Public Expenditure and Financial Accountability Assessment

PEFA Report

Republic of South Africa
Province of Eastern Cape

Final Report

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LIST OF ABBREVIATIONS AND ACRONYMS

AFS	Annual Financial Statements
AG	Auditor General
AGA	Autonomous Government Agencies
APP	Annual Performance Plan
ASB	Accounting Standards Board
BAS	Basic Accounting System
BBBEEA	Broad Based Black Economic Empowerment Act
BO	Budget Office
BS	Budget Support
CFO	Chief Financial Officer
COFOG	Classifications of Functions of Government
CRO	Chief Risk Officer
DDG	Deputy Director General
DG	Director General
DoRA	Division of Revenue Act
DORB	Division of Revenue Bill
DPSA	Department of Public Service and Administration
EC	European Commission
ENE	Estimates of National Expenditure
EPRE	Estimates of Provincial Revenue and Expenditure
EP	Economic Policy (Division)
FINEST	Financial Efficient Strategic System (for Procurement)
FMIP	Financial Management Improvement Program
FY	Fiscal Year
GDP	Gross Domestic Product
GM	General Manager
GFS	Government Financial Statistics
GNI	Gross National Income
GRAP	Generally Recognized Accounting Practice
HOD	Head of Department
HR	Human Resources
IA	Internal Audit
ICT	Information & Communication Technologies
ID	Identification Document
IDC	International Development Co-operation
IFMS	Integrated Financial Management System
IIA	Institute of Internal Audit
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
ISA	International Standards on Auditing
IYM	In-Year Monitoring
LOGIS	Logistical Information System
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MTBPS	Medium Term Budget Policy Statement
MTEC	Medium Term Expenditure Committee
MTEF	Medium Term Expenditure Framework
NA	National Assembly
NDP	National Development Plan
NCOP	National Council of Provinces
NRF	National Revenue Fund
NT	National Treasury
OAG	Office of the Accountant General
ODA	Official Development Assistance
PAA	Public Audit Act
PAIA	Promotion of Access to Information Act
PE	Public Enterprise

PEFA	Public Expenditure and Financial Accountability
PERSAL	Personal and Salary Administration System
PF	Public Finance (Division)
PFM	Public Finance Management
PFMA	Public Finance Management Act
PI	Performance Indicator
PMG	Payment Master General
PPP	Public Private Partnership
PRF	Provincial Revenue Fund
PU	Procurement Unit
R	Rand, South African currency
RDP	Reconstruction and Development Program (Fund)
SA	South Africa
SARB	South African Reserve Bank
SARS	South African Revenue Service
SBS	Sector Budget Support
SCM	Supply Chain Management
SCOA	Standard Chart of Accounts
SCOPA	Standing Committee on Public Accounts
SITA	State Information Technology Agency
SOE	State Owned Enterprise
TOR	Terms of Reference
VAT	Value Added Tax

SUMMARY ASSESSMENT

This PEFA assessment has been carried out to evaluate the performance of public financial management within Eastern Cape Province. The sections that follow summarize the performance of the PFM systems, procedures and practices through six dimensions of PFM[1].

Credibility of the budget

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

From a revenue perspective, the Eastern Cape Provincial government secures 98% of its funding/revenue via highly regulated transfers from National Government (Equitable Share and Conditional Grants). Only 2% of revenue is self- generated by the province. On the expenditure side, the Compensation of Employees is the single largest economic cost and provides some stability to the forecasting of future expenditure. The Province (and the Government as a whole) has experienced problems with the recording and payment of arrears and a number of initiatives have been implemented to improve the systems over the preceding years.

Comprehensiveness and transparency

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

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

The Provincial Government has limited measures in place to monitor the Provincial Public Entities and the Municipalities via the preparation and submission of Annual Reports and In-Year Monitoring processes. However, due to the nature of the three spheres of Government, (i.e. National, Provincial and Local), the Local Government is independent from Provincial Government.

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

Policy-based budgeting

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

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

[1] (i)-Credibility of the budget; (ii)-Comprehensiveness and transparency of the budget process; (iii)-Policy based budgeting; (iv)-Predictability and control in budget execution; (v)-Accounting, recording and reporting; and (vi)-External scrutiny and audit.

Predictability and control in budget execution

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

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

Overspending of a budget is regarded as Unauthorized Expenditure in terms of legislation and Accounting Officers and Chief Financial Officers could be charged with financial misconduct if such unauthorized expenditure is incurred. The constitution of South Africa provides at the highest level that government spending should be based on a system that is fair, equitable, cost-effective, transparent and economical. The Auditor General and SCOPA has identified and raised this concern as the highest area of non-compliance, fraud and corruption.

Throughout each year various reporting, monitoring, evaluation and review mechanisms are in place to ensure that budgets are executed within limits and against time constraints. Under spending of the budget results in service delivery constraints. The Auditor-General has however highlighted 5 major concerns i.e. quality of financial reporting, high level of non-compliance in supply management practices, poor human resource management practices, inadequate general controls over the information technology and financial health (under spending of capital budgets) that is questionable.

Accounting, recording and reporting

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

External Scrutiny and audit

The Provincial Auditor audits all Eastern Cape Departments and public entities every year within 4 months from FY year ending (July), performing a full range of audits, including systems, financial statements, compliance, procurement, IT and program performance related audits. The Provincial Auditor applies INTOSAI/ISSAI standards and good practices. The audit reports are not tabled in the legislature in July, but included within the department annual reports. As a result, the department's audited financial statements are submitted to the Legislature within 6/7 months from FY ending. Even though formal responses are provided to each Department in the final management letters, and commitments are obtained from the Departments to implement corrective measures to resolve audit findings, the Provincial Auditor's report however shows often limited improvement on some systematic issues identified in the previous financial years, affecting negatively the impact of external audit findings.

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

Most recommended actions are generally acted upon by the Executive, as set out within next year annual report. However, some sensitive resolutions are not entirely performed and disciplinary measures not communicated.

i) Implications for budgetary outcome

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

Aggregate fiscal discipline

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

Strategic Allocation of Resources

A number of positive elements contribute to a more strategic allocation of resources in the Province including the preparation of the budget on 3-year rolling basis under MTEF, reference to sectorial strategic plans in some cases, and the systematic approach to the budget process supported by detailed guidelines to be followed by each provincial department. The strategic policy and sector objectives set out in the government's Medium Term Budget Policy Statement for Service Delivery also contributes to guiding sector allocations. Nevertheless the Provincial Government is in the process to finalise the detailed costing (investment and recurrent) for the Province Development Strategy and medium-term sector plans, strengthening the linkage with the MTEF and subsequent year's ceilings to adopt a more consistent allocation policy.

Efficient service delivery

The deficiencies in internal audit follow-up, together with insufficient responsiveness from the Executive to the Auditor General and Legislative scrutiny recommendations are not contributing to sufficient accountability and consequently efficient delivery of public services can be suffering. Moreover, the insufficient information on the results of the procurement processes to the public is likely to undermine the credibility of institutions and their ability to deliver efficient public services. The ability for planning and management of quality service delivery could also be affected by the adjustments to budget allocations during the year.

In conclusion:

Overall, the performance of PFM systems in the Province is fair but not yet sufficient to contribute effectively to achieving development objectives, and important areas in the budget execution, control and external scrutiny have to be improved in time in order to increase accountability and likelihood of contributing to fiscal discipline, strategic allocation of resources and efficient service delivery. One would also add that the overall legal and institutional framework of South Africa is generally conducive to efficient PFM. However, the national systems that are provided to the provinces (such as BAS etc.) have to ensure that they are efficient and effective tools for the provinces in order to improve their PFM and not just be requisites from national government that introduce further complications administrative burden or otherwise to provincial PFM.

ii) Prospect for reforms

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

The planned activities for improvements to the Financial Management Systems involve implementation of LOGIS2 to address the short-comings of FINEST and will cover all the Provincial Departments. LOGIS supports the complete Order-to-Cash process of procurement and subscribes to sound supply chain management best practice. Furthermore, it will offer a functionality to support financial interface with BAS. It is scheduled to be implemented in phases and anticipated to take approximately three years to complete.

National Treasury has initiated a reform effort that aims to upgrade and modernize all financial software and integrating them to serve as a single Integrated Financial Management Information System (IFMS). The National Treasury has decided to employ standard platforms customized to meet the needs of the PFM systems and procedures.

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

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

EASTERN CAPE PROVINCE PEFA PERFORMANCE INDICATORS (2014)[3]

PFM Performance Indicator		Scoring Method	Dimension Ratings i.	ii.	iii.	iv.	Overall Rating
A. PFM-OUT-TURNS: Credibility of the budget							
HLG-1	Predictability of Transfers from a Higher Level of Government	M1	A	A	A		A
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	A				A
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	A	N/A			A
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	D				D
PI-4	Stock and monitoring of expenditure payment arrears	M1	A	C			C+
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency							
PI-5	Classification of the budget	M1	A				A
PI-6	Comprehensiveness of information included in budget documentation	M1	A				A
PI-7	Extent of unreported government operations	M1	A	A			A
PI-8	Transparency of inter-governmental fiscal relations	M2	A	B	A		A
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	B	A			B+
PI-10	Public access to key fiscal information	M1	B				B
C. BUDGET CYCLE C(i) Policy-Based Budgeting							
PI-11	Orderliness and participation in the annual budget process	M2	A	A	D		B
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	A		A	A	A
C(ii) Predictability and Control in Budget Execution							
PI-13	Transparency of taxpayer obligations and liabilities	M2	A	B	D		B
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	A	A	D		B
PI-15	Effectiveness in collection of tax payments	M1	A	C	A		C+
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	A	A	A		A
PI-17	Recording and management of cash balances, debt and guarantees	M2	A	A	A		A
PI-18	Effectiveness of payroll controls	M1	B	B	A	A	B+
PI-19	Competition, value for money and controls in procurement	M2	B	D	D	D	D+
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	C	B	C		C+
PI-21	Effectiveness of internal audit	M1	C	C	C		C
C(iii) Accounting, Recording and Reporting							
PI-22	Timeliness and regularity of accounts reconciliation	M2	A	D			C+
PI-23	Availability of information on resources received by service delivery units	M1	A				A
PI-24	Quality and timeliness of in-year budget reports	M1	B	A	A		B+
PI-25	Quality and timeliness of annual financial statements	M1	A	A	A		A
C(iv) External Scrutiny and Audit							
PI-26	Scope, nature and follow-up of external audit	M1	A	A	B		B+
PI-27	Legislative scrutiny of the annual budget law	M1	A	A	A		A
PI-28	Legislative scrutiny of external audit reports	M1	B	A	B		B+
D. DONOR PRACTICES							
D-1	Predictability of Direct Budget Support	M1					
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	M1					
D-3	Proportion of aid that is managed by use of national procedures	M1					

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

1. INTRODUCTION

1.1. Background and objectives

The rationale for conducting a PEFA assessment in Eastern Cape Province is twofold:

- In the short-term, the PEFA assessment will be used as baseline data, and a basis for information and monitoring so as to: (i) feed into the Financial Management Capability and Maturity Model (FMCMM); (ii) help donors assess eligibility for a new sector budget support (GBS) programmes, and (iii) to verify whether general or specific PFM conditions of on-going GBS programmes (such as the Financial Management Improvement Programme) have been met;
- In the medium-term, the outcomes of the PEFA assessment will be utilised to feed the reflection on: (i) measuring the progress made with regards to PFM improvement; and (ii) informing and guiding the Government's PFM capacity development programme, in coordination with the donor community.

1.2. Objective

The objective of this assignment is as follows:
To compile a comprehensive "Public Financial Management – Performance Report" (PFM-PR) prepared according to the PEFA methodology, so as to provide an analysis of the overall performance of the PFM systems of the Eastern Cape Province, as well as to provide a baseline situation that permits the measuring over time of changes in performance.

This Sub-National PFM PR is composed of a detailed analysis of the 32 indicators of the PFM Performance Measurement Framework and of the performance report itself which summarises this analysis of the indicators and includes other elements relevant for the assessment.

The purpose of the assignment is to:

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

1.3. Process at the province level

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

1.3.1 Assessment team

The assessment team comprised three independent consultants – Michel Sigaud (Team Leader), James Botha, and John Fleming. Terms of reference were provided to the consultants.

1.3.2 Role and involvement of various stakeholders

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

1.3.3 Assessment process

The assessment process was under the supervision of Mrs. Ronél Slinger, Provincial Budget Analyst, National Treasury and Mr. Andisile Best, Director of the Budget System support office at the Provincial Treasury. The assessment was organized by the National Treasury, which drafted the terms of reference (TOR). The TOR was circulated to the Eastern Cape provincial authorities. At the start of the mission a presentation of the PEFA methodology was made to Provincial department officials.

1.4. Methodology

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

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

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

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

1.5. Scope

The assessment covers the sub national government, that is, the Provincial authorities and public entities at the provincial level. The point of time or period of assessment of each indicator and dimension is in accordance with the PEFA Field Guide.

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

Budget credibility: the original approved budget should be the total budget approved by the National Assembly and the NCOP. The budget should reflect the intended outputs of the provincial and Sector Medium Term Development Plans; ***Budget comprehensiveness and transparency:*** the budget and the fiscal risk oversight are comprehensive and fiscal and budget information is accessible to the public;
Policy based budgeting: budget policy from the national and provincial levels should have both a bottom-up and top- down perspective;
Predictability and control in budget execution: the budget should be implemented as intended, in an orderly and predictable manner and checks and balances should be put in place to enhance stewardship;

Accounting, recording, and reporting: adequate records and information are produced, maintained and disseminated to meet expenditure and decision-making control, management and reporting;
External audit and scrutiny: A high quality external audit established to scrutinize Sub-Government finances.

The assessment also looked into revenue sources and its expenditure, application of procurement and contracting procedures at the provincial level, including timeliness analysis of the provincial department annual reports & financial statements and legislature responses as summarized in the table below.

2. COUNTRY BACKGROUND INFORMATION

2.1. Economic Context, Development and Reforms, at national level

According to the World Bank[4] "A sustained record of macroeconomic prudence and a supportive global environment enabled South Africa's GDP to grow at a steady pace for the decade up to the beginning of the global financial crisis in 2008. Improvements in the public budget management system and efforts to restore the macro fundamentals by National Treasury played an essential role. Fiscal balances consistently improved, causing central government gross debt to fall from around 50 percent of GDP in FY1994/95 to 40 percent today. Revenue collection quadrupled and the number of taxpayers more than doubled between 1996 and 2007. At the heart of the fiscal achievements were dramatic improvements in revenue collection by the South African Revenue Service (SARS) and disciplined spending choices.

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

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

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

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

2.2. Development and Reforms

2.2.1 Development and poverty reduction strategies

"The current administration is acutely aware of the immense challenges to accelerate progress, eradicate extreme poverty, and build a more inclusive society". The Government vision and priorities to address them are outlined in the 2030 National Development Plan (NDP). Released in 2012, the report is the product of extensive nationwide consultations led by the National Planning Commission, an independent advisory body consisting of 26 eminent people drawn largely from outside the government, appointed by the current administration to draft a vision and development plan for the country. The NDP was embraced by the ANC at their

[4] WB Country Partnership Strategy 2014-2017

2012 National conference as a platform for united action by all South Africans to eradicate poverty, create full employment and reduce inequality. The Cabinet has also endorsed the NDP in 2012 as the country's overarching strategic plan to implement its development vision. It also underpins the 2013 Budget.

2.2.2 Fiscal policy and fiscal development

"South Africa has made progress toward establishing a more equitable society. Since the end of apartheid, the government has used its tax resources to fund the gradual expansion of social assistance programs and scale up spending on education and health services. It thus was able to reduce poverty considerably. But progress in achieving greater income equality has proved elusive. Inequality of household consumption, measured by the Gini coefficient on disposable income, increased from about 0.67 in 1993 to around 0.69 in 2011, among the world's highest.

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

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

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

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

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

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

2.2.3 Decentralization and local governments

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

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

Some analysis[5] shows that despite the emphasis of the intergovernmental transfer system on redistribution and equity, richer provinces in South Africa still enjoy higher levels of revenue per capita and have higher per capita expenditure on education and health. The findings indicate that both own-source revenue and transfers from central government have an important impact on education services across provinces. A large portion of transfers is always used to finance education services.

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

Table 1: Republic of South Africa-Main allocation by sphere of government (R'000)

Spheres of Government	2011/2012	2012/2013	2013/2014
National	566,322,576	622,434,681	676,920,412
Provincial	288,492,831	309,057,382	337,572,412
Local	34,107,901	37,873,396	40,581,787
Total	**888,923,308**	**969,365,459**	**1,055,074,611**
% allocated to National	63.7%	64.2%	64.2%
% allocated to Provincial	32.5%	31.9%	32.0%
% allocated to Local	3.8%	3.9%	3.8%

Source: Division of Revenue Act, 2011-2014

2.3. Eastern Cape Province socio-economic background[6]

2.3.1 Introduction

The Eastern Cape (EC) province is the second largest province in South Africa by land mass (169.580km^2) and with 6.7 million inhabitants, the third largest in terms of population size (12.5%). The province remains one of the poorest in the

country where inequality remains high, both in terms of income and assets. Research indicates that 25 per cent of citizens of the province are food insecure, with 17.3 per cent deemed ‘food inadequate’ and 7.7 per cent being ‘severely food inadequate’ *(ECPC: Diagnostic 2013).* Outward migration remains high within the province, as people leave the province in search of economic opportunities.

2.3.2 Population overview

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

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

[5] Paper 58, Economic Commission for Africa, Working Paper No. 2012/87 (UNU-WIDER)
[6] Excerpts from EC EPRE 2014/2015

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

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

2.3.3 Economic environment

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

The EC province is characterized by high levels of unemployment; during the first 3 quarters of 2013 total employment in the province remained constant at about 1.33 million. The severity of poverty and indigence in the province is such that immediate remedy in the form of social grants provision is necessarily indispensable. According to the 2012 GHS, over a third of the population in the province benefit from social grants (child support, old age and disability grants). The EC has second highest dependency on social grants in the country after Kwazulu-Natal.

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

2.4. Allocation of resources

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

Table 2: Equitable share by Province, per DORA

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

Source: Division of Revenue Act, 2011-2014

Table 3: Eastern Cape Provincial Budget

Eastern Cape Province	2011/12	2012/13	2013/2014
Receipts			
- Equitable Share	44,644,	47,559,8	50,164,506
- Conditional Grants	8,841,	9,411,32	9,461,231
- Own Revenue	845,	1,100,67	836,061
Total Receipts	**54,331,**	**58,071,8**	**60,461,798**
Less:			

- Total provincial payments	(53,734,	(56,154,21	(59,257,837)
- Legislative receipts	(4,784)	(1,583)	(340)
Surplus before financing	**592,**	**1,916,08**	**1,203,621**
Financing			
- Provincial roll-overs	71,426	44,491	-
- National roll-overs	823,	217,74	-
- Other	132,	295,60	(49,636)
Surplus after financing	**1,620,**	**2,473,92**	**1,153,985**

Source: Eastern Cape Provincial Treasury

Education, Health and Public Works accounted for 80% of the Eastern Cape annual total expenditure in the 2013/14 financial year.

Table 4: Eastern Cape Department Expenditure 2013/2014, "Top 3"

Department	Current payment	Transfers	Investments	Total expenditure	80/20
Vote 6-**EDUCATION**	23 534	2 575	1 338	27 449	27 449 017
Vote 3-**HEALTH**	15 494	387	1 161	17 042	
Vote 5-**PUBLIC WORKS**	2 987	220	641	3 850	44 491 536
TOTAL FOR PROVINCE	**48 692**	**8 437**	**3 594**	**60 724**	**79.61%**

Source: PEFA team compilation

2.5. Description of the legal and institutional framework for PFM

2.5.1 Legal

The Public Finance Management Act of South Africa derives its mandate from the following Sections in the Constitution:

- Section 213 - This section talks to the National Revenue Fund into which all money received by the national government must be paid, except money reasonably excluded by an Act of Parliament.
- Section 215 - This section is in relation to the National, Provincial and Municipal Budgets and Budgetary Processes that must promote transparency, accountability and the effective financial management of the economy, debt and the public sector
- Section 216 - This section of the Constitution gives effect to the establishment of the National Treasury and prescribes measures to ensure both transparency and expenditure control in each sphere of government, by introducing uniform reforms.
- Section 217 - This section gives effect to the Procurement of Goods and Services by government and requires that when an organ of state in the national, provincial or local sphere of government, or any other institution identified in national legislation, contracts for goods or services, it must do so in accordance with a system which is fair, equitable, transparent, competitive and cost-effective.
- Section 218 - This section relates to Government Guarantees and states that the national government, a provincial government or a municipality may guarantee a loan only if the guarantee complies with any conditions set out in national legislation.
- Section 219 - This section requires that an Act of Parliament must establish a Framework for determining Remuneration of Persons holding public office.

Moreover, the entity responsible for tax collection is the South African Revenue Service. South African Tax Law is governed by the following tax legislation i.e. Income Tax Act; Value Added Tax Act; Estate Duty Tax; Transfer Duty Act; Skills Development Levy Act; Securities Transfer Tax Act; Securities Transfer Tax Administration Act; Unemployment Insurance Contributions Act.

The relevant PFM decree is the Public Finance Management Act of 1999, revised in 2011. Directives are given in the form of Circulars issued by the National Treasury of South Africa. The National Treasury Regulations approved in 1999 and amended in 2011 gives effect to the financial management processes to be followed by the departments, public entities and local government.

The legal framework is comprehensive, as it incorporates all spheres of government. It is supported further by the Treasury Regulations on financial processes covering all cycles in financial management. Furthermore, it provides frameworks on:

- Banking, Cash Management and Investments
- Public Private Partnerships
- Supply Chain Management

2.5.2 Institutional framework

Legislature

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

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

Provincial Executive Council

This body runs the government machinery within the province. The Premier is elected on a 5-year term of office by the provincial legislature heads the executive. He/she appoints members of the Executive Council to assist in running the affairs of the province. In the Eastern Cape, the Executive Council represent 14 departments.

Judiciary

The Constitution establishes the judiciary and guarantees its independence. It is the third arm of government. It is made up of the constitutional court, the supreme court of appeals, high courts and magistrate courts. All matters of legal interpretation are handled by the courts.

The main entities involved in PFM at the central and sub-national levels are National and provincial departments; Trading entities; Constitutional institutions; Public Entities and Local governments ("municipalities").

The following agencies exist under Schedule 3 of the PFMA within the Eastern Cape Province:

Table 5: Eastern Cape Public Entities

Vote 1-OFFICE OF THE PREMIER	*1.1 E. C. Socio eco consultative council*
Vote 8-RURAL & AGRICULTURE DEVELOPMENT	*8.1-E. C. Rural Development Agency*
	8.2-E. C. Appropriate Tech. Unit
Vote 9-ECONOMIC DEVELOPMENT.	*9.1-E. C. Dev. Corporation*
	9.2-East London Ind. Development Zone
	9.3-Coega Dev. Corporation
	9.4-E. C. Park and Tourism Agency
	9.5-E. C. Gambling and Betting
	9.6-E. C. Liquor Board
Vote 10-TRANSPORT	*10.1-Mayibuye Transport Corporation*
	10.2-Government Fleet Management Trading Entity
Vote 12-PROVINCIAL TREASUARY	*12.1-E. C. Planning Commission*

2.5.3 Province special PFM features

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

Each Department in the Eastern Cape has its own PMG[7] account, into which all funds received from National and Provincial Treasury must be deposited. Departments are required to submit their expenditure budgets for the year and are only allowed to revise these commitments during the tabling of the budget adjustments around the September/October period.

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

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

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

2.5.4 Availability of information related to service delivery or operational efficiency

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

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

3. EVALUATION OF PFM SYSTEMS, PROCESSES AND INSTITUTIONS

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

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

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

7 Payment Master General Accounts created by each Department within the Province and utilised as their bank account for all funds received from National and Provincial Treasury.

HLG-1 Predictability of transfer from Higher Level of Government

Dimensions to be assessed (Scoring Method M1): ***(i)-Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget[8]*** ***ii)-Annual variance between actual and estimated transfers of earmarked grants[9]*** ***iii)-In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within one month of the start of the SN fiscal year***

Background

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

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

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

The equitable share is an unconditional allocation delivered as a block grant. This means that provinces are free to distribute this money to particular departments and programs as they see fit. They are directly accountable for how the money is spent. However, this money is generally spent on services, which are guided by national standards.
The equitable share relates to revenue emanating from taxes imposed on international trade, VAT, customs, duties, income tax, PAYE, domestic goods and consumption amongst others collected nationally by the South Africa Revenue Services (SARS). The Division of Revenue Acts (DORA) presents the origins of revenues by sphere of government and its distribution. This distribution is based upon a formula which is revised annually by National Treasury, advised by the Financial and Fiscal Commission (FFC)[10], to calculate the equitable share across the provinces. This formula consists of six components that capture the relative demand for services between provinces and takes into account specific provincial circumstances namely:

- Basic component derived from each province's share of the national population;
- Institutional component divided equally between the provinces;
- Poverty component reinforcing the redistributive bias of the formula;
- Economic output component based on GDP-R data;
- Education component based on the size of the school-age population and the number of learners enrolled in public ordinary schools; and

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

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

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

- Health component based on a combination of a risk-adjusted capitation index for the population, which takes into account the health risks associated with the demographic profile of the population and the relative share of case-loads in hospitals.

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

Provinces also receive grants from the national government, which come with conditions on how they are spent. In contrast to the equitable share block grant, the conditional grants are earmarked for specific functions. Typically, these are areas where national government functions are shared by provincial governments, or require the cooperation and empowerment of provincial authorities for their delivery.
Conditional grants are primarily for improvements in conditions of service and hospitals. They are included as part of the national equitable share, and are listed in a schedule of the Division of Revenue Bill. The administration of these grants works in the following manner:

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

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

- Schedule 4A of DORA, which are more general grants that supplement various programs already funded by Provinces that are aimed predominately to provincial health, education and infrastructure sectors with varied transfer and spending accountability arrangements, as more than one national or provincial Department may be responsible for different outputs;
- Schedule 5A of DORA, which are specific purpose conditional grants, with specific responsibilities for both the transferring and receiving departments of provincial accounting officers;
- Schedule 6A of DORA, which provides allocations in-kind through which a national department implements projects in provinces; and
- Schedule 7A of DORA, which provides for the swift allocation and transfer of funds to a province to help it deal with a disaster.

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

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

Table 6: Eastern Cape Provincial Revenue – Budget

R' 000	2011/12	2012/13	2013/2014
	Actual	Actual	Budget
Transfer receipts from national			
- Equitable share	44,644,170	47,559,888	50,164,506
- Conditional grants	8,841,741	9,411,323	9,461,231
Total transfer receipts from national	**53,485,911**	**56,971,211**	**59,625,737**
Provincial own receipts			
Tax receipts	**469,282**	**491,309**	**553,194**
- Casino taxes	112,949	97,412	98,360
- Horse racing taxes	7,299	20,004	20,777
- Liquor licenses	2,507	5,109	5,936
- Motor vehicle licenses	346,527	368,784	428,121
Non-Tax receipts	**376,594**	**609,369**	**282,867**
- Sale of goods & services other than capital assets	157,614	186,778	172,101
- Fines, penalties and forfeits	4,018	83,355	11,065
- Interest, dividends and rent on land	7,080	8,401	76,563
- Transfers received	112,122	213,381	-
- Sale of capital assets	3,284	2,517	413
- Transactions in financial assets and liabilities	92,476	114,937	22,725
Total provincial own receipts	**845,876**	**1,100,678**	**836,061**
Total provincial receipts	**54,331,787**	**58,071,889**	**60,461,798**

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

Table 7: Eastern Cape Province revenues by relative weight

(In %)	2011/12	2012/13	2013/2014
Transfer receipts from national			
- Equitable share	82.2%	81.9%	83.0%
- Conditional grants	16.3%	16.2%	15.6%
Total transfer receipts from national	**98.4%**	**98.1%**	**98.6%**
Provincial own receipts			
Tax receipts			
- Casino taxes	0.2%	0.2%	0.2%
- Horse racing taxes	0.0%	0.0%	0.0%
- Liquor licenses	0.0%	0.0%	0.0%
- Motor vehicle licenses	0.6%	0.6%	0.7%
Non-Tax receipts			
- Sale of goods & services other than capital assets	0.3%	0.3%	0.3%
- Fines, penalties and forfeits	0.0%	0.1%	0.0%
- Interest, dividends and rent on land	0.0%	0.0%	0.1%
- Transfers received	0.2%	0.4%	0.0%
- Sale of capital assets	0.0%	0.0%	0.0%
- Transactions in financial assets and liabilities	0.2%	0.2%	0.0%
Total provincial own receipts	**1.6%**	**1.9%**	**1.4%**
Total provincial receipts	**100.0%**	**100.0%**	**100.0%**

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

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

(i)-Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget[11]

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

Table 8: Eastern Cape Revenues budgeted vs. outturns by sources

	2011/2012	2012/2013	2013/2014
Equitable share transfers			
Budget (adjusted appropriation)	44.644.170	47.559.888	50.256.614
Actual	43.667.767	46.706.722	50.782.767
Deviation (R 000)	976.403	853.166	526.153
Deviation (%)	**2,19%**	**1,79%**	**1,05%**
Conditional transfers			
Budget (adjusted appropriation)	9.167.491	9.697.649	9.652.180
Actual	9.613.603	9.629.067	9.741.239
Deviation (R 000)	446.112	68.582	89.059
Deviation (%)	**4,87%**	**0,71%**	**0,92%**
Total transfers			
Budget	53.811.661	57.257.537	59.908.794
Actual	53.281.370	56.335.789	60.524.006
Deviation (R 000)	530.291	921.748	615.212
Deviation (%)	**0,99%**	**1,61%**	**1,03%**

Source: EPRE and Budget Review

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

(ii)-Annual variance between actual and estimated transfers of earmarked grants[12].Table below shows, the variance (how far a set of numbers, i.e. the individual Departments equitable share allocation share is spread out yearly from the mean).

Table 9: Comparison of Budgeted and Actual Transfers of Equitable Share

	2011/12			2012/13			2013/14		
R'000	**Budget**	**Actual**	**Var. (%)**	**Budget**	**Actual**	**Var. (%)**	**Budget**	**Actual**	**Var. (%)**
Premier	401 862	398 801	0.8	398 811	392 473	1,6	456 603	438 494	4,1
Legislature	392 831	359 951	9.1	415 434	406 715	2,1	451 910	443 009	2,0
Health	11 862 273	12 419 402	-4.5	12 886 100	12 940 950	-0,4	14 193 822	14 093 210	0,7
Social Development	1 703 066	1 683 710	1.1	1 768 527	1 741 431	1,6	2 033 514	1 931 970	5,3
Public Works	2 020 179	2 020 157	0.0	2 166 315	2 162 867	0,2	2 565 419	2 524 706	1,6
Education	22 322 000	23 017 186	-3.0	24 070 360	23 565 209	2,1	25 134 621	25 029 365	0,4
Local Government & tradition affairs	759 993	737 246	3.1	810 835	785 689	3,2	1 052 888	999 059	5,4
Rural Development & Agrarian Reforms	1 276 818	1 245 395	2.5	1 408 980	1 375 045	2,5	1 448 015	1 446 449	0,1
Economic Affairs	760 844	755 029	0.8	713 345	686 385	3,9	1 259 392	1 225 081	2,8
Transport	1 046 124	1 033 407	1.2	894 314	860 112	4,0	931 783	880 077	5,9
Human Settlement	242 407	241 931	0.2	273 411	272 411	0,4	298 579	297 363	0,4
Provincial Treasury	300 357	281 818	6.6	267 941	247 778	8,1	274 451	261 072	5,1
Sports, Arts & Culture	503 263	497 610	1.1	550 563	517 961	6,3	586 925	578 501	1,5
Safety & Security	58 387	57 981	0.7	63 294	62 188	1,8	75 535	69 283	9,0
AGGREGATE			**-2.5**			**1.5**			**1.1**

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

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

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

Table 10: Comparison of Budgeted and Actual Transfers of Earmarked Conditional Grants

	2011/12			2012/13			2013/14		
	Appropriation Act	Funds transfer	Var %	Appropriation Act	Funds transfer	Var %	Appropriation Act	Funds transfer	Var %
Department				R'000	R'000	%	R'000	R'000	%
Health	2 871 191	2 694 283	6,6	2 765 404	2 764	0,0	2 895 780	869 869	0,9%
Education	2 767 229	2 399 309	15,3	2 626 138	2 592	1,3	2 342 958	2 330 299	0,5%
Human settlements	2 368 915	1 911 992	23,9	2 292 859	2 002	14,5	2 526 803	2 525 931	0,0%
Rural dev & agrarian	247 956	230 836	7,4	263 056	233 432	12,7	285 609	275 597	3,6%
Transport	170 068	169 453	0,4	177 104	177 104	0,0	187 805	187 805	0,0%
Sports, arts & culture	181 258	151 979	19,3	58 146	126 669	24,8	153 232	146 314	4,7%
Roads & public works	1 376 560	1 376 560	0,0	624 977	1 624	0,0	1 357 472	1 308 310	3,8%
Social development	5 606	5 252	6,7	6 708	6 708	0,0	6 862	6 862	0,0%
Economic development	-	-	_	1 000	-		550	550	0,0%
AGGREGATE %	**End of March 2012**		**11,8**	**End of March 2013**		**4,1**	**End of March 2014**		**1,1%**

Source: Overview of Provincial Revenue and Expenditures 2013/2014

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

Table 11: Comparison of appropriations and actual expenditures, per department

EASTERN CAPE PROVINCIAL DEPARTEMENT	2011/2012			2012/2013			2013/2014		
	Budget	Actual	Var %	Budget	Actual	Var %	Budget	Actual	Var %
Vote 1-**OFFICE PREMIER**	404 529	402 666	0,46	401 566	395 931	1,42	461 186	440 892	4,60
Vote 2-**PROV LEGISLAT**	397 922	360 257	10,46	415 759	407 040	2,14	451 410	443 009	1,90
Vote 3-**HEALTH**	14 812 568	14 900 989	-	15 771 710	15 605 890	1,06	17 203 412	17 068 224	0,79
Vote 4-**SOCIAL DEV.**	1 715 888	1 691 893	1,42	1 785 155	1 751 212	1,94	2 054 171	1 942 281	5,76
Vote 5-**PUBLIC WORKS**	3 418 703	3 393 640	0,74	3 808 724	3 803 772	0,13	3 956 652	3 851 944	2,72
Vote 6-**EDUCATION**	25 153 839	25 174 117	-0,08	26 754 712	26 220 593	2,04	27 548 311	27 450 752	0,36
Vote 7-**LOC GOV TRAD**	761691	738943	3,08	815 221	786 295	3,68	1 057 003	1 001 664	5,52
Vote 8-**RURAL AGRI DEV**	1 536 142	1 484 433	3,48	1 763 875	1 617 094	9,08	1 758 774	1 731 203	1,59
Vote 9-**ECO DEV.**	931 997	885 651	5,23	933 309	807 407	15,59	1 388 127	1 353 816	2,53
Vote 10-**TRANSPORT**	1 600 941	1 583 803	1,08	1 486 788	1 454 332	2,23	1 735 573	1 517 381	14,38
Vote 11-**HUMAN SETTLE.**	2 618 262	2 143 154	22,17	2 575 802	2 279 062	13,02	2 837 461	2 827 992	0,33
Vote 12-**PROV TREASURY**	340 032	283 987	19,74	480 114	322 106	49,05	554 005	339 119	63,37
Vote 14-**SPORT, REC ART**	687 730	651 905	5,50	711 278	647 479	9,85	742 873	727 359	2,13
Vote 15-**SAFETY LIAISON**	58 437	57 980	0,79	63 353	62 207	1,84	75 618	69 316	9,09
AGGEGATE %	**End of March 2012**		**1,27%**	**End of March 2013**		**2,86**	**End of March 2014**		**1,74**

Sources: Department's annual reporting

Table above shows the results of the analysis of variances in appropriations and expenditure, per department. It indicates that the variances in aggregate expenditure have been 1, 27% (2011/2012), 2, 86% (2012/2013) and 1, 74% (2013/2014)

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

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

Table 12: Forecast vs Disbursed transfers (R million), per quarter

Description	2011/2012				2012/2013				2013/2014			
Forecast Payment												
Equitable shares	11 030 007	11 030 007	11 030 007	11 030 007	11 735 070	11 735 068	11 735 067	12 354 683	12 541 128	12 541 128	12 541 125	12 633 233
Condition grants	1 730 137	2 316 492	2 510 586	2 285 310	2 343 826	2 583 312	2 841 596	1 730 906	2 392 872	2 427 645	2 685 030	2 386 878
Total	12 760 144	13 346 499	13 540 593	13 315 317	14 078 896	14 318 380	14 576 663	14 085 589	14 934 000	14 968 773	15 226 155	15 020 111
Actual Inflows National												
Equitable shares	11 030 007	11 030 007	11 030 007	11 030 007	11 735 070	11 735 068	11 735 067	12 354 683	12 541 128	12 541 128	12 541 125	12 633 233
Condition grants	1 702 814	2 325 358	2 252 760	2 175 181	2 318 092	2 608 728	2 839 867	1 627 834	2 337 637	2 458 919	2 593 079	2 216 544
Total Receipts from NT	**12 732 821**	**13 355 365**	**13 282 767**	**13 205 188**	**14 053 162**	**14 343 796**	**14 574 934**	**13 982 517**	**14 878 765**	**15 000 047**	**15 134 204**	**14 849 777**
% Disbursed	**99,79**	**100,07**	**98,10**	**99,17**	**99,82**	**100,18**	**99,99**	**99,27**	**99,63**	**100,21**	**99,40**	**98,87**

Source: Eastern Cape Provincial Treasury

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

Indicator	Score	Explanation
HLG-1 Predictability of Transfers from Higher Level of Government	**A**	**Scoring method M1**
i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the Province for inclusion in the latter's budget	A	As shown in table above, in no more than one out of the last three years have HLG transfers fallen short of the estimate by more than 5%;
ii) Annual variance between actual and estimated of earmarked grants	A	Variance in provision of earmarked conditional grants exceeded overall deviation in total transfers by no more than 5 percentage points in any of the last three years;
iii) In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within one month of the start of the Province FY	A	A disbursement timetable is agreed by NT and PT at the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 25% in more than one of the last three years

3.1. Budget Credibility

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

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

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

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

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

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

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

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

Table 13: Comparison of Budget Estimates against Actuals (primary expenditure, R'000)

R'000	2011/12	2012/13	2013/14
Primary original expenditure estimates	52,643,536	56,204,805	59,258,177
Primary expenditure outturn	53,739,042	56,155,801	60,741,327
Aggregate expenditure deviation	1,095,506	-49,004	1,483,150
Aggregate expenditure deviation,%	**2.08%**	**-0.09%**	**2.50%**

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

Table 14: Variance from budget of selected economic categories

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

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

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

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

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

Background

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

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

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

(i)-Extent to which the variance in the composition of primary expenditure exceeded the aggregate variance (as defined in PI-1) in the past three years excluding contingency items

Table below provides a breakdown of the budgeted and actual expenditure for the Province of the Eastern Cape by Departments (i.e. Vote).

Table 15: Budget vs. Actual out-turns for Eastern Cape Province, per Vote (R'000)

Vote	Administrative or functional head	2011/12			2012/13			2013/14		
		Budget	Actual	Var (%)	Budget	Actual	Var (%)	Budget	Actual	Var (%)
1	Office of the Premier	403,880	400,819	0.8%	423,848	394,616	7.4%	458,109	440,750	3.9%
2	Provincial Legislature	371,446	360,257	3.1%	384,082	407,040	-5.6%	409,531	443,009	-7.6%
3	Health	14,237,249	14,892,282	-4.4%	15,166,038	15,602,512	-2.8%	16,584,328	17,046,519	-2.7%
4	Social Development	1,711,206	1,691,851	1.1%	1,782,421	1,751,212	1.8%	2,015,205	1,942,281	3.8%
5	Roads And Public Works	3,269,009	3,393,640	-3.7%	3,741,601	3,803,772	-1.6%	3,670,311	3,851,944	-4.7%
6	Education	24,634,708	25,174,117	-2.1%	26,268,669	26,220,593	0.2%	26,972,078	27,450,752	-1.7%
7	Local Government and Traditional	746,085	738,943	1.0%	788,452	788,228	0.0%	840,869	1,001,538	-16.0
8	Rural Development Agrarian Reform	1,509,785	1,484,433	1.7%	1,694,131	1,617,094	4.8%	1,714,488	1,731,203	-1.0%
9	Economic Development	884,226	885,651	-0.2%	936,063	807,407	15.9%	1,070,858	1,352,164	-20.8
10	Transport	1,453,764	1,582,911	-8.2%	1,322,994	1,452,471	-8.9%	1,532,362	1,517,381	1.0%
11	Human Settlements	2,424,942	2,143,154	13.1%	2,574,536	2,279,064	13.0%	2,830,080	2,827,992	0.1%
12	Provincial Planning And Treasury	302,526	283,987	6.5%	352,143	322,106	9.3%	374,872	339,119	10.5
14	Sport, Recreation, Arts And Culture	636,323	649,017	-2.0%	705,454	647,479	9.0%	715,108	727,359	-1.7%
15	Safety And Liaison	58,387	57,980	0.7%	64,373	62,207	3.5%	69,979	69,316	1.0%

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

Annex 4 shows that the variance in expenditure composition was [2.0]% in 2011/12, [2.4]% in 2012/13, and [1.8]% in 2013/14. This results in a score of A. The preparation of the medium-term framework, the fiscal calendar and strategic plans has all contributed to the realism of each year's budget, which has been closely adhered to by the province.

Table 16: Average weighted deviations for Eastern Cape Province

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

Source: Team calculations

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

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

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

Table 17: Contingency reserve utilised during the year (R'000)

	2011/2012	2012/2013	2013/2014
Adjusted Appropriation - Expenditure	54,327,119	57,396,593	61,375,899
Actual expenditure - per Combined AFS	54,189,840	56,372,939	60,853,374
Contingency reserve surplus / (utilisation)	137,279	1,023,654	522,525

Source: Estimates of Provincial Expenditure 2011 – 2014, Eastern Cape Combined Financial Statements, Team calculations

Provincial Treasury is keeping these reserves in the Provincial Revenue Fund to cover themselves in the instance that the contingent liabilities (as disclosed in the combined financial statements) become payable. These contingent liabilities mainly arise from capped leave owing to employees and potential litigations against the Department of Health.

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

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

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

Dimension to be assessed (Scoring method M1)
(i)-Real domestic income collection in comparison with estimates in the original approved budget

Background

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

The Provincial Revenue Fund was established in terms of the Constitution of the Republic of South Africa (Section 226 of Act No. 108, 1996) into which all money received by the provincial government must be paid except money reasonably excluded by an Act of Parliament. Money may be withdrawn from the Provincial Revenue Fund only in terms of an appropriation by a provincial Act or as a direct charge against the Provincial Revenue Fund, when it is provided for in the Constitution or a provincial Act. Revenue allocated through a province to local government in that province in terms of section 214(1), is a direct charge against the Provincial Revenue Fund.

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

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

Per discussions with Provincial and National Treasury, it was decided that domestic income, as per the PEFA guidelines, relates to Own-Revenue and does not include the transfers from higher levels of government. Therefore, the comparison with budget performed below only takes provincially generated own-revenue into account.

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

Table 18: Original budgeted and actual revenue (R'000)

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

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

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

PI-4 Stock and monitoring of expenditure payment arrears

Dimensions to be assessed (Scoring Method M1):
(i)-Stock of expenditure payment arrears
(ii)-Availability of data to monitor the stock of expenditure payment arrears

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

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

(i)-Stock of expenditure payment arrears

Table 23 below provides an overview of the arrears (greater than 30 days) versus the total expenditure, using economic classifications. Even though in all of the last three years, the stock of arrears is less than 2% of total expenditure, this expenditure figure includes Compensation of Employees. As can be seen below, if you exclude the Compensation of Employees (CoE) from the total expenditure, the current payments arrears as a percentage of expenditure on current payments are 5.12% in 2011/12, 0.95% in 2012/13 and 1.41% in 2013/14. Although this is a worrying statistic, the total overall arrears when compared to the total expenditure (excluding CoE) is below 2% in all of the three years under review.

Table 19: Accruals (outstanding longer than 30 days) as a Percentage of Annual Expenditure (R'000)

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

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

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

Table 20: Arrears outstanding greater than 30 days as a % of total expenditure by Department

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

Source: Provincial Department Annual Reports 2013/14

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

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

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

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

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

As the Department of Education represents approx. 47% of the total expenditure for the province of the Eastern Cape, this uncertainty brings into question the ability of the Province to monitor the overall quantum of expenditure in arrears.

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

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

3.2. Comprehensiveness and Transparency

PI-5 Classification of the Budget

Dimensions to be assessed (Scoring Method M1): ***(i)-The classification system used to formulate, execute and report on the Province budget.***

Background

During the annual budget process, the provinces are provided with the Provincial Budget Formats Guide, for the preparation of the Estimates of Provincial Revenue and Expenditure ("EPRE"). This guide requires a strict adherence from the provincial departments and dictates the structure of the submissions for the EPRE in terms of the Economic Reporting Format issued by the National Treasury in September 2009, after the revised set of accounts was introduced in April 2008.

Annexure W2 to the Budget Review 2014 provides detailed information on the Structure of the Government Accounts and states the following:

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

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

The Public Finance Statistics and the Office of the Accountant General are responsible for evolving and maintaining the chart of accounts and for providing support to Departments and Provinces on the proper assignment of expenditure.

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

PI-6 Comprehensiveness of information included in budget documentation

Dimensions to be assessed (Scoring Method M1): ***(i)-Share of the above listed information contained in the budgetary documentation most recently issued by the central government.***

Background

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

The budget documentation presented to provincial parliament includes comprehensive information on the budgetary context, intent and recent financial achievements. The budget is set against a Medium Term Expenditure Framework of the Government's strategic objectives as approved in the NDP.

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

- The Budget Speech by the MEC of Finance;
- The Estimates of Provincial Revenue and Expenditure;
- The Department Annual Reports that incorporate the audit report and the audited financial statements including statement of financial assets and liabilities, a cash flow statement and the SCOPA resolutions; and the
- The Medium Term Budget Policy Statement, which is submitted to parliament at the beginning of the budget cycle.

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

Table 21: Elements and availability of budget documentation

Documentary Requirement	Fulfilled	Document
1. Macroeconomic assumptions, including aggregate growth, inflation and exchange rate estimates, at the	**Yes**	The Overview of Provincial Revenue and Expenditure includes macroeconomic indicators and assumptions.
2. Fiscal deficit.	**Yes**	The Province has budgeted to generate a surplus, which is further supported by a surplus balance being reflected in the Provincial Revenue Fund financial statements.
3. Deficit financing	**Yes**	The Province has budgeted to operate a surplus which is further supported by a surplus balance being reflected in the Provincial Revenue Fund financial statements.
4. Debt stock.	**N/A**	
5. Financial Assets.	**No**	No detailed information on financial assets is presented currently in the budget although limited information on the financial assets is disclosed in the Combined Annual Financial Statements.
6. Results of previous budget exercise	**Yes**	Prior year's budget (budget year -2) out- turn is included.
7. Results of the current year's budget	**Yes**	The estimates of expenditure show the current year's revised budget (budget year -1) in the same format as the budget proposal.
8. Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous year.	**Yes**	The EPRE by Departments includes summarized data according to the main heads of classification for both revenue and expenditure.
9. Explanation of the budget implications of new policy initiatives.	**Yes**	The Budget Speech outlines changes in policy initiatives and an explanation of the impacts on revenues, as well as proposed policies, along with the explanation of allocation shifts and expenditure consequences.

Indicator	Score	Explanation
PI-6 Comprehensiveness of information included in budgetary documentation	**A**	**M1 Scoring method**
(i) Proportion of information mentioned above and contained in the most recent budgetary documentation published by the central government.	**A**	Budget documentation fulfills 7 out of the 8 applicable benchmarks. The Budget documents are comprehensive.

PI-7 Extent of unreported province operations

Dimensions to be assessed (Scoring Method M1): *(i)-Level of extra-budgetary expenditure (not including projects financed by donors) that is not declared – in other words that does not appear in fiscal reports.* *(ii)-Information on income and expenditure in relation to projects financed by donors included in the fiscal reports.*

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

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

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

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

All international technical assistance and grants should be paid into the Reconstruction and Development Programme Fund, which is separated from the Provincial and National Revenue Funds, and produces its own annual report and financial statements. Funding received from the RDP is transferred into the Provincial Revenue Fund, who in turn transfers the funds to the relevant department. When deemed significant, a separate entity is created on BAS by National Treasury to account for the revenue and expenditure applicable to certain funding. However, revenue and expenditure arising from smaller donations could be included in the normal financial management of the Department. The revenue and expenditure arising from donor funds is separately disclosed as an annexure to the financial statements.

Per the Eastern Cape Combined Financial Statements, the total expenditure of donor funds represents less than 1% of the total expenditure for the previous three financial years and is therefore insignificant.

Table 22: Aggregated donor funded expenditure

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

Indicator	Score	Explanation
PI-7 Extent of unreported government operations	**A**	**M1 Scoring Method**
(i) Level of extra-budgetary expenditure (as distinct from that for projects financed by donors) which is not declared, in other words does not appear in fiscal reports.	**A**	The level of unreported extra-budgetary income and expenditure, if any, is insubstantial.
(ii) Information on income and expenditure relating to projects financed by donors that is included in fiscal reports.	**A**	Donor funded project expenditure is insignificant.

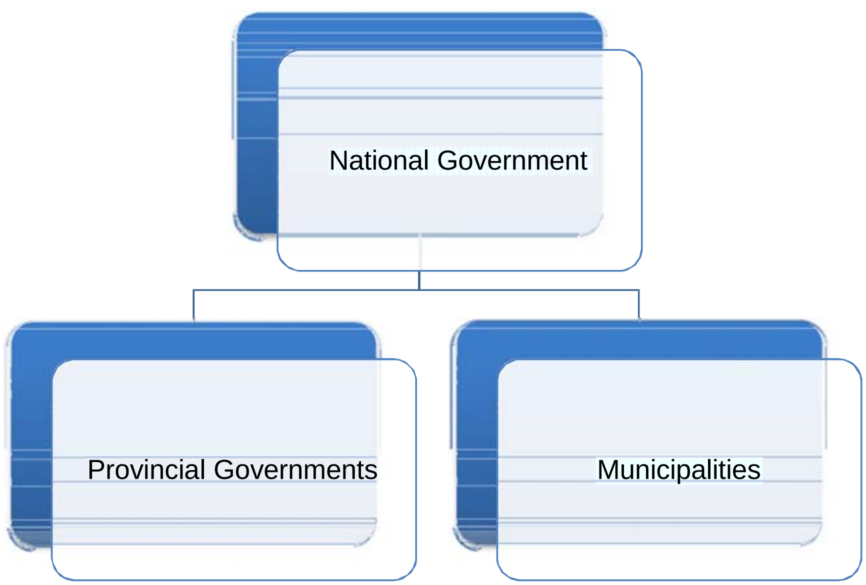
PI-8 Transparency of inter-governmental fiscal relations

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

Background

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

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



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

As the Municipalities are funded directly by the National Government in the form of the equitable share and conditional grants, the Provincial Government only provides limited funding to the municipalities via Transfers and Subsidies.

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

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

The Explanatory Memorandum to the Division of Revenue (Annexure W1 to the Budget Review) sets out the provincial and municipal allocations and details the equitable share formula and the basis for the allocation of conditional grants. Furthermore, the allocations from the Province to the Municipalities is outlined in the Provincial Budget (i.e. EPRE).

(ii)-Timely provision of reliable information to municipalities on the allocations to be made to them by Provincial Government for the following year.

Per the Overview of Provincial Revenue and Expenditure, a schedule of the transfers to Local Government (refer Table A.5) is provided that lists all the transfers to be made to the separate municipalities in the Eastern Cape Province (including a three year forecast). As the provincial budgets are tabled in March of each year and the municipal financial years only start on 1 July, the Municipalities have adequate time to include the transfers from provincial government in their budgets for the coming year.

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

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

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

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

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

Dimensions to be assessed (Scoring Method M1):
(i)-Degree of province monitoring of the main autonomous public organisations and state companies.
(ii)-Degree to which the province monitors the fiscal position of local government.

Background

Fiscal risks can be created by subnational government, AGAs and PEs and inter alia take the form of debt service defaulting (with or without guarantees issued by central government), operational losses caused by unfunded quasi- fiscal operations, expenditure payment arrears and unfunded pension obligations. If the Provincial Government is to oversight aggregate fiscal risk, it should require and receive quarterly financial statements and audited year-end statements from AGAs and PEs, and monitor performance against financial targets. Where local governments can generate fiscal liabilities for provincial and national

government, their fiscal position should be monitored, at least on an annual basis, again with consolidation of essential fiscal information.

As stipulated in section 66 of the PFMA, Provincial government and its institutions may only borrow money or issue guarantees that bind the Provincial Revenue Fund with the authorization of the MEC for Finance in the Province. Furthermore, Public Entities are only allowed to enter into funding arrangements with the approval of National Treasury, which must take into account the financial strength of the balance sheet of that Public Entity.

(i)-Degree of province monitoring of the main autonomous public organizations and state companies.
The table below provides a list of the Public Entities within the provincial Departments of the Eastern Cape. These reports are prepared on an annual basis and audited by the Auditor-General.

Table 23: Preparation of Annual Reports for Public Entities

EASTERN CAPE PROVINCIAL DEPARTMENT	2011/2012	2012/2013	2013/2014
	Audited AFS prepared	Audited AFS prepared	Audited AFS prepared
Vote 1-**OFFICE of PREMIER** 1.1-E C. Socio eco consul council	✔	✔	✔
Vote 8-**RURAL & AGRI. DEV.**			
8.1-E C. Rural Development	x	✔	x
Ag 8.2-E C. Appropriate	✔	✔	x
Vote 9-**ECONOMIC DEV.**			
9.1-E C. Dev. Corporation	✔	✔	x
9.2-East London Ind. Dev	✔	✔	✔
Zone 9.3-Coega Dev.	✔	✔	✔
Corporation 9.4-E C. Park	✔	✔	✔
and Tourism Ag. 9.5-E C.	✔	✔	✔
Gambling and Betting 9.6-E	x	✔	✔
Vote 10-**TRANSPORT**			
10.1-Mayibuye Transport	x	✔	✔
Corp. 10.2-Govern Fleet Mgt	✔	✔	✔
Vote 12-**PROVINCIAL TREAS** 12.1-E C. Planning Commission	✔	✔	✔

✔ = prepared and available for inspection
x = not available for inspection

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

Table 24: High level review of combined financial statements of public entities

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

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

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

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

Local government receives a portion of their funding via the Division of Revenue Act, which outlines the transfers from National Government to the Municipalities. The Eastern Cape Province provides funding for certain support functions via Transfers to Local Government which is detailed in the annual budget submissions. Due to the independent structure of the three spheres of Government, the Provincial Government is not responsible for the fiscal risks that may arise at a local government level.

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

PI-10 Public access to key fiscal information

Dimensions to be assessed (Scoring Method M1):

(i)-Number of the elements regarding public access to information, mentioned in table 3.5 that are used (an element can only be considered for the purposes of this evaluation if it fulfils all the requirements).

Background

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

Elements of information to which public access is essential include:

1. Annual budget documentation;
2. In-year budget execution reports;
3. Year-end financial statements;

4. External audit reports;
5. Contract awards;
6. Resources available to primary service units; and
7. Fees and charges for major services.

Section 32(1) of the Constitution of the Republic of South Africa Act 108 of 1996 (the Constitution), provides that everyone has the right of access to records or/and information held by the state and any information held by another person and that is required for the exercise or protection of any rights. This section affirms the fundamental right of access to information and seeks to promote a culture of transparency and accountability in the private and public sector.

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

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

Annual budget documentation

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

Annual financial statement and external audit reports

The audited annual financial statements and audit reports are made available to the public when the Annual Report is tabled at the Provincial Legislature. The annual reports must be completed and tabled at the Provincial Legislature by end of September of each year[13]. The annual financial statements are included in the Annual Report. Copies of the annual report are distributed to the National and Provincial Treasuries once the reports have been tabled at the Provincial Legislature.

Once the annual reports are issued to the Provincial Treasury they are made available to the general public on request. The reports are however not always available on the Provincial Treasury and National Treasury websites. Furthermore, as noted in PI-9 above, some of the Annual Reports of the public entities were not available for inspection by the assessment team, which implies that they would not be readily available for members of the public.

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

In-year budget execution reports

Per sections 32 and 40(4) of the PFMA, Provincial Departments are required to submit in-year budget execution reports to the Provincial Treasury within 15 days after month end, and the Provincial Treasury then submits the consolidated reports to the National Treasury within 7 days of receipt from the Departments. National Treasury collates the in-year budget execution reports and publishes the consolidated data on its website on quarterly basis.

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

Contract awards
With regards to public information on procurement, there is a Tender Bulletin published weekly where bids for procurement are advertised and awarded tenders announced. This is accessible via Provincial Treasury website or via subscription.

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

Resources available to primary service units
The resources available to primary service units (such as primary health care and primary school education) are not made available through the Provincial Budget (apart from some of the more significant Hospital Complexes). Furthermore, information relating to resources available for primary service units is not available via the Internet and therefore not readily accessible by the public.

Fees and charges for major services
The significant fees and charges collected by the Province are generated by the Department Transport and the Department of Health.

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

Significant fees collected by the Department of Health are derived from patient fees. The patient fees are charged in terms of the Uniform Patient Fee Schedule. No information relating to these fees for the Eastern Cape hospitals and clinics is easily available on the Internet.

Per the Department of Education's 2013/14 Annual Report, 93% of learners attended no fee schools benefitting from the No Fee policy.

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

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

Table 25: Indicators of Public Access to Key Financial Information

	Elements of information for public access	Availability	Source of information
1	Annual budget documentation	**Yes** - these are made available to the public through the internet when it is submitted to the legislature. The annual budget documentation includes all elements mentioned in PI-6.	Website of Provincial Treasury and National Treasury
2	In-year budget execution reports	**Yes** - the public has access to regular and reliable information on budget implementation. As per Section 32 of the PFMA, the National Treasury makes reports available on a quarterly basis on its website for each province.	National Treasury website
3	Year-end financial statements	**Yes** – Audited Annual Financial Statements of the Departments are prepared within six-months on the completion of the audit and made available on the Provincial Treasury website.	Annual reports for Departments available on the Treasury website. Some of the public entities available via their websites.

4	External audit reports	**Yes** – Audited Annual Financial Statements are prepared within 6 months after fiscal year end. The audited annual financial statements and external audit reports are included in the Annual Report.	Annual reports for Departments available on the Treasury website.
5	Contracts rewarded	**No** – Tender bulletins are published weekly but the completeness of the list is called into question. Furthermore, a consolidated list of all the tenders awarded is not available.	Refer National and Provincial Treasury websites for the tender bulletins
6	Resources available to primary service units	**No** – the resources available to primary services was not readily available on the Internet.	N/A
7	Fees and charges for major services are posted at the service delivery site and in other appropriate locations/media.	**No –** The motor vehicle licenses, registration fees, traffic fine rates and the Uniform Patient Fee Schedule for the Eastern Cape is not readily available for members of the public.	N/A

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

3.3. Policy based budgeting

PI-11 Orderliness and participation in the annual budget process

Dimensions to be assessed (Scoring Method M2):
(i)-Existence and observance of a fixed budget calendar
(ii)-Guidance on the preparation of budget submissions
(iii)-Timely approval of the budget by the Legislature

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

(i)-Existence and observance of a fixed budget calendar

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

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

Table 26: Budget calendar (summary)

	2011/12	2012/13	2013/14
Budget Circular issued by Provincial Treasury	21 July 2010	20 July 2011	13 August 2012
First Budget Submission from Provincial Departments due	20 August 2010	19 August 2011	20 August 2012
EPRE tabled in Provincial Legislature	6 March 2011	6 March 2012	6 March 2013

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

(ii)-Guidance on the preparation of budget submissions
The budget process in the Eastern Cape Province is guided by Medium Term Expenditure Framework Guidelines issued by National Treasury. This document is issued at the start of the budgeting process, normally in June of the prior year, to prepare the next year's budget. In addition to the document the Provincial Treasury organises workshops to clarify the application of the guidelines and formats for all departments and public entities.

Although the budget allocations are only finalized later in the process, the Departments are able to prepare their preliminary budgets within the context of the Medium Term Expenditure Framework. During the course of the budget process, the Departments are issued with preliminary allocation letters, which detail the preliminary departmental ceilings. Once the allocation amounts are finalized, they are disseminated to the Provincial Departments in January/February to allow the Departments to adjust their final budgets prior to the final submission due date and the tabling of the budgets in Parliament.

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

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

Table 27: Dates for budget approval by legislature

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

Source: Minutes of proceedings – Eastern Cape Legislature

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

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

Dimensions to be assessed (Scoring Method M2):
(i)-Preparation of multi -year fiscal forecasts and functional allocation
(ii)-Scope and frequency of debt sustainability analysis
(iii)-Existence of sector strategies with multi-year costing of recurrent and investment expenditure
(iv)-Linkages between investment budgets and forward expenditure estimates

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

South Africa has adopted a multi-year perspective to its budget formulation process, which accommodates a direct integration of some elements of strategic content into the budget through the linkage to the five-year Medium Term Strategic Framework using Departments Annual Performance Plans and Strategies, as well as the guidance given by the NDP. The MTEF is based upon three year rolling aggregate forecasts. The forecasts are allocated on the basis of cluster, economic and program classifications.

The Minister of Finance presents the Medium Term Budget Policy Statement (MTBPS) on an annual basis to National Parliament. This statement provides a high-level overview of the forecast revenue and expenditure of the government and provides indications of the forecast annual budget ceilings.

The National Treasury has revised Treasury Regulations 5 and 30 issued in terms of the PFMA to provide the necessary legal basis for the implementation of this Framework and to support the implementation of the Framework for Managing Program Performance Information.

As per the regulations, the Eastern Cape departments and the Eastern Cape Planning Commission produced and implemented the following reports:

- The Planning Commission and the Departments produced Strategic Plans with five-year planning horizons (in 2009/2010) within 12 months after the provincial elections in 2009, outlining the planned sequencing of projects and program implementation and associated resource implications and other prescribed information
- The Departments produced and tabled Annual Performance Plans including forward projections for a further two years, consistent with the medium-term expenditure framework (MTEF) period, with annual and quarterly performance targets, where appropriate, for the current financial year and the MTEF
- Ensured that there is alignment of reporting between the Strategic Plans, Annual Performance Plans, budget documents and annual and quarterly reports.

(ii) Scope and frequency of debt sustainability analysis

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

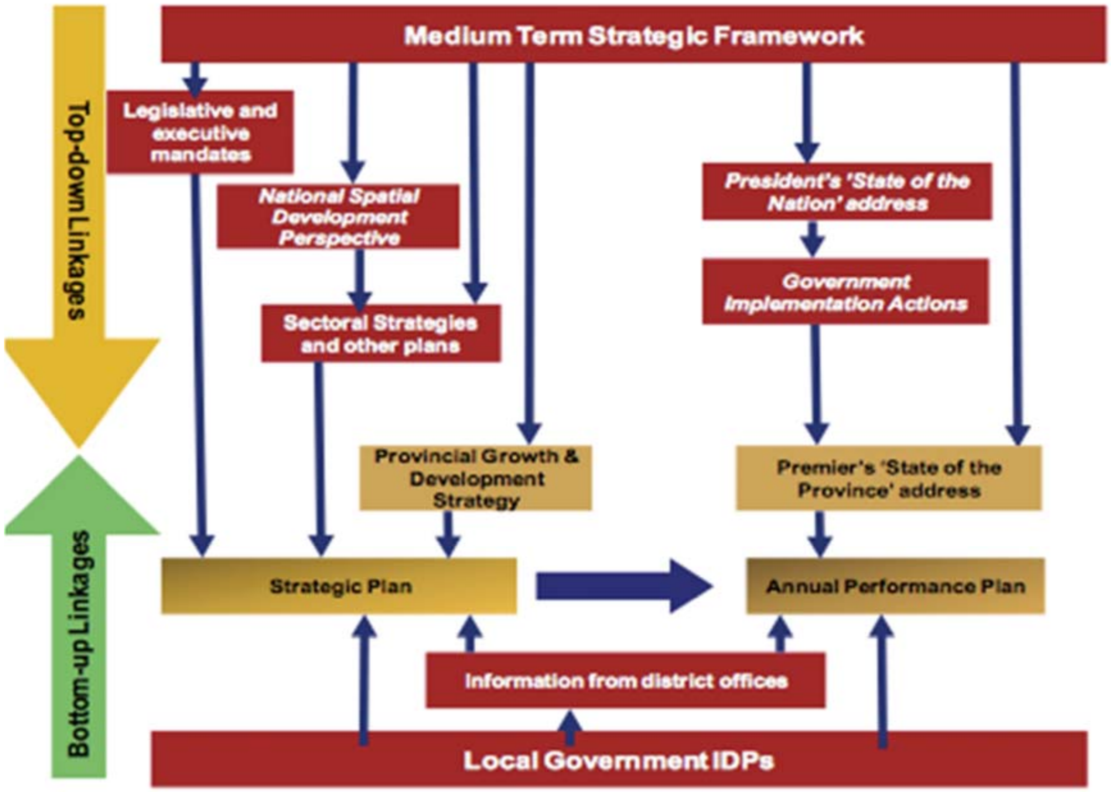
(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure

The Medium Term Strategic Framework with a five-year planning horizon, aligned with the political election cycle, defines the national strategic direction. The Eastern Cape Planning Commission is in the process of developing the Provincial Development Plan (2014 – 2030). Previously, the strategic direction of the province was provided via the Eastern Cape Provincial Growth and Development Plan (2004 to 2014).

The major Provincial Departments (including Education, Health and Public Works representing in excess of 75% of Departmental spend) prepare Sector Strategies with a 5-year planning horizon at the beginning of the election cycle, which are aligned to the Medium Term Strategic Framework (that in turn is guided by the National Development Plan).

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

Figure: Links to planning frameworks and other plans



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

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

Per the Framework for Strategic Plans and Annual Performance plans (August 2010), the Departments are required to apply Activity-based costing to better improve the link between budgets and the performance targets.

At an Eastern Cape Provincial and Department level, the effect of significant investments in infrastructure and other related capital assets are included in the Strategic Plans of the Departments and therefore incorporated into the Medium Term Expenditure Framework. Furthermore, the Annual Performance Plans detail the performance of the Department in relation to the budget and the MTEF. Even though the costs related to new investments are not separately disclosed in the forecasts as recurrent costs, the costs are included in the future operational budgets of the Departments.

Indicator	Score	Explanation
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	**A**	**Scoring method M2**
(i) Multi-annual fiscal forecasts and functional allocations	**A**	Forecasts of fiscal aggregates are prepared for three years, including the budget year. The forecasts are directly linked to subsequent budget ceilings and include functional/sector classifications.
(ii) Scope and frequency of debt sustainability analyses	**N/A**	The Province has no debt prerogatives and no DSA is carried out at the provincial level.

(iii) Existence of sector strategies with cost determination	A	Strategies for departments representing at least 75% of primary expenditure exist with full costing of recurrent and investment expenditure, broadly consistent with fiscal forecasts.
(iv) Links between investment budgets and future expenditure estimates	A	Investments are consistently selected on the basis of relevant sector strategies and recurrent cost implications in accordance with sector allocations and included in forward budget estimates for the

3.4. Predictability and Control in Budget Execution

PI-13 Transparency of taxpayers' obligations and liabilities

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

Background

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

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

Schedule 1 to the act provides for all the taxes administered by SARS, inclusive of Income Taxes (revenue based tax), Customs and Excise (consumption based taxes), Unemployment Insurance, Workman's Compensation insurance, Value Added Taxes (consumption based tax) etc.. In certain instances, Municipalities (Local Government) can raise both ownership based taxes (based on property ownership) and consumption taxes (rates for cleaning services etc.). At provincial government level (departments) certain taxes as discussed here below are collected by the departments.

Provincial "*Own Revenue*" consists mainly of Motor Vehicle Licenses collected by the Department of Transport in terms of the National Road Traffic Act, 1996 based on ownership (motor vehicles). Gambling and betting taxes as well as liquor license fees are administered and collected by the Department of Economic Development, Environmental Affairs and Tourism (on ownership and/or consumption basis) in term of the respective national legislation. Patient fees collected by the Department of Health (49%) accounts for the major portion and commission on insurance premium deductions collected by the Department of Education (28%) accounts for the second largest portion of "*Sale of goods and services other than capital assets*". The budget for "Own Revenue" at provincial level can be analyzed as follows i.e.

Table 28: Eastern Cape Province - Own Revenue

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

Source: Annual budget booklets

For purpose of the effective assessment of indicators PI 13 to 15, “Taxes” will be regarded as Casino Taxes, Horse Racing Taxes, Liquor licenses and Motor Vehicle licenses.

(i) Clarity and comprehensiveness of tax liabilities

Motor Vehicle licenses: The major portion of the department’s revenue is derived from tax receipts collected in terms of the National Road Traffic Act 93 of 1996. The National Road Traffic Act (NRTA) prescribes the registration and licensing of motor vehicles, manufacturers, builders and importers, as well as the licensing of drivers of motor vehicles. The NRTA Regulation 24 (2) (b) stipulates that each province determines its own registration and license fees, which are increased annually by proclamation in the respective provincial gazettes. The annual license fees are assessed on the basis of the vehicle’s tare with separate scales for vehicle types.

Gambling and racing taxes: The bulk of the department’s own revenue is generated from tax receipts which comprise of casino levies, horse racing taxes. Levies and license fees in respect of horse racing and gambling (Casino), are collected in terms of the Eastern Cape Gambling and Betting Act, Act 5 of 1997 read with the National Gambling and Betting Act, Act 10 of 2008. The Act and Regulations prescribe the levies and fees payable by parties licensed in terms of the Act. Betting licenses and levies are determined in accordance with the act. Betting on horse races is catered for under the regularity framework.

Liquor license fees: Fees are determined in accordance with the Eastern Cape Liquor Act, Act 10 of 2003 read with the National Liquor Act, Act 59 of 2003 and Regulations in terms Section 182. The liquor tariffs are contained in the National Liquor Act. Regulations and communicated by the Minister of Justice. Provinces cannot change National tariffs. Liquor License fees are payable annually. The tariffs for liquor licenses are communicated from October each year with each individual license holder by a way of Form 22. The license holders are required to produce the Form 22 when renewing the license.

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

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

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

(iii) Existence and functioning of a tax appeals mechanism

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

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

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

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

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

(i)-Controls in the taxpayer registration system

Motor Vehicle licenses: All new vehicles in the province are registered and recorded on the National Traffic Information System (eNaTIS) at the point of manufacturer or entry. eNaTIS is an online system that supports the

relevant legislation in terms of motor vehicle registration and licensing. The purpose of the eNaTIS system includes the registration of all motor vehicles, and the identification and monitoring of the source of motor vehicles, through the registration of motor vehicle manufacturers, importers and builders. The system identifies the title holder and owner of every registered motor vehicle (based on unique identification numbers for example Identity numbers for individuals) and facilitates the collection and recovery of annual and outstanding motor vehicle license fees. The South African Revenue Services (SARS) have access to the eNaTIS system however the department is responsible for collecting taxes in respect of vehicle registration and licensing.

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

Liquor licenses: In terms of the Liquor Act 27 of 1989 and Regulations in terms of Section 182, prospective licensees must apply and pay prescribed fees. After lodging of the application, any person may lodge a written objection to or petition against; or a written representation or a petition is support of such application within the prescribed period. Noncompliance to any of these acts is regarded as a criminal offence and transgressors are prosecuted.

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

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

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

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

The Department of Economic Development, Environmental Affairs has established a Gambling Board and a Liquor Board in line with the acts to oversee and monitor compliance. The Department does not perform audits of revenue collection systems of the Gambling Board. Statistics as per the annual report indicates that The ECLB licensed 8550 liquor outlets during the year 2013/14. The ECGBB issued 13 gambling and betting licenses. As noncompliance could be a criminal offence, the South African Police Services are regularly involved in raids and inspections. There is however no formalized “visit schedule” in place.

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

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

PI-15 Effectiveness of tax collection

Dimensions to be assessed (Scoring Method M1):

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

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

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

Background

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

(i)-Collection ratio for gross tax arrears

Motor vehicle license: The annual report 2013/14 indicates a 102% and 93% for 2012/13 collection rate against budget. The department attributes the performance to frequent visits by departmental officials to the various Registration Authorities in the province. Details of arrears is maintained but not disclosed in the annual financial statements due to the cash basis of accounting.

Gambling, betting and liquor licenses: The department has indicated that they do not have any arrears as failure to pay taxes by licensees will result in their licenses being suspended and hence they will not be able to operate. Payment of fees is a pre-requisite for the issuing of a license.

(ii)-Effectiveness of transfer of tax collections

Motor Vehicle licenses: The money collected at the Registering Authorities is deposited into Department's Paymaster Genera (PMG) Account. The Department also appointed South African Post Office (SAPO) as collecting agent and on receipt of the money a receipt is issued and captured into the financial system. The fees are collected on daily basis and the money is transferred electronically daily into PMG account as prescribed by the Service Level Agreement (SLA). The municipalities also license fees for the Department. The fees are collected daily and deposited into the Municipality bank account. Revenue collected at the municipalities is then transferred into the Department's PMG account on or before the 15th of every month in line with the SLA. All revenue received by the Department is transferred monthly into the Provincial Revenue Fund in line with Treasury's cash flow management transversal policy. These funds are however not always transferred monthly.

Gambling, betting and liquor taxes and licenses: Gambling and betting revenue is collected by the Eastern Cape Gambling Board and transferred to the Department's PMG account and subsequently to the Provincial Revenue. This is done on a monthly basis. Liquor licenses are collected through Electronic Fund Transfers into the Department's PMG account or through the Department's cashiers. The transfer to Provincial Revenue Fund in line with Treasury's cash flow management transversal policy is done monthly. These funds are however not always transferred monthly.

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

Roads and Transport: The Department performs reconciliation on receipts of remittance by collecting agent. All receipts are captured in the Basic Accounting System (BAS) and paid over to the Provincial Revenue Fund on monthly basis.

Economic Development: Monthly reconciliation is performed between the Department and the Eastern Cape Gambling Board; and a schedule of payment accompanies the transfers. Liquor license fees are paid directly into the Department's PMG account.

Indicator	Score	Explanation
PI-15 Effectiveness of tax collection	**C+**	**M1 scoring method**
(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of fiscal year, which was collected during that fiscal year (average of the last two fiscal years)	**A**	The average actual collection rate for motor vehicle licenses was 97% against budget for the past 2 financial years. Motor Vehicle license fees are paid in advance and the annual budget process incorporates historical statistics from the motor vehicle registration system. It is mandatory that a license is issued for all new vehicle purchases. Arrears are therefor regarded as insignificant as it usually represents a vehicle not in use any more (accident write off etc.) Gambling, betting and liquor licenses are paid upfront before a valid license is issued (thus 100%)
(ii) Effectiveness in the transfer of recovered taxes to the Treasury by the revenue administration	**C**	Actual transfers are not done monthly and as per the 2013/14 Annual Report, certain Registration Authorities have not transferred all funds.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and transfers to Treasury.	**A**	Complete reconciliation of revenue assessments, collections, arrears and transfers to the Provincial Revenue Fund takes place at least monthly within one month of end of month.

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

Dimensions to be assessed (Scoring Method M1):
(i)-Degree to which cash-flow forecasts and monitoring are carried out
(ii)-Reliability and time horizon of the information on maximum limits and payment commitments provided to the MDA during the year
(iii)-Frequency and transparency of adjustments to budgetary allocations at a level higher than MDA administrations

Background
The Public Finance Management Act ("PFMA"), Act 1 of 1999, section 28, read with the National Treasury Regulations, PART 3, provides for multi-year budget projections at national and provincial levels.

Tax revenue is centralized for the country of South Africa (refer the South African Revenue Services ("SARS), Act No. 34 of 1997). This requires funds to be transferred to provinces as revenue from National Government as equitable share and conditional grants. The usage of the equitable share portion is left to the discretion of the provincial treasuries and each provincial legislature whilst conditional grants are allocated to specific departments, programs and/or functions.

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

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

In summary, the following original (initial) funding was annually allocated to the Eastern Cape provincial government and appropriated by the provincial legislature to the selected (sampled) departments for the 4 years up to 2014/15 and with indicative figures for the outer two years of the 2014/17 MTEF period ending 2016/17. i.e.

Table 29: Original budgets

	R'000 000							
	Education	Health	Social Development	Treasury	Public Works	Economic Development	Transport	Rural and Agriculture
	Vote 6	Vote 3	Vote 4	Vote 12	Vote 5	Vote 9	Vote 10	Vote 8
2011/12	**24 635**	**14 237**	**1 711**	**303**	**3 269**	**884**	**1**	**1 510**
-ES	22 058	11 744	1 705	302	2 021	753	903	1 278
-CG	2 522	2 415	6	0	1 232	2	170	225
2012/13	**26 288**	**15 166**	**1 782**	**352**	**3 742**	**936**	**1**	**1 694**
-ES	23 678	12 461	1 775	279	2 105	816	731	1 427
-CG	2 554	2 625	7		1 621	1	177	260
2013/14	**26 972**	**16 584**	**2 015**	**375**	**3 670**	**1 071**	**1**	**1 714**
-ES	24 633	13767	2 008	375	2 502	1 070	1	1 435
-CG	2 339	2 818	7	0	1 168	1	188	279
2014/15	**27 935**	**17 509**	**2 159**	**378**	**4 025**	**1 444**	**1**	**1 867**
-ES	25 357	14 434	2 141	378	2 684	1 442	1	1 579
-CG	2 578	3 074	17	0	1 341	2	199	288
2015/16	**29 756**	**18 235**	**2 263**	**388**	**3 931**	**1 526**	**1**	**1 859**
-ES	26 695	15 151	2 254	388	2 780	1 526	1	1 568
-CG	3 060	3 084	9	0	1 151	0	204	292
2016/17	**29 675**	**18 893**	**2 375**	**409**	**4 093**	**1 592**	**1**	**1 945**
-ES	28 148	15 997	2 375	409	2 931	1 592	1	1 641
-CG	1 527	2 896	0	0	1 163	0	215	304

Source: Annual Budget Booklet
Note: "Own Revenue" excluded from the above summary

Sections 39 and 40 of the PFMA, read with the National Treasury Regulations sets out the responsibilities of the Accounting Officer in respect of budget control inclusive of monitoring and monthly reporting. This include “In-Year- Monitoring” (“IYM”) reports to be submitted monthly which includes cash flow forecasting calculations.
The annual adjustment budget process is provided for in the PFMA, read with the Treasury Regulations and is done in line with National Treasury guidelines providing for revised estimates of revenue and expenditure and the rollover of funding for specified commitments originating from the prior year.

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

Chapter 15.10.2 of the Treasury Regulations of March 2005 provides the regulatory framework on the preparation and update of annual cash flow forecasts by each Department, as enacted under Section 7 of the Public Finance Management Act 1999. Departmental annual pro-forma cash flow statements are prepared and submitted to the Provincial and National Treasury, based on which expenditure commitment ceilings are set for each Department, once the Provincial Legislature approves the national budget - which in practice occurs two months after March 31st each fiscal year.

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

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

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

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

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

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

The MEC of Finance, by legal powers vested in him or her under Section 31 of the Public Finance Management Act 1999, can prepare and present a supplementary national budget to the Legislature for approval as and when required; in practice this usually occurs once a year midway through the fiscal year, around October.

Table 36: Budget execution, expenditures’ phases, procedures and entities involved

Phases	Operations	Entities
1	Division of Revenue Act (National level)	National Treasury
2	Provincial Budget Appropriation Bill	Provincial Treasury
3	Strategic Plans; Annual Performance Plans, Procurement	Provincial Departments
4	Approval of Departmental Budget	Departments; Provincial Treasury Provincial Legislature
5	Budget Allocation Letter	Provincial Treasury

6	Capturing of Budget on BAS (Financial Accounting System)	Departments
7	Processing and Payment for procurement of goods and services.	Departments
8	Monthly (ongoing) review and reporting on expenditure patterns, identification of budget challenges and surpluses; cash flow forecasting	National Treasury; Provincial Treasury; Departments
9	Adjustment Budget process – repeat 2 to 8 above.	National Treasury; Provincial Treasury; Departments and the Provincial Legislature.

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

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

PI-17 Registration and Oversight of Cash Balances, Debt and Guarantees

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

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

Background

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

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

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

Table 30: Housing guarantees provided

	R'000 000							
	Education	Health	Social Dev	Treasury	Public W	Economy	Transport	Rural D
2011	129	12	0	0	0	0	0	4
2012	117	9	0	0	0	0	0	2
2013	106	6	0	0	0	0	0	2
2014	75	5	0	0	0	0	0	2

Source : Department annual reports

At 31 March, these **cash balances** can be summarized as follows i.e.

Table 31: Cash balances

	R'000 000							
	Education	Health	Social Dev	Treasury	Public W	Economy	Transport	Rural D
2011	-839	-785	19	3	21	7	32	-55
2012	-425	-958	2	4	-5	9	30	-37
2013	13	-823	0	18	-14	14	5	0
2014	0	25	0	2	23	9	57	0

Source: Department Annual Reports

(i) Quality of debt data recording and reporting

For cash balances management in the province, each department performs a monthly reconciliation on its own PMG account. These reconciliations should be submitted by the 14th of every month as part of the In-Year Monitoring (IYM) oversight reports to Provisional Treasury. The Provincial Treasury performs the monthly reconciliation on the Provincial Revenue Fund (PRF) as well as on the Corporate Provincial Deposits Account (CPD).

The near real time recording and management of cash balances within the Treasury Single Account held with the South African Reserve Bank provides a critical component for managing budget disbursements to the Provinces. The Provinces funds are transferred to the Provincial Revenue Fund (PRF) which is managed by the Provincial Treasury. Cash Management Division within the Provincial Treasury allocates the funds to the Departments as per the annually approved payment schedule. This information is then reported and published in the quarterly in-year monitoring reports (YMR) at a Provincial and National level. Funds appropriated but not spend in the particular financial year may be rolled over to the subsequent year, provided the conditions as per the Treasury Regulations S6.4.1 are met. In instances where these conditions are not met, the funds need to be refunded to the National Revenue Fund (NRF). For purpose of assessing this indicator, the Bank Overdraft balances are regarded as the only "debt" incurred.

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

On a daily basis Provincial Treasury consolidates all bank balances.

(iii) Systems for contracting loans and issuance of guarantees

Article 218 of the 1996 Constitution, the PFM Act 1999 and the Treasury Regulations Section 16 clearly spell out the legal and regulatory framework governing government guarantees, loans and PPP arrangements. The Minister of Finance is the sole authority for contracting central government loans and approving guarantees for some public entities under Schedule 2 of the PFMA.

Prior to the implementation of the PFMA Act 1999, state employees were allowed to take home loans by means of guarantees, both nationally and provincially. The criteria set for housing guarantees with the South African banks was for a 5 year period, thus if any employee defaulted on the liability to the bank within this period, the Department would be liable for the outstanding debt. The Department would therefore recover the monies with the employee either from their salaries or pension fund. To date the Department's financial statements are showing balances on state guarantees, some of which have been recovered but not yet accounted for in the records. The reliability of the information relating to the state guarantees is therefore not 100% accurate.

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

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

PI-18 Effectiveness of payroll controls

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

Background
Chapter 10 of the 1996 Constitution and the Public Service Act 1994, amended by Act No. 30 of 2007 are the constitutional and legal frameworks that regulate public sector human resource administration in the Republic of South Africa. Chapter 4 of the Public Service Act 1994 details the procedure for recruitment, appointment, promotion, changes and transfers. The Public Service Commission is established as a Constitutional Body under Chapter 10 Article 196 of the1996 Constitution to advance the principles and values of public servants, provide directions and guidelines in the recruitment of public servants, investigate and report on human resource administration within the public sector, among others. The Department of Public Service Administration regulates, in accordance with the Public Service Act, government human resource in terms of budgeting for posts, developing HR manuals and standards, and the necessary infrastructure for efficient utilization of public sector human resource.

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

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

Manual personnel records (salaries, leave, personal) are maintained and managed at provincial department level. At provincial department level the processing of employee specific adjustments, movements and changes are decentralized and delegated to the regions, districts and institutions for example if a teacher is relocated to another school, the 2 schools involved will process the transfer in writing (documents) and the database is updated at district or regional level on receipt of these documents, depending on capacity and standing delegation of authority.

Monthly Payroll Certification as internal control mechanism is provided for in the Treasury Regulations 8.3.4 and 8.3.5 (issued in line with the Public Finance Management Act, Act 1 of 1999).

The departments of Education and Health combined represent 86% of Employee costs in the province whilst Employee Costs in total represent 78% of expenditure in the Eastern Cape provincial government. Personnel numbers (excluding abnormal appointments) as disclosed in the Annual Reports (HR Oversight reporting) are as follows:

Table 32: Number of staff, per department

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

Source: Annual Reports

The Auditor General has cited numerous incidents of noncompliance and weaknesses in internal controls in the audits conducted on the departments of Education and Health.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Background

Supply service chain (SSC legislative, regulatory and practices framework) is a major issue in Eastern Cape. In the absence of recent "Country Procurement Assessment Review (CPAR[14]) available on Eastern Cape, many questions remain unanswered.

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

Section 217 of the Constitution of the Republic of South Africa, 1996 prescribes the general constitutional principles governing public procurement (supply chain management). It states that when an organ of state at the national, provincial or local sphere of government or any other institution identified in the national legislation contracts for goods or services, it must do so in accordance with a system which is fair, equitable, transparent, competitive and cost- effective.

The Public Finance Management Act, Act 1 of 1999 ("PFMA") (section 38 (1)(a)(iii) read with the Treasury Regulations (TR 16A) stipulate to Treasuries and Accounting officers specific rules for implementation of such requirements. The National Treasury issued a SCM Framework, 2003, setting out rules and regulations, and frequent practice notes and circulars (Practice Note 8 of 2007/08) to promote the implementation of a procurement systems that meets the criteria set out in the constitution.

Procurement must also be consistent with the Preferential Procurement Policy Framework Act, (PPPFA) 2000 and with the Broad Based Black Economic Empowerment Act (BBBEEA) 2003. The legislation empowers each organ of state as defined in the PFM Act 1999 to set up its own preferential procurement policy within the framework stipulated in Section 2(1)(a) to (g). The Minister of Finance, by the powers vested, exempted some state organs under the Act expiring 7 December 2012; these included public entities under Schedule 2, 3B and 3D listed in the PFMA. The revised regulations (dated 9 June 2011) however apply to all public entities that were hitherto exempted from the previous regulations. As shown in the table below, only 3 out of the 6 requirements of the PEFA procurement measurement framework have been met.

[14] OECD-CAD methodology

Table 40: Procurement assessment documentary requirements

Documentary Requirement	Fulfilled	Explanation
1. Procurement legal framework is organized hierarchically and precedence is clearly established.	Y	The legal Framework is manifested in the Constitution, PFMA and Treasury Regulations
2. Procurement laws and regulations are freely and easily accessible to the public through appropriate means.	Y	Through the internet and in hardcopy format, documents are available free of charge.
3. The legal framework applies to all procurement undertaken using government funds.	Y	The National Treasury issued SCM specific policy setting threshold intervals of R1 – R2000; R30 000; R1m and above R1m
4. The legal framework makes open competitive procurement the default method of procurement and defines clearly the situations in which other methods can be used and how this is to be justified	Y	Whilst the framework sets out the rules and regulations, exceptions are provided for in TR16 (PPP) and 16A.6.4.
5. The legal framework provides for an independent, administrative procurement review process for handling procurement complaints by participants prior to contract	N	The National Treasury SCM Framework, 2003, section 9(3) provides for provinces to set up mechanisms to receive and consider complaints regarding alleged non-compliance with the prescribed minimum norms and standards. It is however not stipulated how this is

signature.		achieved prior to contract signature.
6. The legal framework provides for public access to all of the following procurement information: *government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints.*	**N**	There is no evidence or proof that such access is freely available. The Access to Public Information Act is too general, but does however give any citizen the right to information as provided for in section 32 of the Constitution of South Africa.

Key: Y – yes; N - no

(ii)-Use of competitive procurement methods

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

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

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

Table 33: Level of Irregular Expenditure

	R'000 000							
	Education	**Health**	**Social Develop**	**Treasury**	**Public Works**	**Economic Development**	**Transport**	**Rural and Agriculture**
	Vote 6	Vote 3	Vote 4	Vote 12	Vote 5	Vote 9	Vote 10	Vote 8
2011/12								
-Irr Exp	Q 93	Q 138	3	0	Q 25	4	83	14
-G&S&A	2 049	5 087	327	76	2 412	91	854	489
%	**4.54%**	**2.71%**	**0.92%**	**0%**	**1.04%**	**4.40%**	**9.72%**	**2.86%**
2012/13								
-Irr Exp	Q 7	Q 256	27	0	Q 1 334	9	33	29
-G&S&A	2 430	5 377	124	83	2 729	121	660	518
%	**0.29%**	**4.76%**	**21.77%**	**0%**	**48.9%**	**7.44%**	**5.00%**	**5.60%**
2013/14								
-Irr Exp	Q 5	Q 133	27	0	Q 1 054	33	27	13
-G&S&A	3 070	5 870	380	85	2 733	121	641	522
%	**0.16%**	**2.27%**	**7.11%**	**0%**	**38.6%**	**27.27%**	**4.21%**	**2.49%**

Source: Annual Financial Statements

Key: *"**Irr Exp**" – represents annual Irregular Expenditure as disclosed in the annual financial statements, prior to being condoned.*
*"**G & S & A**" – represents the expenditure on goods and services and capital assets as disclosed in the annual financial statements. It is assumed that for this calculation, Irregular Expenditure is mainly incurred when procuring goods and services and capital assets and not pertaining to Employee Costs, Transfers and Subsidies (no competitive procurement required).*
*"**Q**" – represents incidents where the Auditor General has qualified the disclosure of Irr Exp as result of the lack of proper systems to ensure the completeness and accuracy of the amounts disclosed.*

The Auditor General identified as result of the 2013/14 annual audit process an amount of R2.2bn (Education (R605m); Health (R440m); PW (R1.2bn)) that have erroneously not being recognized by the respective departments as Irr Exp.

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

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

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

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

Neither the Preferential Procurement Policy Framework Act nor the Treasury Regulations provide clear guidelines on the composition of members of an administrative complaint body. Responses from interviewees attest to the existence of a complaint body in each department composed mainly of the accounting officer (head of department) and his or her senior executives. As part of measures to ensure fairness in adjudication, independent auditors are invited to review the procurement process and participate in the complaints proceedings. As indicated in the table below, the administrative complaint mechanism satisfies 3 out of the 7 requirements.

Table 34: Legal and regulatory framework for procurement complaint

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

Key: Y – yes; N - no

Indicator	Score	Explanation
PI-19 Competition, value for money and controls in procurements	**D+**	**M2 scoring method**
i) Transparency, comprehensiveness and competition in the legal and regulatory framework	**B**	4 out of the 6 criteria have been met[15].
ii) Use of competitive procurement methods	**D**	The Legal SCM Framework provides for competitive procurement methods by law as the default mechanism. Data on deviation within the Framework is however not available.
(iii) Public access to complete, reliable and timely procurement information	**D**	The government does not make key procurement information available to the public. The absence of key information include procurement plans, bidding opportunities, contract awards, and resolution of procurement complaints
(iv) Existence of an adequate administrative procurement complaints system	**D**	There exists an administrative complaint body in each department, but the system does not meet all criteria, except (iii)

[15] Complaints–www.ectreasury.gov.za (/ Documents / Supply Chain Management) or (/ Tenders)

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

Dimensions to be assessed (Scoring Method M1):
i)-Effectiveness of expenditure commitment controls
ii)-Scope, relevance and understanding of other internal control regulations and procedures
iii)-Degree of compliance with regulations on the processing and registration of transactions

Background
Apart from the main PFMA, a set of Treasury Regulations and a number of Practice/Instruction Notes from the National Treasury have been issued to guide Accounting Officers to ensure effective and efficient expenditure and cash management. The National Treasury has also issued several guidelines to assist accounting officers and these include, amongst others, the Accounting Officers Guide to the PFMA, Accounting Officers Guide to Supply Chain Management and Guide on In-Year Management Monitoring and Reporting.

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

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

Where the Department will exceed their set budget Provincial Treasury will inform them of this. The necessary payment will however still be processed.

Controls in place around expenditure commitment:
A two way match is implemented whereby an invoice is matched to a purchase order before payment can be made. In cases where an invoice is not matched to a purchase order the transaction will not be processed and consequently payment not affected;

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

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

Areas of concern:

Through discussions with Provincial Treasury's Transversal Financial Systems and departmental management and staff, the following areas of concern were highlighted:

The accounting system, BAS and the procurement system, LOGIS are not interfaced nor integrated, and consequently inefficiencies result due to some of the following:

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

(i) Effectiveness of expenditure commitment controls

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

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

Annual Performance and Procurement plan is a pre-requisite to budget preparation. LOGIS is the procurement software for managing procurement across government and “runs parallel” to BAS. The LOGIS system provides for processing of orders (acquisition) against the approved budget whilst BAS provide for recording actual expenditure payments against approved budget.

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

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

Apart from the main PFM Act, a number of regulations from the National Treasury have been issued to guide Accounting Officers to ensure effective and efficient expenditure and cash management. These include Treasury Regulations March 2005, Accounting Manual - Guide to Accounting Officers, Guide on In-Year Management Monitoring and Reporting, among others. These legal regulations and procedure manuals are comprehensive and provide sufficient guidance for expenditure commitment. The National Treasury has an annual continuous training program for accounting officers to acquaint them of new accounting and reporting reforms. Each departmental head complements this training program for new entrants.

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

Government) in addition to simplifying transaction procedures.

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

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

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

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

The National Treasury is going to develop a Compliance Framework based on the Generally Accepted Compliance Practice Framework issued by the Compliance Institute of South Africa to assist institutions to improve their level of compliance with laws and regulations.

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

Table 35: Effectiveness of department internet control processing

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

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

Indicator	Score	Explanation
PI-20 Effectiveness of internal controls on non-salary expenditure	**C+**	**M1 scoring method**
(i) Effectiveness of controls on expenditure commitments	**C**	An additional functionality known as 'cash blocking' has been operationalised as part of the existing 'budget blocking' functionality. Commitment control is a requirement of the PFMA and specific procedures have been developed by Departments, which are informed by (and in line with) the National Treasury guidelines. The heads of directorates are tasked with the responsibility of managing of budget in their respective directorate. Although BAS system has a budget blocking system that notifies users when the budget will be exceeded, this can however be overridden with the authorization of the Head of Department. Furthermore capacity constraints impact on the effectiveness of the expenditure controls.

(ii) Scope, relevance and understanding of other internal control regulations and procedures	**B**	Internal controls are well covered in the PFMA and the Treasury Regulations and manuals. Furthermore Departments have developed internal policies and procedures, which are in line with the National Treasury guidelines. There however is doubt whether these procedures are widely understood and followed, complied with, refer the Auditor General reporting each year.
(iii) Degree of compliance with the regulations for processing and registering transactions.	**C**	There are important concerns over the level of compliance with rules and procedures even though there is general compliance in majority of transactions. For the 3 years under review, the Auditor General issued only 54% unqualified audit opinions. The qualified reports for the Departments of Education and Health are however considered as a significant weakness for the province as a whole but the gradual improvement is acknowledged.

PI-21 Effectiveness of Internal Audit

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

Background

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

(i) Scope and quality of the internal audit function

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

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

Comments made by the Audit Committees and Auditor General can be summarised as follows i.e.:

Table 36: Comments on internal audit effectiveness

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

Source: Annual Reports

Key: AC = Audit Committee opinion as per report in annual report; **AG** = comment on IA effectiveness as per reporting done in the annual report; **Y** = Satisfactory comment; **N** = Unsatisfactory comment = **50%**

(ii) Frequency and distribution of reports

Provincial Treasury could not provide specific details of reports received and timelines involved as no specific record was kept. Departments have also not provided adequate statistics. Treasury and Auditor General are however represented on all Audit Committees, meeting at least 4 times per annum and at which meetings reports are presented and discussed. Failure to attend may however result in not receiving the reports. As a final attempt to obtain copies, the Auditor General review reports as part of the annual audit process to identify risk areas and evaluate the extent to which it can rely on work done by the Internal Audit unit. Due to the lack of availability of actual statistics, the dimension is rated as C

Table 37: Frequency of internal audit reporting

	Education	Health	Social Development	Treasury	Public Works	Economic Development	Transport	Rural and Agriculture
	Vote 6	Vote 3	Vote 4	Vote 12	Vote 5	Vote 9	Vote 10	Vote 8
2011/12	**COMPREHENSIVE STATISTICS COULD NOT BE SUPPLIED BY DEPARTMENTS**							
2012/13								
2013/14								

(iii) Management response to internal audit findings

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

Some accounting officers fail to provide prompt and comprehensive response to audit queries. Set out below is an analysis of the observations made by the departmental Audit Committees on the extent of responsiveness. This results in repetitive findings year on year. Interview with the Chairperson of the Provincial Standing Committee on Public Accounts ("SCOPA"), confirmed this as a worrying state of affairs. The lack of consequence management was highlighted as a major contributing factor to the extent of these repetitive findings.

Table 38: Extent of responsiveness from accounting officers

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

Source: Annual Reports

Key: ***Y = yes, the AC has highlighted the concern; N = No, not specifically highlighted***
AC = Audit Committee
Y = 37%

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

3.5. Accounting, recording and reporting

PI-22 Timeliness and regularity of accounts reconciliation

Dimensions to be assessed (Scoring method M2):
(i)-Regularity of bank account reconciliations
(ii)-Regularity of reconciliation and clearance of suspense accounts and advances

Background
The Public Finance Management Act 1999 provides the legal framework for banking arrangement of central government, provinces and public entities. Treasury Regulations provide further guidelines. Section 7(2)(a) stipulates the mandatory approval of the Provincial Treasury prior to opening any bank account by any government department or public agency. Further, Section 15.9 of Treasury Regulations requires each accounting officer to ensure a daily accountability and reconciliation of movement in cash and bank balances.

In the province each department has a unique individual bank account (TR 15.10.3) and in addition, Provincial Treasury is responsible for the provincial Revenue Fund bank account, Exchequer bank account and Paymaster-General bank account. Bank Reconciliations are done in full on a monthly basis; however payment activity is monitored daily in line with TR 15.10.1.2 (j).

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

i) Regularity of bank account reconciliations
Provincial Treasury confirmed daily, weekly and monthly monitoring of the bank accounts, inclusive of daily consolidation of bank accounts to prevent interest charges. Reconciliations are done monthly by each department and for the Revenue Fund by the Provincial Treasury.

ii) Regularity of reconciliation and clearance of suspense accounts and advances.
Section 40(1)(a) of the PFMA and Section 17.1 of the Treasury Regulations require that all suspense accounts be cleared and correctly assigned to the correct cost centres on a monthly basis. National Treasury’s Office of the Accountant General (OAG) provides guidance in its Basic Accounting Handbook for Government Departments, and this is available on the OAG’s website. The Provincial Departments refer to the OAG’s Handbook when processing transactions, and reconciling and clearing the suspense accounts.

The most common suspense accounts are the bank interfaces; payroll interfaces, staff debt, advances for officials’ subsistence and interdepartmental debt. The Provincial Departments are required to reconcile and clear the suspense accounts on a monthly basis; and submit this information to the Provincial Treasury’s Financial Governance Branch for review and comments, within 15 days after month end. On receipt of the comments from the Provincial Treasury, the Departments are advised to consider these comments; however this is at their discretion.

Reconciliation of the suspense accounts is done annually as the suspense account details are processed on the BAS financial accounting system. Clearance however remains a major challenge as is evidenced by the significant amounts written off as irrecoverable and the remaining balances older than 1 year.

Table 39: Suspense Accounts

		R'000							
		Education Vote 6	Health Vote 3	Social Development Vote 4	Treasury Vote 12	Public Works Vote 5	Economic Development Vote 9	Transport Vote 10	Rural and Agriculture Vote 8
2011/12 ***Note 1***	**T**	**207 725**	**107 892**	**38 995**	**20 557**	**22 493**	**2 571**	**988**	**18 516**
	G	14 760	5 941	4 145	20 434	18 845	25	261	1 540
	S	159 623	87 203	4 052	0	3 141	2 425	667	2 041
	O	33 342	14 748	30 798	123	507	121	60	14 935
2012/13 ***Note 2***	**T**	**61 994**	**112 831**	**28 968**	**21 691**	**25 083**	**2 605**	**2 458**	**15 249**
	G	7 223	2 200	316	21 413	20 788	25	1 238	2 118
	S	52 801	108 854	3 740	0	3 786	2 577	1 214	2 253
	O	1 970	1 722	24 912	278	509	3	6	10 878
2013/14 ***Note 3*** ***Note 4***	**T**	**89 961**	**33 174**	**20 773**	**41 641**	**46 044**	**4 839**	**5 998**	**17 146**
	G	6 426	1 265	501	41 340	11 826	23	1 474	4 149
	S	81 491	30 445	2 932	0	4 320	4 816	1 044	1 770
	O	2 044	1 464	17 340	301	29 898	0	3 480	11 227
	>	**68 382**	**7 451**	**18 215**	**2 306**	**13 233**	**1 985**	**693**	**14 515**

Source: Published Annual Reports

Key: T = Totals; G – Inter Government Claims; S = Staff Debt; O = other; > = older than 12 months
Note 1 = Education – R12m Debt written off (AFS Note 6)
Note 2 = Education – R126m Staff Debt written of (AFS Note 6)
Note 3 = Health – R88m Staff debts written off (AFS Note 8.2)
Social Services – R14m debts written off (AFS Note 7.1)
Note 4 = PW (R29m) – "IDT Savings Club – EPWP Contractors"
Based on these statistics, at least R240m debt has been written off over the past 3 years.

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

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

Dimensions to be assessed (Scoring Method M1):
(i)-Compilation and processing of information to show the resources effectively received (in money or in kind) by the majority of front-line service delivery units (with particular focus on primary schools and primary health care clinics) in relation to the resources made available by the relevant sector or sectors, regardless of the level of government responsible for the functioning and funding of

Background
The purpose of this indicator is to identify the collection and processing of information to demonstrate whether resources were actually received (in cash and kind) by the most common front-line service delivery units, in relation to the overall resources made available to the sectors, irrespective of which level of government is responsible for the operation and funding of those units.

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

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

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

Primary School Education

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

- Infrastructure & facilities
- Furniture and Equipment
- Teaching and Administration staff
- Text Books and stationery
- External Examination (Grade 12 etc.)
- Feeding of qualifying learners
- Transport to and from schools
- Accommodation in certain instances
- Financial Subsidies (Transfers)
- Training to members of school governing boards
- Internet Access to enhance communication and knowledge sharing

The main provision of primary school education is assigned to Program 2: Public Schools Education under the administration of Provincial Department of Education ("DoE"). Exam related support for primary education is allocated and monitored under Program 9: Auxiliary and Associated Services; and the infrastructure for the primary education schools is monitored under Program 8: Infrastructure Development.

Recent changes in national policy provides for compulsory Early Child Hood development which is funded under Program 7.

Certain functions and responsibilities are however allocated to other departments and municipalities. In the EC scholar transport is provided for by the Department of Transport and is done in conjunction with the learner numbers etc. supplied by the DoE. Sport, arts and culture is supported by the Department of Sport, Recreation, Arts and Culture through specific budget allocations.

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

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

Table 40: Funding Primary School services

	2012/13 Adj R'000	2013/14 Adj	2014/15 R'000
The Provincial Department of Education (V 06)			
Program 2 in Total	22 134 607	21 827 612	22 266 856
Program 7 in Total	515 546	453 808	558 513
Program 8.4/9.4 - Examination	221 741	218 476	212 301
Program 8.2/4 – Capital Assets	35 841	1 240 111	932 544
TOTAL BUDGET of DoE	**26 754 712**	**27 538 880**	**27 934 964**

The Provincial Department of Transport (V 10)			
Program 2.7/3.6 – Scholar Transport	369 479	210 949	356 076
The Provincial Department of Sports, Recreation, Arts and Culture (V 14)			
Program 4.4– Sport development	5 011	5 733	5 358

Source: Annual Adjustment Budget

Primary Health Care Clinics

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

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

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

Table 41: Funding Primary Health Care services

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

Source: Annual Adjustment Budget

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

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

Dimensions to be assessed (Scoring Method M1):
(i)-Scope of the reports in terms of coverage and compatibility with budget estimates
(ii)-Timeliness of report presentation
(iii)-Quality of information

Background

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

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

- National Treasury – quarterly Budget Meetings with clusters for example “Education” which then includes the mother department and all 9 provincial departments, commonly referred to as 10x10 meetings.
- Provincial Treasury – quarterly Budget Meetings with provincial departments
- National (“Mother”) Department – quarterly Oversight meetings
- MEC of the Department – monthly review of specified reports
- Accounting Officer of the Department – monthly reporting to Treasury and respective MEC.

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

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

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

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

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

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

(ii) Timeliness of report presentation

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

Table 42: Level of compliance

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

Source: Director- Budget Services (Provincial Treasury)

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

(iii) Quality of information

The Q4 reports for the EC Province in total as per National Treasury records matched to the actual audited figures as per the Consolidated Financial Statements can be summarized as follows i.e.

Table 43: Quality of information

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

Source National Treasury records & consolidated financial statements

Indicator	Score	Explanation
PI-24 Quality and timeliness of in-year budget reports	**B+**	**Scoring method M1**
(i)-Scope of reports in terms of coverage and compatibility with budgetary forecasts	**B**	There are 2 systems that need to be consolidated manually to calculate the total of actual expenditure and commitments. The Budget is loaded on both systems for individual comparison purposes. Not all commitments end up as actual expenditure.
(ii)-Timeliness in the presentation of reports	**A**	Reports are reported monthly at departmental and to provincial and national levels as per discussion with Provincial Treasury.
(iii)-Quality of the information	**A**	The Q4 report and audited financial information as per annual reports differs less than 1%.

PI-25 Quality and timeliness of annual financial statements

Dimensions to be assessed (Scoring Method M1):
(i)-Comprehensiveness of financial statements
(ii)-Timeliness in the presentation of financial statements
(iii)-Accounting standards used

Background

Regulatory framework

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

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

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

The National Treasury has implemented a training program through the Financial Management Improvement Program (FMIP) for departments to implement the new classifications, and established a classification committee and call center to support practitioners. The committee issues circulars that provide feedback to practitioners on changes made to the chart of accounts, ensuring a consistent approach to classification.

Organizational responsibilities

At the departmental level, the Accounting Officer is responsible for the timeliness and accuracy of the departmental or entity accounts. Functional responsibility lies with the Chief Financial Officer.

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

Accounting Framework

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

In 2012/13, the National Treasury changed its accounting policy with regard to the treatment of GBEs in the consolidated financial statements. GRAP 6 (Consolidated and Separate Financial Statements) requires the NT to consolidate an entity if the Government has control over its financial and operating policies. This is in accordance with international standards (IPSAS). However, the National Treasury says that the Government "does not have control over the financial and operating policies of the GBEs but has the ability to significantly influence those policies through legislation and practice notes". Accordingly, NT changed its accounting policy from fully consolidating GBEs to equity accounting those GBEs in accordance with GRAP 7 (Investments in Associates). This is said to provide more reliable and relevant information. However, this was not accepted by the Auditor General, and full consolidation remains the aim.

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

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

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

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

(i) Comprehensiveness of financial statements

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

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

Systems

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

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

(ii) Timeliness in the presentation of financial statements

Each department and public entity prepares its own financial statements within two months, i.e. by 31 May, and submits them to the Auditor General. They are audited by 30 June, and sent to the NT-OAG for consolidation in line with PFMA section 19. The draft Consolidated Financial Statements are submitted to the Auditor General by August, which are within 6 months, but not in line with the PFMA requirements of 3months. The Auditor General however acknowledged in that the province received exemption on terms of section 92.

(iii) Accounting standards used

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

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

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

Indicator	Score	Explanation
PI-25 Quality & timeliness of financial statements	**A**	**Scoring method M1**
(i) Completeness of financial statements	**A**	The annual Consolidated Financial Statements for the Eastern Cape includes full information on revenue, expenditure, financial assets, and liabilities.
(ii) Timeliness in the presentation of financial statements	**A**	Consolidated Financial Statements are submitted to the Auditor General within 5 months of the end of the fiscal year. The AG has reported that the province received exemption for 2013/14 in line with PFMA 92.
(iii) Accounting standards used	**A**	All national and provincial departmental statements and their consolidations disclose and observe the financial reporting standards of the Accounting Standards Board of South Africa, based on IPSAS.

3.6. External Scrutiny and Audit

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

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

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

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

Audit methodological proceeds applied at national and provincial levels

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

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

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

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

The provincial auditor applies currently International Standards for Supreme Audit Institutions (ISSAIs), issued by INTOSAI, based on the corresponding International Standards of Auditing (ISAs) adapted for the public sector[16]. Although, the Eastern Cape auditor masters most of the generally accepted multiyear performance standards, the "value for money" auditing approach is not yet part of the reporting targets and content.

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

The time schedule of the provincial audit reporting to the legislative is primarily included within the section 40 of the Public Finance Management Act (07/2011). Audit reports are tabled in departments 4 months following FY ending – (July). The department audit reports are included within the department annual reports and submitted to the Eastern Cape Provincial Council on September, (average six months from the end of the fiscal year).

(iii) Evidence of follow up on audit recommendations

Audit recommendations are analyzed by the SCOPA, discussed through hearings of department executive accountants and eventually turned into compulsory obligations as legislative resolutions. Audit findings are followed up by Eastern Cape Standing Committee on Public Accounts (SCOPA), one of the E.C. Portfolio committees. The SCOPA resolutions are henceforth mandatorily included within the content of the department annual reports. This is a great improvement of the management responsiveness to audit management letters. However some findings are not addressed and audit comments have to be repeated. Following issue of the audit report to the Provincial Assembly, the Auditor-General reports that although formal responses are made by Accounting Officers to audit findings, the corrective measures are not always carried out in a systematic or timely fashion.

16 AGSA Audit manuals

Table 44: Scope/nature of audits carried out & audit standards (2013)

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

Source: Provincial auditor department & consolidated reports

Indicator	Score	Explanation
PI-26 Scope, nature and follow-up of external audit	**B+**	**Scoring method M1**
(i) Scope/nature of the audit carried out (including adherence to audit standards).	**A**	The Eastern Cape Provincial auditor carries out each year full provincial public entities audits, covering expenditures, salaries, transfers, assets, procurement, internal controls, compliance with legislation, by multiyear programs. However, the "value for money" performance appraisal is still lacking He applies thoroughly the AGSA audit guidelines that are totally in line with the ISSAI standards.
(ii) Timeliness in the presentation of auditing reports to the Legislature	**A**	For the three last FY, all consolidated provincial audit reports were submitted in September (4 months following FY ending) to the Provincial Council.

(iii) Evidence of follow up of audit recommendations	**B**	The SCOPA resolution follow-up proceeds are currently operating. The annual audit report is embedded within each department annual report. But, in practices, audit reports are unofficially provided early to SCOPA allowing the legislature Committees to timely organize hearings of the main audit findings. Then, recommendations are turned into legislative resolutions. Consistent with audit report evidences, SCOPA resolutions are mostly implemented; Portfolio Committees resolution enforcement regulatory framework exists. Since 2014 comprehensive follow-up proceeds are generally applied by the department's internal auditors or audit Committees. The status of the implementation of SCOPA resolutions is part of department annual reports. However, the auditor general point out that some main resolutions are not immediately put in practices.

PI-27 Legislative scrutiny of the annual budget law

Dimensions to be assessed (Scoring Method M1):
(i)-Scope of examination by the Legislature
(ii)-Degree to which legislative procedures are recognised and respected
(iii)-Adequacy of the time for the Legislature to provide a response to budget proposals
(iv)-Rules for in-year amendments to the budget without ex-ante approval by the legislature

Background
The 2012 Open Budget Survey gave South Africa the second highest score of 90 among the ranked countries on budget transparency. South Africa's strong ranking is underpinned by a strong budgetary process that also involves the institutionalization of the Medium Term Expenditure Framework (MTEF) principles into the public financial management systems. The MTEF has become the basis of annual budget preparations and the mechanism for disclosing resource and expenditure projections to the legislature

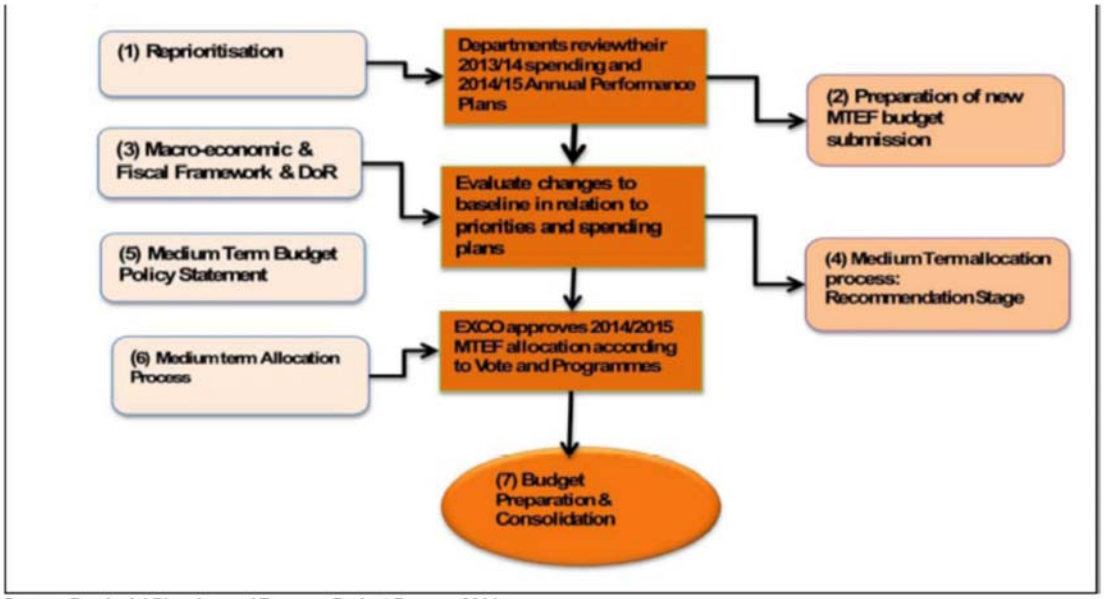
The legislative framework of budget examination by the Provincial Legislature is well detailed in the sections 76-77 of the Chapter 4 "Parliament" and in the section 215 of the Chapter "Finance" of the Constitution of South Africa.

(i)-Scope of examination by the Provincial Legislature
The provincial budget preparation process is a series of consultative meetings, workshops and seminars at both a national and provincial level between relevant stakeholders such as the Executive Committee (EXCO), Provincial Planning and Treasury (PPT), provincial departments, National Treasury (NT), the Budget Council, and the Financial and Fiscal Commission (FFC).

Departmental budgets are aligned to government's strategic policy priorities for the electoral cycle as indicated in the Medium-term Strategic Framework (MTSF), Program of Action, Apex priorities, National Development Plan (NDP), the President's 12 outcomes, the President's State of the Nation Address (SONA) and the Premier's State of the Province Address (SOPA).

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

Figure 1.4: Eastern Cape Provincial Parliamentary budget approval procedure



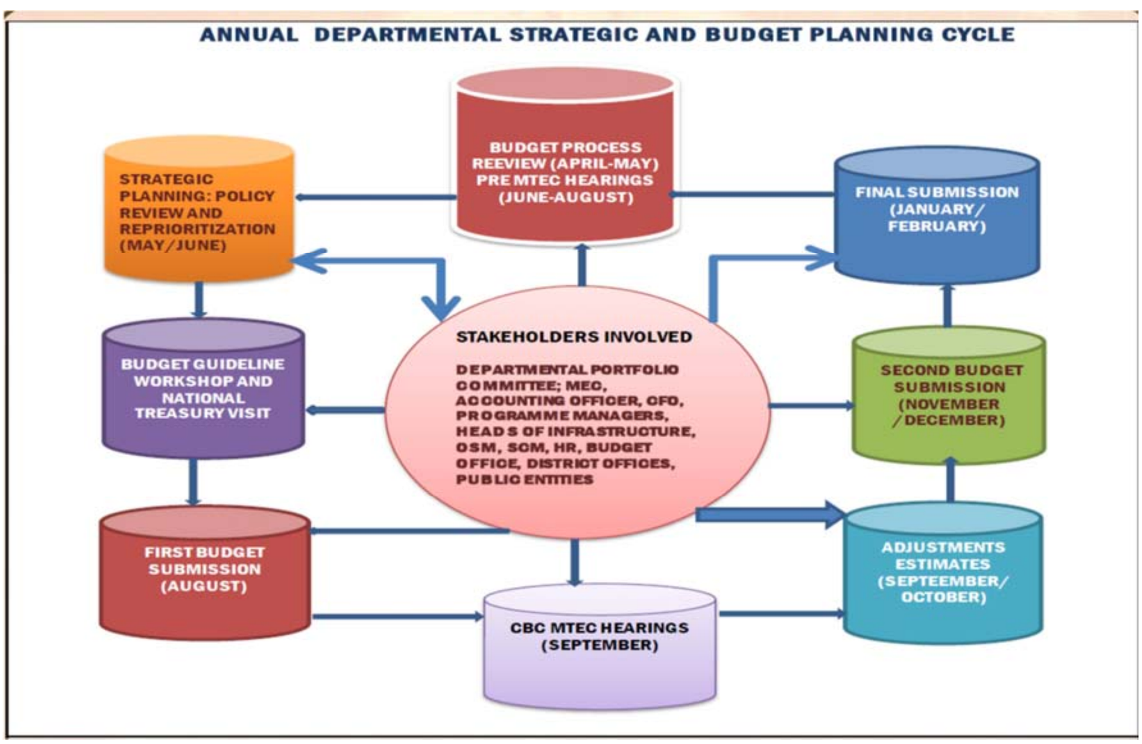
Source: Provincial Planning and Treasury Budget Process 2014

(ii)-Degree to which legislative procedures are recognized and respected

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

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

Figure 1.4: Budget Planning cycle



Source: Eastern Cape PPT presentation

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

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

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

The adjustments budget process

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

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

The Public Finance Management Act (1999) (PFMA) specifies the type of spending the adjustments budget may provide for. The Treasury Regulations, issued by National Treasury in terms of the PFMA, provide instructions on how to comply with the PFMA. The provincial legislature receives in October/November the Adjusted Estimates of National Expenditure document previously voted by the Assembly National and the National Council of Provinces (NCOP).

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

PI-28 Legislative scrutiny of external audit reports

Dimensions to be assessed (Scoring Method M1): ***(i)-Timeliness in examination of the audit reports by the Legislature (reports received within the past three years).*** ***(ii)-Scope of the hearings carried out by the Legislature into the main findings*** ***(iii)-Issuance of recommendations by the Legislature and their implementation by the Executive***

Background

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

Portfolio Committees

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

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

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

All audit report are provided end of July to all department, but are not tabled to the Provincial Standing Committee on Public Accounts (SCOPA). Audit reports are then inserted within the department annual reports which should be tabled in the legislature no later than 5 months following FY ending[17]. According to the table below, annual department reports are forwarded to the legislature Portfolio Committees within six months average time after FY ending. There were no explanations why audit reports are not copied to SCOPA while available in July.[18]

[17] Section 65-Tabling in the legislature of the PFMA

[18] 4 months following FY ending

Table 46: Timeliness in receipt of the embedded audit reports within department annual report by EC legislature

EASTERN CAPE PROVINCIAL DEPARTEMENT	2011/2012			2012/2013			2013/2014		
	Report	Month	SCOPA Resolution	Report	Month	SCOPA Resolution	Report	Month	SCOPA Resolution
Vote 1-**OFFICE of PREMIER** 1.1-E C. Socio eco consul	27/09/12	6		25/09/13	6		01/10/14	7	
Vote 2-**PROVINCIAL LEGIS**	10/10/12	7	4	10/10/13	7		07/10/14	7	
Vote 3-**HEALTH**	31/08/12	5	9	31/08/13	5	7	31/08/14	5	
Vote 4-**SOCIAL DEV.**	31/08/12	5		31/08/13	5		25/09/14	6	
Vote 5-**PUBLIC WORKS**	31/10/12	7	6	30/09/13	6	9	26/08/14	5	
Vote 6-**EDUCATION**	31/10/12	7	8	30/09/13	6	8	31/10/14	7	
Vote 7-**LOCAL GOVERNM /TRADITIONAL AFFAIRS**	13/11/12	8		28/09/13	6		01/10/14	7	
Vote 8-**RURAL & AGRI. DEV.** 8.1-E C. Rural Development Ag 8.2-E C. Appropriate Tech. Unit	15/10/12	7	4	15/10/13	7	9	20/10//14	7	
	NA			30/09/13	6		NA		
	17/10/12	7		29/08/13	5		NA		
Vote 9-**ECONOMIC DEV.** 9.1-E C. Dev. Corporation 9.2-East London Ind. Dev Zone 9.3-Coega Dev. Corporation 9.4-E C. Park and Tourism Ag. 9.5-E C. Gambling and Betting 9.6-E C. Liquor Board	17/10/12	5	4	31/08/13	5		22/10/14	7	
	05/10/12	7		10/10/13	7		NA		
	22/10/12	7		23/10/12	7		25/08/14	5	
	20/11/12	8		21/10/13	7		10/09/14	6	
	13/09/12	6		04/12/13	9		13/10/14	7	
	04/09/12	6		16/09/13	6		13/10/14	7	
	NA			30/08/13	5		09/09/14	6	
Vote 10-**TRANSPORT** 10.1-Mayibuye Transport Corp. 10.2-Govern Fleet Mgt Trading	31/08/12	5	4	31/08/13	5		20/10/14	7	
	NA		5	23/05/14	14		NA		
	31/08/12	5		31/08/13	5		20/10/14	7	
Vote 11-**HUMAN SETTLEM**.	20/09/12	6	5	09/10/13	7		19/09/14	6	
Vote 12-**PROVINCIAL TREAS** 12.1-E C. Planning Commission	31/08/12	5		30/09/13	6		29/09/14	6	
Vote 14-**SPORT, RECRE, ART**	28/09/12	6	5	28/09/13	6	7	07/10/14	7	
Vote 15-**SAFETY / LIAISON**	31/10/12	7		29/09/13	6		30/09/14	6	
TOTAL			54			40			

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

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

The Eastern Cape Provincial Standing Committee on Public Accounts (SCOPA) analyses each department annual report, focusing on financial statements and audit reports. It considers the Auditor-General reports and raises formal questions which the Accounting Officers of the respective Departments are requested to respond. Upon the evaluation of the acceptability of the written replies, the Committee scheduled hearings for oral responses. These hearings are attended by the department or public entities Accounting Officers, and their staff. At these hearings, the Accounting Officers are given an opportunity to respond and give further evidence to the questions raised by the Committee.

Table 47: Eastern Cape legislature-SCOPA Announcement, Tabling &Committee Reports

Fiscal Years	N° of Resolutio	Date of SCOPA report	Months within receipt Dpt.	Months since FY end	Disciplinary proceedings
2010-2011	97	14/08/2012		16	
2011-2012	49	24/04/2013	6	13	
2012-2013	40	04/03/2014	5	12	

Source: SCOPA reports

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

Box 1: SCOPA General Findings 14/08/2012

(a) The committee found that nearly a third of the Departments that received an unqualified audit opinion would have been qualified had it not been for the intervention of the Auditor-General.

(b) The provincial administration incurred a total of R4.6 billion in irregular expenditure during the year under review. R3.5 billion of this amount was identified during the audit.

(c) The Accounting Officers submitted financial statements for auditing that were not prepared in all material aspects in accordance with generally recognised accounting practice and supported by full and proper records as required by section 40(1)(a) and (b) of the PFMA. The Committee is concerned with this non-compliance as such errors should not exist when financial statements are submitted for auditing.

(d) The Departments affected by the HROPT have not fully implemented the recovery process of the money owed to government.

(e) Lack of adequate controls, leadership, and governance in the Departments of Education and Health has a negative impact the effective, efficient and economic use of public resources.

Box 2: SCOPA General Findings 24/04/2013

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

a)-There is a general disregard of compliance with the prescripts of the Public Finance Management Act, the Treasury Regulations and the Public Service Regulations, and this is evidenced by the continuous repetitive audit findings and House resolutions.

b)-There is a complete failure by the Executing Authorities and Accounting Officers to take action against officers for non-compliance with laws and regulations, incompetence and underperformance as required in terms of Section 38 (1) (h) of the PFMA and Public Service Act which are the main contributors to the audit findings.

c)-The much publicized clean audit by 2014 in the provincial administration seems to be a pipe dream as there is no improvement in the financial management in the Departments.

BOX 3: SCOPA General findings 04/03/2014

A. The Committee is of the view that clean administration is achievable and the milestone of clean audit reports by 2014 can be a reality if all the recommendations made by the Auditor-General and the Committee are fully implemented.

B. It should also be noted that when conducting the audit, the Auditor-General always scans the environment for new risks. It follows that a proper risk management allows for compensating controls. This is one of the key aspects of ensuring a clean administration.

C. The committee found that almost all the Departments that received an unqualified audit opinion with emphases of matters would have been qualified had it not been for the intervention of the Auditor-General. The annual financial statements were subjected to amendments during the audit.

D. The Accounting Officers submitted financial statements for auditing that were not prepared in all material aspects in accordance with generally recognized accounting practice and supported by full and proper records as required by section 40(1)(a) and (b) of the PFMA. The Committee is concerned with this non-compliance as such errors should not exist when financial statements are submitted for auditing.

E. Departments continue failing to ensure proper procurement and contract management. This is evidenced by the Department's contravention of Treasury Regulations 16A.

F. Departments continue failing to ensure human resources management and compensation. This is evidenced by the Department's contravention of the provisions of the Public Service Regulations.

G. There is a general lack of monitoring of the completeness of source documents in support of actual achievements and a lack of frequent review of validity of reported achievements against source documentation.

H. Some Departments did not have adequate systems in place to identify and disclose all irregular, fruitless and wasteful expenditure incurred during the year as required by section 40(3) (b) (i) of the PFMA. In addition, irregular, fruitless and wasteful expenditure could not be prevented as required in terms of section 38(1)(c)(ii) of the PFMA.

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

Enforcement of SCOPA resolutions

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

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

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

3.7. Donor Practices

Per agreement with National Treasury, Donor Practices were not required to be assessed at a Sub-National Level

4. GOVERNMENT REFORM PROCESS

4.1. Description of Major PFM Reforms

The main area of PFM reform activity planned (which will affect the Province) involves improvements to the Financial Management Systems and implementation of Integrated Financial Management System (IFMS).

The State Information Technology Agency (SITA) is responsible for IT networks, systems operations and security for all levels of government[19]. The Financial Systems section of the Special Services Division in the National Treasury is responsible for: the national and provincial government systems and provides procurement, payroll and accounting software. It also provides a Business Intelligence Platform that integrates both national and provincial governments and serves as a repository of financial data. The existing systems are deemed robust and appear to capture financial information as required, but their use is cumbersome in terms of reporting and data querying and mining.

4.1.1 Improvements to the Financial Managements Systems

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

To address the short-comings with regards to FINEST, there is a planned implementation of LOGIS[20] that will cover all the Departments in the Province. LOGIS will be implemented in phases and is anticipated to take approximately three years to complete for all Departments. LOGIS should provide more functionality than is the case currently with FINEST. LOGIS supports the complete Order-to-Cash process of procurement and subscribes to sound supply chain management best practice. It will also offer functionality to support financial interfacing to BAS.

Implementation of Integrated Financial Management System (IFMS)

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

IFMS has the following features:

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

The IFMS solution will provide functionality to National and Provincial Departments in the following four areas:

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

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

The IFMS Supply Chain Management (SCM) platform aims to provide the following functionalities:

- Full control and management of corporate catalogue
- Support the effective streamlining of all Government procurement actions and administration
- Effective control over government unit's stock levels in order to reduce the capital invested in stock
- Full control and visibility of all non-current and non-financial assets through the complete Government cycle

The IFMS Human Resource Management (HRM**)** platform will have functionality to manage the following:

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

The IFMS Financial Management (FIN) platform seeks to support the following:

- The establishment of an MTEF[21]
- The financial management business processes of national and provincial departments
- The financial management business processes of national and provincial treasuries
- The remuneration management business processes of national and provincial departments

The three IFMS platforms discussed above will feed into (and are the source data for) the IFMS Business Intelligence (BI) platform. The capabilities of the IFMS BI platform are summarized below:

- ***Reporting*** – accessing of data and delivering information to the organization
- ***Analysis*** – exploring and analyzing data interactively with rapid response
- ***Dashboards*** – getting immediate visibility into metrics and KPI's[22]
- ***Data mining*** – discovering hidden patterns and indicators of future performance

A detailed project implementation plan and methodology framework has been mapped out, resources identified and project timelines established. SITA's implementation methodology includes training requirements and processes. Pre- assessments will be performed for all identified potential users of the IFMS modules. The training will be cascaded down to address provincial training needs. The potential users will also be required to pass assessment tests before using the system.

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21 Medium Term Expenditure Framework

22 Key Performance Indicators

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

4.1.2 Modernizing public procurement

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

Over the next years, the Office of the Chief Procurement Officer will roll out a new national approach to procurement. Its main features will include:

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

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

- air travel and hotel accommodation;
- standard equipment used in schools and clinics;
- information and communications technology infrastructure;
- professional services; and leasing and accommodation.

4.2. Institutional factors supporting reform planning and implementation

4.2.1 Government leadership and ownership`

The commitment to continuing improvements in PFM in South Africa has political championship at the very highest levels through the Minister for Finance. Implementation oversight and monitoring is the responsibility of the National Treasury's Heads of Division. Coordination of the reform efforts is the responsibility of the Budget Office at the National Treasury.

At the Provincial level, commitment by the Executive Authority (MECs)[23], which represents political leadership, is one of the critical success factors for any reform undertaken. The MECs are accountable for their respective Provincial Departments to the Provincial Legislature. They have a monitoring and oversight role in their portfolios and play a direct role at the Departments, as they have specific oversight responsibilities in terms of the PFMA and the Public Service Act.

4.3. Challenges

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

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

- Various recommendations from the SITA performance assessment report produced in January 2013 were not implemented;
- System Controllers and departmental IT communication breakdown (Security - network access rights);
- Departmental IT not following correct BAS release procedures, resulting in version control issues;
- LAN[24] communication problems (packet losses), which will impact BAS and other applications performance;
- WAN[25] communication problems (packet losses and duplicate nodes), which will impact BAS and other applications performance.

[23] In terms of Section 125 of the Constitution, the Executive of a province is vested in the Premier of that province. The Premier, together with other members of the Executive Council (MEC), exercises the executive authority by, among others, implementing all national legislation within the specified functional areas, developing and implementing provincial policy, coordinating the functions of the provincial administration and its departments, and performing any other function assigned to the provincial executive in terms of the Constitution or Act of Parliament.
[24] Local Area Network
[25] Wide Area Network

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

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

- ***Implement quality of service*** (QoS) on the data lines and optimize router utilization. It was recommended that the individual Provincial Departments and SITA take forward this recommendation. It should improve WAN traffic and minimize the excessive communication difficulties.
- ***Minimize the need for excessive broadcasting and unused protocols on the LAN***. Excessive broadcasting increases network traffic. It was recommended that the individual Provincial Department's IT section or the party responsible for the Department take responsibility for this recommendation.
- ***Ensure correct version of the BAS application is utilized and codes table is marked as read only***. The impact of a wrong release version is that the latest functional improvements/corrections are not available to the department. A codes table not marked as "read only", will limit a department to only five users logging onto BAS simultaneously, no other users will be able to work, consequently creating a perception that BAS is not performing correctly. It is the responsibility of the Departmental System Controller to escalate the BAS Notices to their Provincial IT
- ***Establish a capturing center in the Province***. This facility will provide Provincial Department's an alternative working environment, should any individual department experience difficulty to work within its own environment.

The competencies of staff and filling of vacant posts is therefore another challenge the Province is faced with in preparation for the implementation of IFMS.

4.4. Other Issues

4.4.1 Planned reforms

Expenditure Payment Arrears

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

4.4.2 The pre-audit ex ante supervision of payments

Treasury and SCOPA recommended to departments to set up Internal Control Units to pre audit vouchers to ensure compliance and validity of payments before being authorised, processed and released. The high level of irregular expenditure still incurred each year however is evidence of the strategy not being 100% effective. Departments and Treasury is considering centralization of these functions to avoid or limit irregular expenditure in future.

ANNEX 1
LIST OF CONTACTS

Name	Position	Email address
Jongile MHLOMI	Deputy Director General Provincial	
Andisile BEST	Dir. Budget System support office	Andisile.Best@ectreasury.gov.za
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Henry ISAACS	CFO Department of Education	Henry.Isaacs@edu.ecprov.gov.za
Luyanda YASO	Director, Public entities governance, Budget management	Luyanda.Yaso@ectreasury.gov.za
Vuyisile NTISANA	Senior Manager Support and Financial Reporting Provincial	Vuyisile.Ntisana@ectreasury.gov.za
Dominic QHALI	Chief Director Cash and Liability Management Provincial	Dominic.Qhali@ectreasury.gov.za

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

Preliminary allocation letters issued to provinces – equitable share and conditional grant allocations	**End October 2014**
Provincial treasuries submit 2nd draft 2015 Budgets to National Treasury: Estimates of Provincial Revenue and Expenditure and database	**20 November 2014**
Technical Committee on Finance meeting	**21 November 2014**

ANNEX 2
BIBLIOGRAPHY

NB: The whole documentation which was used for the completion of the Eastern Cape PEFA is detailed within the attached USB key database. (324 files, 2, 38 Gb.)

- ACTS & SA GUIDELINES
- AUDITOR GENERAL
- AUDITOR PROVINCIAL
- CASH & DEBT MANAGEMENT
- CONSTITUTION
- DECENTRALIZATION
- DEPARTMENT ANNUAL REPORTS
- DONORS
- FFC
- FINANCIAL STATEMENTS
- IMF
- IN -YEAR MONITORING
- INTERNAL AUDIT
- INTERNAL CONTROLS
- MEETINGS
- NATIONAL PEFA
- OPEN BUDGET INDEX SA
- PERFORMANCE
- PROCUREMENT
- SCOPA RESOLUTIONS
- STRATEGIES
- TOR
- WORLD BANK

ANNEX 3
DETAILED CALCULATION FOR PI-1- PI-2 AND PI-3

PI-1 & PI-2 TABLES

Data for year =2011/12						
Provincial Department	**Budget**	**Actual**	**Adjusted B udget**	**Deviation**	**Absolute deviation**	**Percent**
Education	24,634,708	25,174,117	25,147,353.5	26,763.5	26,763.5	0.1%
Health	14,237,249	14,892,282	14,533,524.5	358,757.5	358,757.5	2.5%
Social Development And Special Programs	1,711,206	1,691,851	1,746,816.0	-54,965.0	54,965.0	3.1%
Office Of The Premier	403,880	400,819	412,284.7	-11,465.7	11,465.7	2.8%
Provincial Legislature	371,446	360,257	379,175.7	-18,918.7	18,918.7	5.0%
Roads And Public Works	3,269,009	3,393,640	3,337,036.7	56,603.3	56,603.3	1.7%
Local Government And Traditional Affairs	746,085	738,943	761,610.9	-22,667.9	22,667.9	3.0%
Rural Development And Agrarian Reform	1,509,785	1,484,433	1,541,203.5	-56,770.5	56,770.5	3.7%
Economic Development, Environmental Affairs And	884,226	885,651	902,626.6	-16,975.6	16,975.6	1.9%
Transport	1,453,764	1,582,911	1,484,016.7	98,894.3	98,894.3	6.7%
Human Settlements	2,424,942	2,143,154	2,475,404.8	-332,250.8	332,250.8	13.4%
Provincial Planning And Treasury	302,526	283,987	308,821.5	-24,834.5	24,834.5	8.0%
Sport, Recreation, Arts And Culture	636,323	649,017	649,564.8	-547.8	547.8	0.1%
Safety And Liaison	58,387	57,980	59,602.0	-1,622.0	1,622.0	2.7%
Allocated expenditure	52,643,536	53,739,042	53,739,042	0	1,082,037	
Contingency	1,041,421	0				
Total expenditure	53,684,957	53,739,042				
Overall (PI-1) variance			**3.0%**			
Composition (PI-2) variance			**2.0%**			
Contingency share of budget						0%

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

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

PI 3-TABLE

	2011/12	**2012/13**	**2013/14**
	Actual	**Actual**	**Actual**
Revenue Estimates	53.684.956	57.398.068	60.461.798
Revenue Outturns	54.331.787	58.071.889	60.909.165
Deviation, R Millions	646.831	673.821	447.367
Deviation %	**1.2%**	**1.2%**	**0.7%**

ANNEX 4
PEFA Secretariat Comments

Republic of South Africa – Province of Eastern Cape
PEFA Report

Final Draft Report – 23 December 2014

Comments from the PEFA Secretariat

This note sets out the PEFA Secretariat's comments on the Republic of South Africa – Province of Eastern Cape Assessment, as requested by Mary Matjeke, Director of Provincial Budget Analysis, Treasury, Government of South Africa, on February 10, 2015. We are grateful for the opportunity to present our comments, which address the following questions:

1. Is the requisite background information for the assessment adequately included?
2. Have the standard indicators been used (with or without modification)?
3. Are the indicators correctly applied or interpreted?
4. Is sufficient evidence provided for all aspects of each indicator? If not, what is missing?
5. Is the information specific, presented clearly and used correctly?
6. Is the scoring methodology correctly chosen and applied?
7. Is the scoring correct, on the basis of the information provided?
8. Are there any specific features of the country's PFM system that result in a mismatch with the definition or calibration of the indicators (constitutional arrangements, system heritage)?
9. Have the indicator-related information and ratings as well as other relevant information been combined in an analysis that highlights the main strengths and weaknesses of the PFM system and indicates priorities for reform?

Our comments do not consider if the data/information presented in the report is likely to be correct and we can only judge the correctness of scoring on the basis of the evidence actually presented.

Overall impression

This is a good report, well written and providing substantial information. Section 3 reflects a good understanding of the methodology. Rating of indicators is discussed in a detailed manner, which makes the narrative part of section 3 relevant and useful.
In several cases, information provided, although mostly relevant does not meet fully the scoring criteria of the PEFA Framework, in particular for an A rating. Thus providing more adequate information in those cases will improve the quality of the report still more.

General observations

This is a baseline assessment that covers the fiscal years 2011-2012, 2012-2013 and 2013-2014.

The report closely follows the prescribed structure of a PFM-PR as recommended by the PEFA Framework.

A summary table of scores is included in the Summary Assessment, but an overview table with short explanation for each score would be useful. Sources of information are generally well referenced throughout the text. Annexes add general information about the officials consulted (Annex 1) but not documents consulted (Annex

2). A list of abbreviations is provided as are the fiscal year and the exchange rate. It would be informative if the latter were provided as at a specified date.

Section 1 – Introduction

> The purpose of the report is well explained as to: " *To compile a comprehensive "Public Financial Management – Performance Report" (PFM-PR) prepared according to the PEFA methodology, so as to provide an analysis of the overall performance of the PFM systems of the Eastern Cape Province, as well as to provide a baseline situation that permits the measuring over time of changes in performance*."

The lead institution is the National Treasury, and the assessment involves the Provincial Treasury and consultants, as mentioned in the report. However, involvement of Provincial executive could be explained further.

The assessment team consulted with the Office of the Auditor General, which played an important role in the assessment process. Provincial legislature was also consulted. There does not appear to be any involvement of private sector, civil society or municipalities, which would have helped to triangulate further the information collected on several indicators.

The assessment's scope is defined as the sub national government, that is, the Provincial authorities and public entities at the provincial level.

The structure of the public sector is briefly described. Additional information would be useful to understand the relative weight represented by the different public entities mentioned in table 5.

Quality assurance arrangements are not mentioned, and the report is not eligible to the PEFA Check procedure as terms of reference have not been received by the PEFA Secretariat.

Section 2 – Background information

The country's economic context is clearly described, as well as the socio economic background and key economic data is included. However, the subsection on legal and institutional framework is too brief. The institutional relations between the Executive, Legislature and Judiciary as well as the responsibilities within the Department of Finance should be described and analyzed.

Section 3 – Assessment of PFM systems, processes and institutions

This section follows the structure of the Framework document closely, and all 31 standard indicators of the 2011 indicator set have been applied, as well as HLG-1.

The table below contains specific observations where more precise evidence or clarifications are required to justify the scoring, or where there is a lack of correspondence between the evidence provided and the rating allocated.

Indicator / dim	Comments on evidence and rating
HLG-1 (i)	Appears correctly rated A on the basis of evidence provided.
(ii)	Appears correctly rated A on the basis of evidence provided.
(iii)	Appears correctly rated A on the basis of evidence provided.
Overall	Correctly combined to A
PI-1	Appears correctly rated **A** on the basis of evidence provided.
PI-2 (i)	Appears correctly rated **A** on the basis of evidence provided.
(ii)	**May be A but greater clarity required** The explanation given about the utilization of the general reserve based on previous surplus should be clarified. The conclusion of the discussion on that dimension is that the amount of expenditure charged to contingency vote was zero in all the three assessed years.

	This is inferred from the fact that actual expenditure did not exceed the budgeted expenditure in all three years. This statement is based on table 17, which provides figures about "*adjusted appropriation*" and "*actual expenditure-per combined AFS*". The difference between those adjusted figures and the figures provided in table 13 (i.e. the adjustment) should be better explained, in particular as regards actual expenditure (53,739,042 in table 13 vs. 54,189,840 in table 17 for 2011/12).
Overall	**Correctly combined to A, but now uncertain.**
PI-3	Appears correctly rated **A** on the basis of evidence provided.
PI-4 (i)	Appears correctly rated **A** on the basis of evidence provided.
(ii)	Appears correctly rated **C** on the basis of evidence provided.
Overall	Correctly combined to C+.
PI-5	Appears correctly rated **A** on the basis of evidence provided.
PI-6	Appears correctly rated **A** on the basis of evidence provided.
PI-7 (i)	Appears correctly rated **A** on the basis of evidence provided.
(ii)	Appears correctly rated **A** on the basis of evidence provided.
Overall	Correctly combined to A.
PI-8 (i)	**A may be correct but information provided should be more specific to transfers from provincial governments.** The conclusion in scoring table is not supported by evidence described in narrative. The latter does not refer specifically to <u>transfers from</u> provincial governments but refers to revenues <u>received by</u> provincial governments and does not mention the transfers and subsidies to municipalities.
(ii)	Appears correctly rated **A** on the basis of evidence provided.
(iii)	Appears correctly rated **A** on the basis of evidence provided.
Overall	Correctly combined to A but now uncertain.
PI-9 (i)	Appears correctly rated **B** on the basis of evidence provided.
(ii)	Appears correctly rated **A** on the basis of evidence provided.
Overall	Correctly combined to B+.
PI-10	Appears correctly rated **B** on the basis of evidence provided.
PI-11 (i)	**A may be correct but more detailed information would be useful**. It is not clear if MDAs are allowed six weeks or four weeks to prepare their estimates. It is noted that in last FY 2013/14, the time allowed to prepare the first estimates was merely insufficient (one week)
(ii)	**Rated A but uncertain.** It is stated that final allocation amounts are disseminated in January/February, though the final submission is due by departments in January (as stated in the discussion of dim-i), which would mean that the time allowed to MDAs is insufficient. • A concrete time table as provided in dim (i) would be useful.
(iii)	Appears correctly rated **D** on the basis of evidence provided.
Overall	Correctly combined to **B.**
PI-12 (i)	**Rated A but uncertain.** • Information provided is generic to South Africa and does not mention specifically Eastern Cape Province. • Also, content of the fiscals forecast should be better described so as to justify an A score, which requires both economic and functional/sector classification.
(ii)	Correctly assessed as NA.
(iii)	**A may be correct but more detailed information would be useful in narrative.** Information about full costing of recurrent and investment expenditure and consistency with fiscal forecast is only mentioned in the conclusion reported in the scoring table (which is the text if criteria for an A score as mentioned in the Blue book).
(iv)	Appears correctly rated A on the basis of evidence provided.

Overall	**Correctly combined to A but now uncertain.**
PI-13 (i)	**A may be correct but more detailed information would be useful.** The rules described are clear and it is likely that discretionary powers of government entities would be limited, as stated in the conclusion in scoring table. However, given that the existence of "strictly limited discretionary powers" is a requirement to score A, narrative should explain better how discretionary powers are limited.
(ii)	Appears correctly rated B on the basis of evidence provided.
(iii)	Appears correctly rated D on the basis of evidence provided.
Overall	**Correctly combined to B but now uncertain but now uncertain.**
PI-14 (i)	**Rated A but uncertain.** Evidence of a complete data base is provided only for Motor vehicle license. There is no evidence of a data base for Gambling and betting and for Liquor licenses. Note. As a general comment, evidence about taxes should be more clearly and more consistently presented, so as to cover the full range of existing taxes. This applies to indicators PI-13, PI-14 and PI-15.
(ii)	Appears correctly rated A on the basis of evidence provided.
(iii)	Appears correctly rated D on the basis of evidence provided.
Overall	**Correctly combined to B but now uncertain.**
PI-15 (i)	**Rated A but uncertain.** This dimension assesses the collection of tax arrears. Evidence provided is about tax collection. To support an A, it requires specifying for Motor License that the arrear collection is above 90% or that the level of arrear is insignificant.
(ii)	**Rated C but uncertain.** Evidence provided suggests a **D**, given that not all funds are transferred at least monthly to Treasury.
(iii)	Appears correctly rated A on the basis of evidence provided.
Overall	**Correctly combined to C+ but now uncertain.**
PI-16 (i)	Appears correctly rated A on the basis of evidence provided.
(ii)	Appears correctly rated A on the basis of evidence provided.
(iii)	**Rated A but uncertain.** Information provided should be more specific to the dimension and explain how adjustments between departments of the provincial government, if any, are managed. Evidence provided is only about virements within departments, from a division to another. Cf. 27-3
Overall	**Correctly combined to A but now uncertain.**
PI-17 (i)	Appears correctly rated A on the basis of evidence provided. Note. Bank overdraft balances may be considered to score the dimension.
(ii)	Appears correctly rated A on the basis of evidence provided. Note. More detailed information and a description of the existing system would increase usefulness of the narrative part.
(iii)	**Rated A but uncertain.** Criteria for scoring A shall be fully evidenced, even if the dimension is rated only on the basis of a limited scheme of guarantees granted to employees for home loans. Approval by a single authority is evidenced but not the existence of fiscal targets or limits. Are there some?
Overall	**Correctly combined to A but now uncertain.**
PI-18 (i)	Appears correctly rated B on the basis of evidence provided.
(ii)	**Rated B but uncertain.** Last sentence provided in the scoring box for dim (i): *"not all movements and changes to personal details are however processed timeously"* should be further developed to justify a B rather than a C.
(iii)	Appears correctly rated A on the basis of evidence provided.

(iv)	Appears correctly rated A on the basis of evidence provided.
Overall	**Correctly combined to B+ but now uncertain.**
PI-19 (i)	Appears correctly rated B on the basis of evidence provided.
(ii)	Appears correctly rated D on the basis of evidence provided.
(iii)	Appears correctly rated D on the basis of evidence provided.
(iv)	Appears correctly rated D on the basis of evidence provided.
Overall	Correctly combined to D+.
PI-20 (i)	Appears correctly rated C on the basis of evidence provided.
(ii)	Appears correctly rated B on the basis of evidence provided.
(iii)	Appears correctly rated C on the basis of evidence provided.
Overall	Correctly combined to D+.
PI-21 (i)	Appears correctly rated C on the basis of evidence provided.
(ii)	Appears correctly rated C on the basis of evidence provided.
(iii)	Appears correctly rated C on the basis of evidence provided. Note. More detailed information would be useful to better evidence that "*a fair degree of action is taken by managers*" (criteria for a C).
Overall	Correctly combined to C.
PI-22 (i)	Appears correctly rated A on the basis of evidence provided.
(ii)	Appears correctly rated D on the basis of evidence provided.
Overall	Correctly combined to C+.
PI-23	Appears correctly rated A on the basis of evidence provided.
PI-24 (i)	Appears correctly rated B on the basis of evidence provided.
(ii)	Appears correctly rated A on the basis of evidence provided.
(iii)	Appears correctly rated A on the basis of evidence provided.
Overall	Correctly combined to B+.
PI-25 (i)	Appears correctly rated A on the basis of evidence provided.
(ii)	Appears correctly rated A on the basis of evidence provided.
(iii)	Appears correctly rated A on the basis of evidence provided.
Overall	Correctly combined to A.
PI-26 (i)	**Rated A but uncertain.** One of the criteria for an A rating is that "*some aspects of performance audit*" are performed. But, according to narrative: "the "*value for money" auditing approach is not yet part of the reporting targets and contents*". This should be clarified.
(ii)	Appears correctly rated A on the basis of evidence provided.
(iii)	Appears correctly rated B on the basis of evidence provided.
Overall	Correctly combined to B+.
PI-27 (i)	Appears correctly rated A on the basis of evidence provided
(ii)	Appears correctly rated A on the basis of evidence provided
(iii)	Appears correctly rated A on the basis of evidence provided
(iv)	Appears correctly rated A on the basis of evidence provided
Overall	Correctly combined to A.
PI-28 (i)	Appears correctly rated A on the basis of evidence provided
(ii)	Appears correctly rated A on the basis of evidence provided
(iii)	Appears correctly rated B on the basis of evidence provided
Overall	Correctly combined to B+.
D-1 (i)	Appears correctly rated C on the basis of evidence provided
(ii)	Appears correctly rated A on the basis of evidence provided
Overall	Correctly combined to C+.
D-2 (i)	Appears correctly rated B on the basis of evidence provided

(ii)	Appears correctly rated D on the basis of evidence provided
Overall	Correctly combined to D+.
D-3	Appears correctly rated D on the basis of evidence provided
HLG-1 (i)	Appears correctly rated A on the basis of evidence provided
(ii)	Appears correctly rated A on the basis of evidence provided
(iii)	Appears correctly rated A on the basis of evidence provided
Overall	Correctly combined to A.

Section 4 Government Reform Process

Section 4 provides a good overview of past and ongoing PFM reform efforts. Institutional factors are fairly explained.

Summary Assessment

The summary assessment provides a fair description of the performance of the PFM system across the six "critical dimensions and discusses in detail the implications of the PFM weaknesses by the three main budgetary outcomes. The reform prospects are discussed. Story line?

PEFA Secretariat

March 10, 2015