |
| Premier | 5 537 | 21 838 | 8 583 | 970 | 9 553 |
| Legislature | 1 221 | 1 342 | 893 | 124 | 1 017 |
| Economic Development and Tourism | 1 789 | 924 | 1 193 | 175 | 1 368 |
| Treasury | 3 365 | 2 477 | 1 338 | - | 1 338 |
| Health | 62 957 | 259 999 | 86 358 | 260 008 | 346 366 |
| Education | 35 018 | 27 331 | 59 998 | 67 885 | 127 883 |
| Social Development | 1 441 | 2 325 | 4 093 | 79 | 4 172 |
| Cooperative Governance and Traditional Affairs | 8 171 | 4 649 | 4 119 | 14 716 | 18 835 |
| Public Works | 4 521 | 24 681 | 23 885 | 20 517 | 44 402 |
| Police, Roads and Transport | 18 161 | 119 882 | 28 018 | 28 626 | 56 644 |
| Agriculture | 3 376 | 8 883 | 4 942 | 1 089 | 6 031 |
| Sports, Culture and Recreation | 1 282 | 819 | 1 256 | 1 018 | 2 274 |
| Human Settlements | 26 251 | 2 230 | 8 475 | 1 789 | 10 264 |
| Total | 173 090 | 477 380 | 233 15 | 396 996 | 630 147 |

*Source: Compiled from departmental annual performance reports*

The budgetary constraints had an impact on the province's ability to carry out some of the key planned activities, particularly those considered priority by the Departments of Health and of Education. Expenditure analysis shows that these two departments together comprise more than three fourths of the total stock of payments arrears (Table 11).

The AGSA annual audit reports indicate that the portfolio committee has been concerned about accruals reported in the annual financial statements as a result of cash flow challenges caused by departments that have not settled inter-departmental claims and supplier invoices within 30 days. In some departments the overall situation of accruals is even more serious when the accumulation of other unpaid items, such as transfers for the year which exceeded the total budget appropriated, are taken into account. An example of this is the Department of Cooperative Governance and Traditional Affairs.

Unpaid transfers and subsidies appropriated in the budget have been substantial in recent years thus creating low levels of predictability in funding. For example, accruals in the Department of Health amounted to R14 716 000. This amount, in turn, exceeded the voted funds to be surrendered of R11 012 000, as per the statement of financial performance by, R3 704 000. The amount of R3 704 000 would therefore have constituted unauthorised expenditure had the amounts due been paid in a timely manner.

Public entities face a similar situation. For example, the Free State development corporation reported total arrears of R18 597 024 as of end of FY 2012/13, from R6 487 568 as of end of FY 2010/11.

| Indicator | Score | Explanation |
|---|---|---|
| **Stock and monitoring of expenditure payment** | **C+** | **Scoring method M1** |
| (i) Stock of expenditure payment arrears | C | The stock of expenditure payment arrears equaled almost 3% of the total budget as of end of FY 2012/13. Its level, nonetheless, rose by 32% from the previous year (it more doubled between FY 2010/11 to 2011/12). |
| (ii) Availability of data in order to monitor the stock of expenditure payment arrears | A | Quarterly data of unpaid bills to contractors and suppliers is available for every department and includes aging (overdue 30 days and more than 30 days). The reporting system provides a comprehensive quarterly assessment on the accumulation of payment arrears (under the category of accrual payables) for every department but the stock continues to increase, thus suggesting a more meaningful responsive action is required. |

## 3.2 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 reported on an important aspect of comprehensiveness and transparency with respect to the timely and clear flow of fiscal information between levels of government. It also noted the extent to which information on the activities of sub-national government, autonomous public agencies and public enterprises is available and sufficiently transparent to manage any potential fiscal risk involving these institutions.

### PI-5 Budget classification

| **Dimensions to be assessed (scoring method M1):**<br>***(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's Government Finance Statistical manual published in 2001 (economic and functional classification) and in the United Nations publication, 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 SCOA was implemented on 1 April 2008.

South Africa, including all its provinces, uses the BAS to record financial transactions. BAS has seven 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 spent[10].

The provincial annual budget and the medium-term expenditure framework (MTEF) are 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 department's 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. Both ERF and SCOA adhere to the accrual accounting system to the extent allowed in the current modified cash reporting environment in South Africa. This modification resulted in the South African Reserve Bank (SARB) being tasked with presenting the GFS tables based on the data extracted from SCOA of government which then enable South Africa to comply with the requirements of the Special Data Dissemination Standard (SDDS) set by the International Monetary Fund (IMF).

[10] Guidelines for Implementing the Economic Reporting Format, September 2009

| Indicator | Score | Evaluation |
|---|---|---|
| **PI-5 Classification of the budget** | **A** | **Scoring method M1** |
| The classification system used to formulate, execute and report on the provincial government budget | A | The budget system is designed to formulate and execute the budget according to an economic, administrative and functional classification in a format 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):**<br>***(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 Member of Executive (MEC) responsible for finance in the province to table the provincial annual budget.

The Provincial Treasury prepares and arranges publication of the following budget documentation:

- 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 (EPRE) (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 medium-term expenditure framework (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 documentation for the fiscal year 2013/2014 that was presented to the Provincial Legislature includes comprehensive information relating to the components of inflation, recent economic performance, priority areas, macro-economic assumptions, fiscal projections for the following year, estimates of revenue and expenditure and the medium-term outlook, among others. The budget's estimates of provincial revenue and expenditure (the "Blue Book") provides for elements of information summarised in Table 12.

**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 macro-economic framework as a basis for EPRE document. 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 | N/A | Not applicable. |
| **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. 2009/10, 2010/11 and 2011/12 are included in the 2013/2014 EPRE document. |
| **Current year's budget** (revised budget or estimated out-turn), presented in the same format as the budget proposal | Yes | The 2012/2013 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 2013/2013 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 | Explanation |
|---|---|---|
| **PI-6 Comprehensiveness of information included in budgetary information** | **A** | **Scoring method M1** |
| (i) Proportion of information mentioned above and contained in the most recent budgetary documentation published by the central government. | A | Budget documentation fulfils 7 of the 9 benchmarks. |

## PI-7 Extent of unreported government operations

| **Dimensions to be assessed (scoring method M1):**<br>***(i) Level of extra-budgetary expenditure (not including projects financed by donors) that is not declared – in order words that does not appear in fiscal reports***<br>***(ii) Information on income and expenditure in relation to projects financed by donors included in the fiscal reports*** |
|---|

The extent to which the provincial extra-budgetary/unauthorised expenditure may be unreported on BAS is unlikely. All the income and expenditure of public entities are recorded in their respective accounting systems and further reported on to the Provincial Treasury and department responsible for that public entity.

Complete information on donor funded programmes and donations received in kind is included in the annual financial statements. Expenditure on both the donor funded programmes and undeclared, R65.4 million for medical depot, surplus accounts for less than 1% of the total provincial expenditure.

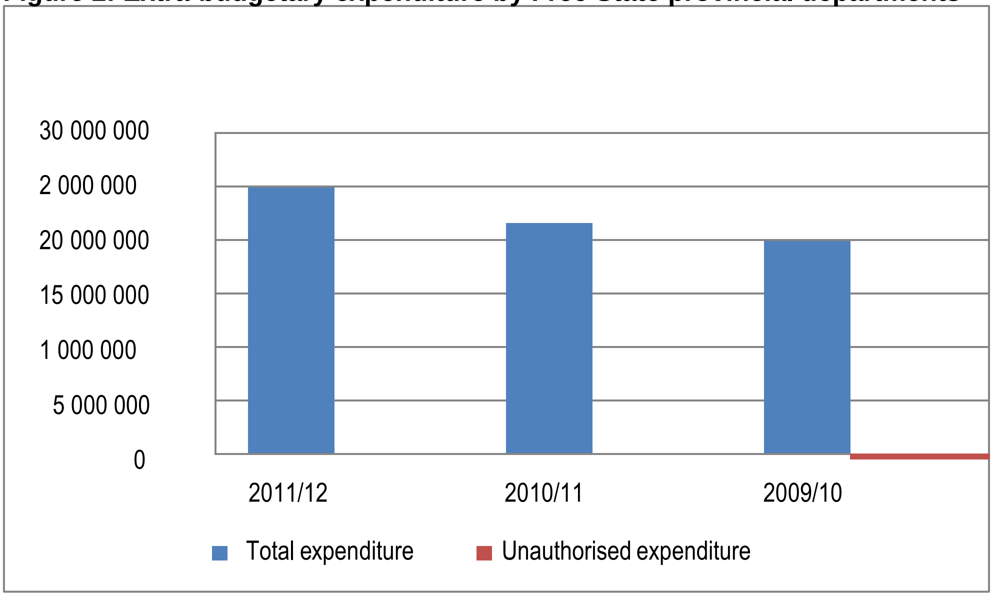
### *(i) Level of unreported extra-budgetary expenditure*

Section 226(1) of the Constitution states that “there is a provincial revenue fund 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 records that, “money may be withdrawn from a provincial revenue fund 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 provincial revenue fund, when it is provided for in the Constitution or provincial Act”.

BAS is the core of government accounting systems. It is the general ledger where all transactions are recorded and classified in accordance with the principles of SCOA and is the main source of information for the preparation of management reports and the annual financial statements (AFS). The source of reported information is the various sub-systems where expenditure transactions are initiated. These sub-systems (PERSAL, LOGIS, MEDPAS and debit orders) interact differently with BAS to facilitate the payment process. All payments are made in BAS. Sundry payments can be made directly to BAS; however, these payments are not encouraged by Treasury.

The Department of Human Settlements uses the housing subsidy system (HSS) to record housing and human settlements projects, i.e. housing beneficiaries and progress in the construction of houses as well as to report performance. There is no inter-phase between HSS and BAS. However, the possibility of unreported expenditure is unlikely as all departmental payments are processed through BAS. Departmental expenditure for the year 2012/2013 was R1,089 billion (R1,061 billion 2011/120). This represents 4.16 per cent (4.45 per cent: 2011/12 of provincial expenditure). Figure 3 shows extra-budgetary expenditure being reported in the Provincial Treasury fiscal reports.

**Figure 2: Extra-budgetary expenditure by Free State provincial departments**




*Source: Free State combined financial statements*

For the fiscal year 2011/2012, the provincial unauthorised expenditure was R211 781 million (R416 051 million for 2010/11). This represents 0.87% of the total expenditure for 2011/2012 (1.93% for 2010/11). The main contributing provincial departments are Health at R141 million and Police, Roads and Transport (R67 million).

Due to financial reporting in BAS, departmental unauthorised expenditure[11] will be picked up and reported accordingly in the AFS, making unreported extra-budgetary expenditure in departmental accounts difficult and/or unlikely.

Below is the list of provincial public and trading entities by supervising department.

*Department of Health*

Medical depot (Central medical trading account) is a departmental public entity that reports to the MEC of Health. For the year 2010/11, the account recorded an accumulated surplus as at 31 March 2011 of R65 428 million (R43 928 million for 2009/10). The National Treasury regulations require that any surplus or deficit must be declared to the relevant treasury. According to the note of the Auditor-General for the 2010/11 financial year, "the accounting officer did not declare the surplus of the trading entity to the provincial treasury in terms of regulation 19.7.1".

*Department of Economic Development, Tourism and Environmental Affairs (DETEA)*

Transfer payment agreements had been arranged between DETEA and various public entities. Public entities use different financial accounting systems and bases to that of the DETEA. However, they are required to provide written submissions relating to the monthly financial expenditure reports and quarterly performance against budgets to DETEA and the Provincial Treasury's fiscal policy division. The income and expenditure reports provide for the monitoring of PE's projections and are included in the DETEA's IYM reports to the Provincial Treasury's public finance division. Although there are certain challenges regarding monitoring the performance against the budget, the financial reporting appears to be capable to detect unreported operations, if any. This is due partly to the requirement stated in the agreement that no funds will be transferred to public entities without properly accounting for their previous allocations.

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

The provincial government recognises donor-funded grants (aid assistance), either monetary or in kind, or both, and recorded as part of revenue in the financial statement. The corresponding expenditure is also disclosed as

[11] Refer to overspending of a vote or a main division in a vote.

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 for financial reporting purposes. 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 annual financial statements.

**Table 13: Donor-funded expenditure, by department and programme, FY 2010/11-2012/13**

| R'000, unless otherwise noted | | 2010/11 | | 2011/12 | | 2012/13 | |
|---|---|---|---|---|---|---|---|
| **Department/ Programme** | **Donor** | **Domestic** | **External** | **Domestic** | **External** | **Domestic** | **External** |
| Education—Pre-Grade R Curriculum | Flanders International Coop. Agency (FICA) | - | - | - | 414 | - | - |
| Early Childhood Development | | - | 1 353 | - | - | - | - |
| Premier-Skills Development Project | Depart-ment of Labour | 16 064 | - | 37 952 | - | - | - |
| Youth and Community Xhariep | | 5 659 | - | - | - | - | - |
| Job Creation and SMME Emp. | Flemish govern-ment | 658 | - | - | - | - | - |
| Skills development project | Depart-ment of Higher Education | - | - | - | - | 22 880 | - |
| Economic Development and Tourism | Frankfort Kraft Paper | - | - | 14 800 | - | - | - |
| Legislative - public participation, oversight | European Union (EU) | - | - | - | - | - | 1 889 |
| Health - Primary Health Care | EU PDPFCP Donor Fund | - | 8 773 | - | 15 213 | | - |
| PHC: HIV capacity building | Ireland Aid | - | 104 | - | - | - | - |
| Global Aid, TB and Malaria | Global Aid Fund | - | 114 | - | - | - | - |
| Skills development | HWSETA | 52 | - | - | - | - | - |
| Medical equipment | Anglo American Chairman Fund | - | - | - | - | 510 | - |
| Medical equipment | Various donors | - | - | 4 387 19 3 | - | - | - |
| Social Development-Domestic Violence and Rape Victim Empowerment and Children at Risk sub-programmes | Flanders Interna-tional Coop. Agency (FICA) | - | 999 | - | 233 | - | - |
| Sports, Arts, Culture and Recreation | MACUFE Cultural Festival, various donors * | - | - | 2 060 | - | 6 020- | |
| Sub-total donors | | 22 433 | 11 343 | 4 442 00 5 | 15 860 | 29 410 | 1 889 |
| Plus: Aid assistance | | 17 559 | 11 334 | 39 035 | 30 660 | 22 880 | - |
| **Total** | | **39 992** | **22 677** | **4 481 040** | **46 520** | **52 290** | **1 889** |
| **% of annual budget** | | **0.19%** | **0.11%** | **18.77%** | **0.19%** | **0.20%** | **0.01%** |

*Sources: Departmental annual financial statements and Combined Financial Statements.*

*(*) Include receipts from Standard Bank (R1 million), White Star (R0.450 million), Brand House (R0.530 million), British American Tobacco (R0.040 million) and Red Bull (R0.040 million).*

The provincial donor -funded expenditure is included in fiscal reports and for the financial years 2010/11; 2011/12 and 2012/13 the expenditure is insignificant at 0.11%; 0.19% and 0.01% respectively.

| Indicator | Score | Explanation |
|---|---|---|
| **PI-7 Extent of unreported government operations** | **A** | **Scoring method M1** |
| (i) Level of extra-budgetary expenditure (as distinct from that for projects financed by donors) which is not declared, in other words does not appear in fiscal reports. | A | Provincial government extra-budgetary expenditure in the form of unauthorised expenditure is captured on BAS and reported in a level of insignificance ranging between 1% and 2% of total expenditure. Public entities reported expenditure against monthly budget and performance on a quarterly basis. The level of unreported extra-budgetary expenditure is unlikely and, if any, t will be insignificant. The medical depot undeclared surplus, was disclosed in the annual financial statements, as at 31 March 2001 and reported by the Auditor-General. The undeclared expenditure is 0.31% of the provincial expenditure and is therefore statistically insignificant. |
| (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 (Table 3.8). |

## 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 Free State Appropriation Act are used to regulate the allocations.

The provincial government consists of 14 Votes: one metropolitan municipality; four district municipalities; 19 local municipalities; five provincial public entities and one provincial government business enterprise.

The finances of the provincial government are regulated by the PFMA while local government finances are regulated by the MFMA. Provincial budget consists of provincial receipts, which are made up of equitable share and grants from the National Treasury (96 per cent) and provincial own receipts.

As indicated in Tables 3 above, the Free State Appropriation Acts presented provincial revenue and departmental appropriations[12] for financial years 2010/11, 2011/12 and 2012/13. The provincial financial year is 1 April to 31 March.

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

A transparent, formula-based equitable and predictable inter-governmental revenue sharing system is established between the National and Provincial Treasuries with a view to enabling various municipalities to improve their performance with regard to service delivery to people of the province. A province equitable share (PES) formula is arranged between the National and Provincial Treasuries to allocate national tax resources to 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 provincial equitable share are outlined in the previous section.

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

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

[12] Combined financial statements and Free State Appropriation Act

| Indicator | Score | Explanation |
|---|---|---|
| **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 national transfers to municipalities through the Provincial Treasury is facilitated through clear and fair rules based systems. |
| ii) Punctual provision of reliable information to local governments about the allocations to be made to them by provincial government in the coming year | B | Municipalities are provided sufficiently reliable information on the allocations from national grants to be transferred to them through departments, usually two months before the start of the new fiscal year. This allows municipalities to prepare their detailed budget proposals and performance plans and finalise any necessary adjustments. |
| 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 | C | Municipalities do not generally submit their annual financial reports in sectoral or functional categories compatible to GFS or other recognisable standards so it is not possible in most district operations for BAS to consolidate in general government finance statistics. |

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

| **Dimensions to be assessed (scoring method M1):**<br>***(i) Degree of province monitoring of the main autonomous public organisations and state companies***<br>***(ii) Degree to which the province monitors the fiscal position of local government*** |
|---|

All public entities and municipalities issue audited financial statements and submit these to the Provincial Treasury for consolidation. Also, municipalities and public entities generally issue monthly and quarterly reports and these are included in departmental IYM's. Municipalities are not required by law to generate fiscal liabilities.

### *(i) Extent of provincial government monitoring of public entities*

The province's public entities, trading entities, and other funds combined financial statements, lists the following provincial public and trading entities:

- Free State Gambling and Liquor Authority;
- Free State Tourism Authority;
- Free State Development Corporation (FSDC);
- Central Medical Trading Account;
- Fleet Management;
- Free State Housing Fund; and
- Other Funds, i.e. Recreation; Nature Conservation Funds.

Provincial public entities report their financial performance monthly and quarterly to three areas in the province:

- Monthly and quarterly reports to provincial economic development, tourism and environmental affairs (Department of Health for medical depot);
- Monthly and quarterly reports to the Provincial Treasury's fiscal policy and financial governance; and
- Annual reports to the Provincial Treasury's accounting services for consolidation purposes.

*Department of Health*

The Department of Health entered into a service level agreement with medical depot (a central medical trading account). Medical depot is responsible for stores and distribution of pharmaceuticals and medical consumables on behalf of the department. Medical depot uses MEDPAS for an inventory management and MEDPAS trading account for financial system. Medical depot raises revenue by charging "demanders" - (institutions providing health care services on behalf of the province) cost plus a 7 per cent levy on all deliveries processed by them. The payment to medical depot for services rendered on behalf of demanders via direct delivery vouchers (DDV) is processed directly through LOGIS.

Each financial year, the provincial Department of Health appropriates R2 million to the central medical trading account. This account reports performance to the Department of Health on a quarterly basis and the statement of financial position (profit and losses) of the account is reported and included in the department's annual financial performance.

*Department of Economic Development, Tourism and Environmental Affairs (DETEA)*

The following provincial public entities are funded through transfer payments from the departmental equitable share and reports, through their respective boards to the DETEA:

- Free State Development Corporation;
- Free State Gambling and Liquor Authority; and
- Free State Tourism Authority.

During 2010/11, the provincial government analysed the performance of all public entities to determine how these were to be re-positioned. As a result, the process of improving alignment of functions between the department and entities and ensuring accountability of transferred funds was started. As at 31 March 2013, some improvements were required for effective monitoring of the above entities.

Transfer payment agreements are in place between the entities and DETEA. These agreements serve as the basis of the monitoring and evaluation framework. All entities are required to submit monthly financial expenditure reports and quarterly performance reports indicating their implementation of efficient, effective and transparent financial management. However, the implementation has not been consistent throughout the 2012/13 financial year. As a result, the DETEA does not have conclusive evidence that the entities implemented effective, efficient and transparent financial management and internal control systems when spending the transferred funds[13]. Over and above the reports sent to DETEA, the departmental IYM also includes public entities reports and projections.

**Table 14: Transfer payments by DETEA to public entities under its supervision**

| R'000 | 2010/11 | | 2011/12 | | 2012/13 | |
|---|---|---|---|---|---|---|
| | | % | | % | | % |
| **Budget** | **327 288** | | **289 855** | | **418 047** | |
| *Transfers to public entities* | | | | | | |
| FS Development Corporation | 29 490 | 9.01% | 35 000 | 8.98% | 27 245 | 6.52% |
| FS Gambling and Liquor Authority | 32 184 | 9.83% | 44 592 | 11.44% | 48 251 | 11.54% |
| Free State Tourism Authority | 38 259 | 11.69% | 30 532 | 7.83% | 47 314 | 11.32% |
| **Total transfers** | **99 933** | **30.53%** | **110 124** | **28.25%** | **122 810** | **29.38%** |

*Sources: DETEA and Provincial Treasury.*

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

*Department of Education*

The Department of Education informs the indicative budget allocation to the schools. The budget allocation for schools is based on, among others, the number of learners and other relevant budget information from the education management information system (EMIS) survey. A school governing body (SGB) will then prepare a revenue and expenditure budget indicating how the estimated allocation will be utilised. SGB should submit completed budget back to the provincial department by the first week of December, i.e. prior to the start of the fiscal year. The budget caters, among others, for stationery, learner text books and the day-to-day running of the school. It does not cater for the payment of educators' salaries and capital expenditure, which have their own separate allocation managed by the provincial department.

Schools are not allowed to budget for a deficit. School management and governance developers (SMGD) are solely responsible for fiscal monitoring of their allocated schools and reporting back to the Department of Education through district offices. The information gathered at schools' level by SMGD is captured into BAS at circuit offices and consolidated in the district office, which sends the IYM to the Department of Education's head office.

*Department of Health*

The Department of Health is responsible for monitoring the financial performance of clinics, district and provincial hospitals. This oversight is achieved through the IYM model which is submitted by the clinics and hospitals to be consolidated and captured into BAS at their respective district offices. The consolidated IYM is then further consolidated at Department of Health's head office prior to it being forwarded to the Provincial Treasury's public finance section.

The departmental officials raised several concerns relating to the quality of IYM data consolidated at district level. Quality issues are addressed at the head office where data is interrogated prior to consolidation.

*Department of Cooperative Governance and Traditional Affairs (COGTA)*

The department, though its various divisions, is responsible for the monitoring of municipal infrastructure grants (MIG) and provincial infrastructure funds (PIF). MIG is allocated to various municipalities by the National Treasury through DORA while PIF is allocated by the province through the Provincial Appropriation Bill. All municipalities in the province submit monthly reports to COGTA about their financial (certificate of expenditure and revenue) and non-financial (employment figures) information.

The total MIG expenditure for the province as at 30 June 2013 was R965 million out of an allocation of R1 020 million. This figure reflects 95 per cent expenditure of the total annual MIG allocation. Fourteen out of

[13] AGSA Report on the AFS for the year ended 31 March 2013

19 municipalities have spent 100 per cent of their 2012/2013 MIG allocation. Five municipalities did not spend 100 per cent of the MIG allocation. Reasons for the under-expenditure varies from late implementation of projects due to slow procurement processes to slow performance of service providers[14].

*Human Settlements*

There is little or no monitoring by the Provincial Treasury for the transactions that are processed through the housing subsidy system (HSS). Also, departmental reconciliation of the HSS to BAS is not consistent and this creates the risk of under and/or over reporting of delivery performance.

| Indicator | Score | Evaluation |
|---|---|---|
| **PI-9 Oversight of aggregate fiscal risk from other public sector entities** | **B+** | **Scoring method M1** |
| (i) Degree to which the provincial government monitors the autonomous public organisms (AGAs) and public companies (EPs) | B | Although the provincial public entities submit monthly, quarterly and audited financial performance reports to their respective departments and subsequently to the Provincial Treasury, 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. |
| (ii) Degree to which the provincial government monitors the fiscal position of sub-provincial governments | A | The provincial departments are ultimately responsible for monitoring any financial risks at the level of municipalities and service delivery units, i.e. clinics and schools. The monitoring is carried through an in-year-monitoring model consolidated at municipal level and forwarded to head office for further consolidation to the Provincial Treasury. The assessors consider that the extent of financial monitoring is adequate. Municipalities and service delivery units are not allowed to have unfunded operations and therefore cannot generate fiscal liabilities for their head office. |

[14] Final MIG DORA Report for 31 July 2013

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

The government makes available to the public (in a complete form) four of the six listed types of information (see Table 15).

**Table 15: Summary of fiscal information**

| Elements of fiscal documentation | Availability | Notes |
|---|---|---|
| **Annual budget documentation:** a complete[15] set of documents can be obtained by the public through appropriate means when it is submitted to the Legislature. | Yes, but partially | Copies of the annual budget documentation are made available to the general public when these are tabled at the Legislature. Budget documentation is also uploaded on the Provincial and National Treasury websites. |
| **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, IYMs are forwarded to the National Treasury for uploading to its website. |
| **Year-end financial statements:** the statements are made available to the public through appropriate means within six months of completed audit. | Yes | Copies of the financial statements are made available to general public by respective provincial departments within six months of end of financial year. |
| **External audit reports:** all reports on provincial government consolidated operations are made available to the public through appropriate means within six months of completed audit. | Yes | The report of the Auditor-General is made available to public by AGSA and respective provincial departments through the internet. |
| **Contract awards:** Awards of all contracts specific to the province and with value equivalent above approx. US$100,000 are published at least quarterly through appropriate provincial government means. | Yes | Contracts awarded are published in the Free State tender bulletin as and when applicable. |
| **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 (such as elementary schools or primary health clinics). | No | Reports on resources available to primary service delivery units are not issued, although BAS has the capacity to issue by district and department. |

| 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 complete form) four of the six listed types of information (see Table 3.10). |

[15] '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.

## 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):**<br>***(i) Existence and observance of a fixed budget calendar***<br>***(ii) Guidance on the preparation of budget submissions***<br>***(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 Treasury Department. The provincial Executive Council does approve overall spending priorities, detailed ceilings on recurrent and investment spending limits by administrative units, before the letter of allocations is issued. The budget was approved by the Provincial Legislature before the beginning of the fiscal year to which it related in two of the three financial years considered.

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

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. The Treasury regulations 6.1 prescribe 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 the provincial budget preparation and times and extent of participation are specified in table 16; further details are provided in Annexure 1.

**Table 16: Critical dates for the 2014 national and provincial budget process**

| | |
|---|---|
| Departments, public entities and constitutional institutions receive medium-term expenditure framework (MTEF) technical guidelines and databases | Early June 2013 |
| Information sessions on MTEF technical guidelines and databases | June 2013 |
| Departments submit proposals for budget programme structure revision to the National Treasury | 27 June 2013 |
| Budget submission: narrative and database | 12 July 2013 |
| Medium-term expenditure committee (MTEC) process starts – phase 1 | June 2013 |
| MTEC process continues – phase 2 | July-August 2013 |
| MTEC process ends – phase 3 | September 2013 |
| Tabling of medium-term budget policy statement | 23 October 2013 |
| Estimates of national expenditure (ENE) guidelines distributed to institutions | 31 October 2013 |
| Preliminary allocation letters issued | 23 October 2013 |
| First draft of ENE chapter submitted (approved by the accounting officer of a department) | 22 November 2013 |
| Allocation letters (Cabinet approved allocations) issued | 29 November 2013 |
| Final revised (2nd draft) ENE chapters submitted | 13 December 2013 |
| Budget tabled in Parliament | 26 February 2014 |

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

The province's executive is involved in the setting of overall ceilings for recurrent and capital expenditure through the medium-term budget policy statement (MTBPS) process. It issues an indication of the objectives that 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 each department 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 PFMA 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.

***(ii) Timely budget approval by the Legislature within the last three years***

The Provincial Legislature approved the annual budget before the beginning of the year to which it relates in each of the past three years (see Table 17).

**Table 17: Dates of budget approvals by Provincial Legislature**

| Fiscal year | Appropriation Bill (tabled) | Approved by provincial Legislature |
|---|---|---|
| 2011/12 | 10 March 2011 | 14 April 2011 |
| 2012/13 | 6 March, 2012 | 30 March 2012 |
| 2013/14 | 6 March, 2013 | 28 March 2013 |

*Source: Treasury Department*

| Indicator | Score | Evaluation |
| --- | --- | --- |
| **PI-11 Orderliness and participation in the annual budget process** | **A** | **Scoring method M2** |
| (i) Existence and observance of a fixed budgetary calendar | A | An annual budget calendar had been established in accordance with guidelines provided by both the Provincial Treasury and the National Treasury. This results in 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 for the province budget council and sectoral MTEF teams to deliberate internally and with national departments, and ultimately for the province's executive to approve and issue the specific provincial priorities and ceilings (letter of allocations) to the provincial departments and other administrative units to adjust their annual budget proposals across programmes and sub-programmes accordingly. |
| (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 executive, at administrative unit level, together with general guidance on expenditure priorities. |
| (iii) Timely approval of the budget by the Provincial Legislature | B | The Provincial Legislature has approved the annual budget estimates before the start of the financial year in two of the past three years, with a delay of less than 30 days. |

## 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 cognisant 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 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 the twelve outcomes (Table 3).

Government's strategic and policy priorities are organised into twelve outcome areas. These, in turn, comprise a range of output targets which are reflected in the service delivery agreements signed by Ministers and MECs. 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.

**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 Agency*

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 submissions.

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*

Annual budget ceilings are prepared for administrative, programme and main economic categories, for the next budget year, and for a period of three years on a rolling basis. Presently, 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, all of which marks one major milestone in budget reform. Lacking, however, is the provision of any cost estimates, at least at the level of major administrative units, which could provide clear linkages between multi-year estimates and subsequent setting of annual budget ceilings. These would lead to reconcile any possible differences between the amount and the quality of budget resources actually supplied and in need.

Also lacking in budgetary planning is the ability of the provincial government´s budget to align the performance and structures of relevant critical programmes and activities across strategic sectors**.** Substantial budget information in the system will assist in moving to a sector-wide approach which will enable the combination of budget items to achieve a sector capital project by agencies and service delivery units. An example of weak sector linkages is found in the education budget, in respect of providing new elementary and secondary school facilities as well as basic feeding supplies (i.e. nutrition programme) and sustained improvement of school teaching services (i.e. tertiary education programme).

A sector-wide approach for achieving development results meaningfully, and with it the value-chain specifications for enabling a more efficient delivery of key public goods and services (a production function), are largely missing, as part of the elaboration of fiscal forecasts and annual action plans. As a result, the budget system will ultimately not be able to link the various activities and resources required. Neither will an administrative cluster exist around functions and sub-functions of ministries and other state institutions.

Presently, overall expenditure forecasts for the province are provided on the aggregate, guided by the National Treasury grants, and own revenue from the Provincial Treasury. These are available for one to three years, and are dispersed across departmental, programme and economic categories. Capital expenditure is reflected as a residual item. Multi-year forecasts of revenue, grants and expenditure aggregates, in the form of economic and administrative classifications, are revised twice a year through the MTBPS process at national level.

Budgets are usually viewed as the presentation of financial availability to meet various internal needs, and incremental expenditure required by a department and spending units. They often lack a sector-wide approach. One major challenge is the lack of a harmonised functional structure, vertically and horizontally across public administration, with which to strengthen the executing capacity across national, provincial and municipal bodies to deliver better development outcomes.

Hence, the result is not supported by data across administrative units (i.e. number of sanctioned posts), and the selection of one fiscal policy scenario and policy reform initiatives (i.e. performance management, PPP) with which to determine the spending limits in the budget.

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

Not rated.

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

Medium-term strategy plans exist for most national departments and also applied at provincial level. These comprise the medium-term budget policy statement (MTBPS) and the MTEF. There is no meaningful costing of the national and provincial development plans, however, which could determine the extent of public financing and serve to determine and prioritise a medium- to long-term capital investment plan. Such a costing would also mean an improved projection of the recurrent resources required across sectors and departments.

There is no costing of expenditure activities carried out between and in programmes, since 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 in the budget process. Without these inputs it is 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.

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

A budget plan exists for maintenance of roads in the Department of Police, Roads and Transport as more paved roads are built, financed mainly from conditional grants. An infrastructure construction plan also exists for health and education, similarly funded by conditional grants. Expenditure on capital projects are not well provided for in respect of the operating and maintenance budget, and resources allocated are thus largely inadequate.

| Indicator | Score | Explanation |
|---|---|---|
| **PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting** | **C** | **Scoring method M1** |
| **(**i) Multi-annual fiscal forecasts and functional allocations | B | 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. |
| (ii) Scope and frequency of debt sustainability analyses | NR | |
| (iii) Existence of sector strategies with cost determination | D | A comprehensive province growth and development strategy (PGDS) provides valuable strategic guidance to the province, in terms of linking the national and provincial priorities. It is supplemented by medium-term strategy plans for key sectors of the province which are reviewed yearly. But these are not adequately costed, thus resulting in multi-year expenditure frameworks laid out without sufficient realism on the estimate financing and public resources required to improve the quality of service delivery. |
| (iv) Links between investment budgets and future expenditure estimates | C | Public works and infrastructure plans exist for various departments and a budget is allocated for the provision of operating and maintenance. But the problem mostly lies with the capital projects planned for delivery being loosely tied to the forward O&M budget estimates in the respective spending agencies. |

## 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. It also describes the extent to which expenditure control arrangements are effective without unnecessarily constraining the effectiveness of service delivery.

These indicators cover two critical aspects of PFM systems, among others. These are payroll and procurement controls. Since the budgets of the provincial and sub-provincial governments largely cater for 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 such arrangements are clear, fair and transparent, and that they facilitate efficient expenditure. 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 taxpayers' obligations and liabilities

**Dimensions to be assessed (scoring method M2):**
***(i) Clarity and comprehensiveness of tax liabilities***
***(ii) Access by taxpayers to information on their tax responsibilities and administrative procedures***
***(iii) Existence and functioning of a tax appeals mechanism***

The obligations and liabilities by local taxpayers in the province concentrate mainly in the Department of Police, Roads and Transport (63 per cent of total own revenue), the Department of Health (11 per cent) and the Department of Economic Development and Tourism (9 per cent) (see Table 19). The main financing items assessed and collected through these entities are motor vehicle licences, patient fees and gambling taxes, respectively.

**Table 19: Composition of Free State own revenues**

| Department | 2010/11 | 2011/12 | 2012/13 | 2010/11 | 2011/12 | 2012/13 |
|---|---|---|---|---|---|---|
| | R'000 | | | % of total | | |
| Premier | 3 345 | 6 388 | 4 300 | 0.41 | 0.74 | 0.58 |
| DETEA | 57 934 | 65 348 | 66 233 | 7.16 | 7.55 | 8.89 |
| Treasury | 112 886 | 91 078 | 65 809 | 13.95 | 10.53 | 8.83 |
| Health | 187 952 | 177 714 | 78 023 | 23.22 | 20.54 | 10.47 |
| Education | 14 524 | 15 779 | 17 275 | 1.79 | 1.82 | 2.32 |
| Social Development | 1 523 | 882 | 1 287 | 0.19 | 0.10 | 0.17 |
| COGTA | 2 092 | 2 010 | 1 599 | 0.26 | 0.23 | 0.21 |
| Public Works | 9 764 | 28 076 | 23 370 | 1.21 | 3.24 | 3.14 |
| Police, Roads and Transport | 405 313 | 464 719 | 469 146 | 50.08 | 53.71 | 62.95 |
| Agriculture and Rural Development | 3 095 | 2 695 | 2 376 | 0.38 | 0.31 | 0.32 |
| Sports | 10 469 | 9 720 | 15 559 | 1.29 | 1.12 | 2.09 |
| Human Settlements | 458 | 805 | 244 | 0.06 | 0.09 | 0.03 |
| Total | 809 355 | 865 214 | 745 221 | 100.00 | 100.00 | 100.00 |

*Source: Free State Department of Treasury.*

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

The above entities publish their respective user fees and levies in line with national legislation through provincial gazettes and the website of the entity.

The revenue generated from tax liabilities imposed by the DOPRT are 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 provincial government gazettes. The annual licence fees are assessed on the basis of the vehicle's tare with separate scales for different vehicle types. This is consistent with the practice throughout South Africa.

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

The provincial Department of Health (DOH) generates revenue mainly from patient fees for health services which may include medical aid claims for services rendered and Road Accident Fund claims for treatment of patients injured on public roads. The patient fees are based on the uniform patient fee schedule (UPFS) which is prescribed by and updated annually by the national Department of Health.

These rates are fixed and predetermined. They specifically detail rates applicable for medical procedures and services. Free services rendered by the department are in line with the UPFS and includes primary health care services at all clinics and community health centres.

Tax receipts managed by DETEA comprise casino and horse racing taxes, as well as liquor licences collected in terms of the Free State Gambling and Liquor Act (No. 6 of 2010).

#### *(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 citizens. It is also made available on the departmental website as well as vehicle testing stations and driving licence test sites. The RTMC sends motor vehicle licence renewal notices to vehicle owners in the province.

The DOH fee structure is gazetted and made available on the departmental website and posters at health institutions.

The casino and horse racing tariffs, and liquor licence fees are gazetted and made available on the departmental website, published in the local newspapers and included in a periodic information manual.

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

Ongoing and planned reform activities: N/A

| Indicator | Score | Evaluation |
|---|---|---|
| **PI-13 Transparency of taxpayers' obligations and liabilities** | **B** | **Scoring method M2** |
| (i) Clarity and comprehensiveness of tax liabilities | B | The legislation and procedures for the taxes are comprehensive and clear. In general, the obligations and liabilities managed locally through provincial public entities are published to the general public and any change is informed periodically through provincial government gazettes and the entity's website. In the case of the patient fees the fairness of the system is questioned due to discretionary powers of officials in health institutions. |
| (ii) Access by taxpayers to information about responsibilities and administrative procedures in relation to taxes | B | Taxpayers have access to most information on their local tax liabilities and associated administrative procedures. |
| (iii) Existence and functioning of a tax appeals mechanism. | NR | |

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

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

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

All new vehicles in the province are registered and recorded on the national traffic information system (eNaTIS) at the point of manufacturer or entry. eNaTIS is an online system that supports the relevant legislation in terms of motor vehicle registration and licensing. 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 with national tax legislation. However, eNaTIS is not linked to any other system in the provincial government.

MEDITECH and PADS are the billing systems used by the DOH at the provincial health institutions to generate patient accounts, but they are not linked to any other system in the province. These billing systems accept the national 10-digit ID number of every patient, but cannot verify its authenticity.

The Pastel accounting system and Pervasive SQL database (packaged) is used to manage casino and horse racing tariffs and liquor licence fees. These systems are not linked to other government systems.

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

In terms of the national Road Traffic Act (No. 93 of 1996) penalties may be charged for failure to license 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.

There are no penalties or late charges assessed by DOH in respect of patients failing to pay their fees on a timely basis.

The provincial gambling and liquor authority keeps record of penalties charged to individuals in terms of Free State Gambling and Liquor Act (No. 6 of 2010). The licensee must adhere fully to the provisions for gambling levies. Rule 5.3 of the gambling and liquor regulations determines penalties that are payable within seven days of being informed in writing.

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

The DOPRT's internal audit unit performs quarterly audits/evaluation on revenue/tax generated from motor vehicle licence and registration fees. Therefore there are four audits conducted on revenue/tax collected. Revenues collected were reportedly above the target set for 2012 and subsequent years.

DOH: the internal audit of the Department of Health deals with this matter and audits are done on a quarterly basis.

DETEA: compliance audits of the FSGL Act and other relevant legislation focuses on the
- Number of revenue audits conducted within prescribed timeframes;
- Number of compliance audits conducted within prescribed timeframes; and
- Number of monitoring and evaluation reports on licensee compliance to special licence conditions, in particular B-BBEE, within prescribed timeframes.

**Ongoing and planned reform activities**

N/A

| 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 | Registration systems used by the province for management of the largest own revenues through line departments are standalone databases, but generally defective, non-operational not linked for the purposes of financial intelligence/control and law enforcement. |
| (ii) Effectiveness of sanctions for failure to register and declare taxes. | B | All relevant provincial legislation makes provision for penalties to be charged to infractors of local financial rules, except interest, but effectiveness is generally lacking due to weak administrative and internal control systems |
| (iii) Planning and control of tax audit programmes | D | In general, tax audits take place on a quarterly basis by the respective departments. The Provincial Treasury (fiscal policy) also performs the monitoring of revenue/tax programmes through monthly and quarterly reports, sector bilaterals as well as inspection of revenue offices/sites. The Auditor-General, nonetheless, has found that during the period under review tax audits are not managed and reported on according to a comprehensive and documented audit plan, with clear risk assessment criteria for all major own revenues. As for fraud investigations, departments have adopted fraud prevention plans; however, the investigation of frauds takes place on an ad hoc basis in the most part. In the case of the Department of Health, for example, the Auditor-General specifically, for the FY 2012/13 (Page 84 of the annual report), reported that the department's fraud prevention plan could not be implemented due to a lack of capacity. |

**PI-15 Effectiveness in collection of tax payments**

| **Dimensions to be assessed (Scoring method M1):**<br>***(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)***<br>***(ii) Effectiveness of the transfer of tax payments to the Provincial Treasury by the revenue administration***<br>***(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)***

Arrears relating to motor vehicle licensing and registration fees for the past two financial years equal more than 6.7 per cent of its total revenue in 2011/12 and rose to 9.8 per cent in 2012/13. DOH arrears, in turn, equal three and four times the level of own revenues collected over the past two financial years (Table 20).

There is no report on DETEA arrears for the past two years. Liquor taxes do not attract arrear amounts as when the licence is not renewed, it automatically lapses and becomes invalid. Arrears are applicable in the horse racing and casino levies, and a 10 per cent penalty is charged if the weekly levies are not paid every Wednesday.

**Table 20: DOPRT and DOH arrears (% of own revenues)**

| R'000 | 2011/12 | 2012/13 |
|---|---|---|
| | **DOPRT** | |
| Arrears balance | 31 160 | 48 050 |
| Total own revenue | 464 719 | 469 146 |
| Percentage of total | 6.7% | 10.2% |
| | **DOH** | |
| Arrears balance | 495 136 | 670 039 |
| Total own revenue | 177 714 | 78 023 |
| Percentage of total | 278.6% | 862.0% |

*Source*: *Free State Provincial Treasury.*

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

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

| Indicator | Score | Evaluation |
|---|---|---|
| **PI-15 Effectiveness of tax collection** | **C** | **Scoring method M1** |
| (i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of fiscal year, which was collected during that fiscal year (average of the last two fiscal years) | D | The level of DOPRT and DOH arrears over the past two financial years was significant, averaging respectively 8.5% and 570.3% of their own revenues on an annual basis. |
| (ii) Effectiveness in the transfer of recovered taxes to the Provincial Treasury by the revenue administration | B | Revenue collections are transferred to the PRF on a weekly basis. The PRF is controlled by the Provincial Treasury and the weekly transfers to the PRF are monitored by the Provincial Treasury and forms part of the monthly key control matrix that heads of department have to report on. |
| (iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and transfers to the Provincial Treasury. | NR | The Provincial Treasury is unable 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):**<br>***(i) Degree to which cash-flow forecasts and monitoring are carried out***<br>***(ii) Reliability and time horizon of the information on maximum limits and payment commitments provided to the MDA during the year***<br>***(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 (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 daily.

The cash flow planning and monitoring functions are essentially the responsibility of asset and liability management division at the Provincial Treasury, with major inputs from various domestic 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 the 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 Provincial Treasury in BAS. Usually, the former grant is projected in the forecast so as to flow evenly into the Provincial Treasury 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 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 and the source of domestic funding. Only the national grants apportioned will not change in the annual total. As a general rule, the funds granted monthly to the government budget from the National Treasury must equal the total amount fixed for the year in accordance to a pre/-established agreement between the National Treasury and provincial treasuries.

For the purposes of enhancing the predictability of other domestic funding to the execution of the budget, the Provincial Treasury has established the practice of updating the annual cash flow projections on a regular basis. A cash flow forecast is updated monthly and, as a result, a re-estimation/re-scheduling of future cash flows also takes place every month. The process starts from a weekly review on daily cash flows and the cash position at the beginning of every week. The process involves performing a forecast on cash resources available based on the behaviour of tax and non-tax receipts over the past twelve months and the projected liquidity in the government bank accounts for the remaining of the budget year, on one hand, and on the salary and non-salary obligations of departments and public entities, on the other. The monthly disbursals from domestic revenues to MDAs is executed in accordance with commitments agreed with suppliers and contractors, with emphasis on infrastructure projects.

The Provincial Treasury's management of cash flow requirements is based on information received mainly from the National Treasury. The Provincial Treasury receives the cash balance through automated means from SARB daily. SARS provides figures to the National Treasury for tax revenue collected for each month and quarter. Own revenue receipts are not properly pursued and monitored on a systematic basis. Payments for expenditure are reported to the Provincial Treasury by AGD monthly on standard government fiscal reports which constitute the basis of cash outflow forecasts.

Given the reliance on national revenue, the Provincial Treasury programme 2 fiscal policy unit prepares a cash flow forecast for the fiscal year based on the National Treasury's revenue projections.[16][18] The Provincial Treasury programme 3 public finance unit prepares a supplementary cash flow forecast for own revenues. The budget unit consolidates and monitors the performance of cash inflows through a basic excel sheet that is updated on a monthly and quarterly basis. Given the need for an 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.

Once the annual cash flow profile has been established, the National Treasury releases PES and other conditional grants in monthly tranches to departments for salary payments and the settlement of invoices. Cash flow monitoring, carried out in the Provincial Treasury, has so far not given rise to transparent disciplinary action during the course of a year which would have required an adjustment to budget provisions across executing agencies. 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 illustrate, as a result of procurement and other operating plans in place, how the various expenditure activities and inputs leading to the achievement of an expected output and outcome are arrived at. 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***

Departments are provided with preliminary commitment ceilings six months in advance. These preliminary commitments are not subject to a rigorous review of fiscal policy at national level. Following this, a more reliable figure on the annual expenditure commitments at the level of MDAs is provided two months prior to the commencement of the new financial year. At this point the National Treasury provides the latest forecasts on tax collections to the provincial treasuries. During the year, adjustments in the budget allocations do not take place in any significant manner as the main source of funding is guaranteed for every quarter, particularly those relating to the equitable share grants which are the largest of national transfers.

The recurrent budget relating to salaries and purchases, as well as the capital budget, are front-loaded by the Provincial Treasury at the start of the financial year, with lump sum provisions and fixed assets expenditure/durable goods authorisation on a department by department basis. The release policies for the year are intimated, in writing, to all spending departments, including in the adjustment budget. The budgetary allocations then remain at the discretion of the accounting officer for disbursement to respective spending units. Since budget allocations are front-loaded, the timing of entering into new commitments rests with the departments.

***(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). The Provincial Treasury propitiates revisions in 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 head of department voted are authorised through internal resolutions during the financial year by the respective accounting officers. This is the most commonly accepted practice of adjusting the budget during the financial year, taking place extensively even from the beginning of every year.

[16] Estimates of receipts and provincial 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.

**Table 21: Adjustments in the originally approved budget**

| R'000, unless otherwise noted | Original budget | Adjusted budget | % change |
|---|---|---|---|
| **FY 2010/11** | | | |
| **Total** | **21 395** | **21 503** | **0.5%** |
| Transfer receipts from the National Treasury | 20 747 | 20 825 | 0.4% |
| Equitable share | 15 959 | 16 217 | 1.6% |
| Conditional transfers | 4 788 | 4 608 | -3.8% |
| Provincial own receipts | 648 | 678 | 4.6% |
| **FY 2011/12** | | | |
| **Total** | **23 215** | **23 772** | **2.4%** |
| Transfer receipts from the National Treasury | 22 497 | 23 000 | 2.2% |
| Equitable share | 17 521 | 17 723 | 1.2% |
| Conditional transfers<br>Provincial own receipts | 4 976<br>718 | 5 277<br>772 | 6.0%<br>7.5% |
| **FY 2012/13** | | | |
| **Total** | **24 870** | **25 307** | **1.8%** |
| Transfer receipts from the National Treasury | 24 051 | 24 486 | 1.8% |
| Equitable share | 18 531 | 18 795 | 1.4% |
| Conditional transfers | 5 520 | 5 691 | 3.1% |
| Provincial own receipts | 819 | 821 | 0.2% |

*Source: Estimates of provincial revenue and expenditure reports*

As the data presented in relation to PI-2 above confirms, reallocations of expenditure between votes, virements and authorisations of additional expenditure through re-appropriations and supplementary grants take place frequently. The in-year adjustments pertaining to social spending agencies are significant, especially in the wage and salary compensations budget at the expense of other expenditures.

| Indicator | Score | Evaluation |
|---|---|---|
| **PI-16 Multi-year perspective in fiscal planning, expenditure policy and budgeting** | **C+** | **Scoring method M1** |
| (i) Degree to which cash flow forecasting and monitoring is carried out | B | Cash flow planning and monitoring is essentially the responsibility of the asset and liability management division at the Provincial Treasury, with major inputs from the National Treasury and provincial departments. A cash flow forecast is updated for actual cash flows on a quarterly basis but re-estimation/re-scheduling of future cash flows is done to a limited extent. Hence, any major variation in tax collections during the year does not pose any major change in the cash flow forecasting and the trajectory of funding availed to the Provincial Treasury for the remainder of the year. Thus most of the funding is kept at a high degree of predictability provided the largest share is a fixed amount of national grants pre-established before the start of the new financial year. Monthly forecasts of the Provincial Treasury own revenue are performed by the public finance unit at the Provincial Treasury and updated on monthly. |
| (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 information on annual revenue forecasts and commitment ceilings two months before the start of the new fiscal year. In-year adjustments in budget allocations often vary as the main receipts are earmarked earlier in the year. |
| (iii) Frequency and transparency of the adjustments made to the budgetary allocations available at a level higher than MDA administrations | B | In-year budget adjustments take place only once every year, within the last quarter of the year, and are done in a fairly transparent manner. The arrangement of adjusting the budget is a pre-established process set out in the PFMA, and a relatively well informed adjustment on budget ceilings process to commit expenditure within the limits set by the expenditure provision on each major budget line. Adjustments vary often across departments. |

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

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

This indicator determines the extent to which the provincial government's systems to manage cash, debt and guarantees have the capacity to provide accurate and timely information, thereby enabling resources to be made available as needed. Provincial treasuries are severely restricted by the PFMA from borrowing unless is within the limits as set in terms of the Borrowing Powers of Provincial Governments Act, 1996 (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 a 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*

Not rated

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

The Provincial Treasury maintains bank accounts, i.e. the PRF, through the SARB, and separate bank sub-accounts for donor-funded projects. The Provincial Treasury receives daily information from the SARB, which reports account balances for all the province's bank accounts. These are also reported in separate statements at end of every month. The Provincial Treasury monitors and undertakes daily comparisons of balances for cash management and takes related actions. As a result, small disparities exist between fiscal balances as per the AGSA and BAS pivotal statements, and were not cleared for the past three years.

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

According to the National Treasury, only guarantees for housing loans are issued by the government of the province.

| Indicator | Score | Evaluation |
|---|---|---|
| **PI-17 Recording and management of cash balances, debt and guarantees** | **B+** | **Scoring method M1** |
| i) Quality of the records and reports presented on debt data. | NR | |
| 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 donor-funded sub-accounts. Minor unexplained material differences exist between fiscal balances as per the AGSA and the BAS-based pivotal statements (not reconciled by AGSA at the end of every year). |
| iii) Systems for contracting loans and issuance guarantees | A | Laws and regulations governing the contracting of loans and issuance of guarantees are used for the Provincial Treasury. |

## PI-18 Effectiveness of payroll controls

| |
|---|
| **Dimensions to be assessed (Scoring method M1):**<br>***i) Degree of integration and reconciliation between personnel records and payroll data***<br>***(ii) Timeliness in the introduction of changes to the personnel records and payroll***<br>***(iii) Internal control over changes to personnel records and payrolls data***<br>***(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers*** |

The national Department of Public Service and Administration is the regulator of human resources. It develops human resource management regulations, policies, norms and standards for national and provincial government, and relevant ICT infrastructure with the objective to improve service delivery. In the recent past 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 in national and provincial departments.

Human resource management actions, such as appointments, are linked to delegated responsibilities that apply throughout government. Promotions, as a rule, do not take into consideration technical knowledge and experience. They can only take place when a position becomes 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. Consequently, the financial implication of the payroll is only known once the BAS has been updated with the PERSAL information (which occurs twice a month) and the expenditure has been accounted for.

Other relevant information management systems are currently used by departments but these do not operate optimally to the needs of HR internal controls. For example, the Department of Education owns education management information system (EMIS) which has a feature that allows for recording teachers' attendance days and hours, and linking 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 districts[17], all of which, if applied more broadly, 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 the PERSAL system. Because the PERSAL and BAS are not integrated the key control matrix requires departments to report monthly on the reconciliation of PERSAL and BAS.

(It would be better if the Department of Education's EMIS, for example, was applied to include the attendance records through advanced IT (see other EMIS experiences, i.e., Punjab) and enable improved use of internal controls and integration to PERSAL and payroll systems.)

### *(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 these transactions and suggest that the discrepancy between the staff members' understanding of their personnel records on the one hand, and their official records as captured by PERSAL on the other, is the chief contributing factor to this.

Personnel records are maintained by the HR management unit by means of files or, at best, some form of manual system by means of a spreadsheet. These records, once verified and/or approved, must then be handed over to the PERSAL user. This is often not done timeously. When this hand-over does occur, the PERSAL transaction still has to be captured and approved, and this also takes time.

[17] 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.

The Auditor-General, in his general report for the province for 2010/11 and 2011/12, 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, in its key audit findings.

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

Adequate internal controls exist to ensure that personnel records are captured correctly on PERSAL. This includes verifying the information before it is captured as well as the separation of duties between the capturer and approving authority. A wide range of PERSAL exception reports and management information contribute to the controls.

The process of promotions is not aligned to any performance management structure, or related to a scale that grades 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 increased quite drastically over the past three years. Partial payroll audits have been undertaken by some departments in this time. In one such audit, the Auditor-General reported that there is mention of a "Report on Compliance to Payroll and Supply Chain Management Prescripts", but this could not be provided. Neither could the findings and/or subsequent actions taken be traced.

All departments have a process for monthly payroll certification that are reported through the monthly key control matrix. Attendance of personnel is for the most part subject to improvement, i.e. high teacher absenteeism, and medical practitioners who take leave from work to provide their services as contract personnel at other public institutions.

| 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 | Monthly PERSAL/BAS reconciliations form part of the key control matrix check list. |
| (ii) Timeliness of changes to personnel records and the payroll | C | Changes to personnel records are in many cases not updated timeously on PERSAL. The monthly payroll includes a significant number of retroactive transactions. |
| (iii) Internal control of changes to the staff register and payroll | A | PERSAL has effective internal controls to ensure alignment between personnel records and the system. |
| (iv) Payroll auditing to identify weaknesses and/ or ghost workers | C | Isolated cases of payroll audits/clean-up exercises have been undertaken. |

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

| |
|---|
| ***Dimensions to be assessed (scoring method M2):***<br>***(i) Transparency, comprehensiveness and competition in the legal and regulatory framework***<br>***(ii) Use of competitive procurement methods***<br>***(iii) Public access to complete, reliable and timely procurement information***<br>***(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, and the National 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 developed its procurement policies and procedures. The procurement process is also controlled by overarching threshold values determined by the National Treasury.

The Provincial Treasury delegates the appointment of suppliers to the discretion of departments. The regulatory framework does, however, make 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 relating to the requirements in the legal and regulatory framework is summarised in Table 22.

**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 to PI-19 above describes how the regulatory framework is hierarchically structured and indicates the precedence. Both the National and ate 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 it falls short on implementation. The province does not have an independent procurement complaints body. No no-contract signing period 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 their own policies and procedures to cater for their particular situations.

Departments generally have a centralised approach to procurement and a system of financial delegation generally does not exist. This leads to a lack of transparency in the department that filters down to end-users and ultimately to suppliers. In turn this impacts on 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 interviewed could provide reliable data on the justification for deviating from less competitive procurement methods. There is no established process and/or system to record cases where departments deviated from the procurement policy and process. During 2011/12 the Provincial Treasury started recording only those cases it had become aware of and recorded 55 cases for 2011/12 and 2012/13. The Provincial Treasury keeps these records manually by means of a MS Excel spreadsheet. Information on the monetary value of these contracts could not be provided.

The Auditor-General has reported an upward spiral of irregular expenditure in each of the last three years. This irregularity has also been identified by the Provincial Legislature's public accounts committee and included in the transversal resolutions that departments are required to work on.

### *(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 R500 000 are advertised when the need arises. The provincial government tender bulletin is used as the recognised media of communication. Due to time constraints the team could not establish how civil society views this.

Contracts that have been 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. Suppliers subsequently have to start where they believe the information is available and often get sent from pillar to post to find answers.

### *(iv) Existence of an independent administrative procurement complaints system*

The Provincial Treasury has a supply chain management compliance unit. This unit is responsible for the overall monitoring of compliance regarding procurement. The officials in the unit deal with enquiries from suppliers on an ad hoc and reactive manner. These officials perform this task over and above their prescribed tasks and responsibilities.

These officials do not necessarily have knowledge and experience of the regulatory framework and challenges that the different sectors face. The unit does 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 province 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 applying open competition could not be provided. The Auditor-General has elaborated extensively on procurement procedures that lead to irregular expenditure in each of the last three years under review. |
| (iii) Public access to complete, reliable and timely procurement information | C | Only bidding opportunities and contracts awarded are made public in the province. Given a supplier database in excess of 21 000 suppliers a lot more can be done to make government procurement plans available to the public. |
| (iv) Existence of an adequate administrative procurement complaints system | D | Although the province does not charge fees to handle complaints, these are dealt with by the officials who work with procurement and not an independent body/forum established for that purpose. |

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

| |
|---|
| **Dimensions to be assessed (scoring method M1):**<br>***i) Effectiveness of expenditure commitment controls***<br>***ii) Scope, relevance and understanding of other internal control regulations and procedures***<br>***iii) Degree of compliance with regulations on the processing and registration of transactions*** |

This indicator evaluates the effectiveness of internal control over expenditure commitments for the procurement of goods and services, temporary workers' compensation, capital expenditures, as well as the staff's discretionary benefits. The effectiveness of control systems will be measured based on their adequacy, the existence of a group of controls for each expenditure process, compliance with those controls, and their flexibility in case of emergency[18].

The PFMA requires, among others, that the Provincial Treasury may investigate any system of financial management and internal control applied by a provincial department or a provincial public entity. Furthermore, section 38 of the PFMA requires the accounting officer of a department to ensure that the department has and maintains a system of financial and risk management and internal control. This should include reasonable assurance that all expenditure is necessary, appropriate, paid promptly as well as recorded and reported correctly. The regulations require that the audit committee reports on the effectiveness of internal controls in the annual performance report of the institution.

The province uses the BAS and LOGIS for commitment control in non-salary expenditure. These systems, however, are not fully integrated and internal control procedures for non-salary expenditure are inadequate in a number of respects due to excessive paperwork required for processing of new purchases and contracts and of payment orders.

Procurement plans, for example, are not aligned to work/project plans and used to manage the timely procurement of goods and services. This is a major contributing factor to the breach of internal controls, according to the Auditor-General, because it becomes crisis management to procure goods and/or services in a short space of time in an effort not to affect service delivery. The team generally concurred with the Auditor-General, in that it found that recurring violations and irregularities indicate that the financial management and controls are not working effectively in the province. Most solutions and corrective action do not meet the expectations of the Auditor-General. The reason for this is that most are inflexible at present, and then recur the following year, thus suggesting that a more efficacious remedy and suitable rules may be required.

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

Expenditure commitments are controlled through the systematic verification of the existence of the expenditure item to be made in the provincial budget, and the availability of cash recorded in the BAS. The commitments, however, are not linked through a form of commitment calendar approved for each department and public entity. In spite of such information being required as part of the amplification of the annual cash plans, procurement plans and other corporate and performance plans, it is unavailable through BAS. The payment commitments by the departments and entities are enforced through BAS, since the system does not allow them to make commitments, which can only be made up to the limit of their monthly and quarterly allocations. These controls are applicable to all types of expenditure (including capital expenditure). The commitment is authorised in BAS only for expenditure contemplated in the budget, where the cash availability has been authorised by the Provincial Treasury.

Protracted procurement procedures and lead times often cause managers and officials to deviate from procurement rules and internal controls to ensure minimal impact on service delivery. The situation is further complicated in that very few managers and officials really understand the purpose of procurement plans.

Where procurement plans are actually compiled they are not aligned to work/project plans and approved budget. These plans are never used to actually manage the procurement of goods and services, neither are they used to inform cash flow projections. This causes the cash management situation in the province to be problematic.

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

[18] The effectiveness of these systems is verified through the regular reports of the Provincial Treasury's Accountant-General, as well as controls by the Administrative and Financial units of provincial departments and public entities.

Existing internal treasury rules and procedures are quite comprehensive but too basic for the sizable amount of financial transactions, which 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, make arrangements for safeguarding and accounting for stores, and establishing some basic minimum controls. That said, commitments are made without notifying of district finance branch, and undertaken despite there being no existing budgetary provision. This results in these commitments having to be regularised later by shifting funds, virements (PFMA section 43), special warrants, adjustment to budget, supplementary estimates and even rolling over funds as first commitments in the following year's budget.

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

The Provincial Treasury provides training and established supply chain management forums. It focuses on supply chain management practitioners. But such increased awareness about changes to policies, procedures and best practice do not filter through to other officials involved in the procurement process.

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

Procurement is initiated by a requisition signed by the head of unit (also referred to as the end user). However, there is no requirement for procurement plans to serve as a control and link to the budget through the draw-down schedules. Other controls in the expenditure process include the requirements for VAT Invoices and a tax clearance certificate for each vendor prior to signing a contract. This ensures that the public sector does business only with duly registered and tax compliant businesses. Another control is the simultaneous issuing of a receipt and payment voucher as verification that the required full range of supporting documentation has been presented and checked before payment is made. The utilities' and housing expenditures are controlled by the provincial Department of Public Works. Although this improves the controls over this large portion of expenditure, it has also in the last financial year contributed R40 million to the accruals [see PI-4(i)].

According to the Auditor-General's general report for the province for the financial year 2011/12 irregular expenditure has increased from R1.2 billion in 2010/11 to R3,2 billion in 2011/12. The fact that a portion of these amounts had not been identified by the departments explains the lack of compliance by all the role players in the processing of transactions. This irregular expenditure was identified only in the audit.

Expenditure payment arrears increased considerably (see PI-4) which infers significant commitments are made without the assurance that the invoices to suppliers and contractors will be paid.

| Indicator | Score | Evaluation |
|---|---|---|
| **PI-20 Multi-year perspective in fiscal planning, expenditure policy and budgeting** | **C+** | **Scoring method M1** |
| (i) Effectiveness of controls on expenditure commitments | B | Commitment control is effective and limits expenditure to available cash through an automated BAS procedure. But the procedure is not operating in a way allowing commitments and release of funds to follow through a commitment calendar and to support regular service delivery flow. Procurement plans are linked to expenditure through LOGIS that requires commitment clearance before a commitment can be made, but this is a requirement met for compliance purposes only. The procurement plans are not aligned to the work/project plans, are not used to prepare cash flow projections and least of all used to manage the procurement of goods and services during budget execution. |
| (ii) Scope, relevance and understanding of other internal control regulations and procedures | B | Other internal control rules and procedures include a comprehensive set of controls, which are widely understood at the level of financial managers and internal auditors, and may lead to delays. |
| (iii) Degree of compliance with the regulations for processing and registering transactions. | C | Non-compliance to the rules for processing transactions result in irregular as well as fruitless and wasteful expenditure. The Auditor-General general reports for the province for 2010/11 and 2011/12 make specific mention of this area that requires attention. |

## 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*** |

The Provincial Treasury internal audit unit is decentralised between the different votes. In the Departments of Health and Education there is an independent shared audit committee which is made up of three to five independent members. To promote standard consistency across the votes, province uses the National Treasury's internal audit framework as a minimum guideline for the operations of internal audit. These guidelines adopt the IIA standards. Each IA unit has its own internal audit charter.

The departments' internal audit units are monitored and evaluated by province's risk management and internal audit unit. The provincial internal audit performs an assessment of the key performance indicators bi-annually during March and September each year. A final report occurs at the end of the evaluation process and is distributed to the accounting officer of the relevant department, chief audit executive and chairperson of the audit committee.

Quality assurance exercises with independent bodies performing quality assurance reviews are conducted once every five years. The Provincial Treasury's risk management and internal unit monitor the departments to ensure compliance.

### *(i) Coverage and quality of the internal audit function*

Each vote has its own internal audit unit that reports every quarter directly to the head of office and respective audit committee. Each internal audit unit develops a three-year rolling risk-based audit plan as well as an annual plan based on the risk assessment of that specific department. This plan is approved by the audit committee. Audit plans cover a combination of financial, compliance, payroll, computer systems, forensic and performance audits. Audit committees are responsible for reviewing the effectiveness of internal controls and internal audit, the review of the risk areas and to ensure that audit recommendations are followed up. Performance audits were conducted by AGSA to determine *the* readiness of government to report on its performance at departmental level during the 2012/13 financial year. Internal audits are risk-based and more than 60 per cent internal departmental audit staff time focuses on risk assessments.

The internal audit units are staffed by professionals who are members of the IIA Chapter in South Africa and whose subscriptions are paid for by the different departments. The subscriptions for the staff at the Department of Health are not met by the department. The Provincial Treasury's risk management and internal audit unit issued a KPI performance report for Department of Health on 28 March 2013 where it was noted that eight of the 10 internal audit staff members could not be vouched for as accredited members of IIA. Internal audit staff members across all departments receive ongoing training, but PEFA assessors were informed that for the 2012/13 financial year internal audit staff for the Department of Education did not attend such training. The current staff complement for the departments that were evaluated indicate that the staff have the necessary qualifications and skills to perform internal audit. Specialised skills such as information technology (IT) is still lacking and this function was outsourced to an external consultant company. From the sample selected it was established that Teammate and ACL is utilised by the Provincial Treasury, Department of Public Works, Department of Health and Department of Education. The Department of Cooperative Governance, Traditional Affairs and Human Settlements do not use any software in performing their internal audit functions.

The PEFA assessors reviewed the annual reports for the 2012/13 financial year end and noted the following:
- The audit committee for the Department of Health was not satisfied that the internal audit function was operating effectively.
- The audit committee for the Department of Human Settlements raised concerns that the three-year strategic plan and annual plan was not risk-based due to the non-completion of the risk assessment process by the risk management sub directorate.

The AGSA raised concerns about "internal control deficiencies" at the 2011/12 combined financial statements for the following departments:
- Department of Public Works;

- Department of Health;
- Department of Economic Development and Tourism;
- Department of Human Settlements; and
- Department of Police, Roads and Transport.

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

The internal audit unit presents quarterly reports to the shared audit committee of the respective department. The reports are also made available to the office of the Auditor-General during their audits of the annual financial statements. For each audit report finalised, the report is distributed to the head of department, chief directorate of the relevant section and the CFO where applicable. The Provincial Treasury's risk management and internal audit unit will review these reports issued during the department's bi-annual KPI evaluations.

### *(iii) Extent of management response to internal audit function*

Each internal audit unit has a system in place in terms of which management is required to provide a response within 30 days. Management's response includes the corrective action that will be taken, the person responsible and the timeframe to address the findings. The internal audit unit performs follow-up audits generally within six months. These findings usually remain open and are included in the annual plan until they are resolved. Additionally, the internal audit unit provides a performance report to the audit committee, which is measured against their annual audit plan. This is then reported by the audit committee in the annual report.

The 2012/13 internal audit plans for COGTA and Department of Public Works had to be revised due to challenges experienced in staff capacity in the internal audit unit.

| Indicator | Score | Evaluation |
|---|---|---|
| **PI-21 Effectiveness of internal audit** | **B+** | **Scoring method M1** |
| (i) Scope and quality of internal audit function | A | The internal audit units are decentralised in the province and each internal unit reports on a quarterly basis to their independent audit committee. Officials in the internal audit division meet the IIA professional standards. The approved annual audit plans are the result of risk assessments for specific departments. |
| (ii) Frequency and distribution of reports | A | Internal audits are carried out according to the annual plans and final reports are issued to the respective HOD, chief directorate, the AGSA and the respective audit committee. |
| (iii) Management response to internal audit findings | | Management has a timeframe to response to internal audit findings. These are reported quarterly to the audit committee. It has been noted that with the implementation of the KCMs and the overall monitoring and evaluation of the department by the Provincial Treasury's risk management and internal audit unit there is a drive to further improve the action taken by management by holding them accountable. |

## 3.5 Accounting, recording and reporting

This group of indicators describes the extent to which managers at all levels have sufficient, appropriate and timely information on the use of resources in practice to enable them to take appropriate management decisions when budget execution is not progressing according to plan; and the extent to which appropriate and timely accounting information is made available for external scrutiny to ensure sufficient transparency for the government to be held to account for its use of public resources. The group refers to timeliness/regularity of account reconciliation, extent of information on resources received by service delivery units, quality and timeliness of in-year budget reports and annual financial statements. Inaccurate or incomplete reporting can weaken management decisions, with real impacts on the quality, relevance and orientation of service delivery. It can also constitute a major additional fiduciary risk to the extent that it is not possible to see how funds have been expended in practice and/or to the extent that it effectively constrains the Provincial Legislature and the public's ability to hold the government to account for its use of public resources.

### 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***

Minimal unexplained differences in bank reconciliations emerge after the close of every financial year. The Provincial Treasury monitors, and follows up outstanding bank reconciliations so that cash is managed according to the payment schedule from the National Treasury.

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

The province's key control matrix requires departments to report on the clearance of suspense accounts and advances monthly. In spite of the requirement, with social departments alone, the total amount of claims recoverable more than tripled, and uncleared balances on pre-payments and various advances increased more than 10 times over the past three years (Tables 22 and 23). Although the key control matrix of each department is scored and feedback provided, such a drastic increase points to the fact that the reconciliation and clearance of these accounts are not adequately performed and monitored by departments and/or the Provincial Treasury.

**Table 23: Stock of suspense accounts in social sectors**

| Category/ministry<br>R million | 2010/11 | 2011/12 | 2012/13 |
|---|---|---|---|
| **Claims recoverable < 1 year** | **378** | **10 803** | **19 553** |
| Health | - | 9 | 12 024 |
| Education | 163 | 9 678 | 6 917 |
| Social Development | 215 | 1 116 | 612 |
| **Claims recoverable 1 to 3 years** | **5 138** | **79** | **231** |
| Health | 4 511 | - | - |
| Education | 198 | 38 | 225 |
| Social Development | 429 | 41 | 6 |
| **Claims recoverable > 3 years** | **3 273** | **6 697** | **6 874** |
| Health | - | 4 511 | 4 788 |
| Education | 2 061 | 2 162 | 2 074 |
| Social Development | 1 212 | 24 | 12 |
| **Total** | **8 789** | **17 579** | **26 658** |

*Source: Annual performance reports.*

**Table 24: Pre-payments and advances balances in social sectors**

| | 2010/11 R million | 2011/12 R million | 2012/13 R million |
|---|---|---|---|
| **Total** | **433** | **3 775** | **5 030** |
| Health | 114 | 275 | 15 |
| Education | 232 | 3 427 | 4 856 |
| Social Development | 87 | 73 | 159 |

*Source: Annual performance reports.*

| Indicator | Score | Evaluation |
|---|---|---|
| **PI-22 Timeliness and regularity of accounts reconciliation** | **B+** | **Scoring method M2** |
| (i) Frequency of reconciliation of bank accounts | A | Bank reconciliation for all provincial consolidated fund managed bank accounts take place on a monthly basis, usually within 4 weeks from end of month. Only minimal differences appear. These include donor-related operations which are also captured in the provincial consolidated fund. |
| (ii) Frequency of reconciliation and clearance of suspense accounts and advances | B | Reconciliation and clearance of suspense accounts and advances take place on a monthly and quarterly basis, but some accounts have uncleared balances brought forward over the past three years. |

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

| |
|---|
| **Dimensions to be assessed (scoring method M1):**<br>***(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*** |

Information regarding resource allocations to service delivery units (e.g. schools, clinics and district offices) is available in BAS. Any unit in the hierarchical structure of a service delivery unit has access to the information through a variety of BAS reports. The unit closest to a service delivery unit that can provide these reports are district offices, which is the next highest level in the organisational structure.

The information, however, is not used by management and departmental budget offices to inform decisions about resource allocation to these service delivery units. An analysis of the budget allocations and expenditures of the Departments of Health, Education and Social Development for the past three financial years revealed that the budget allocation for compensation of employees increased on average by 2.3 per cent while the budget allocation for goods and services decreased by 3.16 per cent. Furthermore, an average of 36.78 per cent of the allocation for G&S is spent under the programme, administration.

Budget resources earmarked for service delivery units are not regularly itemised by unit/district and reported as such on the province's website. They appear only on a consolidated basis and are published with departmental annual performance reports. They neither provide information on budget resources nor on the performance of individual units/districts. All the stakeholders interviewed indicated that they were not aware of any high-level reports/research/surveys on the relationship between resource allocations, outputs and outcomes of service delivery units in the recent past.

In the case of the 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.

The financial and non-financial performance of service delivery units do not influence future resource allocations since it is made according to predetermined norms and standards such as learner numbers and bed occupancy rate.

| Indicator | Score | Explanation |
|---|---|---|
| **PI-23 Availability of information on resources received by service delivery units** | **D** | **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. | D | Departments have, through BAS, information available on resources allocated to service delivery units. The information, however, is not reported to the general public and to the service delivery units themselves. Likewise, it is not analysed, interpreted and used for measuring and explaining the extent of performance, both financial and non-financial. Neither is the information used to inform decisions on future resource allocations to the service delivery units. |

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

| |
|---|
| **Dimensions to be assessed (scoring method M1):**<br>***(i) Scope of the reports in terms of coverage and compatibility with budget estimates***<br>***(ii) Timeliness of report presentation***<br>***(iii) Quality of information*** |

In terms of section 40(4), the Provincial Treasury records financial transactions through BAS and reports monthly on the consolidated revenue and expenditure in the prescribed format, in-year management and reporting model. The prescribed format is determined by the National Treasury detailing the revenue and expenditure per line items. In terms of this format the model reflects the following:

- Actual revenue and expenditure for that month against the budget;
- Projections of anticipated expenditure and revenue for the remainder of the current financial year;
- Information on conditional grants received and actual spending against them;
- Information on all transfers;
- Material variances and a summary of actions to ensure that the projected expenditure and revenue remain in the budget; and
- Cash flow projections for the period

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

Currently, the Provincial Treasury is required to report on a modified cash basis. At the beginning of the financial year, the accounting officers of departments provide it with the anticipated revenue and expenditure of their department for the year. The in-year budget reports show a comparison with the main budget on the vote and economic classification for both the current and accumulated to date period. Expenditure of all line items on the report is included at payment level. The specified format requires the departments to indicate and explain variances between the actual result for the period and for that budgeted, and a revised projection of expenditure to the end of the financial year. Reporting for public entities and municipalities are not included in these monthly reports.

Commitments are not shown in the IYM report. However, the PEFA assessors have been informed that the commitment figures per department are included in the projections, a figure which is supported by a separate excel spreadsheet (paragraph 5.5 of instruction note number 1*)* signed off by the accounting officer of each department.

The IYM monthly report does not show itemised capital expenditure funded by both domestic and foreign sources, irrespective of the significance of the funding.

### *(ii) Timeliness of the issue of reports*

Section 40(4)(c) of the PFMA requires each department to submit to the relevant treasury and executive authority responsible for that department, within 15 days of the end of each month:

- 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 in the budget. We have reviewed the monthly email submissions of the IYM reports received by the departments to the province as well as province's submission to the National Treasury and noted that there have been no delays in the submissions of the reports. However, the National Treasury has raised concerns that there are delays from departments in forwarding signed hard copies to their offices.

### *(iii) Quality of information*

In general, there are no major concerns regarding the accuracy and quality of information presented on the IYM reports. The provisional Treasury reviews and analyses the information submitted by the departments to the BAS reports, and a further comparison is made to the Vulindlela system. Where necessary, the Provincial Treasury will request adjustments to be made by the departments in terms of classification or input error. The individual audit committees of the different departments have provided assurance on the annual report on the quality of the monthly IYM submitted. However, concerns were raised for FY 2012/13 in some departments. For example, in the Department of Health's annual report the Auditor-General raised concerns on the correct classification for payments of goods and services, and noted that expenditure transactions were incorrectly recorded in the financial system.

| Indicator | Score | Explanation |
|---|---|---|
| **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 | B | The IYM reports are standard excel formats which has been implemented by the National Treasury. IYM reports form part of the monthly KCMs in which CFOs are required to sign off confirming compliance to the PFMA requirements. Information on the IYM model is reflected on the payment stage only. |
| (ii) Timeliness in the presentation of reports | A | IYM reports are prepared monthly by the departments and submitted electronically to the Provincial Treasury by the 15th of each month. The Provincial Treasury consolidates the IYM reports and submits these reports electronically by the 22nd of each month to the National Treasury. The National Treasury publishes these reports on a quarterly basis on its website. |
| (iii) Quality of the information | B | There are some concerns regarding the accuracy of information related to the consolidated figures presented. The Auditor-General raised concerns regarding the classification for payment of goods and services at the Department of Health. |

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

| **Dimensions to be assessed (scoring method M1):**<br>***(i) Comprehensiveness of financial statements***<br>***(ii) Timeliness in the presentation of financial statements***<br>***(iii) Accounting standards used*** |
|---|

In terms of section 19 of the PFMA, a provincial treasury must

(a) Prepare consolidated financial statements, in accordance with generally recognised accounting practice, for each financial year in respect of
   (i) provincial departments in the province;
   (ii) public entities under the ownership control of the provincial executive of the province; and
   (iii) the Provincial Legislature in the province; and

(b) Submit those statements to the office of Auditor-General within three months after the end of that financial year.

The Provincial Treasury prepares two sets of combined financial statements for the 31 March financial year end. The combined financial statements for the provincial departments, the Provincial Legislature as well as the PRF are prepared on a modified cash basis. The combined financials for the public and trading entities are prepared on an accrual basis. The combined financial statements have been prepared in accordance with the guidelines as set out in the departmental financial reporting framework guideline.

The process of preparing the combined annual financial statement commences with the combination of the financial statements on a line by line basis by adding like items of assets, liabilities, net assets, revenue and expenses together. Revenue and expenditure between the departments and the revenue fund is eliminated in full.

### *(i) Completeness of the financial statements*

Each department prepares its own set of annual financial statements which is then submitted to the Auditor-General for auditing.

The audited financials are then combined by the Provincial Treasury. The combined financial statement details an overview and consolidation process applied in the preparation of the financials. Comparative figures are shown in the financials.

The complete set of combined financial statements comprises:

- Accounting officer's review;
- Report of the Auditor-General;
- Departmental combined financial statements
- Review of operating results;
- Accounting policies;
- Combined statement of financial performance;
- Combined statement of financial position
- Combined statement of changes in net assets;
- Combined cash flow statements; and
- Annexure to the combined financial statements, i.e. notes, comprising a summary of significant accounting policies and other explanatory notes.

### (iii) Timeliness of submissions of the financial statements

Each department and public entity prepares its own financial statements that are completed within two months of the close of the financial year-end and are submitted to the Auditor-General for audit. The audits of these departments are completed within a month and these audited financial statements are submitted to the provincial office of the Accountant-General for consolidation. The combined financial statements are then submitted to the office of the Auditor-General for audit.

The 2010/11 and 2011/12 general report of the Auditor-General indicates that the statutory period for submissions of the annual financial statements by the departments in terms of the legislative framework have been complied with. The draft combined financials for the 2012/13 financial year end were submitted to the Auditor-General on 28 June 2013.

**(iv) Accounting standards used**

The PFMA requires departments to prepare financial statements for each financial year in accordance with generally recognised accounting practice (GRAP).

The combined financial statements (CFS) are prepared in terms of the departmental financial framework as prescribed by the National Treasury. Comparative figures are shown and where necessary a summary of significant accounting policies and other explanatory information is also presented.

| Indicator | Score | Explanation |
|---|---|---|
| **PI-25 Quality and timeliness of annual financial statements** | **A** | **Scoring method M1** |
| (i) Completeness of financial statements | A | The Accountant-General at the Provincial Treasury prepares combined financial statements annually which includes comparative figures and full information on revenue, expenditure and financial assets/ liabilities. |
| (ii) Timeliness in the presentation of financial statements | A | In terms of the Auditor-General's report for the 2010/11 and 2011/12 financial years, the annual financial statements have been submitted for external audit in the prescribed legislative framework. |
| (iii) Accounting standards used | A | The combined financial statements are prepared in terms of the national accounting rules set forth in departmental financial frameworks compatible with international standards. |

## 3.6 External scrutiny and audit

This group of indicators describes the effectiveness and independence of external scrutiny of the government's performance with respect to the use of public resources. This component of the PFM system performs the crucial function of holding the executive to account for its use of public resources. Even if the rest of the PFM system is robust, weakness in this component of the system undermines all other components. Audit reports would be expected to describe any major problems in the accounts or in the underlying systems and to present recommendations that the executive (and in some cases the courts) would be expected to act on.

The process of reviewing the budget appropriation bill and the quarterly and annual public accounts in the Provincial Legislature resides in the roles and responsibilities of one single unit, namely, the portfolio committee on public accounts and finance.

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

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

Annual audits of public sector institutions, including those in the province, are carried out solely by the office of Auditor-General, the supreme audit institution in South Africa, and cover a comprehensive scope of financial transactions and public accounts including revenues, expenditures and various receivables and payables.

The 2008 PEFA reported on the Auditor-General's powers and independence. The office of the Auditor-General derives its independence, powers and mandate from the Constitution (section 188) and the Public Audit Act. Furthermore, the Auditor-General must audit and report on the accounts, financial statements of national and provincial departments, municipalities and any other public institutions as well as institutions receiving funds from the General Revenue Fund and must submit audit reports to the Provincial Legislature.

***(i) Scope/nature of audit performed (including adherence to auditing standards)***

The Auditor-General prepares a management and an audit report for each department. It prepares a consolidated report for the province (the general report of the provincial audit outcomes) which provides a graphic overview of the main findings from the audit of:

- Financial statements;
- Reporting on pre-determined objectives; and
- Compliance with laws and regulations.

***(ii) Timeliness of submission of audit reports to Provincial Legislature***

According to section 19(2) of the PFMA the Auditor-General must audit the consolidated financial statements and submit an audit report on the statements to the Provincial Treasury of the province concerned within three months of receipt of statements.

Section 19(3) of the PFMA says that 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 in the Legislature.

According to section 19(5) of the PFMA the MEC for Finance must submit the consolidated financial statements to the Legislature within seven months after the end of the financial year.

The Auditor-General's general report for the 2011/12 financial year on the status of the audit of consolidated financial statements for the province indicates that AGSA did not meet the legislative deadline, 30 September 2012, for the completion of the consolidated audits.

For the 2011/12 and 2012/13 financial year, the combined financial statements were submitted by the MEC to the Provincial Legislature on 29 October 2012 and 31 October 2012 respectively, i.e. seven months after the financial year-end which, is within the prescribed legislative framework of PFMA.

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

The Auditor-General has issued a clean audit initiative for the province. Discussions with the AGSA and the office of the provincial Accountant-General showed that there are systems in place as a result of which Treasury has evidence of follow-ups regarding audit findings for both Treasury and departments. The AGSA did raise concerns, however, regarding the follow-ups at municipality levels. Visits to municipalities are performed quarterly but the Auditor-General is not yet satisfied with progress made and follow-up of municipal findings.

As noted earlier, the Auditor-General raised concerns regarding the Department of Health. However, it says that Treasury has now implemented steps to monitor and evaluate the progress of findings in the department, which has implemented a turnaround strategy.

| Indicator | Score | Explanation |
|---|---|---|
| **PI-26 Scope, nature and follow-up of external audits** | **B+** | **Scoring method M1** |
| (i) Scope/nature of the audit carried out (including adherence to audit standards) | A | The public sector financials are audited in terms of the PFMA and the International Standards of Auditing. AGSA will express an opinion on the state of the audit. Over and above the regulatory audit performed on the annual financial statements, system audits and performance audits have been performed by AGSA. |
| (ii) Timeliness in the presentation of auditing reports to the Provincial Legislature | B | The combined financials for FY 2012/13 and 2011/12 were submitted to the Provincial Legislature in October, i.e. seven months after financial year end. |
| (iii) Evidence of follow up of audit recommendations | B | The Provincial Treasury has made progress over the years regarding follow-up on audit recommendations by maintaining an excel spreadsheet regarding the audit findings and monitoring these. The AGSA, in the 2011/12 annual report, has also seen an improvement; however, this has not yet impacted on the effectiveness of the function in all the departments with repeat findings noted. |

## PI-27 Legislative scrutiny of the annual budget law

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|---|
| **Dimensions to be assessed (scoring method M1):**<br>***(i) Timeliness in examination of the audit reports by the Legislature (reports received within the past three years)***<br>***(ii) Scope of the hearings carried out by the Provincial Legislature into the main findings***<br>***(iii) Issuance of recommendations by the Provincial Legislature and their implementation by the executive*** |

### (i) Scope of the Legislature's scrutiny

The 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 2013/14 a thorough presentation took place in the portfolio committee on public accounts[19] whose focus was on enabling the achievement of mainly six out of 12 outcomes for the province, according to the priorities agreed with national government. These refer to outcome 4 (decent employment through inclusive economic growth), outcome 5 (skilled and capable workforce to support an inclusive growth path), outcome 6 (an efficient, competitive and responsive economic infrastructure network), outcome 9 (responsive, accountable, effective and efficient local government system), outcome 11 (create a better South Africa, a better Africa and a better world), and outcome 12 (an efficient, effective and development oriented public service and an empowered, fair and inclusive citizenship).

The portfolio committee relied on the following sources as references for its budget oversight function:

- 2013 State of the Nation Address;
- 2013 State of the Province Address;
- 2013 budget speech of Minister of Finance (including the estimates of the provincial revenue and expenditure);
- 2013 budget speech of the MEC for Finance;
- 2013 budget speeches of Vote1 (office of the Premier), Vote 2 (Free State Legislature) and Vote 4 (the Provincial Treasury);
- Free State Growth and Development Plan (2012 Revision);
- Financial and Fiscal Commission recommendations (2013/14);
- Division of Revenue Act (2013);
- Auditor-General's reports as tabled and referred;
- Annual reports (2012/13) of Vote1 (office of the Premier), Vote 2 (Free State Legislature) and
- Vote 4 (the Provincial Treasury) tabled in the House during September 2013;
- 2013/14 annual performance plans (Vote 1, 2 and 4) as tabled in the House on 14 March 2013;
- Previous committee resolutions not yet implemented;
- House resolutions not yet implemented after tabling and adoption; and
- Oversight visit report.

### *(ii) Extent to which the Provincial Legislature's procedures are well established 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 (seventh edition, revised in 2013), and mainly chapter 10 on Bills, section 2 on Money Bills (rules 164-177). However, these arrangements do not give the Provincial Legislature any real possibility of influencing the shape of the provincial government's proposals; this is also 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.

[19] Minutes of the portfolio committee on public accounts, finance, office of the Premier, and the Provincial Legislature, 16 October 2013.

In essence these procedures are common to all provincial legislatures after successful consultations and a voluntary agreement made between Parliament and the provincial legislatures' Speakers in the form of a Speakers' forum. The main purpose, supported by the South African Legislature Secretaries Association (SALSA), was to improve and enhance the legislative sector's performance on public finance oversight. It further served to ensure a coordinated approach to the sector's application of oversight practice in each legislature. Working on this mandate, SALSA commissioned a project to develop an oversight model for the South African legislative sector. To this end, a project team of officials in the legislative sector was established to develop a sector oversight model[20].

***(iii) Adequacy of time for the Provincial Legislature to provide a response to budget proposals for both detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)***

The time to review and debate this in the provincial legislative portfolio committee to enable representatives to provide a response to budget proposals is restricted to some 10 to 14 days from start of deliberations.

***(iv) Rules for in-year amendments to the budget without ex-ante approval by 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 Provincial Legislature approval. In-year budget amendments are clear to all budget institutions.

| Indicator | Score | Explanation |
|---|---|---|
| **PI-27 Availability of information on resources received by service delivery units** | **D+** | **Scoring method M1** |
| i) Scope of examination by the Provincial Legislature | A | The scope of the Provincial Legislature's budget scrutiny includes discussion of the medium-term macroeconomic outlook and fiscal framework, the medium-term overlook, the detailed revenue and expenditure estimates, strategic sector plans and annual performance plans, among others. |
| 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 and well understood and respected by members of the portfolio committee on public accounts and finance (the PAFOL committee). |
| 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 Legislature. | D | Same simple rules are replicated as above for the adjustment budget by the executive, and are usually respected, but they allow for extensive departmental reallocations albeit not much expansion of expenditure on the aggregate. The limited time slotted for House plenary to table, review and approve the Adjustment Appropriation Bill is usually a concern, according to PAFOL committee. |

[20] "Oversight Model of the South African Legislative Sector", Speakers Forum of South Africa/SALSA, September 2011.

**PI-28 Legislative scrutiny of external audit reports**

| **Dimensions to be assessed (scoring method M1):**<br>***(i) Timeliness in examination of the audit reports by the Provincial Legislature (reports received within the past three years).***<br>***(ii) Scope of the hearings carried out by the Provincial Legislature into the main findings***<br>***(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) requires that the Auditor-General first audits the consolidated financial statements (CFS) and submits a certified audit report on them to the Provincial Treasury 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 it from the AGSA, to the Provincial Legislature for tabling in the Legislature.

Additionally, in accordance with the PFMA (section 65), and the Provincial Legislature standing rule and orders, provincial departments must table an annual report and financial statements in the Legislature before the consideration of the budget of such department for the next financial year. The MEC 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 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 Provincial Legislature, and the responsible MEC must answer questions from Members of the Provincial Legislature (MPLs) who wish to obtain clarity of the report. The annual report is thereafter referred for consideration to the portfolio committee to whom the budget vote of that department will be referred for consideration with the budget of the department, and report to the Legislature as well as the portfolio committee on public accounts, finance, office of the Premier and Legislature (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 Provincial Legislature within such time frames as may be determined by the Speaker. The portfolio committee‘s report must be debated in the Provincial Legislature. Finally, the portfolio committee on 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 Provincial Legislature within such time frames as may be determined by the Speaker or the House.

As far as other provincial organs of state are concerned, standing rule No. 132 establishes that these must table an annual report and financial statements in the Provincial Legislature within the prescribed time frames as provided for in the PFMA. The annual report and financial statements must comply with such provisions the Act that may be relevant and/or required. Thereafter the report is referred to the relevant portfolio committee for consideration and report to the Provincial Legislature, where the portfolio committee‘s report must be debated (refer to sections 114 and 133 of the Constitution).

PAFOL shall consider the report of the Auditor-General on the financial statements contained in an annual report tabled in terms of standing rule No. 132, including the report of the audit committee, and shall table a report with recommendations to the House within such time frames as may be determined by the Speaker or the House.

***(i) Timeliness of examination of audit reports by the Provincial Legislature (for reports received within the last three years)***

The portfolio committee's scope of work is usually established through an annual work programme. For FY 2013/14 the following programme was established:

- The committee shall meet on a quarterly basis to monitor the implementation of resolutions of the Provincial Legislature and to receive feedback from Provincial Treasury.
- Ordinary meetings of the committee are scheduled according to the referral of reports of the Auditor-General, tabled in the Provincial Legislature.
- Greater coordination and participation between the office of the Auditor-General and the committee

regarding the dates of tabling of reports will ensure that the schedule of sittings of the committee is determined timeously.

The work programme will also be affected and determined by the following:
- Resolutions of the committee, adopted by the Provincial Legislature, will require implementation before a particular date concerned;
- In terms of Rule 126(3) of the rules, the Premier must furnish a report on the actions taken by the executive authority in response to resolutions of the Legislature affecting the executive authority within 30 days of communication thereof.

Within the work programmes of the committee, various PAFOL reports were tabled during the reference period concerning the audit reports submitted by the Auditor-General. The scrutiny of various annual audit reports and audited departmental performance reports is usually completed by the PAFOL within three months from receipt of reports.

***(ii) Extent of hearings on key findings undertaken by the Provincial Legislature***

The PAFOL does carry out in depth hearings for some of the departments that received significant audit findings, though audit paragraphs relating to less serious observations are routinely referred to the departmental audit committees by PAFOL.

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

These recommendations are mainly informed by the Auditor-General and Provincial Treasury's briefing to the PAFOL prior to its interaction with individual departments. PAFOL can increase the quality of its recommendations and the subsequent impact by establishing a PFM and research capability. This capability should serve PAFOL with expert advice in all the different areas of PFM.

| Indicator | Score | Explanation |
|---|---|---|
| **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 within the past three years). | A | Scrutiny of audit reports is completed by the PAFOL committee within three months from receipt of reports. Audited financial statements are usually considered in November just before the December recess, according to evidence gathered. |
| (ii) Scope of the hearings held by the Provincial Legislature into the main conclusions | B | According to evidence gathered, in depth hearings on key findings usually take place with accounting officers for some departments that received significant and recurring audit findings. As noted previously, these are supported by quarterly monitoring undertaken together with PAFOL, the Provincial Treasury and relevant departments and internal auditors, as part of portfolio committee meetings. |
| (iii) Measures recommended by the Provincial Legislature and implementation of these by the Executive | C | Recommendations were issued by PAFOL in response to reports by the Auditor-General during the reference period, some of which were actually rapidly implemented by the audited departments. Usually, however, some of the issues recur in the following yearly audit reports thus suggesting recommended actions not addressed and solved accordingly overall. This recurrent situation is predominant particularly in the Department of Education, according to the Auditor-General. |

## 3.7 Donor practices

External donor activity is practically inexistent in the province, only domestic donors provide some monetary and in-kind support to certain activities and events (PI-7). The three indicators do not apply.

# 4. Government reform process

## 4.1 Description of provincial government reforms

The PFM reform programme in the province comprises:

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

## 4.2 Free State-specific reforms

The public financial management (PFM) reforms of the province mainly consist of those formulated, inducted and overseen by the National Treasury. Broadly speaking, the South African the 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 medium-term expenditure framework (MTEF) guidelines.** The National Treasury continuously refines the MTEF guidelines. Although these are guidelines for the MTEF, it is issued annually for the new MTEF. The province uses these MTEF guidelines to align its own priorities before budget inputs are called for from departments.
- **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 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.
- **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 province's growth and development strategy. It provides an overview of the provincial budget, 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; 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 allows 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, focuses 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 Provincial Treasury has commenced preparatory work to organise itself in accordance with 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 upon PFM in Free State 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 (1) improve procurement and human resource management processes, internal controls, and systems; (2) better integrate cash planning to procurement and performance plans, and cash and debt management to a commitments calendar and contractor management and deliverables (3) adoption of a comprehensive commitments controls framework so as to enable line departments' and service delivery units' non-salary expenditures to better align within the available budget resources allocated for the remainder of the year; (4) consolidate and strengthen the country's public procurement system; and (5) overall capacity building among provincial treasuries and training programmes targeting at 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 Free State province. These comprise the following:

- **Induction of finance members of provincial Executive Council, accounting officers and heads of provincial treasuries.** The National Treasury has introduced a comprehensive induction dossier for Finance MECs of provincial Executive Councils, 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 (MFMTAP).** The municipal 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.** 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 the 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 why the government was able to meet most of the information commitments spelled out in the Constitution and the PFMA.

## 4.5 Province tax administration reform

The province adopted a revenue enhancement strategy in September 2011 to optimise revenue collection whilst improving the different areas of revenue management throughout the province. Since the provincial equitable share is formula driven, the province had to find a way of increasing its own resource base. The strategy mainly provides an incentive to departments that are able to increase its sources of revenue and optimise revenue collection that can result in either an increased budget allocations and/or the treasury funding of programmes identified as provincial priorities.

In the first year of implementation of the strategy tax receipts for the province as a whole increased by approximately R23 million from 2011/12 to 2012/13. The estimates for the new MTEF show a steady increase of approximately 4 per cent per year from 2013/14.

## Annexure 1: List of officials consulted

| Stakeholder | Name and Title |
|---|---|
| Department of Treasury | |
| Budget management | Mr Pakiso Lebone, Senior Manager; 051 405 4377; 082 803 4075; lebonep@treasury.fs.gov.za |
| | Ms Antoinette Diedericks, Manager; 051 405 4855, antoinet@treasury.fs.gov.za |
| | Mr Tshidiso Medupe (Systems Manager: LOGIS); 051 4055946 |
| Interlinked IT Systems - PERSAL and BAS | Mr Kobus Kotze Senior Manager; 051 409 8639; 082 775 4717; kobus@treasury.fs.gov.za |
| | Ms Cathy Viljoen, Systems Manager ; 051 405 5254; 082 773 6759; cathyv@treasury.fs.gov.za |
| Economic Analysis division | Mr Sello More, Senior Manager(Economic Analyst); 082 463 2246; mores@treasury.fs.gov.za |
| | Mr Seore Mosala, Manager; 082 784 6173; mosala@treasury.fs.gov.za |
| | MC Motsemme; Procurement Specialist; motsemme@treasury.fs.gov.za; 051 403 3283 |
| Supply Change management division | L Riddles, Procurement Specialist Manager; riddles@treasury.fs.gov.za; 051 405 5521 |
| | P Sidinile, Procurement Practioner; pamela@treasury.fs.gov.za; 0514055972 |
| | M Tshilo, Procurement Specialist; tshilo.mpho@treasury.fs.gov.za; 051 4054781 |
| | Steven Mngoma; 051 4033846; mngoma.steven@treasury.fs.gov.za |
| | Lefoma Lebone, 051 4055456; lebone@treasury.fs.gov.za |
| | Portia Mokhomo; 051 4033804; mokhomo@treasury.fs.gov.za |
| | Matshidiso Pholana; 0514054689; mpholoana@treasury.fs.gov.za |
| Fiscal Policy division | Marmorena Deeuw, 0514054179; deeuw.rosy@treasury.fs.gov.za |
| | Majabeng Rantekane; 051 4033550; rantekane.mojabenoj@treasury.fs.gov.za |
| Internal audit (Programme 1) | Mr Segalo Michael; Senior Manager; 051 4055975; segalo@treasury.fs.gov.za |
| | Molekantsho Kanono; Manager; 051 4054859; kanono@treasury.fs.gov.za |
| | Morakane "Puleng" Mototo ; Manager; 051 4054949; molelekoamo@fs.treasury.gov.za |
| | Mr Thami Mabija. CFO Prov Treasury |
| Forum for the Head of Directors (FOHOD); office of the Director General | Ms Hannetjie Lennox (Senior Manager:Public Finance); 051 405 4747; 082 921 0400; lennoxh@treasury.fs.gov.za |
| | Mr Chris Adams, the National Treasury |
| | Mr Ithumeleng Moses, Senior Manager |
| | Ms Elzabe Rockman, MEC Mr Chris Adams, the National Treasury |
| MEC for Finance | Mr Thami Mabija. CFO Prov Treasury |
| | Mr Itumeleng Moses, Senior Executive Manager |
| | Mr Steven Kau , Chief Staff, MEC office |
| | Mr Chris Adams, the National Treasury |
| | Mr Ithumeleng Moses, Senior Manager |
| | N Jordaan, Act Director: Finance; 051 405 4266 |
| | RT Mosepele; Directorate internal audit; 051 4054362 |
| | L Crawley; Director Finance; 051 4054104 |
| | A Pretorius; Director Budget; 051 405 4102 |
| | F Finger; Director HR; 051 405 4330 |
| | N Nohlinela; 051 403 3344 |
| Department of Public Works | Siza Mtolo; 051 405 4333 |
| | Sekomotho Mthembu; 051 4053344 |
| | Goli Masitenc; 084 245 4681 |
| | T Kometsi; CFO; 051 405 3567 |
| | A Diedericks; 051 4054855 |
| | Monaheng Mokoena, chief directorate (Finance); 082 821 4682 |
| | Saphrine Lekola, acting Director; 083 500 0793 |
| Department of Health | Ms Nelisiwe Phitsane, chief directorate: SCM and Asset management; 071 675 0901 |
| | Mapule Leeuw, DD:Budget management Janine Neethling, AD:Budget management CH Aspeling, Director:Finance |
| Department of Cooperative Governance and Traditional Affairs | T Jacobs; DD: Accounting |
| | Jaco Janse van Rensburg; acting Director :HRM and HRD |

| | |
|---|---|
| | Francois Labuschange; acting Dep Dir:Acc<br>TS Mokoena; Chief Director<br>PJ Batho; Director:municipal Finance<br>PN Viljoen; Act Director<br>DCP Gouws; Manager; EY<br>Lesley Khiba, acting chief directorate<br>Kodu Mtlouns; Director, SCM<br>Lisebo Sefako; Deputy:internal Auditor<br>Onkhopotse Mathibela; Deputy:internal Auditor |
| Others Provincial Treasury<br>and MEC for Finance | Miss Anna Fourie; Senior Executive Manager (Financial Governance) Ms Elsabe Rockman, MEC<br>Mr Motseko Maqabe, Senior Manager:provincial Risk management and internal audit<br>Mr Leon Steinmann |
| EDTEA | Jeffrey Motseste, CFO, EDTEA |
| Department of Human Settlements | NT Mokhesi; HOD Human Settlements<br>Lebogans; DD |
| Department of Education | Nel H; Senior State Accountant<br>E Ntlabezo, Deputy Director<br>P Visagie, Manager(Treasury:B M) MJ Mothebe; Director<br>LT Mokoena : Director :internal audit<br>NC Lebone:ASD<br>TL George Vezi: DD:IA<br>VG Gubuza: DD Strat Plan<br>G De Wee: acting chief directorate<br>MJ Motsamal: Dep Director: Fin Accounting<br>A Minnie; DD: Salary Administration |
| SCOPA, portfolio committee, Free State Legislature | Hon. Van Rooyen, Chairman of SCOPA, and eight members of portfolio committee<br>Shirley Mamashie, Researcher, SCOPA |
| Auditor-General | Ms. Irma Goose, Manager |

## Annexure 2: List of documents consulted

***Legislation, including regulations***

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- Free State Appropriation Acts
  a) Gazette 7 of 2001;
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- Guidelines on Virements, Sustainable Resource management Circular No 2/2011. 18 July 2011.
- Free State Socio Economic Review, 1996-2006, by the Economic Analysis Directorate, Provincial Treasury.
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- Free State Combined Financial Statements for year ended 31 March 2012/13
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- Municipal Infrastructure Grant, Division of Revenue Act Report for 31 July 2013.
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- Free State Tender Bulletin.
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  (a) Health;
  (b) Cooperative Governance and Traditional Affairs;
  (c) Economic Development, Tourism and Environmental Affairs
  (d) Education
  (e) Public Works
  (f) Social Development
  (g) Treasury

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economic and item levels of revenue and expenditure
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***Internal audit organisational structure and qualifications***
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  - (b) Cooperative Governance and Traditional Affairs;
  - (c) Economic Development, Tourism and Environmental Affairs
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  - (e) Public Works
  - (f) Social Development
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## Annexure 3: Stages in the budget preparation process

***April - May: Departments estimate their expenditure and submit draft expenditure applications***

The budget cycle starts with advance of one year (the strategic phase), with national and provincial departments embarking on strategic planning sessions to identify and align departmental goals and prepare an initial three year budget estimate.

This phase requires provincial priorities to line up with the three-year allocations determined in the previous MTEF cycle; however, new priorities may arise given the changes in national and provincial mandates as well as policy shifts. At this point, departments estimate their three-year budgets without assurance on the amount the budget council is going to allocate to each province or for national level spending. During this phase, the government at large, both provincial and national, outlined their predetermine objectives for the next MTEF in line with medium term strategic framework as well as to accommodate new policy directives. This process further indicates the performance targets per year linked to the projected expenditure per year.

***May – June***: ***Guideline estimations are determined for vertical and horizontal allocations***

The budget council decides on the division of revenue into three lump sums for national, provincial and local governments. Once the budget council has carried out this vertical division, it must then work out the provincial allocations amongst the nine provinces. This is the horizontal division.

The horizontal distribution of earmarked national grants is done in accordance to the equitable share formula as guided by sections 214 and 227 of the Constitution. The nationally generated revenue is allocated to provinces through the provincial equitable share (PES) formula. The PES is the decisive tool used by national government to allocate funds to provinces so as to enable them to work towards meeting provincial priorities.

***June – August***: ***EXCO Lekgotla – setting of priorities for the upcoming financial years***

The main focus of this Lekgotla lies on the identification and setting of priorities that the provincial government will be implementing in the next MTEF in line with government goals; adoption of new policy documents, such as new growth path which strives for economic growth and job creation. The anticipated discussions are also expected to form a strong base for the allocations of resources towards attainment of 12 government outcomes. Furthermore, discussions focus on infrastructure issues.

***Combining all the departmental estimates into one sum and matching it with the budget council's allocation***

The 10 x 10 meeting is the consultative intergovernmental technical committee forum which formulates sector specific policies and priorities for concurrent functions between the spheres of government. This forum is comprised of representatives from 9 provincial departments and national department, and nine provincial treasuries and the National Treasury. These meetings form part of the budget process to formulate the priorities for the coming MTEF in line with the MTSF.

***Trying to match department estimates and budget allocation***

The National and the Provincial Treasury now look at the vertical and horizontal allocations the budget council decided on. They must be sure their combined estimates match the allocations of the budget council. All the departmental estimates for the province added together must match the allocation letter received from National Treasury or the prescribed increase as per National Treasury guidelines.

***September – October***: ***Medium-term expenditure committee hearing***

The national and provincial medium-term expenditure committee (MTEC) makes a decision on what budget allocations to recommend for each department as part of the budget process. The recommendations from this committee are presented to Cabinet/ Treasury committee (budget Lekgotla) for consideration.

The PMTEC process will afford the Provincial Treasury the opportunity to analyse the departmental budget proposals and budget bids in line with the following criteria:

- The proposed revisions to the departments' medium-term plans and the link to government's broad policy priorities and key challenges identified by each department;

- The credibility of costing and affordability of the new proposals;
- The departmental revisions to three year MTEF baselines, and the preparation of detailed cost plans for possible new funding;
- The appropriation of available resources in line with policy priorities;
- The performance of spending programmes in relation to measurable objectives and past targets;
- The viability of spending plans relating to any requests for additional funding;
- The departments' ability to implement their new proposals over the MTEF period based on past performance and expenditure trends;
- Accommodation of inflation-related increases in expenditure estimates;
- How identification of slow spending items, shifting of funds from non-performing programmes, efficiency savings, non-recurrent items, rescheduling and reprioritisation have been factored into expenditure estimates;
- Departmental spending estimates exceeding baseline allocations over the MTEF; and
- Reprioritisation in the baseline and options for expansion of services, or new services.

Provincial and national departments often have to take tough decisions about budget cuts to ensure that their estimates match the amount allocated. After finalisation of this process, the Provincial Treasury will host the provincial Lekgotla, whereby the provincial Executive Council will meet to consider the recommendations from the provincial medium-term expenditure committee (PMTEC).

***November – December: Overall* MTEF *is finalised and a medium-term budget policy statement is published.***

Once the Cabinet/Provincial Executive Council and the sectoral MTEF teams have reviewed all the national and provincial MTEFs, a draft, overall MTEF is compiled and submitted to the budget Council and the Cabinet. This document:

- Shows how the budget matches the broad policy framework set out at the beginning of the cycle;
- Suggests allocations for the three-year period;
- Analyses the implications of these allocations; and
- Suggests alternative expenditure options.

Once the budget council and cabinet have approved the overall MTEF, the vertical and horizontal divisions are finalised. Allocations to national government and to each province are adjusted to meet the requirements of this draft.

National departments and provincial treasuries are then informed about how much they will be allocated. At this stage, national departments and provincial treasuries are required to finalise their MTEFs to fall in line with this allocation. This includes finalising how much they will allocate to different departments, programmes and sub-programmes. In terms of allocating the funds, they must take into consideration any recommendations from the provincial executive councils, budget council, cabinet or sectoral MTEF teams.

**Provincial budget Lekgotla**

The provincial budget *Lekgotla* enables the provincial Executive Council to deliberate on the MTEF allocations to various departments, in line with the allocation letter from the National Treasury. The discussions of the provincial budget Lekgotla are mainly guided by the recommendations made during the PMTEC and the provincial EXCO Lekgotla. The consideration of policy priorities and availability of financial resources coupled with clear implementation plans will be decided on.

**Tabling of the medium-term budget policy statement (MTBPS) and adjustment budget**

The medium-term budget policy statement (MTBPS) which is published annually sets out the policies upon which the MTEF is based. The purpose of this policy document is to set out the policy context and direction so that departments, provinces and municipalities can prepare their budget plans for the next three years This document is also important for the legislators as it will provide them with sufficient time to consider the spending priorities before they are being presented to Parliament/Provincial Legislature in February/March.

The medium-term budget policy statement (MTBPS) contains amongst other the following:

- Summary of government's goals and objectives;
- Economic context in which the budget is prepared;

- Information about how the government expects the economy to perform over the next three years;
- Government's economic forecasts for a three-year period based on these factors;
- Budget priorities over the medium term and division of revenue to finance services provided by provincial government; and
- Levels of government spending and government deficit.

**Provincial adjustment budget**

The MEC for Finance in the province may table an adjustment budget in the Provincial Legislature within 30 days after the tabling of the national adjustment budget. The provincial adjustment budget may only provide for:

The appropriation of funds that have become available to the province;

- Unforeseeable and unavoidable expenditure recommended by the provincial Executive Council of the province in the framework determined by the Minister of Finance;
- Any expenditure for emergency situations as prescribed by section 25 of the PFMA;
- Money to be appropriated for expenditure already announced by the MEC for Finance during the tabling of the annual budget;
- The shifting of funds between and in votes or to follow the transfer of functions in terms of section 42 of the PFMA;
- Utilisation of savings under a main division in a vote for the defrayment of excess expenditure under another main division in the same vote in terms of section 43 of the PFMA; and
- The rollovers of unspent funds from the preceding financial year.

***January*: *Benchmark exercise***

The National Treasury engages all provincial Treasuries each year in the January benchmark exercise. The main objectives of benchmark exercise are to:

- Assess the extent to which the province's budget gives effect to the agreed sector priorities, highlight possible risks in the budgets and propose measures to mitigate these risks;
- Provide deeper insight into the policy considerations underpinning the province's budget;
- Assess how reprioritisation in existing baseline and review of service delivery performance have been factored;
- Highlight key issues and challenges from the National Treasury's perspective;
- Give a critical view of the draft provincial budget; and
- Reach agreement on key aspects affecting the provincial budget.

***Final stamp of approval***

The final MTEF is submitted to treasury committee and Executive Councils (EXCOs) for approval. At this stage the EXCOs are mainly considering changes flowing from the budget council as well as benchmark. Once this process is done, the treasuries prepare the documentation for the tabling of the budget.

***February and March: Budget Day and follow up discussion***

The Minister presents the budget to parliament while the MECs for Finance in all provinces present their various budgets before the provincial legislatures two weeks after the budget has been tabled by the Minister of Finance.

The national budget is presented to the National Assembly accompanied by the Division of Revenue Bill. This outlines how the vertical and horizontal divisions were worked out, while the provincial budget is presented in the provincial legislatures together with the Appropriation Bill. The budget itself is not law. A bill has to be drawn up to allow the various departments to spend the money allocated.

***March – April*: *Portfolio committees and provincial standing committees hold hearings and report to legislators***

After the first reading of the budget, the Appropriation Bill and the proposed tax amendments must be referred to the National Assembly portfolio committee on finance. The main purpose of referral is to allow engagements and view on different aspects of the budget from technical experts, as most members of the portfolio committee do not have in depth knowledge of specific sectors. The submissions are also to provide some opportunity for civil society groups to air their views. The portfolio committee then considers whether they want to propose anything to parliament arising from these submissions.

The different stakeholders in the portfolio committee deal with the following:

- The budget is dealt with by a standing committee on appropriations comprising members of both houses;
- Individual portfolio committees dissect budget and strategic plan for each department;
- Parliament/Legislature votes on the Appropriation Bill and could either approve or reject, but cannot change the bill;
- Legislature also looks at the quarterly performance reports of departments and entities; the public accounts committee deals with post-facto issues raised by the Auditor-General.

## Annexure 4: Detailed calculations for PI-1 and PI-2

Table 1: Free State province - Summary of fiscal operations

| R million | 2010/11 | 2011/12 | 2012/13 |
|---|---|---|---|
| **Revenue** | **21 165.3** | **23 784.9** | **25 404.8** |
| National transfers | 20 358.7 | 22 919.7 | 24 546.5 |
| Equitable share | 16 217.2 | 17 722.6 | 18 795.3 |
| Conditional transfers | 4 141.5 | 5 197.2 | 5 751.2 |
| Own revenue | 806.6 | 865.2 | 858.3 |
| **Total expenditure** | **21 035.0** | **23 800.7** | **25 642.8** |
| Current expenditure | 18 289.4 | 20 214.6 | 21 993.4 |
| Wages and salaries | 12 559.4 | 14 203.5 | 15 556.3 |
| Purchases of goods and services | 3 751.0 | 3 747.1 | 4 155.1 |
| Interest payments | 4.1 | 1.8 | 15.4 |
| Current transfers | 1 964.4 | 2 221.4 | 2 262.3 |
| Others | 10.5 | 40.9 | 4.3 |
| Capital expenditure | 2 745.6 | 3 586.1 | 3 649.3 |
| Investment expenditure | 1 411.8 | 2 352.9 | 2 455.2 |
| Capital transfers | 1 333.9 | 1 233.2 | 1 194.1 |
| **Overall balance** | **130.4** | **-15.8** | **-238.0** |
| **Financing** | **296.0** | **714.0** | **496.4** |
| Accumulation of cash reserves | 221.8 | 445.2 | 321.7 |
| Rollovers (accumulation of arrears) | 74.1 | 268.8 | 174.8 |
| **Overall balance after financing** | **426.3** | **698.3** | **258.5** |

*Source: Provincial Treasury.*

Table 2: Gross Domestic Product, in current prices (R'000)

| | National Total | Free State |
|---|---|---|
| 1996 | 617 958 068 | 37 101 513 |
| 1997 | 685 731 438 | 40 248 742 |
| 1998 | 742 423 898 | 41 168 108 |
| 1999 | 813 683 701 | 45 536 409 |
| 2000 | 922 148 087 | 49 649 671 |
| 2001 | 1 020 007 599 | 54 690 219 |
| 2002 | 1 171 085 180 | 65 847 419 |
| 2003 | 1 272 536 800 | 69 425 236 |
| 2004 | 1 415 273 100 | 76 219 493 |
| 2005 | 1 571 081 894 | 81 361 783 |
| 2006 | 1 767 422 100 | 95 333 605 |
| 2007 | 2 016 183 418 | 108 553 211 |
| 2008 | 2 256 483 784 | 121 119 694 |
| 2009 | 2 406 401 040 | 130 212 335 |
| 2010 | 2 659 365 690 | 142 505 052 |
| 2011 | 2 917 538 690 | 153 283 801 |
| 2012 | 3 155 195 000 | 163 715 926 |
| 2013 | 3 409 254 097 | 173 610 855 |
| 2014 | 3 729 703 033 | 185 590 937 |
| 2015 | 4 080 620 216 | 201 028 729 |
| 2016 | 4,501,418,747 | 219,944,221 |
| 2017 | 4,951,204,830 | 240,434,456 |

*Source*: HIS Global Insight.

Table 3: Free State province - Summary of fiscal operations (% of GDP)

| | 2010/11 | 2011/12 | 2012/13 |
|---|---|---|---|
| **Revenue** | **14.9%** | **15.5%** | **15.5%** |
| National transfers | 14.3% | 15.0% | 15.0% |
| Equitable share | 11.4% | 11.6% | 11.5% |
| Conditional transfers | 2.9% | 3.4% | 3.5% |
| Own revenue | 0.6% | 0.6% | 0.5% |
| **Total expenditure** | **14.8%** | **15.5%** | **15.7%** |
| Current expenditure | 12.8% | 13.2% | 13.4% |
| Wages and salaries | 8.8% | 9.3% | 9.5% |
| Purchases of goods and services | 2.6% | 2.4% | 2.5% |
| Interest payments | 0.0% | 0.0% | 0.0% |
| Current transfers | 1.4% | 1.4% | 1.4% |
| Others | 0.0% | 0.0% | 0.0% |
| Capital expenditure | 1.9% | 2.3% | 2.2% |
| Investment expenditure | 1.0% | 1.5% | 1.5% |
| Capital transfers | 0.9% | 0.8% | 0.7% |
| **Overall balance** | **0.1%** | **0.0%** | **-0.1%** |
| **Financing** | **0.2%** | **0.5%** | **0.3%** |
| Accumulation of cash reserves | 0.2% | 0.3% | 0.2% |
| Rollovers (accumulation of arrears) | 0.1% | 0.2% | 0.1% |
| **Overall balance after financing** | **0.3%** | **0.5%** | **0.2%** |

*Source: Statistical appendix, tables 1 and 2.*

Table 4: Free State province-Economic composition of government expenditure (% of total)

| | 2010/11 | 2011/12 | 2012/13 |
|---|---|---|---|
| **Total** | **100.0%** | **100.0%** | **100.0%** |
| **Current expenditure** | **86.9%** | **84.9%** | **85.8%** |
| Wages and salaries | 59.7% | 59.7% | 60.7% |
| Purchases of goods and services | 17.8% | 15.7% | 16.2% |
| Interest payments | 0.0% | 0.0% | 0.1% |
| Current transfers | 9.3% | 9.3% | 8.8% |
| Others | 0.0% | 0.2% | 0.0% |
| **Capital expenditure** | **13.1%** | **15.1%** | **14.2%** |
| Investment expenditure | 6.7% | 9.9% | 9.6% |
| Capital transfers | 6.3% | 5.2% | 4.7% |

*Source: Statistical appendix, table 1.*

Table 5: Free State province - functional composition of government expenditure (R millions)

| R million | 2010/11 | 2011/12 | 2012/13 |
|---|---|---|---|
| General services | 2 073.2 | 2 449.1 | 2 527.8 |
| Public order and safety | 277.4 | 251.4 | 383.0 |
| Economic affairs | 1 411.8 | 1 565.2 | 1 733.5 |
| Environmental protection | 379.3 | 501.5 | 561.5 |
| Housing and community amenities | 1 144.7 | 1 061.2 | 1 089.7 |
| Health | 6 019.2 | 6 811.2 | 7 693.6 |
| Recreation, culture and religion | 481.5 | 588.8 | 576.3 |
| Education | 8 474.4 | 9 729.1 | 10 785.4 |
| Social protection | 712.5 | 803.7 | 877.6 |
| **Total** | **20 974.0** | **23 761.2** | **26 228.4** |
| Memo: Statistical discrepancy | 61.0 | 39.5 | -585.6 |

*Source: EPRE, 2013/14 and 2012/13.*

Table 6: Free State province - Functional composition of government expenditure (% of total)

| | 2010/11 | 2011/12 | 2012/13 |
|---|---|---|---|
| General services | 9.9% | 10.3% | 9.6% |
| Public order and safety | 1.3% | 1.1% | 1.5% |
| Economic affairs | 6.7% | 6.6% | 6.6% |
| Environmental protection | 1.8% | 2.1% | 2.1% |
| Housing and community amenities | 5.5% | 4.5% | 4.2% |
| Health | 28.7% | 28.7% | 29.3% |
| Recreation, culture and religion | 2.3% | 2.5% | 2.2% |
| Education | 40.4% | 40.9% | 41.1% |
| Social protection | 3.4% | 3.4% | 3.3% |
| *Memo*: Social services | 80.3% | 79.9% | 80.2% |
| **Total** | **100.0%** | **100.0%** | **100.0%** |

*Source: Statistical appendix, table 5.*

Table 7: Free State province - Functional composition of government expenditure (% of GDP)

| | **2010/11** | **2011/12** | **2012/13** |
|---|---|---|---|
| General services | 1.5% | 1.6% | 1.5% |
| Public order and safety | 0.2% | 0.2% | 0.2% |
| Economic affairs | 1.0% | 1.0% | 1.1% |
| Environmental protection | 0.3% | 0.3% | 0.3% |
| Housing and community amenities | 0.8% | 0.7% | 0.7% |
| Health | 4.2% | 4.4% | 4.7% |
| Recreation, culture and religion | 0.3% | 0.4% | 0.4% |
| Education | 5.9% | 6.3% | 6.6% |
| Social protection | 0.5% | 0.5% | 0.5% |
| **Total:** | **14.7%** | **15.5%** | **16.0%** |

*Source: Statistical appendix, tables 2 and 5.*

Table 8: Free State province - Economic composition of primary expenditure 1/ 2/ (R thousands)

| **R'000** | **2010/11** | | **2011/12** | | **2012/13** | |
|---|---|---|---|---|---|---|
| | **Budget** | **Actual** | **Budget** | **Actual** | **Budget** | **Actual** |
| **Primary expenditure 1/** | **21 379 266.9** | **21 030 929.8** | **23 183 657.0** | **23 798 937.9** | **24 869 047.8** | **25 627 319.5** |
| **Recurrent expenditure** | **17 950 950.4** | **18 285 298.8** | **20 003 481.0** | **20 212 855.3** | **21 543 038.9** | **21 977 997.0** |
| Wages and salaries | 12 346 954.6 | 12 559 392.0 | 14 093 535.9 | 14 203 499.5 | 15 239 550.3 | 15 556 302.5 |
| Purchases of goods and services | 3 922 055.8 | 3 750 978.2 | 3 866 052.1 | 3 747 061.1 | 4 023 742.2 | 4 155 066.7 |
| Current transfers | 1 680 811.0 | 1 964 439.1 | 2 011 612.0 | 2 221 380.0 | 2 279 746.5 | 2 262 343.8 |
| *Of which*: Public entities | 72 264.0 | 239 322.7 | 214 566.0 | 232 968.2 | 235 717.0 | 230 803.3 |
| District governments | 172 468.0 | 302 150.0 | 250 254.0 | 279 190.0 | 282 704.0 | 299 405.9 |
| Departmental agencies | 116 661.0 | 96 632.6 | 87 603.0 | 91 334.1 | 104 610.5 | 118 086.7 |
| Non-profit organisations | 987 880.0 | 1 105 651.9 | 1 255 198.0 | 1 330 216.3 | 1 440 819.0 | 1 337 604.5 |
| Households | 230 338.0 | 214 339.0 | 202 686.0 | 279 600.0 | 214 896.0 | 276 443.4 |
| Others | 1 129.0 | 10 489.4 | 32 281.0 | 40 914.8 | - | 4 284.0 |
| **Capital expenditure** | **3 428 316.5** | **2 745 631.1** | **3 180 176.0** | **3 586 082.6** | **3 326 008.9** | **3 649 322.5** |
| Investment expenditure | 1 776 060.5 | 1 411 774.2 | 2 096 715.0 | 2 352 906.1 | 2 133 889.9 | 2 455 215.6 |
| Capital transfers | 1 652 256.0 | 1 333 856.8 | 1 083 461.0 | 1 233 176.5 | 1 192 119.0 | 1 194 106.8 |
| Of which: Households | 1 300 691.0 | 1 037 685.1 | 913 907.0 | 998 469.5 | 1 108 809.0 | 1 017 614.0 |

*Source: Provincial Treasury.*

*1/ Excludes interest payments and external-funded capital expenditure. 2/ Unadjusted expenditure data.*

Table 9: Free State province - Administrative composition of primary expenditure 1/ 2/ (R thousands)

| R'000 | 2010/11 Budget | 2010/11 Actual | 2011/12 Budget | 2011/12 Actual | 2012/13 Budget | 2012/13 Actual |
|---|---|---|---|---|---|---|
| Premier | 167 942.0 | 187 276.7 | 220 756.0 | 213 472.8 | 253 113.0 | 252 855.3 |
| Legislature | 153 638.0 | 150 134.0 | 203 406.0 | 195 588.0 | 212 422.0 | 202 511.0 |
| Economic Devel. Tourism and Env. Affairs | 370 762.0 | 327 294.5 | 390 303.0 | 389 666.0 | 436 894.0 | 407 139.0 |
| Treasury | 177 505.9 | 162 625.0 | 201 033.0 | 184 821.7 | 212 104.0 | 206 017.4 |
| Health | 6 151 710.0 | 6 032 435.9 | 6 819 500.0 | 6 810 901.8 | 7 382 601.0 | 7 597 912.4 |
| Education | 8 538 379.0 | 8 502 932.3 | 9 493 833.0 | 9 753 703.3 | 10 044 352.0 | 10 502,510.0 |
| Social Development | 720 990.0 | 712 503.8 | 801 087.0 | 803 659.0 | 865 450.0 | 867 136.2 |
| Coop. Governance and Traditional Affairs | 320 048.0 | 387 821.4 | 375 641.0 | 379 030.5 | 323 042.0 | 300 501.9 |
| Public Works | 948 325.0 | 1 027 400.0 | 1 226 210.0 | 1 254 537.1 | 1 269 707.0 | 1 255 249.6 |
| Police, Roads and Transport | 1 682 742.0 | 1 618 129.5 | 1 465 457.0 | 1 716 891.7 | 1 755 500.0 | 1 927 679.9 |
| Agriculture | 408 849.0 | 395 810.0 | 519 341.0 | 555 820.5 | 579 482.0 | 561 275.2 |
| Sport Arts Culture and Recreation | 373 423.0 | 381 378.5 | 479 300.0 | 479 612.3 | 435 559.8 | 444 964.7 |
| Human Settlements | 1 364 913.0 | 1 144 688.6 | 987 790.0 | 1 061 231.3 | 1 058 221.0 | 1 067 938.1 |
| Rural Development | | | | | 40 600.0 | 33 630.5 |
| **Total** | **21 379 226.9** | **21 030 430.1** | **23 183 657.0** | **23 798 936.0** | **24 869 047.8** | **25 627 321.0** |

*Source: Provincial Treasury.*
*1/ Excludes interest payments and external-funded capital expenditure. 2/ Unadjusted expenditure data.*

Table 10: Free State province - Administrative composition of wages and salaries (R thousands)

| R'000 | 2010/11 Budget | 2010/11 Actual | 2011/12 Budget | 2011/12 Actual | 2012/13 Budget | 2012/13 Actual |
|---|---|---|---|---|---|---|
| **Total** | **12 346 914.6** | **12 558 890.6** | **14 093 535.9** | **14 203 499.5** | **15 239 550.3** | **15 556 302.5** |
| Premier | 110 127.0 | 105 384.5 | 124 116.0 | 116 678.4 | 167 990.0 | 172 261.3 |
| Legislature | 153 638.0 | 150 134.0 | 203 406.0 | 195 588.0 | 212 422.0 | 202 511.0 |
| Economic Devel. Tourism and Env. Affairs | 151 807.0 | 127 843.0 | 168 292.0 | 146 874.4 | 169 884.0 | 163 024.8 |
| Treasury | 118 195.6 | 108 026.5 | 135 536.7 | 123 833.8 | 150 334.3 | 140 512.7 |
| Health | 3 575 952.0 | 3 772 860.3 | 4 277 430.0 | 4 372 332.4 | 4 596 327.0 | 4 944 006.3 |
| Education | 6 666 435.0 | 6 811 521.5 | 7 444 127.0 | 7 568 045.9 | 8 054 391.0 | 8 119 926.0 |
| Social Development | 323 424.0 | 311 013.7 | 339 932.0 | 364 107.4 | 393 591.0 | 416 062.4 |
| Coop. Governance and Traditional Affairs | 170 343.0 | 157 396.5 | 198 775.0 | 185 154.5 | 150 498.0 | 133 820.2 |
| Public Works | 287 224.0 | 273 924.8 | 320 309.0 | 298 902.8 | 344 135.0 | 313 992.0 |
| Police, Roads and Transport | 390 427.0 | 367 927.0 | 427 248.0 | 398 210.6 | 477 303.0 | 447 361.4 |
| Agriculture | 222 520.0 | 216 481.5 | 261 932.0 | 250 477.1 | 271 542.0 | 264 786.6 |
| Sport Arts Culture and Recreation | 138 015.0 | 122 672.6 | 146 299.2 | 144 014.1 | 171 959.0 | 159 291.2 |
| Human Settlements | 38 807.0 | 33 704.9 | 46 133.0 | 39 280.0 | 64 552.0 | 64 901.3 |
| Rural Development | | | | | 14 622.0 | 13 845.2 |
| Memo: Social services | 10 604 618.00 | 10 929 100.4 | 2 107 622.0 | 12 343 765.8 | 13 108 861.0 | 13 544 896.0 |

*Source*: Provincial Treasury.

Table 11: Free State province - Administrative composition of purchases of goods and services (R thousands)

| R'000 | 2010/11 Budget | 2010/11 Actual | 2011/12 Budget | 2011/12 Actual | 2012/13 Budget | 2012/13 Actual |
|---|---|---|---|---|---|---|
| **Total** | **3 922 055.8** | **3 750 978.2** | **3 866 052.1** | **3 747 061.1** | **4 023 742.2** | **4 155 066.7** |
| Premier | 55 465.0 | 75 099.4 | 93 429.0 | 92 292.6 | 81 124.0 | 77 748.0 |
| Legislature | | | | | | |
| Economic Devel. Tourism and Env. Affairs | 69 630.5 | 68 707.7 | 81 379.0 | 71 846.9 | 90 903.0 | 83 157.5 |
| Treasury | 54 719.3 | 46 548.4 | 62 284.3 | 53 953.5 | 57 931.9 | 57 826.8 |
| Health | 1 866 705.0 | 1 694 706.6 | 1 735 993.0 | 1 742 357.1 | 1 907 392.0 | 1 778 027.4 |
| Education | 640 360.0 | 449 911.2 | 547 783.0 | 492 757.7 | 368 812.0 | 676 471.2 |
| Social Development | 66 966.0 | 84 581.9 | 81 296.0 | 87 112.5 | 71 092.0 | 84 335.8 |
| Coop. Governance and Traditional Affairs | 96 350.0 | 136 272.0 | 121 427.0 | 135 693.2 | 109 270.0 | 115 065.8 |
| Public Works | 417 745.0 | 432 960.6 | 469 854.0 | 477 829.9 | 505 436.0 | 500 019.0 |
| Police Roads and Transport | 450 532.0 | 462 845.0 | 313 342.0 | 267 144.0 | 536 736.0 | 465 731.0 |
| Agriculture | 80 404.0 | 79 897.3 | 211 119.0 | 115 438.2 | 115 142.5 | 119 912.1 |
| Sport Arts Culture and Recreation | 103 753.0 | 148 613.7 | 123 445.8 | 180 811.3 | 125 060.8 | 154 244.9 |
| Human Settlements | 19 426.0 | 70 834.4 | 24 700.0 | 29 824.1 | 28 864.0 | 25 640.5 |
| Rural Development | | | | | 25 978.0 | 16 886.6 |
| Memo: Social services | 2 593 457.0 | 2 300 034.1 | 2 389 772.0 | 2 352 051.4 | 2 376 160.0 | 2 564 475.0 |

*Source: Provincial Treasury.*

Table 12: Free State province - Administrative composition of capital expenditure (R thousands)

| R'000 | 2010/11 | | 2011/12 | | 2012/13 | |
|---|---|---|---|---|---|---|
| | Budget | Actual | Budget | Actual | Budget | Actual |
| **Total** | **3 428 316.5** | **2 745 670.8** | **3 180 176.0** | **3 586 082.6** | **3 326 008.9** | **3 649 322.5** |
| Premier | 2 000.0 | 4 799.2 | 2 667.0 | 3 803.4 | 3 187.0 | 2 113.3 |
| Legislature | | | | | | |
| Economic Devel. Tourism and Env. Affairs | 53 425.5 | 30 225.6 | 25 526.0 | 26 020.4 | 55 747.0 | 35 832.6 |
| Treasury | 4 091.0 | 6 990.1 | 2 677.0 | 6 057.7 | 2 835.9 | 7 272.2 |
| Health | 616 943.0 | 471 282.3 | 719 566.0 | 599 474.1 | 759 157.0 | 726 468.8 |
| Education | 442 594.0 | 333 468.4 | 475 710.0 | 550 592.0 | 473 699.0 | 613 914.0 |
| Social Development | 31 724.0 | 5 815.9 | 39 704.0 | 23 586.8 | 36 924.0 | 30 520.6 |
| Coop. Governance and Traditional Affairs | 31 303.0 | 15 279.5 | 20 985.0 | 20 255.2 | 18 777.0 | 25 099.2 |
| Public Works | 87 764.0 | 94 586.8 | 214 623.0 | 233 950.9 | 186 077.0 | 170 676.4 |
| Police, Roads and Transport | 665 558.0 | 566 586.5 | 528 815.0 | 857 220.9 | 530 210.0 | 794 362.0 |
| Agriculture | 75 174.0 | 88 365.4 | 42 989.0 | 169 628.9 | 190 481.0 | 157 716.3 |
| Sport Arts Culture and Recreation | 112 447.0 | 89 335.2 | 191 394.0 | 105 035.7 | 105 568.0 | 105 844.4 |
| Human Settlements | 1 305 293.0 | 1 038 935.9 | 915 520.0 | 990 456.6 | 963 346.0 | 976 617.7 |
| Rural Development | | | | | - | 2 884.9 |
| *Memo*: Social services | 2 396 554.0 | 1 849 502.5 | 2 150 500.0 | 2 164 109.5 | 2 233 126.0 | 2 347 521.2 |

*Source: Provincial Treasury.*

Table 13: Free State province - Administrative composition of other expenditure (R thousands)

| R'000 | 2010/11 | | 2011/12 | | 2012/13 | |
|---|---|---|---|---|---|---|
| | Budget | Actual | Budget | Actual | Budget | Actual |
| **Total** | **1 681 940.0** | **1 974 890.4** | **2 043 893.0** | **2 262 292.9** | **2 279 746.5** | **2 266 629.3** |
| Premier | 350.0 | 1 993.7 | 544.0 | 698.4 | 812.0 | 732.6 |
| Legislature | - | - | - | - | - | - |
| Economic Devel. Tourism and Env. Affairs | 95 899.0 | 100 518.2 | 115 106.0 | 144 924.3 | 120 360.0 | 125 124.1 |
| Treasury | 500.0 | 1 060.0 | 535.0 | 976.7 | 1 002.0 | 405.7 |
| Health | 92 110.0 | 93 586.7 | 86 511.0 | 96 738.2 | 119 725.0 | 149 409.8 |
| Education | 788 990.0 | 908 031.1 | 1 026 213.0 | 1 142 307.6 | 1 147 450.0 | 1 092 198.7 |
| Social Development | 298 876.0 | 311 092.3 | 340 155.0 | 328 852.4 | 363 843.0 | 336 217.4 |
| Coop. Governance and Traditional Affairs | 22 052.0 | 78 873.4 | 34 454.0 | 37 927.5 | 44 497.0 | 26 516.7 |
| Public Works | 155 592.0 | 225 927.7 | 221 424.0 | 243 853.4 | 234 059.0 | 270 562.1 |
| Police, Roads and Transport | 176 225.0 | 220 771.0 | 196 052.0 | 194 316.2 | 211 251.0 | 220 225.5 |
| Agriculture | 30 751.0 | 11 065.9 | 3 301.0 | 20 276.3 | 2 316.5 | 18 860.1 |
| Sport Arts Culture and Recreation | 19 208.0 | 20 757.0 | 18 161.0 | 49 751.2 | 32 972.0 | 25 584.2 |
| Human Settlements | 1 387.0 | 1 213.4 | 1 437.0 | 1 670.6 | 1 459.0 | 778.5 |
| Rural Development | | | | | - | 13.8 |
| *Memo*: Social services | 1 181 363.0 | 1 313 923.5 | 1 454 316.0 | 1 569 568.8 | 1 632 477.0 | 1 578 604.4 |

*Source: Provincial Treasury.*

Table 14: Free State province - Economic composition of primary expenditure (% of total)

| R'000 | 2010/11 | | 2011/12 | | 2012/13 | |
|---|---|---|---|---|---|---|
| | Budget | Actual | Budget | Actual | Budget | Actual |
| **Primary expenditure** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |
| **Recurrent expenditure** | **84.0%** | **86.9%** | **86.3%** | **84.9%** | **86.6%** | **85.8%** |
| Wages and salaries | 57.8% | 59.7% | 60.8% | 59.7% | 61.3% | 60.7% |
| Purchases of goods and services | 18.3% | 17.8% | 16.7% | 15.7% | 16.2% | 16.2% |
| Current transfers | 7.9% | 9.3% | 8.7% | 9.3% | 9.2% | 8.8% |
| *Of which*: Public entities | 0.8% | 1.1% | 0.9% | 1.0% | 0.9% | 0.9% |
| District governments | 0.8% | 1.4% | 1.1% | 1.2% | 1.1% | 1.2% |
| Departmental agencies | 0.5% | 0.5% | 0.4% | 0.4% | 0.4% | 0.5% |
| Non-profit organisations | 4.6% | 5.3% | 5.4% | 5.6% | 5.8% | 5.2% |
| Households | 1.1% | 1.0% | 0.9% | 1.2% | 0.9% | 1.1% |
| Others | 0.0% | 0.0% | 0.1% | 0.2% | 0.0% | 0.0% |
| **Capital expenditure** | **16.0%** | **13.1%** | **13.7%** | **15.1%** | **13.4%** | **14.2%** |
| Investment expenditure | 8.3% | 6.7% | 9.0% | 9.9% | 8.6% | 9.6% |
| Capital transfers | 7.7% | 6.3% | 4.7% | 5.2% | 4.8% | 4.7% |
| Of which: Households | 6.1% | 4.9% | 3.9% | 4.2% | 4.5% | 4.0% |

*Source*: Statistical appendix, table 8.

Table 15: Free State province - Administrative composition of wages and salaries (% of departmental budget)

| | 2010/11 | | 2011/12 | | 2012/13 | |
|---|---|---|---|---|---|---|
| | Budget | Actual | Budget | Actual | Budget | Actual |
| **Total** | **57.8%** | **59.7%** | **60.8%** | **59.7%** | **61.3%** | **60.7%** |
| Premier | 65.6% | 56.3% | 56.2% | 54.7% | 66.4% | 68.1% |
| Legislature | | | | | | |
| Economic Devel. Tourism and Env. Affairs | 40.9% | 39.1% | 43.1% | 37.7% | 38.9% | 40.0% |
| Treasury | 66.6% | 66.4% | 67.4% | 67.0% | 70.9% | 68.2% |
| Health | 58.1% | 62.5% | 62.7% | 64.2% | 62.3% | 65.1% |
| Education | 78.1% | 80.1% | 78.4% | 77.6% | 80.2% | 77.3% |
| Social Development | 44.9% | 43.7% | 42.4% | 45.3% | 45.5% | 48.0% |
| Coop. Governance and Traditional Affairs | 53.2% | 40.6% | 52.9% | 48.8% | 46.6% | 44.5% |
| Public Works | 30.3% | 26.7% | 26.1% | 23.8% | 27.1% | 25.0% |
| Police, Roads and Transport | 23.2% | 22.7% | 29.2% | 23.2% | 27.2% | 23.2% |
| Agriculture | 54.4% | 54.7% | 50.4% | 45.1% | 46.9% | 47.2% |
| Sport Arts Culture and Recreation | 37.0% | 32.2% | 30.5% | 30.0% | 39.5% | 35.8% |
| Human Settlements | 2.8% | 2.9% | 4.7% | 3.7% | 6.1% | 6.1% |
| Rural Development | | | | | 36.0% | 41.2% |
| *Memo*: Social services | 63.2% | 66.7% | 66.9% | 67.0% | 67.7% | 67.6% |

*Source*: Statistical appendix, tables 8, 9 and 10.

Table 16: Free State province - Administrative composition of purchases of goods and services (% of departmental budget)

| | 2010/11 | | 2011/12 | | 2012/13 | |
|---|---|---|---|---|---|---|
| | Budget | Actual | Budget | Actual | Budget | Actual |
| **Total** | **18.3%** | **17.8%** | **16.7%** | **15.7%** | **16.2%** | **16.2%** |
| Premier | 33.0% | 40.1% | 42.3% | 43.2% | 32.1% | 30.7% |
| Legislature | | | | | | |
| Economic Devel. Tourism and Env. Affairs | 18.8% | 21.0% | 20.9% | 18.4% | 20.8% | 20.4% |
| Treasury | 30.8% | 28.6% | 31.0% | 29.2% | 27.3% | 28.1% |
| Health | 30.3% | 28.1% | 25.5% | 25.6% | 25.8% | 23.4% |
| Education | 7.5% | 5.3% | 5.8% | 5.1% | 3.7% | 6.4% |
| Social Development | 9.3% | 11.9% | 10.1% | 10.8% | 8.2% | 9.7% |
| Coop. Governance and Traditional Affairs | 30.1% | 35.1% | 32.3% | 35.8% | 33.8% | 38.3% |
| Public Works | 44.1% | 42.1% | 38.3% | 38.1% | 39.8% | 39.8% |
| Police, Roads and Transport | 26.8% | 28.6% | 21.4% | 15.6% | 30.6% | 24.2% |
| Agriculture | 19.7% | 20.2% | 40.7% | 20.8% | 19.9% | 21.4% |
| Sport Arts Culture and Recreation | 27.8% | 39.0% | 25.8% | 37.7% | 28.7% | 34.7% |
| Human Settlements | 1.4% | 6.2% | 2.5% | 2.8% | 2.7% | 2.4% |
| Rural Development | | | | | 64.0% | 50.2% |
| Memo: Social services | 15.5% | 14.0% | 13.2% | 12.8% | 12.3% | 12.8% |

*Source: Statistical appendix, tables 8, 9 and 11.*

Table 17: Free State province - Administrative composition of capital expenditure (% of departmental budget)

| | 2010/11 | | 2011/12 | | 2012/13 | |
|---|---|---|---|---|---|---|
| | **Budget** | **Actual** | **Budget** | **Actual** | **Budget** | **Actual** |
| **Total** | **16.0%** | **13.1%** | **13.7%** | **15.1%** | **13.4%** | **14.2%** |
| Premier | 1.2% | 2.6% | 1.2% | 1.8% | 1.3% | 0.8% |
| Legislature | | | | | | |
| Economic Devel. Tourism and Env. Affairs | 14.4% | 9.2% | 6.5% | 6.7% | 12.8% | 8.8% |
| Treasury | 2.3% | 4.3% | 1.3% | 3.3% | 1.3% | 3.5% |
| Health | 10.0% | 7.8% | 10.6% | 8.8% | 10.3% | 9.6% |
| Education | 5.2% | 3.9% | 5.0% | 5.6% | 4.7% | 5.8% |
| Social Development | 4.4% | 0.8% | 5.0% | 2.9% | 4.3% | 3.5% |
| Coop. Governance and Traditional Affairs | 9.8% | 3.9% | 5.6% | 5.3% | 5.8% | 8.4% |
| Public Works | 9.3% | 9.2% | 17.5% | 18.6% | 14.7% | 13.6% |
| Police, Roads and Transport | 39.6% | 35.0% | 36.1% | 49.9% | 30.2% | 41.2% |
| Agriculture | 18.4% | 22.3% | 8.3% | 30.5% | 32.9% | 28.1% |
| Sport Arts Culture and Recreation | 30.1% | 23.4% | 39.9% | 21.9% | 24.2% | 23.8% |
| Human Settlements | 95.6% | 90.8% | 92.7% | 93.3% | 91.0% | 91.4% |
| Rural Development | | | | | 0.0% | 8.6% |
| *Memo*: Social services | 14.3% | 11.3% | 11.9% | 11.7% | 11.5% | 11.7% |

*Source*: Statistical appendix, tables 8, 9 and 12.

Table 18: Free State province - Economic composition of primary expenditure outturns (% of originally approved budget)

| | 2010/11 | 2011/12 | 2012/13 |
|---|---|---|---|
| **Primary expenditure** | **-1.6%** | **2.7%** | **3.0%** |
| **Recurrent expenditure** | **1.9%** | **1.0%** | **2.0%** |
| Wages and salaries | 1.7% | 0.8% | 2.1% |
| Purchases of goods and services | -4.4% | -3.1% | 3.3% |
| Current transfers | 16.9% | 10.4% | -0.8% |
| *Of which*: Public entities | 38.9% | 8.6% | -2.1% |
| District governments | 75.2% | 11.6% | 5.9% |
| Departmental agencies | -17.2% | 4.3% | 12.9% |
| Non-profit organisations | 11.9% | 6.0% | -7.2% |
| Households | -6.9% | 37.9% | 28.6% |
| Capital expenditure | 19.9% | 12.8% | 9.7% |
| Investment expenditure | -20.5% | 12.2% | 15.1% |
| Capital transfers | -19.3% | 13.8% | 0.2% |
| Of which: Households | -20.2% | 9.3% | -8.2% |

*Source: Statistical appendix, table 8.*

Table 19: Free State province - Administrative composition of wages and salaries outturns (% of originally approved budget)

| | 2010/11 | 2011/12 | 2012/13 | Average |
|---|---|---|---|---|
| **Total** | **1.7%** | **0.8%** | **2.1%** | **1.5%** |
| Premier | -4.3% | -6.0% | 2.5% | -2.6% |
| Legislature | -2.3% | -3.8% | -4.7% | -3.6% |
| Economic Devel. Tourism and Env. Affairs | -15.8% | -12.7% | -4.0% | -10.8% |
| Treasury | -8.6% | -8.6% | -6.5% | -7.9% |
| Health | 5.5% | 2.2% | 7.6% | 5.1% |
| Education | 2.2% | 1.7% | 0.8% | 1.6% |
| Social Development | -3.8% | 7.1% | 5.7% | 3.0% |
| Coop. Governance and Traditional Affairs | -7.6% | -6.9% | -11.1% | -8.5% |
| Public Works | -4.6% | -6.7% | -8.8% | -6.7% |
| Police, Roads and Transport | -5.8% | -6.8% | -6.3% | -6.3% |
| Agriculture | -2.7% | -4.4% | -2.5% | -3.2% |
| Sport Arts Culture and Recreation | -11.1% | -1.6% | -7.4% | -6.7% |
| Human Settlements | -13.1% | -14.9% | 0.5% | -9.2% |
| Rural Development | | | -5.3% | -5.3% |
| Memo: Social services | 3.1% | 2.0% | 3.3% | 2.8% |

*Source: Statistical appendix, table 10.*

Table 20: Free State province - Administrative composition of purchases of goods and services out-turns (% of originally approved budget)

| | 2010/11 | 2011/12 | 2012/13 | Average |
|---|---|---|---|---|
| **Total** | **-4.4%** | **-3.1%** | **3.3%** | **-1.4%** |
| Premier | 35.4% | -1.2% | -4.2% | 10.0% |
| Legislature | | | | |
| Economic Devel. Tourism and Env. Affairs | -1.3% | -11.7% | -8.5% | -7.2% |
| Treasury | -14.9% | -13.4% | -0.2% | -9.5% |
| Health | -9.2% | 0.4% | -6.8% | -5.2% |
| Education | -29.7% | -10.0% | 83.4% | 14.5% |
| Social Development | 26.3% | 7.2% | 18.6% | 17.4% |
| Coop. Governance and Traditional Affairs | 41.4% | 11.7% | 5.3% | 19.5% |
| Public Works | 3.6% | 1.7% | -1.1% | 1.4% |
| Police, Roads and Transport | 2.7% | -14.7% | -13.2% | -8.4% |
| Agriculture | -0.6% | -45.3% | 4.1% | -13.9% |
| Sport Arts Culture and Recreation | 43.2% | 46.5% | 23.3% | 37.7% |
| Human Settlements | 264.6% | 20.7% | -11.2% | 91.4% |
| Rural Development | | | -35.0% | -35.0% |
| *Memo*: Social services | -11.3% | -1.6% | 7.9% | -1.7% |

*Source: Statistical appendix, table 11.*

Table 21: Free State province - Administrative composition of capital expenditure outturns (% of originally approved budget)

| | 2010/11 | 2011/12 | 2012/13 | Average |
|---|---|---|---|---|
| **Total** | **-19.9%** | **12.8%** | **9.7%** | **0.9%** |
| Premier | 140.0% | 42.6% | -33.7% | 49.6% |
| Legislature | | | | |
| Economic Devel. Tourism and Env. Affairs | -43.4% | 1.9% | -35.7% | -25.7% |
| Treasury | 70.9% | 126.3% | 156.4% | 117.9% |
| Health | -23.6% | -16.7% | -4.3% | -14.9% |
| Education | -24.7% | 15.7% | 29.6% | 6.9% |
| Social Development | -81.7% | -40.6% | -17.3% | -46.5% |
| Coop. Governance and Traditional Affairs | -51.2% | -3.5% | 33.7% | -7.0% |
| Public Works | 7.8% | 9.0% | -8.3% | 2.8% |
| Police, Roads and Transport | -14.9% | 62.1% | 49.8% | 32.4% |
| Agriculture | 17.5% | 294.6% | -17.2% | 98.3% |
| Sport Arts Culture and Recreation | -20.6% | -45.1% | 0.3% | -21.8% |
| Human Settlements | -20.4% | 8.2% | 1.4% | -3.6% |
| Rural Development | | | | |
| Memo: Social services | -22.8% | 0.6% | 5.1% | -5.7% |

*Source: Statistical appendix, table 12.*

Table 22: Free State province - Administrative composition of other expenditure outturns (% of originally approved budget)

| | 2010/11 | 2011/12 | 2012/13 | Average |
|---|---|---|---|---|
| **Total** | **17.4%** | **10.7%** | **-0.6%** | **9.2%** |
| Premier | 469.6% | 28.4% | -9.8% | 162.7% |
| Legislature | | | | |
| Economic Devel. Tourism and Env. Affairs | 4.8% | 25.9% | 4.0% | 11.6% |
| Treasury | 112.0% | 82.6% | -59.5% | 45.0% |
| Health | 1.6% | 11.8% | 24.8% | 12.7% |
| Education | 15.1% | 11.3% | -4.8% | 7.2% |
| Social Development | 4.1% | -3.3% | -7.6% | -2.3% |
| Coop. Governance and Traditional Affairs | 257.7% | 10.1% | -40.4% | 75.8% |
| Public Works | 45.2% | 10.1% | 15.6% | 23.6% |
| Police, Roads and Transport | 25.3% | -0.9% | 4.2% | 9.5% |
| Agriculture | -64.0% | 514.2% | 714.2% | 388.1% |
| Sport Arts Culture and Recreation | 8.1% | 173.9% | -22.4% | 53.2% |
| Human Settlements | -12.5% | 16.3% | -46.6% | -14.3% |
| Rural Development | | | | |
| *Memo*: Social services | 11.2% | 7.9% | -3.3% | 5.3% |

*Source: Statistical appendix, table 13.*

Table 23: Free State province - Primary expenditure (% of GDP)

| | 2010/11 | | 2011/12 | | 2012/13 | |
|---|---|---|---|---|---|---|
| | **Budget** | **Actual** | **Budget** | **Actual** | **Budget** | **Actual** |
| **Primary expenditure** | **15.0%** | **14.8%** | **15.1%** | **15.5%** | **15.2%** | **15.7%** |
| **Recurrent expenditure** | **12.6%** | **12.8%** | **13.0%** | **13.2%** | **13.2%** | **13.4%** |
| Wages and salaries | 8.7% | 8.8% | 9.2% | 9.3% | 9.3% | 9.5% |
| Purchases of goods and services | 2.8% | 2.6% | 2.5% | 2.4% | 2.5% | 2.5% |
| Current transfers | 1.2% | 1.4% | 1.3% | 1.4% | 1.4% | 1.4% |
| Of which: Public entities | 0.1% | 0.2% | 0.1% | 0.2% | 0.1% | 0.1% |
| District governments | 0.1% | 0.2% | 0.2% | 0.2% | 0.2% | 0.2% |
| Departmental agencies | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% |
| Non-profit organisations | 0.7% | 0.8% | 0.8% | 0.9% | 0.9% | 0.8% |
| Households | 0.2% | 0.2% | 0.1% | 0.2% | 0.1% | 0.2% |
| Others | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| **Capital expenditure** | **2.4%** | **1.9%** | **2.1%** | **2.3%** | **2.0%** | **2.2%** |
| Investment expenditure | 1.2% | 1.0% | 1.4% | 1.5% | 1.3% | 1.5% |
| Capital transfers | 1.2% | 0.9% | 0.7% | 0.8% | 0.7% | 0.7% |
| Of which: Households | 0.9% | 0.7% | 0.6% | 0.7% | 0.7% | 0.6% |

*Source: Statistical appendix, tables 2 and 8. Excludes interest payments and external-funded capital expenditure.*

Table 24: Free State province - Administrative composition of wages and salaries (% of total)

| | 2010/11 | 2011/12 | 2012/13 | Average |
|---|---|---|---|---|
| **Total** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |
| Premier | 0.8% | 0.8% | 1.1% | 0.9% |
| Legislature | 1.2% | 1.4% | 1.3% | 1.3% |
| Economic Devel. Tourism and Env. Affairs | 1.0% | 1.0% | 1.0% | 1.0% |
| Treasury | 0.9% | 0.9% | 0.9% | 0.9% |
| Health | 30.0% | 30.8% | 31.8% | 30.9% |
| Education | 54.2% | 53.3% | 52.2% | 53.2% |
| Social Development | 2.5% | 2.6% | 2.7% | 2.6% |
| Coop. Governance and Traditional Affairs | 1.3% | 1.3% | 0.9% | 1.1% |
| Public Works | 2.2% | 2.1% | 2.0% | 2.1% |
| Police, Roads and Transport | 2.9% | 2.8% | 2.9% | 2.9% |
| Agriculture | 1.7% | 1.8% | 1.7% | 1.7% |
| Sports, Arts Culture and Recreation | 1.0% | 1.0% | 1.0% | 1.0% |
| Human Settlements | 0.3% | 0.3% | 0.4% | 0.3% |
| Rural Development | 0.0% | 0.0% | 0.1% | 0.0% |
| *Memo*: Social services | 87.0% | 86.9% | 87.1% | 87.0% |

*Source: Statistical appendix, table 11.*

Table 25: Free State province - Administrative composition of purchases of goods and salaries (% of total)

| | 2010/11 | 2011/12 | 2012/13 | Average |
|---|---|---|---|---|
| **Total** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |
| Premier | 2.0% | 2.5% | 1.9% | 2.1% |
| Legislature | 0.0% | 0.0% | 0.0% | 0.0% |
| Economic Devel. Tourism and Env. Affairs | 1.8% | 1.9% | 2.0% | 1.9% |
| Treasury | 1.2% | 1.4% | 1.4% | 1.4% |
| Health | 45.2% | 46.5% | 42.8% | 44.8% |
| Education | 12.0% | 13.2% | 16.3% | 13.8% |
| Social Development | 2.3% | 2.3% | 2.0% | 2.2% |
| Coop. Governance and Traditional Affairs | 3.6% | 3.6% | 2.8% | 3.3% |
| Public Works | 11.5% | 12.8% | 12.0% | 12.1% |
| Police, Roads and Transport | 12.3% | 7.1% | 11.2% | 10.2% |
| Agriculture | 2.1% | 3.1% | 2.9% | 2.7% |
| Sports, Arts Culture and Recreation | 4.0% | 4.8% | 3.7% | 4.2% |
| Human Settlements | 1.9% | 0.8% | 0.6% | 1.1% |
| Rural Development | 0.0% | 0.0% | 0.4% | 0.1% |
| Memo: Social services | 61.3% | 62.8% | 61.7% | 61.9% |

*Source: Statistical appendix, table 12.*

Table 26: Free State province - Administrative composition of capital expenditure (% of total)

| | 2010/11 | 2011/12 | 2012/13 | Average |
|---|---|---|---|---|
| **Total** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |
| Premier | 0.2% | 0.1% | 0.1% | 0.1% |
| Legislature | 0.0% | 0.0% | 0.0% | |
| Economic Devel. Tourism and Env. Affairs | 1.1% | 0.7% | 1.0% | 0.9% |
| Treasury | 0.3% | 0.2% | 0.2% | 0.2% |
| Health | 17.2% | 16.7% | 19.9% | 17.9% |
| Education | 12.1% | 15.4% | 16.8% | 14.8% |
| Social Development | 0.2% | 0.7% | 0.8% | 0.6% |
| Coop. Governance and Traditional Affairs | 0.6% | 0.6% | 0.7% | 0.6% |
| Public Works | 3.4% | 6.5% | 4.7% | 4.9% |
| Police, Roads and Transport | 20.6% | 23.9% | 21.8% | 22.1% |
| Agriculture | 3.2% | 4.7% | 4.3% | 4.1% |
| Sports, Arts Culture and Recreation | 3.3% | 2.9% | 2.9% | 3.0% |
| Human Settlements | 37.8% | 27.6% | 26.8% | 30.7% |
| Rural Development | 0.0% | 0.0% | 0.1% | |
| *Memo*: Social services | 67.4% | 60.3% | 64.3% | 64.0% |

*Source: Statistical appendix, table 13.*

Table 27: Free State province - Administrative composition of primary expenditure, FY 2010/11

| | Budget | Actual | Adjusted budget | Deviation | Absolute decision | Percent |
|---|---|---|---|---|---|---|
| Premier | 167 942.0 | 187 276.7 | 165 202.1 | 22 074.6 | 22 074.6 | 13.4% |
| Legislature | 153 638.0 | 150 134.0 | 151 131.4 | (997.4) | 997.4 | 0.7% |
| Economic Devel. Tourism and Env. Affairs | 370 762.0 | 327 294.5 | 364 713.1 | (37 418.6) | 37 418.6 | 10.3% |
| Treasury | 177 505.9 | 162 625.0 | 174 609.9 | (11 985.0) | 11 985.0 | 6.9% |
| Health | 6 151 710.0 | 6 032 435.9 | 6 051 346.4 | (18 910.5) | 18 910.5 | 0.3% |
| Education | 8 538 379.0 | 8 502 932.3 | 8 399 077.4 | 103 854.8 | 103 854.8 | 1.2% |
| Social Development | 720 990.0 | 712 503.8 | 709 227.2 | 3 276.5 | 3 276.5 | 0.5% |
| Coop. Governance and Traditional Affairs | 320 048.0 | 387 821.4 | 314 826.5 | 72 994.9 | 72 994.9 | 23.2% |
| Public Works | 948 325.0 | 1 027 400.0 | 932 853.3 | 94 546.7 | 94 546.7 | 10.1% |
| Police Roads and Transport | 1 682 742.0 | 1 618 129.5 | 1 655 288.5 | (37 159.0) | 37 159.0 | 2.2% |
| Agriculture | 408 849.0 | 395 810.0 | 402 178.7 | (6 368.7) | 6 368.7 | 1.6% |
| Sports, Arts Culture and Recreation | 373 423.0 | 381 378.5 | 367 330.7 | 14 047.8 | 14 047.8 | 3.8% |
| Human Settlements | 1 364 913.0 | 1 144 688.6 | 1 342 644.8 | (197 956.2) | 197 956.2 | 14.7% |
| Rural Development | - | - | - | - | - | - |
| **Allocated expenditure** | **21 379 226.9** | **21 030 430.1** | **21 030 430.1** | **(0.0)** | **621 590.7** | |
| Contingency | | | | | | |
| **Total expenditure** | **21 379 226.9** | **21 030 430.1** | | | | |
| Overall (PI-1) variance | | | | | | 1.6% |
| Composition (PI-2) variance | | | | | | 3.0% |
| Contingency share of budget | | | | | | 0.0% |

*Source: Statistical appendix, table 9.*

Table 28: Free State province - Administrative composition of primary expenditure, FY 2011/12

| | Budget | Actual | Adjusted budget | Deviation | Absolution deviation | Percent |
|---|---|---|---|---|---|---|
| Premier | 220 756.0 | 213 472.8 | 226 614.7 | (13 141.9) | 13 141.9 | 5.8% |
| Legislature | 203 406.0 | 195 588.0 | 208 804.3 | (13 216.3) | 13 216.3 | 6.3% |
| Economic Devel. Tourism and Env. Affairs | 390 303.0 | 389 666.0 | 400 661.4 | (10 995.4) | 10 995.4 | 2.7% |
| Treasury | 201 033.0 | 184 821.7 | 206 368.3 | (21 546.6) | 21 546.6 | 10.4% |
| Health | 6 819 500.0 | 6 810 901.8 | 7 000 485.1 | (189 583.3) | 189 583.3 | 2.7% |
| Education | 9 493 833.0 | 9 753 703.3 | 9 745 793.1 | 7 910.2 | 7 910.2 | 0.1% |
| Social Development | 801 087.0 | 803 659.0 | 822 347.3 | (18 688.3) | 18 688.3 | 2.3% |
| Coop. Governance and Traditional Affairs | 375 641.0 | 379 030.5 | 385 610.3 | (6 579.7) | 6 579.7 | 1.7% |
| Public Works | 1 226 210.0 | 1 254 537.1 | 1 258 752.8 | (4 215.7) | 4 215.7 | 0.3% |
| Police Roads and Transport | 1 465 457.0 | 1 716 891.7 | 1 504 349.3 | 212 542.4 | 212 542.4 | 14.1% |
| Agriculture | 519 341.0 | 555 820.5 | 533 124.0 | 22 696.6 | 22 696.6 | 4.3% |
| Sports Arts Culture and Recreation | 479 300.0 | 479 612.3 | 492 020.3 | (12 408.0) | 12 408.0 | 2.5% |
| Human Settlements | 987 790.0 | 1 061 231.3 | 1 014 005.3 | 47 226.0 | 47 226.0 | 4.7% |
| Rural Development | - | - | - | - | - | |
| **Allocated expenditure** | **23 183 657.0** | **23 798 936.0** | **23 798 936.0** | **0.0** | **580 750.3** | |
| Contingency | | | | | | |
| Total expenditure | 23 183 657.0 | 23 798 936.0 | | | | |
| Overall (PI-1) variance | | | | | | 2.7% |
| Composition (PI-2) variance | | | | | | 2.4% |
| Contingency share of budget | | | | | | 0.0% |

*Source: Statistical appendix, table 9.*

Table 29: Free State province - Administrative composition of primary expenditure, FY 2012/13

| | Budget | Actual | Adjusted budget | Deviation | Absolute deviation | Percent |
|---|---|---|---|---|---|---|
| Premier | 253 113.0 | 252 855.3 | 260 830.6 | (7 975.3) | 7 975.3 | 3.1% |
| Legislature | 212 422.0 | 202 511.0 | 218 898.9 | (16 387.9) | 16 387.9 | 7.5% |
| Economic Devel. Tourism and Env. Affairs | 436 894.0 | 407 139.0 | 450 215.2 | (43 076.2) | 43 076.2 | 9.6% |
| Treasury | 212 104.0 | 206 017.4 | 218 571.2 | (12 553.8) | 12 553.8 | 5.7% |
| Health | 7 382 601.0 | 7 597 912.4 | 7 607 701.2 | (9 788.9) | 9 788.9 | 0.1% |
| Education | 10 044 352.0 | 10 502 510.0 | 10 350 610.7 | 151 899.3 | 151 899.3 | 1.5% |
| Social Development | 865 450.0 | 867 136.2 | 891 838.1 | (24 701.9) | 24 701.9 | 2.8% |
| Coop. Governance and Traditional Affairs | 323 042.0 | 300 501.9 | 332 891.8 | (32 389.9) | 32 389.9 | 9.7% |
| Public Works | 1 269 707.0 | 1 255 249.6 | 1 308 421.2 | (53 171.6) | 53 171.6 | 4.1% |
| Police, Roads and Transport | 1 755 500.0 | 1 927 679.9 | 1 809 026.3 | 118 653.5 | 118 653.5 | 6.6% |
| Agriculture | 579 482.0 | 561 275.2 | 597 150.8 | (35 875.6) | 35 875.6 | 6.0% |
| Sports, Arts Culture and Recreation | 435 559.8 | 444 964.7 | 448 840.3 | (3 875.6) | 3 875.6 | 0.9% |
| Human Settlements | 1 058 221.0 | 1 067 938.1 | 1 090 486.8 | (22 548.8) | 22 548.8 | 2.1% |
| Rural Development | 40 600 | 33 630.5 | 41 837.9 | (8 207.4) | 8 207.4 | 19.6% |
| **Allocated expenditure** | **24 869 047.8** | **25 627 321.0** | **25 627 321.0** | **0.0** | **541 105.6** | |
| Contingency | | | | | | |
| **Total expenditure** | **24 869 047.8** | **25 627 321.0** | | | | |
| Overall (PI-1) variance | | | | | | 3.0% |
| Composition (PI-2) variance | | | | | | 2.1% |
| Contingency share of budget | | | | | | 0.0% |

*Source: Statistical appendix, table 9*.

Table 30: Free State province – Composition variance results matrix

| Year | For PI-1 Total exp deviation | For PI-2(i) Composition variance | For PI-2(ii) Contingency share |
|---|---|---|---|
| FY 2010/11 | 1.63% | 2.96% | 0.00% |
| FY 2011/12 | 2.65% | 2.44% | |
| FY 2012/13 | 3.05% | 2.11% | |

*Source: Statistical appendix, tables 27, 28 and 29.*