

Public Expenditure and Financial Accountability Assessment

PEFA Report

Republic of South Africa
Province of Free State

Final Report

June 2014

*Prepared by EY and ACE International Consultants for
National Treasury*

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Acronyms and Abbreviations

ACL	Audit Command Language
AFS	Annual Financial Statements
AGSA	Auditor General of South Africa
AO	Accounting Officer
BAS	Basic Accounting Model
BBBEEA	Broad-Based Black Economic Empowerment Act
CFO	Chief financial officer
CIDB	Construction Industry Development Board
COGTA	Cooperative Governance and Traditional Affairs
COA	Chart of accounts
COFOG	Classification of the Functions of Government
CPAR	Country Procurement Assessment Review
DDV	Direct Delivery Vouchers
DORA	Division of Revenue Act
DETEA	Department of Economic Development, Tourism and Environmental Affairs
DTI	Department of Trade and Industry
EMIS	Education Management Information System
ENE	Estimates of National Expenditure
EPRE	Estimates of Provincial Revenues and Expenditures
ERF	Economic Reporting Format
EXCO	Executive Council
FICA	Flander International Cooperation Agency
FMIS	Financial Management Information System
FDC	Free State Development Corporation
FFC	Fiscal and Financial Commission
FS	Free State
FSFRC	Free State Regional Steering Committee
FY	Fiscal year
GCC	General Conditions of Contract
GDP	Gross domestic product
GDPR	Gross domestic product by region
GFS	Government finance statistics
GGP	Gross geographic product
GRAP	Generally recognized accounting practices
HDI	Human development index
HLG	High level of government
HOD	Head of Department
HR	Human resources
HSS	Housing Subsidy System
ICT	Information and Communications Technology

IDP	Integrated Development Plan
IFPA	Institute of Public Finance and Auditors
IA	Internal Audit
IIA	Institute of Internal Audit
IMF	International Monetary Fund
IYM	In-Year Management, Monitoring and Reporting
KCM	Key Control Matrix
KPI	Key Performance Indicator
KZN	Kwazulu-Natal
LOGIS	Logistical Information System
MDA	Ministries, departments and agencies
MEC	Minister of Executive Council
MEDPAS	Medical Provisioning Administration System
MFMA	Municipal Financial Management Act
MIG	Municipal Infrastructure Grant
MSA	Municipal Systems Act
MTEF	Medium term expenditure framework
MTBPS	Medium term budget policy statement
NCOP	National Council of Provinces
NDP	National Development Plan
NT	National Treasury
O&M	Operation and maintenance
OECD	Organization for Economic Cooperation and Development
PAFOL	Portfolio Committee on Public Accounts, Finance, Office of Premier and Legislature
PCC	President's Coordinating Council
PDI	Previously Disadvantage Individuals
PEFA	Public expenditure and financial accountability
PERSAL	Personnel and Salary Administration System
PES	Province Equitable Share
PFM	Public financial management
PFMA	Public Finance Management Act
PGDS	Province Growth and Development Strategy
PI	Performance indicator
PIF	Provincial Infrastructure Fund
PMTEC	Provincial medium term expenditure committee
PPP	Public private partnership
PPPFA	Preferential Procurement Policy Framework Act
PR	Performance report
PT	Provincial Treasury
QBS	Quality Based Selection
QCBS	Quality and Cost Based Selection
R	Rand

RDP	Reconstruction and Development Programme
REA	Revenue Enhancement Allocation
SALGA	South African Local Government Association
SALSA	South African Legislature Secretariats Association
SAMDI	South African Management Development Institute
SARB	South African Reserve Bank
SARS	South African Revenue Service
SCOA	Standard Chart of Accounts
SBD	Standard Bidding Document
SCM	Supply Chain Management
SCMF	Supply Chain Management Framework
SCMO	Supply Chain Management Office
SCOPA	Select Committee on Public Accounts
SDDS	Standard Data Dissemination Standards
SGB	School Governing Body
SMGD	School Management and Governance Developers
SN	Sub national
SNG	Sub-national government
STB	State Tender Board
UNDP	United Nations Development Programme

FISCAL YEAR

April 1-March 31

CURRENCY EQUIVALENTS

Currency unit = South African Rand

US\$ 1 = 10.10 as at November 18, 2013

SUMMARY ASSESSMENT

Main conclusions

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

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

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

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

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

Integrated assessment of PFM performance

This PEFA assessment has been undertaken for the first time to measure the performance of public financial management within Free State Province. Measured against the six core PFM objectives examined by the assessment, the present document indicates that there are major strengths in some areas of PFM, which have led into predictable funding of budget operations and adequate financial recording and reporting. Nonetheless, there are areas which require attention and strengthening in order to result in better budgetary outcomes, as follows:

a) PFM outturns: Credibility of the Budget (PI 1-4)

- The arrangement between national and provincial treasuries on the horizontal allocation and disbursing of national grants has resulted in a fair, even and timely distribution of budget resources to priority programs and districts. The adoption of performance in the use of public resources will provide new impetus to the equalization formula, especially now that the overall fiscal situation is confronted with serious difficulties.
- Provincial expenditure appears to have been reasonably well forecast on the aggregate. This has resulted to a relatively low degree of variance between expenditure and budget when the budget is presented in a disaggregated manner (e.g., by administrative unit). This is compounded by the inability of the expenditure management system to counter payments arrears which effectively distorts the credibility of the budget. The surge of budget deficits in recent years and their overall financing are also a concern.
- Forecasting of local taxes and non-tax revenues denotes a concern within the Provincial Treasury and various responsible departments.

b) Comprehensiveness and Transparency (PI 5-10)

- The budget system is provided with a uniform accounts classification, compatible with modern international standards and the adoption of a functional classification is in firm progress.
- Reporting of public entity revenue and expenditure and donor projects is integrated under direct control and monitoring of line departments, not hampering the integrity of Free State Government operations. The donor funded projects and aid assistance are largely insignificant in the provincial budget.
- A clear institutional arrangement between the national and province treasuries and separation of fiscal responsibilities are in effect, with fair and transparent rules for distribution of grants enabling prompt allocation and release of direct and capital transfers to priority programs and districts.
- The Province Treasury monitoring capability is well in place, thus enabling an adequate oversight of Province and Municipal operations on a regular basis—in practice however, consolidation of SNG financial reports uncertain, also extent of monitoring of PEs on a consolidated manner, and overall assessing of PE and SNG fiscal risk questionable
- Public access to key fiscal information is relatively high, which heightens the transparency and the credibility of the Government of Free State. The lack of consolidated fiscal reports for the

Provincial Government that include domestically and externally-financed project expenditures is a weakness in financial reporting.

c) Policy Based Budgeting (PI 11-12)

- While participation and orderliness in the annual budget process and the level of transparency in the fiscal transfer mechanism are key strengths of the province, the lack of widespread preparation and presentation of sectoral strategies to support a coherent multi-year budgetary planning framework undermines the whole basis for the MTEF.
- Line Departments are guided clearly on the development priorities of the Province and other directives to the budget preparation process including those pertaining to MTEF. The budget calendar is specific on the times of the distinct submissions by key sections of the executive. Also, the PFM Act and/or the financial regulations are clear as to when the Province Executive Council is required to approve the annual budget, and as a result, the budget is generally approved on a timely basis.
- Province budgets are elaborated on the basis of spending ceilings for every line department and programs of the Government and for the next year and the three subsequent years, on a rolling basis, issued from a fiscal policy framework geared within the National Treasury and the Provincial Treasury. The Province budget is generally compatible with the unified COA and the budget classification harmonized at the national level, only awaiting the functional restructuring and organic changes within key departments that result in the matching of the functional and administrative structures and tying down levels of performance and accountability between programs, projects and activities.
- Gaps are observed in the yearly and multi-year performance plans of major line departments and weak links between the delivery of projects and the forward estimates are severely hampering the budgeting of operating and maintenance expenses of public infrastructure. The Province Development Strategy constitutes a major milestone for prioritizing the spending targets within Free State and yet, this is weakened by the lack of costing at the level of key sector development plans thus resulting in unrealistic annual budgets and prevailing gaps in medium term financial plans.

d) Predictability and Control in Budget Execution (PI 13-21)

- The effort to increase the funding of the Province's budget has been only modest in relative terms with about 5% of total budget still being funded by own revenues. The effort to increase local funding is supplemented by a clear and transparent system of tax and non-tax revenue obligations and administrative procedures locally, and yet, the local authorities had not been able to cross check with other local and national databases and adopt other taxpayer registration and assessment controls adequately. This has otherwise led to weak enforcement of Provincial tax legislation/regulations and inadequate tax audit management and consequently large arrears of unpaid tax bills built over the past two years.
- Cash flow forecasts are performed at the Province Treasury on a quarterly basis and somewhat significant in-year adjustments in allocations take place once every year, on the aggregate departmental level. As for the time of the approved budget, departments are advised with an advance of two months before the start of the new fiscal year. In-year budget revisions take place through excessive use of virements and once a year a supplementary budget is approved by the provincial legislature through clear and transparent rules.

- The recording and monitoring of cash balances operates in an effective manner, thus resulting in high predictability gains and availability of funds for the commitment of expenditure for key expenditure programmes.
- Internal audit constitutes another major area of strength, covering systemic risks dealing with almost every aspect of PFM and fulfilling high professional standards. However, a comprehensive set of internal commitment controls for procurement and human resource management is lacking for the most part. In the public payroll, controls with personnel records are strong due to implementation of PERSAL and its linkage to BAS payroll and yet, payroll auditing, focused on teachers and other public workers absenteeism, is an area requiring attention.

e) Accounting, Recording and Reporting (PI 22-25)

- The accounting, recording and reporting practices are areas of strength pillars in Free State provincial financial management, but overall performance is mixed. Some issues have been highlighted due to introduction of BAS financial processing and more transparent processes. Automatic bank reconciliation had led to improved monitoring and minimal backlog of unresolved reconciling differences. This, however, is offset by an increase in uncleared advances and suspense account balances brought forward over the past three years, although the levels do not pose any fiscal threat as of yet.
- BAS has the capacity to reporting budget resources received by districts and service delivery units, but this feature is not enabled. While in-year budget reports are timely and accurate, improvement in score would require expenditure to be captured at both commitment and payment stage. The annual financial statements are timely and include complete information on financial assets and liabilities.

f) External Scrutiny and Audit (PI 26-28)

- In general, the audit directorates are performing well in terms of addressing systemic issues of PFM and following up on actions recommended. The audit quality is of high standard and the annual audit reports and accounts are presented to the legislature over 7 months after the end of the fiscal year and then the legislature scrutinizing of audit reports within 3 months from receipt of receipt of reports– a state of affairs that is considered highly satisfactory.
- The lack of adequate time given to the legislature to review the budget documents, and the recurrence of certain deficiencies in public financial management, combined with the lack of specialized technical support within the legislature scrutiny processes throughout the year, are key weaknesses identified by the assessment.
- The scrutiny of audit reports by SCOPA by the provincial legislative committee responsible for overseeing the provincial government's financial performance has been extensive and timely over the past three years. However, certain actions recommended had not been undertaken by the audited departments, particularly the education departments, which recur into the same matters of non-compliance, according to Auditor General reports.

Assessment of the impact of PFM weaknesses

As public financial management concerns the efficiency and effectiveness of the use of public resources, the interdependence of the components of the budget cycle means that weaknesses in one part can adversely affect other parts thereby constraining the achievement of better budgetary

outcomes. Conversely, improvements in one area which are not matched by corresponding changes in other areas can undermine the initial reforms. The strengths and weaknesses of Free State Province's public financial management system found in the assessment have an impact on the three measures of budget effectiveness – aggregate fiscal discipline, allocative efficiency and efficient service delivery. This is summarized below.

a) Aggregate fiscal discipline

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

b) Strategic allocation of resources

The preparation of the budget on 3-year rolling basis under MTEF helps to set the framework for relative budget priorities, which are intended to be reflected in the departments' budgetary ceilings. The strategic policy and sectoral objectives set out in the government's Medium Term Budget Policy Statement for Service Delivery could possibly provide the basis for guiding inter- (and intra-) sectoral allocations, including external finance. The successful implementation of BAS and the shift towards modified cash accounting with improved procedures and documentation assist in increased allocative efficiency and transparency of the budget. However, the limited transparency with respect to budget re-allocations, gaps in in-year reporting on budget execution, and weak procurement practices increase the risk of misallocation without public scrutiny and proper prioritization. Also, provincial government needs to cost the provincial development strategy and medium term sector plans and strengthen the linkage between MTEF and subsequent year's ceilings to adopt the consistent allocation policy.

c) Efficient service delivery

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

Prospects for reform planning and implementation

The Free State Province does not have a continuing agenda of PFM reform, and the assessors did not find any solid evidence suggesting the adoption of a prioritized and focused PFM reform action plan at the national level. After the Federal-level PEFA assessment of 2008, certain weaknesses prevail in PFM and are not clearly focused on the reform agenda, as evidenced in the Free State PEFA. As

detailed in Section 4, major efforts are well underway to enhance the effectiveness of financial managements systems in place, but ongoing reforms did not seem to have progressed meaningfully on personnel and procurement management controls. As have been shown in this assessment, there are deficiencies in PFM that must be addressed with some urgency in order to strengthen the fiscal discipline and align management with international standards. Those which are most critical are internal controls which have impact on most of the provincial government's financial management operations. Particularly procurement must be brought more to the forefront of reforms given the huge part of government expenditure it represents.

South Africa's prospects for reform implementation should be regarded as positive considering the impact of the reform programs so far which have made visible contributions in improving budgeting, reporting and external audit. The successful application of MTEF in budgeting and planning, implementation of FMIS and BAS and support to the establishment of Policy to Guide Uniformity in Procurement Reform Processes in Government, are just few example of successful reforms. A continuation of the reform programs mentioned above is vital. However, it is essential that the National Treasury and the Free State Provincial Treasury continue to work jointly and have the ownership of the reform process to better facilitate the reforms and ensure their sustainability.

1 CHAPTER I – INTRODUCTION

1.1 Objectives

This document reports on a PFM assessment with the active engagement and leadership of the National Treasury and Free State Provincial Treasury by describing the performance of existing financial processes and systems of Free State Province Government and rating against the laid down indicators of the PFM Performance Measurement Framework. The study has been conducted in line with the Public Financial Management Performance Measurement Framework issued by the PEFA Secretariat (PFM Performance Measurement Framework, revised in January 2011), using the PEFA Sub-National Government (SNG) guidelines.

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

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

The Performance Measurement Framework does not review factors impacting performance, such as the legal framework or existing capacities in the government. It focuses on the operational performance of the key elements of the PFM system, and not on the inputs that enable the PFM system to reach a certain level of performance. It does not involve fiscal or expenditure policy analysis, which would determine whether fiscal policy is sustainable, whether expenditures incurred through the budget have their desired effect on reducing poverty or achieving other policy objectives, or whether value for money is achieved in service delivery. This would require detailed data analysis or utilization of other country/province-specific indicators. The framework solely focuses on assessing the extent to which the PFM system is or is not an enabling factor for achieving such outcomes.

The last dimension in the PEFA Assessment, on Donor Practices, is not developed in the report as this is not applicable to the Free State Province.

1.2 The PEFA assessment process

An indicative work plan for the PEFA assessment process was essentially agreed with representatives of National Treasury (NT). It was devised in a manner that responds to the objectives and needs of

the PFM-PR and the Terms of Reference set out for carrying out the PEFA assessment as well as the revised PEFA Performance Measurement Framework and recommended guidelines for Sub-National Government level set forth by the PEFA Secretariat. The work of the core team of PEFA assessors was supported by counterparts from the Provincial Treasury (PT) and Minister of Executive Council (MEC) for Finance of Free State Government.

The PEFA team consisted of Jorge A Shepherd (Team Leader), Gerhard Stoop, Zohra Vahed, and Sizwe Luthuli. The PEFA assessment process was carried out in three major phases, namely, the preparatory work and desk study, the field work study, and the first draft report.

The Preparatory Work and Desk Study

The Desk Study began with a level of coordination during September 23-27, 2013, in which an Indicative Work Plan was devised by the PEFA Evaluation Team and communicated to the beneficiary through the local counterpart Ernst & Young. Also during this period, the lead of the Free State PEFA Evaluation Team reviewed general documents received that formed the basis of background information to the mission as well as other official documents available through websites of NT and PT. In line with the nature of the SNG PEFA assessment, the PEFA Team Leader prepared an extensive list of interview partners and pieces of documented evidence required for assessing the performance in each of the dimensions of the PFM system. Interviews with key Province-level stakeholders were agreed, both at the levels of Executive and Legislative, and representatives of relevant upstream PT and line departments and representative groups of the civil society. An Inception Report on mission (interview) organization and information (documents) required for starting the field work was submitted to the beneficiary for discussion in 17 September 2013.

The Field Study

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

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

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

- Initial and follow up meetings, and joint sessions with central authorities and mid-level technical staff of the Government of Free State Province, which included various divisions (programs) and head units at the Province Treasury, and local domestic revenue collection agencies;
- General and individual meetings with senior financial management officials of five of the largest spending agencies, namely, the Department of Education, the Department of Health, the Department of Public Works, the Department of Cooperative Governance and Traditional

Affairs; and Department of Human Settlements, out of interviews with six line departments requested; and

- Initial and follow up meetings, and joint sessions, with senior officials of public independent bodies, including the Auditor General’s Department, and the Legislative Portfolio Committee on Finance and Public Accounts.

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

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

First draft report

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

1.3 Scope of the assessment

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

The Provincial Government comprises the Office of the Premier, 12 main departments (inclusive of public entities under their supervision), and the provincial legislature. Departments supervise a total of 6 autonomous public entities. The Free State government budget for 2013/14 amounted to US\$2,687 million, equivalent to 15.5% of local GDP, of which public entities (mainly regulatory, corporate and developmental) represent about two tenths of the total. Reportedly, there are no government entities budgeted outside the scope of provincial government.

The structure of the evaluation report is as follows: Section 2 provides background information on the economic, budgetary outcomes, legal and institutional context for the evaluation. Section 3 explains the scores for the 31 individual Performance Indicators. Section 4 describes the Free State Government’s PFM reform efforts up to now, jointly with National Treasury and individual initiatives, and the prospects for further progress. A series of annexes provide more detailed reference information, including the budget data used for the quantitative indicators (Statistical Appendix), and list of officials and documents consulted.

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

Most quantitative PEFA indicators require data for three years as the basis for the assessment. Data should cover the most recent completed fiscal year for which data is available and the two immediately preceding years. Thus, the PEFA assessment for Free State Province is based on the experience of fiscal years 2010/11, 2011/12, and 2012/13.

The structure of the evaluation report is as follows: Section 2 provides background information on the economic, budgetary outcomes, and the legal and institutional context. Section 3 explains the scores for the 31 individual Performance Indicators. Section 4 describes the Free State Province's PFM reform efforts up to now, and the prospects for further progress. A series of annexes provide more detailed reference information, including the budget data used for the quantitative indicators (Statistical Appendix), the list of officials consulted (Annex 2) as well as the list of documents consulted (Annex 3).

2 CHAPTER II – BACKGROUND INFORMATION

2.1 Macroeconomic overview and development results

Fiscal performance

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

Free State met the balanced budget rule over the last three years. The main features were modest increases in receipts of national and local revenues and squeezing of primary expenditures, which combined higher wage bills at the expense of capital expenditures and purchases of essential goods and services. Domestic revenues remained unchanged in 15.5% of GDP during FY 2011/12 and FY 2012/13, from 14.9% of GDP in FY 2010/11. Total expenditure remained in the same line, and yet, wages increased progressively to 9.5% of GDP in FY 2012/13, from 9.3% in FY 2011/12 and 8.8% of GDP in FY 2010/11 (Table 2.2).

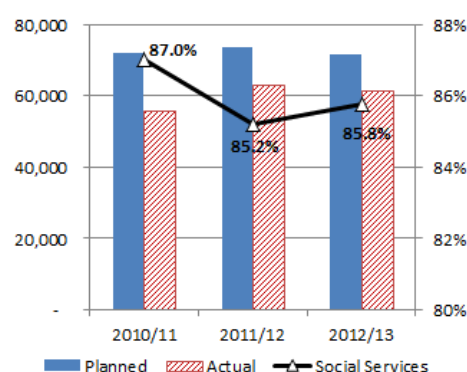
Table 2.2: Summary of Provincial fiscal operations
(In % of provincial GDP)

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

Source: Statistical appendix, tables 1 and 2.

1/ Data include Equitable Share and conditional transfers.

Increases in the Free State Province wage bill are attributed to the job creation, residing most predominantly in the social sectors. This consists mainly of permanent posts actually filled and additional contractual positions within the Departments of Education, Health, Human Settlements and Social Development—these represent almost 90% of total employment in the Provincial government (Figure 2.1).

Figure 2.1: Job creation within Free State Provincial Government

Source: Extracted from departmental annual performance reports.

2.2 Description of budgetary outcomes

Allocation of budgetary resources

Table 2.3 shows how the **economic composition** of expenditure remained practically unchanged over the medium term. Capital expenditure rose modestly to 14% of total expenditure in 2012/13, only one percentage point from 2010/11. The share of wages and salaries remained steady at 60% and grants and transfers equalled 9%, conversely, purchase of goods and services fell to 16% of the total in 2012/13, from 18% in 2010/11. The decline in purchase of goods and services is also attributed to the provincial cost containment measures imposed by the government on non-core items hence the decline in this economic classification.

Table 2.3: Economic composition of Provincial government expenditure
(In % of total)

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

Source: Statistical appendix, table 1.

Analysis of the functional composition of Provincial expenditures strongly suggests that the high government expenses incurred in recent years do not largely commensurate with the development results indicated above. The analysis also shows that budgetary resources concentrate mainly within social services (80%) due to the fact that Health, Social Development and Education are personnel driven and as a result, general administrative services only received (10%). Prioritization did not change over the past three years to the need to protect pro-poor social programmes in response to deteriorating human development and economic disruption. And yet, the allocation between social and economic development programmes remained so distant and disproportional—the latter, which comprise roads infrastructure, rural electrification, and irrigation projects, represent a budget of less than fifteen times (Table 2.4).

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

Table 2.4: Actual budgetary allocations by main function
(In % of total)

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

Source: Treasury Department.

Further analysis shows that most of expenditure within priority programs concentrates in compensations of employees, with capital expenditures being practically negligible, not enabling the creation of any major impact in development (Table 2.5).

Table 2.5: Economic and administrative composition of government expenditure
(In % of total)

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

Department of Police, Roads and Transport	35.0	49.9	41.2
Department of Agriculture	22.3	30.5	28.1
Department of Cooperative Governance	3.9	5.3	8.4
<i>Memo: Social services 1/</i>	11.3	11.7	11.7

Source: Statistical appendix, tables 9-13.

1/ Includes Departments of Health, Education, Human Settlements and Social Development.

Fiscal impact

Fiscal behaviour did not change significantly to accommodate the effects of rising spending demands of recent years. The fiscal response to keeping budget on balance consisted primarily of cutting back certain current and capital expenditures, particularly within education and health, thus suggesting that key structural issues in provincial financial management such as low local taxation, high wages and procurement expenses had remained largely unresolved. Investments in new health and schooling infrastructure and equipping increased modestly to respectively 10 % and 6% of total budget in 2012/13, from 8% and 4% in 2010/11, with approximately R15.4 million in 2011/12 donor funding for the departments of Health and Social Development. Most noticeably, capital expenditures within social investment programmes deviated from the original budget by almost -6% on average per year—health programmes alone were executed below the original budget by 15% on average per year.

2.3 The institutional and legal framework of PFM

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

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

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

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

2.3.1 Constitution (1986)

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

The Constitution further states that South Africa is a Unitary State with three spheres of government: National Government, Provincial Government and Local Government represented by Municipalities. The function to collect most taxes is vested with the National Government. These taxes are distributed to the other spheres of government through a legislated formula, which is

enacted in the Division of Revenue Act. This Act is promulgated every year, usually after the annual budget is approved by Parliament.

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

Section 42 of the Constitution states that Parliament will consist of

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

Parliament has the prerogative of establishing Committees that will oversee the activities of the Executive. Amongst these are the Select Committee on Public Accounts (SCOPA), the Budget Committee which oversees the budget process and select committees on different portfolios, which oversee the general activities of each of the departments and entities entrusted with a particular portfolio.

SCOPA will summon an executive member (Minister) to account on the activities of his department with regards to the management of the funds allocated to that executive member by parliament.

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

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

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

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

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

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

Section 188 provides for the Office of the Auditor General to audit the end-year financial statements of government agencies in all spheres.

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

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

Section 216 (1) stipulates that: National legislation must establish a National Treasury and prescribe measures to ensure both transparency and expenditure control in each sphere of government by introducing,

- (a) Generally recognized accounting practice
- (b) Uniform expenditure classifications, and
- (c) Uniform treasury norms and standards.

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

Chapter 13, section 220 of the Constitution stipulates that:

- (1) There is a Financial and Fiscal Commission for the Republic, which makes recommendations on fiscal matters to Parliament and provincial legislatures; and
- (2) The Commission is independent and subject only to the Constitution and the law, and must be impartial.¹

¹ For example, the Ugandan Constitution (1995), drafted with the assistance of international advisers, has many similar provisions. A Constitution is not a prerequisite for good public finance management; for example, the

2.3.2 Public Finance Management Act (1999)

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

Extracting further from the Foreword, the key objectives of the Act are:

- modernize the system of financial management;
- enable public sector managers to manage, but at the same time be more accountable;
- ensure the timely provision of quality information; and
- eliminate waste and corruption in the use of public assets.

The principal components of PFMA are:

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

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

Provincial Governments have to establish Provincial Treasuries, .“ which are responsible for preparing and managing provincial budgets and enforcing uniform norms and standards as prescribed by the National Treasury and this Act.”

The Act confers specific responsibilities on accounting officers, which are:

- (a) the operation of basic financial management systems, including internal controls in departments and entities they control;
- (b) to ensure that departments do not overspend their budgets;
- (c) to report on a monthly and annual basis, including the submission of annual financial statements two months after the end of a financial year, (Section 40); and
- (d) to publish annual reports in a prescribed format which will introduce performance reporting.

UK does not have a written constitution. But a constitution, with strong provisions for sound public finance management, is commonplace for countries, such as South Africa, Uganda, and former communist bloc countries, undergoing rapid political change.

Accounting officers who are negligent and make no effort to comply with these responsibilities will face strict disciplinary sanctions, including dismissal. Similar sanctions will apply to treasury officials failing to carry out their responsibilities. The new Public Service Act regulations and the trend towards performance contracts will complement this approach.

Accounting officers are expected to appoint Chief Financial Officers (CFOs) as part of their senior management to enable them to fulfill their responsibilities.

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

Section 27 states that the Minister must table the annual budget for the financial year in the National Assembly before the start of that financial year or, in exceptional circumstances, on a date as soon as possible after the start of that financial year, as the Minister may determine. The MEC for finance in a province must table the provincial annual budget for the financial year in the provincial legislature not later than two weeks after the tabling of the national annual budget, but the Minister may approve an extension of time for the tabling of a provincial budget.

Section 32 states that: within 30 days after the end of each month, the National Treasury must publish in the national Government Gazette, a statement of actual revenue and expenditure with regard to the National Revenue Fund. After the end of a prescribed period, but at least quarterly, every provincial treasury must submit to the National Treasury, a statement of revenue and expenditure with regard to the Revenue Fund for which that treasury is responsible, for publication in the national Government Gazette within 30 days after the end of each prescribed period.

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

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

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

Section 77 states that there must be an establishment of an Audit Committee which must consist of at least three persons of whom, in the case of a department -

- (a) one must be from outside the public service,

- (b) the majority may not be persons in the employ of the department, except with the approval of the relevant treasury,
- (c) the chairperson may not be in the employ of the department.
- (d) must meet at least twice a year, and
- (e) may be established for two or more departments or institutions if the relevant treasury considers it to be more economic.

Most of the national departments and provincial departments have already established Audit Committees for themselves, though shared between provinces in the case of some provinces. Most of these committees consist of persons from outside the public service and some are from some of the outstanding private audit firms.

Audit units within departments are expected to submit audit reports to the Audit Committee on a continuous basis. The Auditor-General (AG) takes into consideration the Audit Committee reports.

Chapter 11, section 87 stipulates that:

- (i) The Minister by regulation in terms of section 91 must establish a board to be known as the Accounting Standards Board.
- (ii) The Accounting Standard Board is a juristic person.

The Accounting Standard Board is required to:

- (a) set standards of generally recognized accounting practice as required by section 216 of the Constitution, for the annual financial statements of government agencies, companies, corporations, funds or other entities under the ownership control of a municipality, and Parliament and the provincial legislatures; and
- (b) recommend to the Minister effective dates of implementation of these standards;

In setting standards the Board must take into account all relevant factors, including best accounting practice, both locally and internationally, and the capacity of the relevant institution to comply with the standards

The standards set by the Board must promote transparency in and effective management of revenue, expenditure, assets and liabilities of the institutions to which these standards apply.

The Accounting Standards Board has aimed at establishing eight accounting standards. To date, they have already established three:

- a) Preparation of financial Statements,
- b) Cash Flow Statements and
- c) Accounting Policies.

Detailed Treasury Regulations were availed to guide the implementing of the PFMA.

2.3.3 Municipal Financial Management Act (MFMA) of 2004

The MFMA came into effect on 1 July, 2004 and follows the model of the PFMA. The NT has divided the provincial governments into three categories, according to NT's perception (derived from a number of indicators) of capacity to implement the Act: high, medium and low. The high capacity

municipalities have to start implementing MFMA almost immediately, the first benchmark being compliance with PPPFA by December, 2004 and the second being compliance with most of the provisions of MFMA by June, 2005. Municipalities in this category are required to prepare an implementation plan. The other categories have been given more time to prepare for implementation.

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

The end-result of MFMA implementation, of course, is expected to be much improved and more transparent financial management and a sharp fall in qualified external audit reports. The specific responsibilities of provincial treasuries are listed below, as extracted from the MFMA:

- 5 (3) A provincial treasury must in accordance with a prescribed framework:
- (a) fulfil its responsibilities in terms of this Act;
 - (b) promote the object of this Act as stated in section 2 within the framework of co-operative government set out in Chapter 3 of the Constitution; and
 - (c) assist the National Treasury in enforcing compliance with the measures established in terms of section 216 (1) of the Constitution, including those established in terms of this Act.
- 5 (4) To the extent necessary to comply with subsection (3), a provincial treasury must monitor: (i) compliance of this Act by municipalities and municipal entities in the province; (ii) the preparation by municipalities in the province of their budgets; (iii) the monthly outcome of those budgets; and (iv) the submission of reports by municipalities in the province as required in terms of this Act. It may also assist municipalities in the province in the preparation of their budgets, exercise any powers and perform any duties delegated to it by the National Treasury in terms of this Act; and take appropriate steps if a municipality or municipal entity in the province commits a breach of this Act. A provincial treasury must submit all information submitted to it in terms of this Act to the National Treasury on a quarterly basis, or when requested.

2.3.4 Supply Chain Management Framework and Preferential Procurement Policy Framework Act

In line with Section 217 of the Constitution, Section 38 (1) of the PFMA mandates the Accounting Officer of an agency to maintain an “appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective. Reform of the procurement system under PFMA is fully in line with the ethos of the PMFA to move away from the inflexible rules-based culture of the old system and to ensure that all spending is fully geared to achieving public policy objectives at minimum cost to taxpayers and with full accountability vested in the hands of the Accounting Officer. In November, 2000 the National Treasury issued the General Procurement Guidelines. Five pillars of procurement are stated: Value for Money, Open and Effective Competition, Ethics and Fair Dealing, Accountability and Reporting, and Equity.

To achieve reform of the procurement system in line with the spirit of PFMA, the procurement process is being decentralized, with the national and provincial government tender boards being phased out and departments taking over responsibility for procurement through the Supply Chain

Management Framework. The State Tender Board (STB) Act was repealed in 2005 under an Act to amend the PFMA. The STB regulations were amended in 2003 by means of promulgation in the National Gazette to allow accounting officers of national departments to procure goods and services either through the State Tender Board (until the STB Act has been repealed) or through the PFMA². Correspondingly, Provincial Tender Board Acts are being repealed and, under the auspices of the provincial treasuries, supply chain units are being established in provincial departments.

In September, 2003, the Cabinet adopted a Supply Chain Management (SCM) policy to replace the procurement and provisioning practices across government with an SCM function that would be an integral part of financial management and conform to international best practices. The new policy is in line with the recommendations of the Country Procurement Assessment Review (CPAR) conducted jointly by the World Bank and government agencies in 2001, though not published until 2003.

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

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

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

The SCM approach has four main elements:⁴

- *Demand management:* A Department determines the goods and services it needs to procure in order to deliver the services to the public, as outlined in its Strategic Plan and budget estimates document (as discussed in Section Two). The overall budget constraint combined with the service delivery requirements helps to ensure focus on value for money.

² Regulation Two of the STB regulations issued in 1988 was amended in terms of Section 13 of the STB Act, 1968.

³ There have been cases at the provincial level of Department Tender Committees selecting a contractor based on price, only for the Provincial Tender Board, dominated by private sector representatives, to overturn the recommendation and select a more expensive contractor.

⁴ The NT's Guide for Accounting Officers, Feb. 2004, discusses these elements in detail.

- *Acquisition Management:* Management decides on the mode of procurement (e.g., direct purchase, competitive tendering), ensures bid documentation is complete, including evaluation criteria, evaluates bids and ensures that proper contract documents are signed. The key is uniformity across government with processes, particularly in regard to bidding documents, following norms and standards specified by SCMO, speed, efficiency and transparency (thus Standard Bidding Documents issued by NT have to be used). Uniformity results in increased transparency, cost savings and lower risks for all. Non uniformity of bidding documents under the STB system was a major weakness highlighted in the CPAR. Bidding documents must include the General Conditions of Contract issued by NT, specifications, data sheets/drawings and a specific contract agreement stipulating delivery standards and requirements. For construction contracts SCM units are expected to use the standard bidding documents issued by the Government's Construction Industry Development Board (CIDB).
- *Logistics Management:* This aspect addresses the setting of inventory levels, the receiving and distribution of materials, stores, warehouse and transport management, and the review of vendor performance.
- *Disposal Management.*
- *Supply chain performance review to determine whether proper processes followed and objectives achieved.* Issues reviewed include compliance with norms and standards, cost efficiency of the SCM process, and whether supply chain processes are consistent with the government's broader policy focus.

The SCMO has three chief directorates.

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

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

The following guides and regulations to SCM practice and procedures have been issued by National Treasury to National Departments and Provincial Departments:

- 1) Preferential Procurement Regulations, 2001
- 2) Framework for Supply Chain Management, December 2003
- 3) A Guide for accounting officers on SCM, February 2004
- 4) Code of Conduct for SCM practitioners, Practice note –SCM 4 of 2003

- 5) General Conditions of Contract (GCC) and Standardized Bidding Documents (SBDs), Practice Note Number SCM 1 of 2003, 5 December 2003.
- 6) Practice Note SCM 2 on Threshold Values, 5 December, 2003.
- 7) Tax Clearance Certificate: Contact details of SARS official dealing with tax clearance certificate- Practice Note Number 1 of 2004.

The Guide for Accounting Officers on SCM outlines the different types of procurement systems and the conditions under which each may be used⁵.

- For values up to R 5,000, an SCM unit must obtain at least three verbal quotations, preferably using the supplier database (preferably electronic) that the NT expects each SCM unit to set up.
- For values up to R 100,000, an SCM unit must receive at least three written quotations, also using the supplier database. If the product is valued at more than R30,000, the quotations must comply with the PPPFA.
- For values over R 100,000, an SCM unit must use a competitive bidding process, except for urgent cases (but not where urgency stems from bad planning). “Limited” (including single source) bidding is allowed if prior thorough market analysis indicates the existence of only a few suppliers (who are then invited to make a bid), or perhaps only one supplier (e.g. if a supplier has sole distribution rights). Prequalification of contractors or two stage bidding (where potential suppliers are preselected at the first stage on the basis of technical competence, thus achieving time savings at the second stage), as in other countries, can be used in the case of “turnkey” type or technically complex projects. Under open competition, requests for bids must appear in the Government Tender Bulletins. Contract documents must contain incentives to limit costs. Reimbursable cost contracts should only be used under conditions of high risk or where costs cannot be accurately estimated in advance. Any price adjustments based on escalation should be explicitly specified in the contract. Contracts can only be awarded to companies that have received a Tax Clearance Certificate from the South Africa Revenue Service (SARS) and that have prepared a Code of Good Practice under the Broad-Based Black Economic Empowerment Act (BBBEEA).
- Contracts over R 10 million have to be cleared first by the Department of Trade and Industry (DTI) under the National Industrial Participation Programme.
- In the case of hiring of consultants (the need for which needs to be fully justified), competitive bidding procedures are also used. In the majority of cases, selection is based on both cost and quality considerations (QCBS: Quality and Cost Based Selection). In the case of some specialized and complex assignments, the QBS (Quality Based Selection) process can be used. Conflicts of interest are ruled against (e.g. engineering consultants contracted to design a project cannot bid to execute the project).

The implementation of the SCM system is well underway and all national and provincial departments are expected to be fully compliant by 1 April, 2005. Most national government departments have already stopped using the STB and the frequency of STB meetings has dwindled drastically from once a week to once every two months. The Departments of Agriculture and Defence continue to make

⁵ In particular, pages 48-52 contain some very useful flow charts.

partial use of STB, particularly in difficult cases.⁶ In some cases a Department has requested ex post de facto approval from STB for procurement, where procedures have not been followed, as has happened in the case of the Department of Housing, STB approval means that the Department does not have to report the breach of procedure to the SCOPA. STB approval in this instance is rare, however.

The NT keeps a close watch on SCM implementation. It requires monthly reporting by SCM units in all Departments; provincial treasuries have a similar requirement. SCM units have to report all transactions and demonstrate compliance with PPPFA and BBBEEA.

The National Treasury has developed a draft regulatory framework for SCM at the local government level in line with the MFMA. If approved by Parliament under section 169 of MFMA, all local governments are expected to comply by 1 December, 2004.⁷ When this is accomplished, all government units in every sphere will be using uniform procurement procedures as an integral component of good financial management. Chapter Three discusses this in more detail.⁸ A key provision in the MFMA in relation to procurement is Section 117, which bans Councilors from serving on Tender Boards.

As in the governments of many developing/transition countries, procurement specialists are in short supply and the National Treasury is spearheading training programmes. The South African Management Development Institute (SAMDI) and the Institute of Public Finance and Auditors (IFPA) and other service providers have been contracted to provide training courses.

Chapter Eleven on Education outlines the SCM system being spearheaded by the Western Cape treasury. NT considers that WC is a leader in this field. Issues raised by the CFO for the KZN Department of Education are also discussed in this chapter.

Where STB is still being used, its conditions and procedures (ST 36) and its user manual (“directives to departments in respect of procurement - ST37”) contain the procurement policies, regulations and delegations at the national and provincial level. Municipalities’ procurement procedures vary between each other, but, as noted below, this is to change under MFMA.

2.3.5 Preferential Procurement Policy Framework Act

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

- A preference point system must be followed. For contracts with a value above R 500.000 a maximum of 10 points (a preference margin of 11.11%) may be allocated for specific goals provided that the lowest acceptable tender scores 90 points for price; i.e. the price quotation must be reasonably competitive as a prerequisite for being considered for a preference margin.

⁶ Scrutiny of Government Tender Bulletin of 16 July, 2004, confirms this; the GTBs are on the NT website.

⁷ Rather unusually, the regulations under the Act have to be “submitted to Parliament for scrutiny”. This is different from the usual procedure around the world whereby the enabling Act contains a clause delegating the responsibility to the Minister for preparing implementing regulations. .

⁸ On SCM, the Team benefited from a very useful meeting with Mr. Jan Breytenbach, Chief Director, Norms and Standards, National Treasury.

- For contracts with a Rand value equal to or below R500,000 and above R30,000 a maximum of 20 points (a preference margin of 25 percent) may be allocated for specific goals provided that the lowest acceptable tender scores 80 points for price;⁹
- Any other acceptable tenders which are higher in price must score fewer points, on a pro rata basis, calculated on their tender prices in relation to the lowest acceptable tender, in accordance with a prescribed formula.

The specific goals may include: (i) contracting with persons, or categories of persons, historically disadvantaged by unfair discrimination on the basis of race, gender or disability; and (ii) implementing the programmes of the RDP as published in *Government Gazette* No. 16085 dated 23 November 1994. Any specific goal, for which a point may be awarded, must be clearly specified in the invitation to submit a tender. Any goals must be measurable, quantifiable and monitored for compliance.

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

2.3.6 Division of Revenue Act

South Africa is divided into 9 provinces and 284 local governments/municipalities. Provincial and local governments account for 60% of total government expenditure. Transfers from the national government account for about 95% of provincial government resources and between 5% and 40% of municipal government resources; municipal services such as water and refuse removal are funded out of fees and tariffs.

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

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

- An education share based on the size of the school age population (ages 5-17) and the average number of learners enrolled in ordinary primary schools for the past three years. The share was increased to 48% for FY 2012/13 by replacing average enrolment data with 2010-2011 enrolment figures and by changing to the 5-17 school age cohort (by using 2001 Census data and the 2011 Education School Realities) to take account of Early Childhood Development (i.e., the minimum school age was lowered from 6 to 5);
- A health share (27%) based on the proportion of the population with and without access to medical aid;

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

- A basic share (16%) derived from each province's share of the country's total population; for the 2012/13 budget, this was updated with 2011 Census data;

A poverty component (3%) based on the poor population includes falling in the first two quintiles of household incomes in the 2005 Income and Expenditure Survey (IES)—the estimated size of the poor population in each province is calculated by multiplying the proportion in that province from the IES by the population figure from the 2011 mid-year population estimates;

- An economic output component (1%) based on the final GDP by Region (GDPR) data; and
- An institutional component (5%) divided equally among the provinces.

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

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

The equitable share grant has no conditionality and provinces have absolute discretion over how it is spent, but nevertheless spending is expected to be in tune with national priorities. Political pressure from the very top makes itself felt if provinces go way out of line with the orientation of their spending programmes.

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

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

As with other kinds of expenditure, the framework for grants now gives clearer focus to objectives and intended outputs.

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

This Act gives effect to the Constitution by setting out the process of intergovernmental consultation in enacting the Division of Revenue Bill. It establishes the Budget Council and the Budget Forum, the consultative intergovernmental forum for the budget process. Section 9 and 10(4) of the Act sets out the consultation process to be followed with the Financial and Fiscal Commission (FFC), including

the process of considering recommendations made with regard to the equitable division of nationally raised revenues.

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

The President's Coordinating Council (PCC) was formed in October 1999 and consists of the President as chairperson, the Deputy President, nine Provincial Premiers and the Minister and Deputy Minister for Provincial and Local Government. The responsibilities of the PCC include:

- a) Enhancing the ability of the provincial executive councils to make an impact on the elaboration of the national policies;
- b) Strengthening the capacity of provincial governments to implement government policies and programmes;
- c) Improving cooperation between the national and provincial spheres of government with regard to the strengthening of local government;
- d) Improving cooperation with regard to fiscal issues; and
- e) Ensuring that there are coordinated programmes of implementation and the necessary structures with regard to such issues as rural development, urban renewal and safety and security.

Other relevant Committees by the executive include the following:

- *Minister's Committee on the Budget*
- *Minister and Provincial MECs of a particular portfolio (MinMECS)*: This forum debates policy issues affecting that relevant portfolio and sector. Meetings are often.
- *Treasury Committee (Ministers Committee on the Budget)*, comprising Cabinet Ministers from specific departments. This committee gives political judgment to budget preparation issues and consults with MECs for finance on social sector budgets for the provinces.
- *Extended Cabinet Meeting*: This forum, which first met in October 2003, consists of the President, Premiers and MECs for finance of all provinces. It provides inputs with regard to the budget of the following financial year, to the President's State of the Nation.

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

2.3.8 Municipal Systems Act (2000)

The Act introduces changes towards the manner in which municipalities are organized internally, the way they plan and utilize resources, monitor and measure their performance, delegate authority, render services and manage their finances and revenue. Critically, the MSA formalizes a range of alternative service delivery mechanisms that could be used to complement traditional service rendering mechanisms / arrangements used by municipalities. This Act also enables the Integrated

Development Plans (IDP). The IDP is a single and inclusive strategic plan that must be compiled and adopted by the municipality. IDPs must include a financial plan, performance management plan, disaster plan, and a spatial development framework within which all sector plans should be addressed,

2.3.9 Municipal Structures Act No. 117 of 1998 as amended in 1999 and 2000

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

2.3.10 White Paper on Local Government of 1998

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

2.3.11 Public Audit Act, 2004 (Act 25 of 2004)

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

2.3.12 The Legislative Branch—Portfolio Committee

For the above purposes the role and powers of a Portfolio Committee are established by the Provincial Legislature Act, No. 3 of 1996, as follows:

Roles:

- (1) The main function of the Portfolio Committee is to examine the accounting and financial matters raised by the Auditor General for investigation. To this end the Committee examines the accounting officer(s) of the various Departments of the Free State Provincial Administration and other institutions audited by the Auditor-General whom it is considered necessary to call before the Committee on the basis of comments made by the Auditor-General in his or her reports, and particularly any criticisms which he or she may have to offer.
- (2) The Committee can make recommendations with a view to the better use of public funds. Initiatives to reform financial management and control structures and processes in provincial and local government must receive careful scrutiny to ensure that due regard is given to maintaining legislative accountability and enhancing it where possible.
- (3) The Committee shall also scrutinise the regularity, efficiency and effectiveness of the collection of taxes.

- (4) The Committee should not concern itself with the policies of government or with determining their merit. The Committee should be concerned with ensuring that the policies and programmes of government are implemented in an effective, efficient, and economical manner, and that the taxpayer is receiving value for the money spent. Regarding matters of administration, the Committee must refrain from interference, unless it has good reasons for suspecting grave abuses in the management of public finance.
- (5) The Committee and the Auditor General and his or her representatives must work together to achieve maximum accountability to the Legislature. The Auditor General or his or her representatives should be regarded as the acting hand of the Committee. He/she supports the Committee in their endeavours by detecting the points in question, presenting them with such information concerning them as he/she has obtained, and leaving the Committee to pursue them further, to consider them and to report on them.
- (6) It is important that the Committee establishes and maintains a constructive working relationship with the Provincial Government and statutory bodies concerned. The goals of responsible, efficient and effective administration are not only common to all legislators, but are shared by governments as well. If a constructive working relationship is maintained, government will be more likely to take action on the Committee's recommendations, which increases the Committee's effectiveness.

Powers:

- (1) The Committee shall have permanent referral, as they become available, of:
 - (i) The Public Accounts;
 - (ii) All Auditor General's Reports on Provincial Accounts;
 - (iii) All Reports by the Auditor General on institutions in the Free State which are submitted to the Provincial Legislature;
 - (iv) All financial statements and all audit reports of all corporations where applicable; and
 - (v) Other agencies receiving funding from the provincial government.
- (2) The Committee has the right to investigate or review all past, current and committed expenditures of government and organizations' in the Free State, receiving funds from such government.
- (3) The Committee has the right to request the Provincial Legislature at short notice, to refer to it any financial problem/matter that comes to its attention.
- (4) The Committee has the right to request, on its own initiative, the Auditor-General, within the existing framework, to perform specific reviews or tasks.
- (5) The Committee shall report to the Provincial Legislature at least annually, have the report debated in the Provincial Legislature and have the right to request the provincial executive authority to table a comprehensive response to the Committee's report within 60 days.
- (6) The Committee shall, as determined by the Powers, Privileges and Immunities of the Provincial Legislature Act, No. 3 of 1996, have the right of access to all financial information and other documents necessary for its investigations.
- (7) The Committee shall have the right to call Members of the Executive Council, witnesses from the civil service, expert witnesses and private citizens to testify and provide information (under oath or affirmation if necessary). This includes individuals currently responsible for

matters under consideration, as well as those who were responsible at the time of the events, if not the same person.

- (8) The Committee may hold public servants accountable for their performance of the administrative duties and the implementation of activities which have been delegated to them (refer to Chapter 5 of the Public Finance Management Act).
- (9) The Committee has the right to meet when the Legislature is in session, recessed or prorogued.
- (10) The Committee may amend the rules through due process at any time.

3 CHAPTER III – ASSESSMENT OF PFM SYSTEMS AND PROCESSES

3.1 Credibility of the budget

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

HLG-1 Predictability of Transfers from a Higher Level of Government

Overall score (scoring method M1): A

The province funds its annual budget through two sources of income: national revenues and own provincial revenues. These are transfers from National Government in the form of the Provincial Equitable Share and Conditional Grants as well as the Provincial Own Revenue which is money generated from within the province. The bulk of the revenue envelope comes from the Equitable Share which accounts for approximately 74.5 % of the total budget, followed by Conditional Grants which constitute about 22.2 % and its own revenue at 3.3 % of the budget.

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

Score A: National Treasury transfers to the Province deviated from the originally approved budget by less than 3% in every year during the past three years. It deviated by 1.9% in FY 2010/11, by 1.9% in FY 2011/12 and by 2.1% in FY 2012/13.

The provincial portion of the equitable share increased from an adjusted R 16.217 billion in 2010/11 to R17.722 billion in 2011/12, thus representing a year-to-year growth of 9.3%. In 2012/13 it increased by 6.1%. Simultaneously, conditional grants increased from an adjusted R 4.788 billion to R5.197 billion in 2011/12 thus indicating an annual growth of 25.5%. In 2012/13 it increased by 10.7 % (Table 3.1). This amount includes the allocation for infrastructure development in the province.

Table 3.1: Grants from National Treasury to Free State Province (R millions)

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

Source: Provincial Treasury.

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

Score A: Variance in the provision of earmarked grants did not exceed 5 percentage points in any of the last three years. The equitable share grants to Free State Province deviated from the originally approved budget by 1.6% in FY 2010/11, by 1.2% in FY 2011/12 and by 1.4% in FY 2012/13.

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

Score A: A disbursement schedule forms a key element of the agreement between National and Province Treasuries and this is agreed with the Province with sufficient advance to the new financial year. The largest of the two grants (the equitable share) and largest of the conditional grant (to the Department of Health) had been evenly distributed across the year for the past three years.

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

Overall score (scoring method M1): A

(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)**

Score A: Provincial Government's actual primary expenditure deviated from originally approved budgeted primary expenditure by less than 5% in all the past three financial years. It deviated by 1.6% in FY 2010/11, by 2.7% in FY 2011/12 and by 3.0% in FY 2012/13.

The ability to implement the budgeted expenditure is an important factor in supporting the Government's ability to deliver the public services for the year as expressed in policy statements. Budget credibility requires actual budgetary releases to be similar to voted budgets and requires appropriate fiscal discipline to be in place. On the aggregate, in none of the past three years has the actual primary expenditure deviated from the budgeted primary expenditure by a rate less or greater than 5% (Table 3.2).

Table 3.2: Comparison of Original Budget and Actual Expenditures, FY 2010/11 to 2012/13

(R millions, unless otherwise noted) 1/ 2/

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

Source: Statistical appendix table 1.

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

2/ Audited expenditure data except 2012/13.

The single largest determinant of deviation in aggregate expenditure is compensation of government employees (Table 3.3). Annual increases in wage and salary compensations led to a series of reversals in the rest of the economic composition, particularly the purchase of basic goods and services and formation of fixed capital (the two other largest items in the budget)—as noted in the previous Chapter, this resulted in compensations towering and gaining a larger share in the budget with less of fiscal space left for investing in a more strategic manner.

Direct transfers and grants to district governments and households, the next largest item, represent an area of concern to Provincial Treasury provided the leakages and other fiscal losses reported and recommendations made by the Economic Analysis Unit to departments responsible for monitoring the administration of social protection programs aided by national grants and aimed to the most vulnerable groups of population¹⁰.

Table 3.3: Determinants of Budget Expenditure Deviation, FY 2009/10 to 2011/12

	Budget out-turn (%)			Budget weights (% of total actual)		
	2010/11	2011/12	2012/13	2010/11	2011/12	2012/13
Primary current	1.9%	1.0%	2.0%	86.9%	84.9%	85.8%
Compensation of employees	1.7%	0.8%	2.1%	59.7%	61.3%	60.7%
Purchases of goods and services	-4.4%	-3.1%	3.3%	17.8%	15.7%	16.2%
Transfers and subventions	16.9%	10.4%	-0.8%	9.3%	9.3%	8.8%
<i>Of which:</i>						
Municipalities	75.2%	11.6%	5.9%	1.4%	1.2%	1.2%
Household sector	-6.9%	37.9%	28.6%	1.0%	1.2%	1.1%
Non-profit organizations	11.9%	6.0%	-7.2%	5.3%	5.6%	5.2%
Capital expenditure	-19.9%	12.8%	9.7%	13.1%	15.1%	14.2%
<i>Of which: capital investments</i>	-20.5%	12.2%	15.1%	6.7%	9.9%	9.6%
Primary expenditure	-1.6%	2.7%	3.0%	100.0%	100.0%	100.0%

Source: Statistical appendix table 1.

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

Overall score (scoring method M1): A

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

Score A: Overall variance in expenditure composition did not exceed by 5% in none of the past three financial years. Variances observed were 3.0% in FY 2010/2011, 2.4% in FY 2011/12, and 2.1% in FY 2012/13. The Provincial budget did not allocate funds for contingency purposes.

Table 3.4 shows the difference between budgeted and actual expenditure for each vote. The general overview suggests that restraint was exercised by Province Treasury to keep total provincial spending within range of available cash resources on the aggregate. Noticeably, however, budget execution varied often ostensibly across spending agencies, with social spending being the largest buffered though by sharp cutbacks in almost every other department not affecting the goal of achieving fiscal discipline overall.

According to Section 25 of the PFM Act, the MEC for finance in the Province may authorize the use of funds from the Province Revenue Fund to defray expenditure of an exceptional nature which is not provided for and which cannot, without serious prejudice to the public interest in the province, be postponed to a future appropriation by the provincial legislature. Free State is not allocating any such provision for events of contingency such as an unforeseen natural disaster or emergency health situation or for other purposes in the annual budgets at all.

¹⁰ For further information, refer to “Unlocking Free State Province Accessibility to Conditional Grants: Strategic Alternatives to Improve the Provincial Fiscal Allocations”, by Oyeyinka Omoshoro-Jones, Economic Analysis Directorate, Free State Provincial Treasury, 2013.

Table 3.4: Composition of Budget Execution by Administrative Unit, 2010/11-2012/13
(R millions, unless otherwise indicated) 1/

Budgetary Head (Vote)	FY 2010/11			FY 2011/12			FY 2012/13		
	Budget	Actual	%	Budget	Actual	%	Budget	Actual	%
Office of the Premier	165	187	13.4%	227	213	-5.8%	261	253	-3.1%
Legislature	151	150	-0.7%	209	196	-6.3%	219	202	-7.5%
Economic Development and Tourism	365	327	-10.3%	401	390	-2.7%	450	407	-9.6%
Treasury	175	163	-6.9%	206	185	-10.4%	219	206	-5.7%
Health	6,051	6,032	-0.3%	7,000	6,811	-2.7%	7,608	7,598	-0.1%
Education	8,399	8,503	1.2%	9,746	9,754	-0.1%	10,351	2	1.5%
Social Development	709	712	0.5%	822	804	-2.3%	892	867	-2.8%
Cooperative Governance and Traditional Affairs	315	388	23.2%	386	379	-1.7%	333	300	-9.7%
Public Works	933	1,027	10.1%	1,259	1,254	-0.3%	1,308	1,255	-4.1%
Police, Roads and Transport	1,655	1,618	-2.2%	1,504	1,717	14.1%	1,809	1,928	6.6%
Agriculture	402	396	-1.6%	533	556	4.3%	597	561	-6.0%
Sports, Arts, Culture and Recreation	367	381	3.8%	492	480	-2.5%	449	445	-0.9%
Human Settlements	1,343	1,145	-14.7%	1,014	1,061	4.7%	1,090	1,068	-2.1%
Rural Development	-	-	-	-	-	-	42	34	-19.6%
<i>Memo: Social services 2/</i>	16,502	16,393	-0.7%	18,583	18,429	-0.8%	19,941	5	0.5%
Total allocated expenditure	21,030	21,030	1.6%	23,799	23,799	2.7%	25,627	7	3.0%
Composition variance (%)			3.0%			2.4%			2.1%

Sources: Treasury Department; and authors' own calculations.

1/ Excludes debt service payments and externally-financed capital expenditure. All budget figures had been adjusted as per PEFA algorithm—for further details go to www.pefa.org.

2/ Includes Departments of Health, Education, Social Development, and Human Settlements.

The departmental and economic analysis of public expenditure shows that the largest overspending took place within social services. Deviations in budget execution averaged 3% in compensations on a yearly basis for the period assessed, twice as much the overspending observed for the province as a whole. This was largely neutralized by under spending in purchases of basic service items and infrastructure investments at the top priority programs—these averaged -2% and -6% in social service programs, on a yearly basis, respectively (see Statistical Appendix tables 3 and 4 for further reference).

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

Score NR: The Province did not allocate a portion of the budget to any form of contingency at all. In contrast with the National Treasury, it is not practice that the Province apportions a certain amount to emergency or other major unforeseen circumstances.

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

Score D (Scoring Method 1): Actual domestic revenue, including local taxes (as a percentage of originally budgeted revenue) was 124.6% in FY 2010/11, 120.6% in FY 2011/12, and 104.7% in FY 2012/13. The down-ward trajectory of own revenue outturns is a positive breakthrough indicating the new budget estimates are more realistic and yet, the PT recognizes the need to further improving the process of revenue forecasting together with the responsible revenue collecting departments.

During 2012/13 the Government introduced the Provincial Revenue Enhancement Strategy whose purpose was to fund projects with a potential to increase the provincial own revenue. Projects of this nature were funded through the Revenue Enhancement Allocation (REA) in the 2012/13 financial year and the Government aimed towards closely monitoring to ensure that the desired results are achieved.

It is own revenues the only source of revenue the Provincial Government has complete leverage to fund its own priorities. In that respect, the Province has sought to strengthen its efforts in this regard. It has taken bold initiatives to bolster our own provincial revenue. It has developed and inaugurated a Provincial Revenue Enhancement Strategy that aims to improve the competency and efficiency of the current revenue process. Furthermore, the strategy introduces different approaches that are intended to stimulate the growth rate of collecting revenue. Provincial Own Receipts increased from R806.6 million in 2010/11 to R865.2 million in 2011/12, that is, a year-to-year growth of 7.3 per cent, but then slowed down rapidly in 2012/13 thus resulting in a combined level of domestic revenues remaining practically unchanged (Table 3.5) and a setback in its effort towards reaching the goal of collecting R 1 billion in FY 2014/15.

Presently, less than 5% of total of the Province budget is funded by own domestic revenues. These consist mainly of motor vehicle licences (47%), patient fees (21%) and gambling tax receipts (4%), collected through the Departments of Police, Roads and Transport, Health, and Economic Development and Tourism, respectively.

Table 3.5: Comparison of Budgeted and Actual Revenues, FY 2010/11 to 2012/13 1/
(R millions, unless otherwise indicated)

Budget item	FY 2010/11			FY 2011/12			FY 2012/13		
	Budget	Actual	%	Budget	Actual	%	Budget	Actual	%
Tax revenue	330.7	337.7	102.1%	368.9	410.6	111.3%	402.6	442.7	110.0%
Non-tax revenue	316.7	468.9	148.1%	348.7	454.6	130.4%	416.7	415.6	99.7%
Total domestic revenue	647.4	806.6	124.6%	717.6	865.2	120.6%	819.4	858.3	104.7%

Source: Statistical appendix, table 2.

1/ Excludes the equitable share and conditional grants from National Treasury.

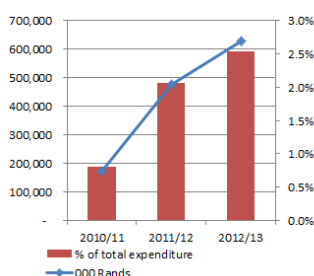
PI-4 Stock and monitoring of expenditure payment arrears

Overall score: C+ (scoring method M1). Adequate information systems exist to account for payment arrears and yet, the monitoring capability for whole of government is weak and the building of unpaid bills has become a concern.

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

Score: C The stock of expenditure payment arrears equalled almost 3% of the total budget as of end of FY 2012/13. Its level, nonetheless, rose by 32% from the previous year (it more doubled between FY 2010/11 to 2011/12).

Figure 3.1: Stock of Expenditure Payment Arrears



The total amount of payments owed by Government to suppliers and contractors increased rapidly over the past three years, to a level and by a rate considered worrisome. The stock of payment arrears rose to R 630 million as of end of FY

2012/13, from R 477 million as of end FY 2011/12 and from R 173 million as of end of FY 2010/11 (Figure 3.1).

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

Score: A. Quarterly data of unpaid bills to contractors and suppliers is available for every department and includes aging (overdue 30 days and more than 30 days). The reporting system provides a comprehensive quarterly assessment on the accumulation of payment arrears (under the category of accrual payables) for every department and yet, the stock continues to increase thus suggesting a more meaningful responsive action is required.

The Province’s fiscal monitoring function is provided with the necessary information for monitoring the accumulation of payment arrears for the Government, as required by the PFM Act. Expenditure payment arrears are reported by every department as part of the “accruals” on a quarterly and annual basis. It is a hidden item in the annual performance reports for the whole of government— See in the annexure to the annual report of government, which does not itemize bills overdue 30 days or more, as defined in the Treasury Regulation 8.2.3¹¹.

Table 3.6: Accumulation of Expenditure Payment Arrears, by Administrative Unit
(R thousands)

Department	2010/11	2011/12	2012/13		Total
			30 days	30+ days	
Premier	5,537	21,838	8,583	970	9,553
Legislature	1,221	1,342	893	124	1,017
Economic Development and Tourism	1,789	924	1,193	175	1,368
Treasury	3,365	2,477	1,338	-	1,338
Health	62,957	259,999	86,358	260,008	346,366
Education	35,018	27,331	59,998	67,885	127,883
Social Development	1,441	2,325	4,093	79	4,172
Cooperative Governance and Traditional Affairs	8,171	4,649	4,119	14,716	18,835
Public Works	4,521	24,681	23,885	20,517	44,402
Police, Roads and Transport	18,161	119,882	28,018	28,626	56,644
Agriculture	3,376	8,883	4,942	1,089	6,031
Sports, Culture and Recreation	1,282	819	1,256	1,018	2,274
Human Settlements	26,251	2,230	8,475	1,789	10,264
Total	173,090	477,380	233,151	396,996	630,147

Source: Compiled from departmental annual performance reports.

The budgetary constraints had an impact on the Government’s ability to carry out some of the key planned activities, particularly those considered priority by the health and education departments. Expenditure analysis shows that these two departments alone comprise more than three fourths of the total stock of payments arrears (Table 3.6).

AGSA annual audit reports indicate that the Portfolio Committee has been concerned about accruals reported in Annual Financial Statements as a result of a result of a cash flow challenges caused by departments that have not settled interdepartmental claims and supplier invoices within 30 days. In some departments the overall situation of accruals becomes more serious when taking the accumulated of other unpaid items such as transfers for the year which exceeded the total budget appropriated, for example, COGTA.

¹¹ Treasury Regulation 8.2.3 prescribes that “unless otherwise in a contract or other agreement, all payments due to creditors must be settled within 30 days from receipt of an invoice or, in the case of civil claims, from the date of settlement or court judgement”.

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

In the public entities, the situation of arrears is also noticeable. For example, the Free State Development Corporation reported total arrears in the amount of R 18,597,024 as of end of FY 2012/13, from R 6,487,568 as of end of FY 2010/11.

3.2 Budget comprehensiveness and transparency

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

PI-5 Budget classification

Score A: The budget system is designed so as to formulate and execute the budget according to an economic, administrative and functional classification in a format that is broadly compatible with Government Finance Statistics (GFS) 2001 and Classification of the Functions of Government (COFOG) standards.

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

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

South Africa, including all its 9 Provinces, is using the Basic Accounting System (BAS) to record financial transactions. BAS has 7 segments as per SCOA which are used when posting transactions, these segments are, (1) Fund – *source of money*; (2) Objective – *Departmental actions in achieving Departmental missions*; (3) Responsibility – *organisational unit within a Department*; (4) Items – *what the money was spent on or reason of receipt*; (5) Project – *specific project on which the money*

was spent; (6) Asset – type of asset the money was spent on; and (7) Region – where the money was spent¹².

The Free State Provincial annual budget and the Medium Term Expenditure Framework (MTEF) are presented based on the Economic Reporting Format (ERF) which is a classification of all government receipt and payment items for reporting purposes. ERF is supported at the more detailed level by the SCOA which serves as a data entry or collection tool, where each detailed item is recorded at the posting level. SCOA comprises of the coding of items used for classification, budgeting, recording and reporting of receipts and payments within the financial system. ERF and SCOA are used to record and report on all transactions of government, whether it is in the budget, in-year financial reports or department's annual financial statements. The codes and items in SCOA have been centralised and coordinated by the National Treasury's SCOA Technical Committee. Therefore, the chart structure cannot be amended at the discretion of a Provincial Department. Both ERF and SCOA adhere to the accrual accounting system, however, to the extent allowed within the current modified cash reporting environment in South Africa. This modification resulted in the South African Reserve Bank (SARB) being tasked with presenting the GFS tables based on the data extracted from SCOA of government which then enable South Africa to comply with the requirements of the Special Data Dissemination Standard (SDDS) set by the International Monetary Fund (IMF).

PI-6 Comprehensiveness of information included in budget documentation

Score A: Budget documentation fulfils 7 of the 9 benchmarks.

Section 27 (2) of the PFMA require the Member of Executive (MEC) responsible for finance in the Province to table the Provincial annual budget.

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

- (a) Provincial budget speech which talks to the policy priorities;
- (b) Appropriation bill;
- (c) Provincial Government Gazettes relating to the Division of Revenue Bill;
- (d) Estimates of Provincial Revenue and Expenditure (actual audited outcomes, 3 years prior to current year and revised estimates of the prior year to the budget year);
- (e) Budget set out on the Medium Term Expenditure Framework (MTEF) with forward estimates (current year plus two forward years);
- (f) Annual Performance Plans per Vote (including audited annual financial statements and audit reports); and
- (g) People's guide to the budget.

The Provincial documentation for the fiscal year 2013/2014 that was presented to Free State Provincial Legislature includes comprehensive information relating to the components of inflation, recent economic performance, priority areas, macro-economic assumptions, fiscal projections for the following year, estimates of revenue and expenditure and the medium term outlook, among others. The budget's Estimates of Provincial Revenue and Expenditure (the "Blue Book") provides for elements of information summarized in Table 3.7.

Table 3.7: Summary of Budget Documentation

Elements of budget documentation	Availability	Notes
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¹² Guidelines for Implementing the Economic Reporting Format, September 2009

Macro-economic assumptions , including at least estimates of aggregate growth, inflation and exchange rate	Yes	Estimates of GDP growth in constant prices, inflation, and population growth rate are amongst the assumptions used in the macro-economic framework as a basis for Estimates for Provincial Revenue and Expenditure document. Exchange rate is not explicit in the framework.
Fiscal deficit , defined according to GFS or other internationally recognized standard	Yes	A projected overall balance of the Province for the current year and the balance for the previous two years are presented in the EPRE document.
Deficit financing , describing anticipated composition	Yes	Overall financing of the deficit is presented for the last two years, with anticipated sources of financing, namely, accumulation of cash reserves and rollovers by departments.
Debt stock , including details of at least for the beginning of the current year	N/A	Not applicable
Financial assets , including details of at least for the beginning of the current year	No	There is no specific section describing the stock of cash reserves and the investment income accrued for the current year and the previous two years.
Prior year's budget out-turn , presented in the same format as the budget proposal	Yes	The audited outcome for the past three years, i.e. 2009/10; 2010/11 and 2011/12 are included in the 2013/2014 Estimates of Provincial Revenue and Expenditure document.
Current year's budget (revised budget or estimated out-turn), presented in the same format as the budget proposal	Yes	The 2012/2013 adjusted appropriation and revised estimates are presented in the same format as the annual budget proposal.
Summarized budget data for both revenue and expenditure according to the main budget heads of the classification used, including data for current and previous year	Yes	The budget includes summarised data according to the total Provincial receipts and payments.
Explanation of budget implications of new policy initiatives , with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs	Yes	The overview of Provincial Revenue and Expenditure for the 2013/2013 MTEF outlines policy initiatives as a pre-amble to a particular Vote. These policy initiatives are further explained in detail and their impact in Annual Performance Plans.

PI-7 Extent of Unreported Government Operations

Overall score: A (scoring method 1). The extent to which the provincial extra-budgetary / "unauthorised" expenditure may be unreported on BAS is unlikely. All the income and expenditure of public entities is recorded in their respective accounting systems and further reported on to Provincial Treasury and Department responsible for that public entity.

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

(i) Level of unreported extra-budgetary expenditure

Score A: Provincial government extra-budgetary expenditure in the form of “unauthorised” expenditure is captured on BAS and reported in a level of insignificance ranging between 1% and 2% of total expenditure.

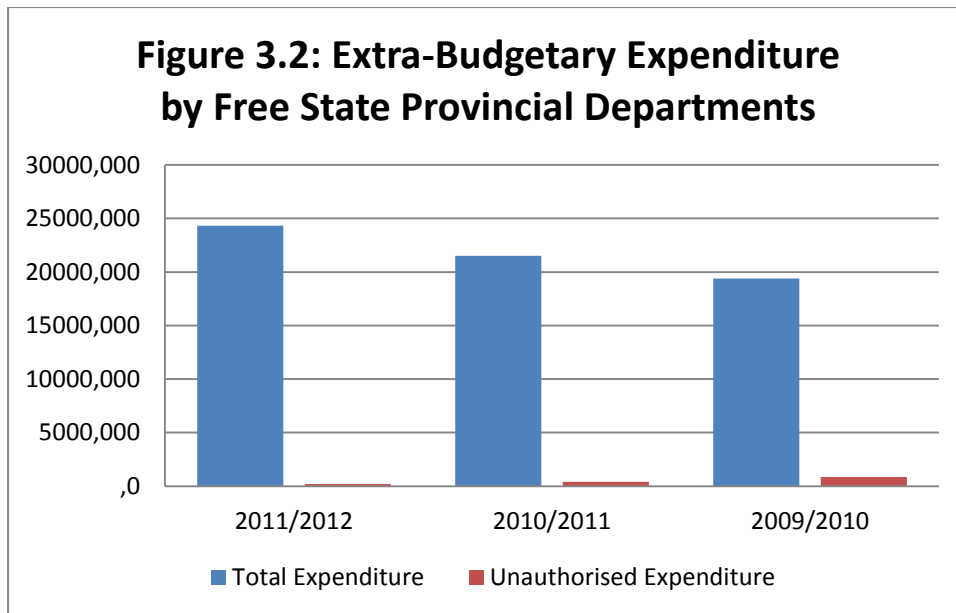
Public entities are reporting expenditure against budget monthly and performance on a quarterly basis. The level of unreported extra-budgetary expenditure is unlikely and if any, it will be insignificant. The Medical Depot undeclared surplus, was disclosed in the annual financial statements, as at 31 March 2001 and reported by the Auditor General. The undeclared expenditure is 0.31% of the provincial expenditure and is therefore statistically insignificant.

Section 226 (1) of the Constitution states that “there is a Provincial Revenue Fund for each province into which all money received by the province must be paid, except money reasonably excluded by an Act of Parliament”. Sub-section (2) further records that, “money may be withdrawn from a Provincial Revenue Fund only, (a) in terms of an appropriation by a provincial act or (b) as a direct charge (transfers to local government in that Province) against the Provincial Revenue Fund, when it is provided for in the Constitution or provincial Act”.

BAS is the core of government accounting systems; it is the General Ledger where all transactions are recorded and classified in accordance with the principles of SCOA and is the main source of information for the preparation of management reports and the Annual Financial Statements (AFS). The source of reported information is the various sub-systems where expenditure transactions are initiated, these sub-systems (PERSAL, LOGIS, MEDPAS and Debit Orders) interacts differently with BAS to facilitate the payment process. All payments are made in BAS. Sundry payments can be made directly to BAS; however, these payments are not encouraged by Treasury.

The Department of Human Settlements is using Housing Subsidy System (HSS) to record housing and human settlements projects, i.e. housing beneficiaries and milestones in construction of houses as well as to report performance. There is no inter-phase between HSS and BAS. However, the possibility of unreported expenditure is unlikely as all departmental payments are processed through BAS. Departmental expenditure for the year 2012/2013 was R1,089 bn (R1,061 bn: 2011/120). This represents 4.16% (4.45%: 2011/12 of provincial expenditure).

Figure 3.2 shows extra-budgetary expenditure being reported in PT fiscal reports.



Source: Free State Combined Financial Statements.

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

Due to financial reporting in BAS, Departmental unauthorised expenditure¹³ will be picked up and reported accordingly in the AFS making unreported extra-budgetary expenditure in a Departmental accounts difficult and/or unlikely.

Below is the list of Provincial Public and Trading Entities by Supervising Department.

Department of Health

Medical Depot (“Central Medical Trading Account”) is a Departmental public entity which reports to the MEC of Health. For the year 2010/2011, Central Medical Trading Account recorded an accumulated surplus as at 31 March 2011 of R65, 428 million (R43, 928 million for 2009/2010). Treasury regulations require that any surplus or deficit must be declared to the relevant treasury. According to the note of the Auditor General for the 2010/2011 financial year, “*the accounting officer did not declare the surplus of the trading entity to the provincial treasury in terms of regulation 19.7.1*”.

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

Transfer Payment Agreements had been arranged between DETEA and various public entities. Public entities use different financial accounting systems and basis to that of the DETEA, however, they are required to provide written submissions relating to the monthly financial expenditure reports and quarterly performance against budgets to DETEA and Provincial Treasury’s Fiscal Policy Division. The income and expenditure reports provide for the monitoring of PE’s projections and are included in the DETEA’s IYM reports to Provincial Treasury’s Public Finance Division. Although there are certain challenges in regards to monitoring the performance against the budget, the financial

¹³ Refer to overspending of a vote or a main division within a vote.

reporting appear to be capable to detect unreported operations, if any, this is due partly to the requirement stated in the agreement that no funds will be transferred to public entities without properly accounting for their previous allocations.

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

Score A: Income and expenditure data relating to donor-funded programmes is included in financial reports and total amount spent is less than 1% of total expenditure (Table 3.8).

The Free State Provincial Government recognises donor-funded grants (“Aid Assistance”) either monetary or in kind, or both, and recorded as part as revenue in the financial statement. The corresponding expenditure is also disclosed as such. Departmental officials stated that, monetary donations and sponsorships are included in the business plans of Departments as part of funding of certain activities (i.e., cultural events) and are presented to donors. Once accepted by the relevant donor, the plan has to be approved by National Treasury and gazetted as such. Funds are disbursed to Provincial Treasury and included in the Departmental budget as revenue under “grants, donor-funding”. The donor-funded budget and expenditure is recorded on BAS for financial reporting purposes. Expenditure is monitored against budget by the National Treasury through IYM and donor representative through quarterly reports. Information on donor-funding is published in the Departmental annual report and subsequently in the combined financial statement.

Table 3.8: Donor-Funded Expenditure, by Department and Programme, FY 2010/11-2012/13
(R. thousands, unless otherwise noted)

Department/Programme	Donor	2010/11		2011/12		2012/13	
		Domestic	External	Domestic	External	Domestic	External
Education—Pre-Grade R Curriculum	Flander International Coop. Agency (FICA)	-	-	-	414	-	-
Early Childhood Development		-	1,353	-	-	-	-
Premier-Skills Development Project	Department of Labour	16,064	-	37,952	-	-	-
Youth & Community Xhariep		5,659	-	-	-	-	-
Job Creation & SMME Emp.	Flemish Government	658	-	-	-	-	-
Skills Development Project	Dept. Higher Education	-	-	-	-	22,880	-
Economic Development and Tourism	Frankfort Kraft Paper	-	-	14,800	-	-	-
Legislative-Public Participation, Oversight	European Union (EU)	-	-	-	-	-	1,889
Health-Primary Health Care	EU PDPFCP Donor Fund	-	8,773	-	15,213	-	-
PHC: HIV Capacity Building	Ireland Aid	-	104	-	-	-	-
Global Aid, TB and Malaria	Global Aid Fund	-	114	-	-	-	-
Skills Development	HWSETA	52	-	-	-	-	-
Medical Equipment	Anglo American Chairman Fund	-	-	-	-	510	-
Medical Equipment	Various donors	-	-	4,387,193	-	-	-
Social Development-Domestic Violence and Rape Victim Empowerment and Children at Risk Sub-Programmes	Flander International Coop. Agency (FICA)	-	999	-	233	-	-
Sports, Arts, Culture and Recreation	MACUFE Cultural Festival, various donors(*)	-	-	2,060	-	6,020	-
Sub-total donors		22,433	11,343	4,442,005	15,860	29,410	1,889
Plus: Aid assistance		17,559	11,334	39,035	30,660	22,880	-
Total		39,992	22,677	4,481,040	46,520	52,290	1,889
% of annual budget		0.19%	0.11%	18.77%	0.19%	0.20%	0.01%

Sources: Departmental annual financial statements and Combined Financial Statements.

(*) Include receipts from Standard Bank (R 1mn), White Star (R0.450mn), Brand House (R0.530mn), British American Tobacco (R0.040mn) and Red Bull (R0.040mn).

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

PI-8 Transparency of Inter-Governmental Fiscal Relations

Overall score (scoring method 2): B.

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

The Free State Provincial Government consists of 14 Votes; 1 Metropolitan Municipality; 4 District Municipalities; 19 Local Municipalities; 5 Provincial Public Entities and 1 Provincial Government Business Enterprise. The finances of the Provincial Government are regulated by the Public Finance Management Act while Local Government finances are regulated by the Municipal Finance Management Act. Provincial budget consists of Provincial receipts, these are made up of equitable share and grants from the National Treasury (96%) and Provincial own receipts.

As indicated in Tables 3.1 and 3.5 above, Free State Appropriation Acts presented Provincial revenue and departmental appropriations¹⁴ for financial years 2010/11, 2011/12 and 2012/13. The Provincial financial year is 1 April to 31 March.

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

Score A: The horizontal allocation of National Transfers to Municipalities through the Provincial Treasury is eased through clear and fair rules based systems.

A transparent, formula-based equitable and predictable inter-governmental revenue sharing system is established between National and Provincial Treasuries with a view to enabling various municipalities to improve their performance with regard to service delivery to people of the province. A Province Equitable Share (PES) formula is arranged between National and Provincial Treasuries to allocate national tax resources to Provinces in the form of an Equitable Share grant. This is reviewed and updated annually, based on the latest available data.

The distribution of weights by components changed slightly in recent years, with the Education share dropping from 51% to 48%, the Health share increasing from 26 to 27% and the Basic share component increasing from 14 to 16%. The definitions of the various components and specifications on the distribution of the Provincial Equitable Share are outlined in the previous Section.

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

Score B: Municipalities are provided sufficiently reliable information on the allocations from National Grants to be transferred to them through Departments usually two months before the start of the new fiscal year. This allows Municipalities to prepare their detailed budget proposals and performance plans and finalize any necessary adjustments.

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

Score C: Municipalities do not generally submit their annual financial reports in sectoral or functional categories compatible to GFS or other recognizable standards so it is not possible in most part of district operations for BAS to consolidate in general government finance statistics.

¹⁴ Combined Financial Statements and Free State Appropriation Act

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

Overall score (scoring method 1): B+. All public entities and Municipalities issue audited financial statements and submit to Provincial Treasury for consolidation. Also, Municipalities and public entities generally issue monthly and quarterly reports and are included in departmental IYM's. Municipalities are not required by law to generate fiscal liabilities.

(i) Extent of provincial government monitoring of public entities

Score B: Although the provincial public entities submit monthly, quarterly and audited financial performance reports to their respective departments and subsequently to Provincial Treasury, the reliability of information pertaining to the efficient, effective and transparent financial management is not conclusive for effective monitoring of the entities' fiscal risk issues.

The Free State Province Public Entities, Trading Entities and Other Funds Combined Financial Statements lists the following Provincial Public and Trading Entities:

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

Provincial Public Entities report their financial performance monthly and quarterly to three areas within the Province:

- (a) Monthly and quarterly reports to: Provincial Economic Development, Tourism and Environmental Affairs (Department of Health for Medical Depot);
- (b) Monthly and quarterly reports to: Provincial Treasury's Fiscal Policy and Financial Governance; and
- (c) Annual reports to: Provincial Treasury's Accounting Services for consolidation purposes.

Department of Health

The Provincial Department of Health entered into a service level agreement with Medical Depot (a "Central Medical Trading Account"). Medical Depot is responsible for stores and distribution of pharmaceuticals and medical consumables on behalf of the Department. Medical Depot uses MEDPAS for an inventory management and MEDPAS Trading Account for financial system. Medical Depot is making money by charging "Demanders" - (*Institutions providing health care services on behalf of Free State Province*) cost plus 7% levy on all deliveries processed by them. The payment to Medical Depot for services rendered on behalf of demanders via Direct Delivery Vouchers (DDV) is processed directly through LOGIS.

Each financial year, the FS Department of Health appropriates R2 million to the Central Medical Trading Account. The Central Medical Trading Account reports performance against to the FS department of Health on a quarterly basis and the statement of financial position (profit and losses) of the Central Medical Trading Account is reported and included in the annual financial performance of the FS Department of Health.

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

The following Provincial Public Entities are funded through transfer payments from the Departmental equitable share and reports, through their respective Boards to the DETEA:

- (a) Free State Development Corporation;
- (b) Free State Gambling and Liquor Authority; and
- (c) Free State Tourism Authority.

During 2010/2011, the provincial government was analysing the performance of all public entities to determine how these are to be re-positioned. As a result, the process of improving alignment of functions between the Department and entities and ensuring accountability of transferred funds was started. As at 31 March 2013, there were some improvements required for effective monitoring of the above entities.

Transfer payment agreements are in place between the entities and DETEA. These agreements serve as the basis of the monitoring and evaluation framework. All entities are required to submit monthly financial expenditure reports and quarterly performance reports indicating their implementation of efficient, effective and transparent financial management. However, the implementation has not been consistent throughout the 2012/13 financial year. As a result, the DETEA does not have conclusive assurance that the entities implemented effective, efficient and transparent financial management and internal control system when spending the transferred fund¹⁵. Over and above the reports sent to DETEA, the departmental IYM also includes public entities reports and projections.

Table 3.9: Transfer payments by DETEA to public entities under its supervision

	2010/2011		2011/2012		2012/2013	
	R'000	%	R'000	%	R'000	%
<i>Budget</i>	327,288		389,855		418,047	
<i>Transfers to Public Entities:</i>						
FS Development Corporation;	29,490	9.01%	35,000	8.98%	27,245	6.52%
FS Gambling & Liquor Authority	32,184	9.83%	44,592	11.44%	48,251	11.54%
Free State Tourism Authority.	38,259	11.69%	30,532	7.83%	47,314	11.32%
Total Transfers	99,933	30.53%	110,124	28.25%	122,810	29.38%

Sources: DETEA and Provincial Treasury.

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

Score A: The Provincial Departments are ultimately responsible for monitoring any financial risks at the level of municipalities and service delivery units, i.e. clinics and schools. The monitoring is carried through an 'in-year-monitoring' model consolidated at municipal level and forwarded to Head Office for further consolidation to Provincial Treasury. The assessors consider the extent of financial monitoring is adequate. Municipalities and service delivery units are not allowed to have unfunded operations and therefore cannot generate fiscal liabilities for their Head Office.

Department of Education

The Department of Education informs the indicative budget allocation to the schools. The budget allocation for schools is based on, among other, the number of learners and other relevant budget

¹⁵ AGSA Report on the AFS for the year ended 31 March 2013

information from the Education Management Information System (EMIS) survey. The School Governing Body (SGB) will then prepare a revenue and expenditure budget indicating how the estimated allocation will be utilised. SGB should submit completed budget back to the Provincial Department by the first week of December which is before the start of the fiscal year. The budget caters, among other, for stationery, learner text books and the day-to-day running of the school. It does not cater for the payment of Educator's salaries and Capital Expenditure which have their own separate allocation managed by the Provincial Department.

Schools are not allowed to budget for deficit. The official informed us that, the School Management and Governance Developers (SMGD) are the sole responsible for fiscal monitoring of their allocated schools and reporting back to the Department of Education through District Offices. The information gathered at schools level by SMGD is captured into BAS at circuit offices and consolidated to the district office which in turn, sends the IYM to the Department of Education's Head office.

Department of Health

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

The Departmental officials raised some concerns relating to the quality of IYM data consolidated at district level. Quality issues are addressed at the Head Office where data is interrogated prior to consolidation.

Department of Cooperative Governance and Traditional Affairs (COGTA)

The department, though it's various Divisions, is responsible for the monitoring of Municipal Infrastructure Grants (MIG) and Provincial Infrastructure Funds (PIF). MIG is allocated to various municipalities by National Treasury through DORA while PIF is allocated by Free State Province through Provincial Appropriation Bill. All municipalities within the province submits monthly reports to COGTA about their financial (certificate of expenditure and revenue) and non-financial (employment figures) information.

The total MIG expenditure for the Free State Province as at 30 June 2013 was R965 m out of an allocation of R1, 020 m. This figure reflects 95% expenditure of the total annual MIG allocation. 14 out of 19 municipalities have spent 100% of their 2012/2013 MIG allocation. A total of 5 Municipalities did not spent 100% of the MIG allocation. 2013. Reasons for the under expenditure varies from late implementation of projects due to slow procurement processes to slow performance of service providers¹⁶.

Human Settlements

We have been advised that there is little or no monitoring by the Provincial Treasury for the transactions that are processed through HSS. Also, departmental reconciliation of the HSS to BAS is not consistent and this creates the risks of under and/or over reporting of delivery performance.

PI-10 Public Access to Fiscal Information

¹⁶ Final MIG DORA Report for 31 July 2013

Score B: The government makes available to the public (in a complete form) 4 of the 6 listed types of information (see Table 3.10).

Table 3.10: Summary of Fiscal Information

Elements of fiscal documentation	Availability	Notes
Annual budget documentation: A complete ¹⁷ set of documents can be obtained by the public through appropriate means when it is submitted to the legislature.	Yes, but partially	Copies of the Annual budget documentation are made available to the general public when these are tabled at the legislature. Also, budget documentation is uploaded on the Provincial and National Treasury's website,
In-year budget execution reports: The reports are routinely made available to the public through appropriate means within one month of their completion.	Yes	Within one month of their completion, IYM's are forwarded to National Treasury for uploading in the National Treasury's website.
Year-end financial statements: The statements are made available to the public through appropriate means within six months of completed audit.	Yes	Copies of the financial statements are made available to general public by respective Provincial Departments within six months of end of financial year.
External audit reports: All reports on province government consolidated operations are made available to the public through appropriate means within six months of completed audit.	Yes	The report of the Auditor General is made available to public by AGSA and respective Provincial Departments through the internet.
Contract awards: Awards of all contracts specific to the Province and with value equivalent above approx. US\$100,000 are published at least quarterly through appropriate Province Government means.	Yes	Contracts awarded are published in the Free State Tender Bulletin as and when applicable.
Resources available to primary service units: Information is publicized through appropriate means at least annually, or available upon request, for primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics).	No	Reports on resources available to primary service delivery units are not issued, although the BAS system has the capacity to issue by district and department.

3.3 Policy-based budgeting

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

PI-11 Orderliness and participation in the annual budget process

Overall score: A (score method 2). The Provincial Government's budget is produced through a reasonably orderly process which is well understood by departments and other administrative units. They have sufficient time to prepare their formal submissions after the issue of the Letter of Allocations and then to discuss with Treasury Department. The Provincial Executive Council does approve overall spending priorities, detailed ceilings on recurrent and investment spending limits by

¹⁷ 'Complete' means that the documents made publicly available contains all or most of the information listed under indicator PI-6, to the extent this information exists.

administrative units, before the Letter of Allocations is issued. The Budget was approved by the Provincial Assembly before the beginning of the fiscal year to which it related in two of the three financial years considered.

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

Score A: An annual budget calendar had been established in accordance with guidelines provided by both the Provincial Treasury and the National Treasury. This results in a comprehensive and clear budget preparation process agreed on and followed through by Provincial departments and public entities and is provided with a minimum of three months from the receipt of the draft overall MTEF for the Province Budget Council and sectorial MTEF teams to deliberate internally and with National Departments and ultimately for the Province Executive Council to approve and issue the specific provincial priorities and ceilings (Letter of Allocations) to the Province departments and other administrative units to adjust their annual budget proposals across programs and sub-programs accordingly.

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

The budget preparation process consists of the following phases:

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

The stages in the Provincial budget preparation and times and extent of participation are specified in Table 3.11, further details are provided in Annex 1.

Table 3.11: Critical dates for the 2014 national and provincial budget process

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

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

Score A: The Letter of Allocations includes both current and capital expenditure ceilings (or “payments for capital assets”) approved by the Province Executive Council, at administrative unit level, together with general guidance on expenditure priorities.

The Province Executive Council is involved in the setting of overall ceilings for recurrent and capital expenditure through the Medium Term Budget Policy Statement (MTBPS) process. The Council issues an indication of the objectives which should receive priority in the allocation of resources. Although line departments are given general guidance on the shape of their submissions prior to the issuing of the Letter of Allocations, that document does not include ceilings for every major function or sector within which each department should work together the current and capital expenditure budgets and establish the various institutional linkages in the budget.

The Provincial Legislature approves expenditure ceilings by vote and approves the allocation of these funds within each vote. The Public Finance Management Act recognises that during the course of the year there may be a need for a “virement” between programmes and economic categories, but sets limits to the discretion of Accounting Officers and of Provincial Treasury in this regard.

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

Score B: The Provincial Legislature has approved the annual budget estimates before the start of the financial year in two of the past three years, with a delay of less than thirty days.

The Province Legislature approved the annual Budget before the beginning of the year to which it relates in each of the past three years (see Table 3.12).

Table 3.12: Dates of budget approvals by Provincial Legislature

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

Source: Treasury Department.

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

Overall score (scoring method 2): C

The government is cognizant on the socio-economic challenges faced by the country and the Province, including the negative effects of unemployment, poverty, the need for housing and other basic human development and infrastructure needs. In response to these needs, the South African Government set out 5 key priorities, namely, (1) Education; (2) Job creation, (3) Health, (4) Crime and Prevention, and (5) Rural Development and Land Reform.

The Province has allocated sizable domestic resources in its budget to address these challenges- in this regard it is firmly guided by the Outcome-based approach adopted at the national level since 2010/11. It re-emphasized its resolve and commitment to ensure that its budget is informed and addresses government priorities as reflected in the New Growth Path, the 2009 MTSF and the twelve Outcomes (Table 3.13).

Government's strategic and policy priorities are organised into twelve outcome areas. These, in turn, comprise a range of output targets which are reflected in the service delivery agreements signed by Ministers and Members of Executive Council (MECs). Departments and public entities are expected to maintain service delivery records and performance information that can be used for monitoring and evaluation purposes. The Department of Performance Monitoring and Evaluation oversees these processes.

Table 3.13: Government's twelve outcomes

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

Source: National Planning Agency.

These outcomes involve shared responsibilities of several departments, and require effective cooperation between national, provincial and local government. Cabinet committees and inter-departmental cluster committees are responsible for the coordination and collaboration, and for monitoring implementation. Individual departments and public entities have responsibility for the

specific outputs, programmes and projects that contribute to these shared objectives. The MTEF planning process is designed to achieve an allocation of fiscal resources between government programmes and entities consistent with a balanced and cost-effective promotion of these outcome priorities. Departments and entities therefore need to set out their roles and responsibilities relating to government's outcome priorities, as part of their strategic and annual performance plans and budget submissions.

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

Guidance on strategic and annual planning and on performance information is outlined in the *Framework for Strategic Plans and Annual Performance Plans*, available at [\[www.treasury.gov.za/publications/guidelines\]](http://www.treasury.gov.za/publications/guidelines).

(i) Multi-year fiscal forecasts and functional allocations

Score B: Setting of annual budget ceilings by the Province is prepared for administrative, program and main economic categories, and for the next budget year and a period of three years on a rolling basis.

Setting of annual budget ceilings is prepared for administrative, program and main economic categories, and for the next budget year and a period of three years on a rolling basis. Presently, the budgets of departments and public entities are being aligned to annual action plans across various categories of spending, under the guidance of Provincial Treasury and compiled into the annual performance plans, all of which marks one major milestone in budget reforms. Lacking, however, is the provision of any cost estimates at least at the level of major administrative units, which could provide clear linkages between multi-year estimates and subsequent setting of annual budget ceilings and thus lead to reconcile any possible differences between the amount and the quality of budget resources actually supplied and in need.

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

A sector-wide approach for achieving development results meaningfully and with it the value-chain specifications for enabling a more efficient delivery of key public goods and services (a production

function) are largely missing, as part of the elaboration of fiscal forecasts and annual action plans. As a result, the budget system will ultimately not be able to link the various activities and resources required and cluster administratively around a function and sub-functions across executing ministries and other state institutions.

Also lacking in the process of enhancing budgetary planning is the ability of the Provincial Government's budget to align in the resource envelope the performance elements and structures of relevant critical programs and activities across strategic sectors. The substantive amount of budget information available in the system would ideally ease the way towards moving into a sector-wide approach next and intertwining the various budget items espoused to any major public service performance enhancement project or throughout the life of capital formation projects to the achievement of a result for the sector, regardless of the executing agencies and service delivery units responsible.

A sector-wide approach for achieving meaningful development results and enabling a more efficient and accountable use of public resources are largely missing in the elaboration of fiscal forecasts and annual performance plans. As a result, the budget system may not be able to link the various activities and resources required and cluster administratively around public functions and sub-functions across executing agencies. Weak sector linkages had been observed, for example, within the education budget and the provision of improved public education, starting from the adequacy of basic feeding supplies at the early childhood level (i.e., nutrition program) and the sustainability of improved school teaching services (i.e., tertiary education program) to further teacher training and the adoption of new educational curricula (i.e., training centres) to new schooling infrastructure, building of access roads and other maintenance costs (i.e., the infrastructure fund and the human capital fund).

Presently, overall expenditure forecasts for the Province are usually provided on the aggregate, guided on the basis of the NT grants and PT own revenues available for one to three years but then split across departmental, program and economic categories while keeping capital expenditures as a residual item, according to custom and practice. Multi-year forecasts of revenue, grants and expenditure aggregates, in the form of economic and administrative classifications, are revised twice a year through the MTBPS process at national level.

On the bottom, budgets are usually viewed as the preparation of various internal individual needs and incremental budget inputs of a department and spending units, often lacking a sector-wide approach. In the end, it is not the result of programs and activities being provided with more or less resources depending on the level of performance and operating efficiency gains, one major challenge is the lack of a harmonized functional structure vertically and horizontally across public administration with which to strengthen the executing capacity across national, provincial and municipal units to deliver better development outcomes.

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

(ii) Scope and frequency of debt sustainability analysis

Score NR: Not rated.

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

Score D: A comprehensive Province Growth and Development Strategy (PGDS) provides valuable strategic guidance to the Province, in terms of linking the national and province priorities. It is supplemented by medium-term strategy plans for key sectors of the Province which are reviewed yearly, and yet, these are not adequately costed thus resulting in multi-year expenditure frameworks laid out without sufficient realism on the estimate financing and public resources required to improve the quality of service delivery.

Medium-term strategy plans exist for most national departments and elaborated at Province level as well, all forming of the Medium-Term Budget Policy Statement (MTBPS) and the MTEF dialogue nationwide. And yet, there is no meaningful costing of the national and provincial development plans which could determine the extent of public financing and serve to determine and prioritize a medium- to long-term capital investment plan and better guide in the projection of the recurrent resources required across sectors and departments, as part of the MTEF and annual budgeting processes.

There is no costing of expenditure activities carried out between and within programmes, as the law allows for only limited movement of funds between programmes once the Appropriation Act has been enacted. Cost estimates for each programme are the key information inputs into the budget process. Without these inputs it is becoming difficult to provide the essential data both for analysis of budget submissions and, once approved, for populating the financial management systems through which transactions are recorded against approved allocations.

(iv) Linkages between investment budgets and forward expenditure estimates

Score C: Public works and infrastructure plans exist for various departments and a budget is allocated for the provision of operating and maintenance. And yet, the problem for the most part lies on the capital projects planned for delivery being loosely tied to the forward O&M budget estimates within the respective spending agencies.

A budget plan exists for maintenance of roads within the Department of Police, Roads and Transport as more pieces of paved roads are finished and financed mainly from Conditional Grants. Also, an infrastructure construction plan exists for health and education, also funded through Conditional Grants. And yet, capital projects do not anticipate well for the operating and maintenance expenses and the budget resources allocated are largely inadequate as a result.

3.4 Predictability and control in budget execution

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

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

Overall score (scoring method 2): B

The obligations and liabilities by local taxpayers in the FS concentrate mainly within the Department of Police, Roads and Transport (63% of total own revenue), the Department of Health (11%) and the Department of Economic Development and Tourism (9%) (see Table 3.14). The main financing items assessed and collected through these entities are motor vehicle licenses, patient fees and gambling taxes, respectively.

Table 3.14: Composition of Free State Own Revenues

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

Source: Free State Department of Treasury.

(i) Clarity and comprehensiveness of tax liabilities

Score B: The legislation and procedures for the taxes are comprehensive and clear. In general, the obligations and liabilities managed locally through FS public entities are published to the general public and any change is informed periodically through provincial government gazettes and the entities' website. In the case of the patient fees the fairness of the system is questioned due to discretionary powers of officials within health institutions.

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

The revenue generated from tax liabilities imposed by the DOPRT are predominantly attributable to motor vehicle licence fees, driving license card renewal fees, traffic fines and abnormal loads on trucks. The National Road Traffic Act 93 of 1996 (NRTA) prescribes the registration and licensing of motor vehicles, manufacturers, builders and importers, as well as the licensing of drivers of motor vehicles. The FS Province complies with the NRTA Regulation 24 (2) (b) in that it determines its own registration and licence fees, which are increased, from time to time, by proclamation in provincial government gazettes. The annual licence fees are assessed on the basis of the vehicle's tare with separate scales for the different vehicle types, that is in line with the practice all over South Africa.

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

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

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

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

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

Score B: Taxpayers have access to most information on their local tax liabilities and associated administrative procedures.

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

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

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

(iii) Existence and functioning of a tax appeals mechanism

Score NR

On-going and planned reform activities

N/A

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

Overall score (scoring method 2): C

(i) Controls in the taxpayer registration system

Score C: Registration systems used by FS for management of the largest own revenues through line departments are standalone databases, but generally defective, non-operational not linked for the purposes of financial intelligence/control and law enforcement.

All new vehicles in the province are registered and recorded on the National Traffic Information System (eNaTIS) at the point of manufacturer or entry. eNaTIS is an online system that supports the relevant legislation in terms of motor vehicle registration and licensing. eNaTIS includes the registration of all motor vehicles, and the identification and monitoring of the source of motor vehicles, through the registration of motor vehicle manufacturers, importers and builders. The system identifies the title holder and owner of every registered motor vehicle and facilitates the collection and recovery of annual license fees, including arrears. The South African Revenue Service (SARS) has access to the eNaTIS system for purposes of tracking an individual's or company's compliance to national tax legislation. eNaTIS is however not linked to any other system within the FS Provincial Government.

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

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

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

Score B: All relevant FS legislation makes provision for penalties to be charged to infractors of local financial rules, except interest, and yet, effectiveness is generally lacking due to weak administrative and internal control systems.

In terms of the National Road Traffic Act (Act No. 93 of 1996) penalties may be charged for failure to license or register a vehicle. The penalties are incurred automatically from the date of non-compliance and remain on the eNaTIS until settled. According to National Road Traffic Regulations, the penalties are calculated as 1/10th of the appropriate fee for every month or part of the month that the licence remains unpaid.

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

FS Gambling and Liquor Authority keeps record of penalties charged to individuals in terms of Free State Gambling and Liquor Act (Act No. 6 of 2010). The licensee must adhere fully to the provisions for gambling levies. Rule 5.3 of the FS Gambling and Liquor Regulations determines penalties are payable within 7 days of being informed in writing.

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

Score D: In general, tax audits take place on a quarterly basis by the respective Departments. Provincial Treasury (Fiscal Policy) also performs the monitoring of revenue/tax programs through monthly and quarterly reports, sector bilaterals as well as inspection of revenue offices/sites. The Auditor-General, nonetheless, has found that during the period under review tax audits are not managed and reported on according to a comprehensive and documented audit plan, with clear risk assessment criteria for all major own revenues. As for fraud investigations, departments have adopted fraud prevention plans; however, the investigation of frauds takes place on an ad hoc basis in the most part. In the case of the Department of Health for example the Auditor-General specifically, for the FY 2012/13 (Page 84 of the Annual Report), reported that the Department's Fraud Prevention Plan could not be implemented due to a lack of capacity.

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

DOH: The Internal Audit of the Department of Health deals with this matter and audits are done on a quarterly basis.

DETEA: Compliance audits of the FSGL Act and other relevant legislation focuses on the

- Number of Revenue Audits conducted within prescribed timeframes;
- Number of Compliance Audits conducted within prescribed timeframes; and
- Number of monitoring and evaluation reports on licensee compliance to special license conditions, in particular BBBEE, within prescribed timeframes.

On-going and planned reform activities

N/A

PI-15 Effectiveness in collection of tax payments

Overall score (score method 1): C

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

Score D: The level of DOPRT and DOH arrears over the past two financial years was significant, averaging respectively 8.5% and 570.3% of their own revenues on an annual basis.

Arrears relating to motor vehicle licensing and registration fees for the past two financial years equal more 6.7% of its total revenue in 2011/12 and rose to 9.8% in 2012/13. DOH arrears, in turn, equal three and four times the level of own revenues collected over the past two financial years (Table 3.15).

There is no report on DETEA arrears for the past two years. The liquor taxes does not amount in arrears, when the licence is not renewed it automatically lapse and becomes invalid. The arrears are applicable in the horse racing and casino levies, of which the 10% is being charged if the weekly levies are not paid every Wednesday.

Table 3.15: DOPRT and DOH arrears (% of own revenues)

	2011/12	2012/13
DOPRT		
Arrears balance (,000 R)	31,160	48,050
Total own revenue (,000 R)	464,719	469,146
% of total	6.7%	10.2%
DOH		
Arrears balance (,000 R)	495,136	670,039
Total own revenue (,000 R)	177,714	78,023

% of total	278.6%	862.0%
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Source: Free State Provincial Treasury.

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

Score B: Revenue collections are transferred to the FS Provincial Revenue Fund on a weekly basis. The FS Provincial Revenue Fund is controlled by the FS Provincial Treasury and the weekly transfers to the Provincial Revenue Fund are monitored by the Provincial Treasury and forms part of the monthly Key Control Matrix that Heads of Department has to report on.

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

Score NR: The FS Provincial Treasury is unable to provide information and/or evidence of complete account reconciliations between tax assessments, collections, arrears records and receipts.

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

The availability of most of the funding committed to Provincial Treasury is warranted through the National Treasury every year and cash resources are disbursed every week into the Provincial Revenue Fund through the South African Reserve Bank (SARB) and accounted for in the BAS-aided, General Ledger System. Such a flow of funding is the result of a cash inflow forecast and variance analysis elaborated by the Asset and Liability Management Division at the NT on the basis of tax receipts collected by SARS and cleared into the SARB National Revenue Fund on a daily basis.

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

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

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

Overall score (score method 1): C+

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

Score B: Cash flow planning and monitoring is essentially the responsibility of Asset and Liability Management Division at the Provincial Treasury, with major inputs from National Treasury and provincial departments. A cash flow forecast is updated for actual cash flows on a quarterly basis but re-estimation / re-scheduling of future cash flows is done to a limited extent. Hence, any major variation in tax collections during the year does not pose any major change in the cash flow forecasting and the trajectory of funding availed to the PT for the remainder of the year thus most of the funding is kept at a high degree of predictability provided the largest share is a fixed amount of national grants pre-established before the start of the new financial year. Monthly forecasts of PT own revenues are performed by the Public Finance Unit at PT and updated on a monthly basis.

The degree of predictability in the availability of funds varies throughout the year, depending on the business cycle of government operations and the source of domestic funding. It is only the national grants apportioned that will not change in the total for the year. As a general rule, the funds granted monthly to the government budget from the National Treasury must equalize the total amount of dollars fixed for the year in accordance to a pre/-established agreement between the National Treasury and Provincial Treasuries.

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

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

Given the overly reliance on national revenue, PT Program 2 Fiscal Policy Unit prepares a cash flow forecast for the fiscal year based on the National Treasury's revenue projections¹⁸ and the PT Program 3 Public Finance Unit prepares a supplementary cash flow forecast for own revenues. The Budget Unit consolidates and monitors the performance of cash inflows through a basic excel sheet that is updated and informed on a monthly and quarterly basis. Considering the annual budgetary forecast, quarterly monitoring and availability of funds information to the spending units, the monitoring system requires substantial strengthening and use of more modern forecasting tools, to further improve frequency and quality.

Once the annual cash flow profile has been established, NT releases PES and other conditional grants in monthly tranches to departments for salary payments and the settlement of their invoices. Cash flow monitoring has been carried out within PT and has so far not given rise to transparent

¹⁸ Estimates of Receipts and Provincial Expenditures (EPRE) for the respective financial year indicating budget estimate of the last financial year, actual / revised estimates for the last financial year and budget estimates for the coming year

disciplinary action during the course of a year to adjust budget provision across executing agencies. This arrangement is cause for concern, particularly given the emergence of overdrafts in recent years. In the absence of an overall revision to the budget to bring it more closely in line with actual cash availability, cash management is a task undertaken in an ad hoc manner by Accounting Officers who ultimately decide which accounts should be paid and which should remain outstanding.

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

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

Score C: Departments are provided with reliable information on annual revenue forecasts and commitment ceilings in an advance of two months before the start of the new fiscal year. In-year adjustments in budget allocations often vary as the main receipts are earmarked ahead in the year.

In six months in advance departments are provided with preliminary commitment ceilings, not subjected to a rigorous reviewing of fiscal policy at national level. Then a more reliable figure on the annual expenditure commitments at the level of MDAs is provided two months prior to the commencement of the new financial year when NT provides the latest forecasts on tax collections to the Provincial Treasuries. During the year, adjustments in the budget allocations do not take place in any significant manner as the main source of funding is practically guaranteed for every quarter, particularly those relating to the equitable share grants which are the largest of national transfers.

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

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

Score B: In-year budget adjustments take place only once every year, within the last quarter of the year, and are done in a fairly transparent manner. The arrangement of adjusting the budget is a pre-established process set out in the PFM Act, and a relatively well informed adjustment on budget ceilings process to commit expenditure within the limits set by the expenditure provision on each major budget line. Adjustments vary often ostensibly across departments.

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

Additionally, reallocations within each head of department voted are authorized through internal Resolutions during the financial year by the respective AOs—this is the most commonly accepted practice of adjusting the budget during the financial year, taking place extensively even from the beginning of every year.

Table 3.16: Adjustments in the originally approved budget
(R thousands, unless otherwise noted)

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

Source: Estimates of Provincial Revenue and Expenditure reports.

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

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

This indicator determines the extent to which the Provincial Government's systems to manage cash, debt and guarantees have the capacity to provide accurate and timely information, thereby enabling resources to be made available as needed. PTs are severely restricted by the PFM Act from borrowing unless is within the limits as set in terms of the Borrowing Powers of Provincial Governments Act, 1996 (Act No. 48 of 1996). Also, a Provincial Government, including any Provincial public entity, may not borrow money or issue a guarantee, indemnity or security or enter into other transaction that binds itself to any future financial commitment denominated in a foreign currency or concluded on a foreign financial market (Art.67).

Overall score (scoring method 2): B+

(i) Quality of debt data recording and reporting

Not rated

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

Score B: Provincial Treasury monitors cash balances daily and undertakes comparisons feeding into cash management and releases related actions. Most cash balances of the Provincial Revenue Fund are calculated and consolidated, with the exception of a few donor-funded sub-accounts. Minor unexplained material differences exist between fiscal balances as per the AGSA and the BAS-based pivotal statements (not reconciled by AGSA at the end of every year).

The Provincial Treasury maintains bank accounts i.e. the Provincial Revenue Fund, through the SARB. Additionally, separate bank sub-accounts for donor-funded projects are also maintained. PT receives daily information from the SARB reporting account balances for all Government of Free State bank accounts, and these are reported in separate statements at end of every month. PT monitors and undertakes daily comparisons of balances for cash management and releases related actions. As a result, small disparities exist between fiscal balances as per the AGSA and BAS pivotal statements, and had not been cleared for the past three years.

(iii) Systems for contracting loans and issuance of guarantees

Score A: Laws and regulations governing the contracting of loans and issuance of guarantees are availed for the Treasury Department at Free State Provincial Government.

According to National Department of Treasury, only guarantees for housing loans are issued by the Government of Free State Province.

PI-18 Effectiveness of payroll controls

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

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

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

Other relevant information management systems are currently being used by Departments and yet, these do not operate optimally to the needs of HR internal controls. For example, the Department of Education owns Education Management Information System (EMIS) which has a feature that allows for recording of teachers' attendance days and hours and linking to teaching and learning

performance. It offers the opportunity for a adopting a technological solution to avoid public workers' absenteeism and testing within selected towns and districts¹⁹, all of which could enhance the internal controls within PERSAL and the payroll system.

Score (scoring method 1): C+

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

Score B: Monthly PERSAL/BAS reconciliations form part of the Key Control Matrix check list.

HR Managers maintain personnel records to update the PERSAL System. Because the PERSAL and BAS are not integrated the Key Control Matrix requires Departments to report on the reconciliation of PERSAL and BAS monthly.

(It could be better if Department of Education's Education Management Information System, for example, is further maintained with a view to include the attendance records through advanced IT (see other EMIS experiences, i.e., Punjab) and enable improved use of internal controls and integration to PERSAL and payroll systems).

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

Score C: Changes to personnel records are in many cases not updated on the PERSAL System timely. The monthly payroll includes a significant number of retroactive transactions.

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

Personnel records are maintained by the HR Management Unit by means of files or, at best, some form of manual system by means of a spread sheet. These records, once verified and/or approved must then be handed over to the PERSAL user. This is often not done timely after which the PERSAL transaction has to be captured and approved which also takes time.

The Auditor-General in his general report for the Free State for 2010/11 and 2011/12 has expressed concern on poor human resource management. The report highlights management of vacancies and acting positions, appointments, HR planning and organisation, performance management and the management of leave, overtime remuneration and suspensions as the nature of the key audit findings.

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

Score A: The PERSAL System has effective internal controls to ensure alignment between personnel records and the system.

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

¹⁹ See, for example, the EMIS lessons and experience in Punjab featured in "The Good News from Pakistan: How a revolutionary approach to education reform in Punjab shows the way forward for Pakistan and development aid elsewhere", by Sir Michael Barber, *Reform*, March 2013,

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

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

Score C: Isolated cases of payroll audits/clean-up exercises have been undertaken.

The province's salary bill has been increasing quite drastically over the past three years. Partial payroll audits have been undertaken by some Departments in the past three years. In one Auditor-General report there is mention of a "Report on Compliance to Payroll and Supply Chain Management Prescripts" but it could not be provided, neither the findings and/or subsequent actions taken could be traced.

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

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

Section 217 of the Constitution requires procurement to be fair, equitable, transparent, competitive and cost-effective. Aligned with this the PFMA, Treasury Regulations (issued in terms of Section 76 of the PFMA), the PPPF Act and Regulations as well as the National Treasury Practise Notes provide the framework within which the Free State developed its procurement policies and procedures. This is the precedence of the different pieces of legislation. The procurement is then constrained by overarching threshold values determined by the National Treasury.

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

Overall score (score method 2): D+

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

Score B: The Free State meets four of the six criteria for the legal and regulatory framework for procurement.

The province is obliged to use the regulatory framework described in the introduction to PI-19. The Free State achieving the requirements on the legal and regulatory framework is summarized in Table 3.17.

Table 3.17: Requirements on the legal and regulatory procurement framework

Requirement on the legal and regulatory framework	Justification
Be organised hierarchically and precedence is clearly established	Yes, the introductory paragraph to PI-19 above describes how the regulatory framework is hierarchically structured and indicates the precedence. Both the National and Free State Provincial Treasuries have Supply Chain Management

	Units that are the custodians of the regulatory framework, perform monitoring functions, and issue Practice Notes.
Be freely and easily accessible to the public through appropriate means	Yes, all the different pieces of legislation is publicly available through for various government websites and in libraries.
Apply to all procurement undertaken using government funds	Yes, the regulatory framework described above applies to all procurement where public funds are used. This regulatory framework also comes under scrutiny when Departments and Government Entities are audited every year.
Make open competitive procurement the default method of procurement and define clearly the situations in which other methods can be used and how this is to be justified	Yes, the regulatory framework provides clear and specific thresholds that apply to different open methods of procurement. The policies also include specific prescripts and control measures where deviations from the legislation are justified to be approved by Accounting Officers, reported and disclosed. There may be some improvements and refinement required if the Auditor-General's report on irregular expenditure is considered.
Provide for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints	No, bidding opportunities and contracts awarded are advertised in the weekly provincial tender bulletin as the recognised media. Although Departments prepare procurement plans before the start of every financial year, these plans are not made available publicly.
Provide for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature.	No, although the regulatory framework contains specific prescripts regarding procurement complaints it falls short on implementation. The Free State does not have an independent procurement complaints body. No no-contract signing period is prescribed between award and signature. Applications for access to information are generally dealt with outside of the procurement process, unless flaws are dealt with through the judicial system.

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

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

(ii) Use of competitive procurement methods

Score D: Reliable data on deviations, with reasons, from open competition could not be provided. For the three years under review the Auditor-General has elaborated extensively on procurement procedures that lead to irregular expenditure.

Neither the Provincial Treasury nor the departments interviewed could provide reliable data on the justification for deviating from less competitive procurement methods. There is no established process and/or system to record cases where Departments deviated from the procurement policy and process. During 2011/12 the Provincial Treasury started the recording of only those cases they had become aware of and recorded 55 cases for 2011/12 and 2012/13. The Provincial Treasury keep

these records manually by means of a MS Excel spread sheet. Information on the monetary value of these contracts could not be provided.

The Auditor-General reports for the three years every time elaborates on the upward spiral of irregular expenditure. It has been detected by the Legislature Public Accounts Committee and included in the transversal resolutions that Departments are required to work on.

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

Score C: In the Free State only bidding opportunities and contracts awarded are made public. Given a supplier database in excess of 21,000 suppliers a lot more can be done to make government procurement plans available to the public.

The province does not make procurement plans available to the general public. Only open tenders above the threshold of R500,000 are advertised when the need arise. The Provincial Government Tender Bulletin is used as the recognised media of communication. Due to time constraints the team could not establish how civil society views this.

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

(iv) Existence of an independent administrative procurement complaints system

Score D: Although the Free State does not charge fees to handle complaints, these complaints are dealt with by the officials who work with procurement and not an independent body/forum established for that purpose.

The Free State Provincial Treasury has a Supply Chain Management Compliance Unit. This unit is responsible for the overall monitoring of compliance regarding procurement. The officials in the Unit deal with enquiries from suppliers on an ad hoc and reactive manner. These officials perform this task over and above their tasks and responsibilities.

These officials do not necessarily have knowledge and experience of the regulatory framework and challenges that the different sectors face. The unit does not have any authority to suspend the procurement process or issue decisions that are binding on all parties.

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

This indicator evaluates the effectiveness of internal control over expenditure commitments for the procurement of goods and services, temporary workers' compensation, capital expenditures, as well as the staff's discretionary benefits. The effectiveness of control systems will be measured based on their adequacy, the existence of a group of controls for each expenditure process, compliance with those controls, and their flexibility in case of emergency²⁰.

²⁰ The effectiveness of these systems is verified through the regular reports of the PT Accountant General, as well as controls by the Administrative and Financial Units of provincial departments and public entities.

The PFM Act requires, among others, that the Provincial Treasury may investigate any system of financial management and internal control applied by a provincial department or a provincial public entity. Furthermore,

Score (scoring method 1): C+

Section 38 of the PFMA requires the Accounting Officer of a Department to ensure that the Department has and maintains a system of financial and risk management and internal control. This should include reasonable assurance that all expenditure is necessary, appropriate, paid promptly as well as recorded and reported correctly. The Treasury Regulations require that the Audit Committee reports on the effectiveness of internal controls in the annual performance report of the institution.

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

Procurement plans, for example, are not aligned to work/project plans and used to manage the timely procurement of goods and services. This is a major contributing factor to the breach of internal controls, according to Auditor General (AGSA), because then it becomes crisis management to procure goods and/or services in a short space of time not to affect service delivery. The Team generally concurred with the AGSA in that recurring violations and irregularities indicate that the financial management and controls are not working quite effectively within the Province. Most solutions and corrections are not as effective as expected by the AGSA provided the fact that most are fixed for the moment but then relapsed the following year, thus suggesting more efficacious remedy and suitable rules may be required.

(i) Effectiveness of expenditure commitment controls

Score B: Commitment control is effective and limits expenditure to available cash through an automated BAS procedure. And yet, the procedure is not operating in a way allowing commitments and release of funds to follow through a commitment calendar and to support of regular service delivery flow of operations. Procurement plans are linked to expenditure through LOGIS that requires commitment clearance before a commitment can be made, but this is a requirement met for compliance purposes only. The procurement plans are not aligned to the work/project plans, are not used to prepare cash flow projections and least of all used to manage the procurement of goods and services during budget execution.

Expenditure commitments are controlled through the systematic verification of the existence of the expenditure item to be made in the effective Provincial Budget, and the availability of cash recorded in the Basic Accounting System (BAS). The commitments, however, are not linked through a form of Commitment Calendar approved for each department and public entity. This information is not availed through the BAS although these are required to furnish as part of the elaboration of the annual cash plans, procurement plans and other corporate plans and performance plans. The payment commitments by the departments and entities are enforced through the BAS, since these cannot make commitments that the system does not allow and they can only make them up to the limit of their monthly and quarterly allocations. These controls are applicable to all types of expenditure (including capital expenditures) and the commitment is authorized in the BAS only for those expenditures contemplated in the effective budget, where the cash availability has been authorized by the Provincial Treasury.

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

Where procurement plans are actually compiled it is not aligned to work/project plans and approved budget. Except for the fact that it is never used to actually manage the procurement of goods and services it is not used to inform cash flow projections. This causes the cash management situation in the province to be problematic.

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

Score B: Other internal control rules and procedures include a comprehensive set of controls, which are widely understood at the level of financial managers and internal auditors, and may lead to delays.

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

In the health sector, for example, hospitals do not keep adequate records of property, buildings and medical equipment, other fixed assets and pharmaceutical products or other essential medical supplies. These are inventoried manually or in a basic electronic form, thus increasing the risk of error or loss.

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

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

Score C: Non-compliance to the rules for processing transactions result in irregular as well as fruitless and wasteful expenditure. The Auditor-General general reports for the Free State for 2010/11 and 2011/12 make specific mention of this area that requires attention.

Procurement is initiated by a requisition signed by the Head of Unit (also referred to as the end user). However there is no requirement for procurement plans to serve as a control and link to the budget through the draw-down schedules. Other controls in the expenditure process include the requirements for VAT Invoices and Tax Clearance Certificate for each vendor prior to signing a

contract, thus effectively controlling that the public sector only does business with duly registered and tax compliant businesses, a simultaneous receipt and issue voucher to certify receipt and verify the invoice and the approval of payment vouchers which require the full range of supporting documentation before invoices are paid. The utilities and housing expenditures are controlled by the Free State Department of Public Works. Although this improves the controls over this large portion of expenditure, it has also in the last financial year contributed RM40 to the accruals [see PI-4(i)].

According to the Auditor-General's general report for the province for the financial year 2011/12 irregular expenditure has increased from RB1,2 in 2010/11 to RB3,2 in 2011/12. The fact that a portion of that has not been identified by the Departments and only during the audit also explains the lack of compliance by all the role players in the processing of transactions.

Expenditure payment arrears had gone up considerably (see PI-4) which infers significant commitments are made without assuring the invoices to suppliers and contractors will be paid accordingly.

PI-21 Effectiveness of internal audit

The Free State Provincial Treasury Internal Audit Unit is decentralized between the different Votes. In Health and Education there is an independent Shared Audit Committee which is made up of 3 to 5 independent members. To promote standard consistency across the Votes, Province utilizes National Treasury's Internal Audit Framework as a minimum guideline for the operations of Internal Audit. These guidelines adopt the IIA standards. Each IA unit has their own Internal Audit Charter.

The Departments Internal Audit units are monitored and evaluated by Province's Risk Management and Internal Audit Unit. In terms of the "*Provincial Internal Audit Procedure Manual*", the Provincial Internal Audit will perform an assessment of the Key Performance Indicators bi-annually during March and September each year. A final report will be concluded at the end of the evaluation process which is distributed to the Accounting officer at the relevant Department, Chief Audit Executive and Chairperson of the Audit Committee.

Quality assurance exercises with independent bodies performing quality assurance reviews are conducted once every five years. We were informed that Provincial Treasury's Risk Management and Internal Unit monitor the Departments to ensure compliance.

Overall score (scoring method 1): B+

(i) Coverage and quality of the internal audit function

Score A: The Internal Audit units are decentralised within the Province and each Internal Unit reports on a quarterly basis to their independent Audit Committee. The officials within the Internal Audit division meet the IIA professional standards. The approved annual audit plans are the result of Risk Assessments for specific Departments.

Each Vote has their own Internal Audit unit who reports directly to the Head of Office and respective Audit Committee quarterly. Each Internal Audit unit develops a three year rolling risk based audit plan as well as an annual plan based on the Risk Assessment of that specific Department. This plan is approved by the Audit Committee. Audit plans covers a combination of financial, compliance, payroll, computer systems, forensic and performance audits. Audit Committees is responsible to

review the effectiveness of internal controls and internal audit, to review the risk areas and to ensure that audit recommendations are followed up. Performance audits were conducted by AGSA to determine “*on the readiness of government to report on its performance*” at the Departmental level during the 2012/13 financial year ends. Internal audits are risk-based and more than 60% of internal audit staff time focuses on risk assessments for that department.

The Internal Audit units are staffed by professionals who are members of the IIA Chapter at South Africa and whose subscriptions are paid for by the different Departments. The subscriptions for the staff at Department of Health are not paid for by the Department. Provincial Treasury’s Risk Management and Internal Audit unit issued a KPI performance report for Department of Health on the 28 March 2013 where it was raised that 8 out of the 10 internal audit staff members could not be vouched as members of IIA. Internal Audit staff members across all Departments receive ongoing training. The PEFA assessors were informed that for the 2012/13 financial year internal audit staff for Department of Education did not attend any staff training. The current staff complement for the Departments that were evaluated indicate that the staff have the necessary qualifications and skills to perform internal audit. We were informed that specialised skills such as Information Technology is still lacking and this function was outsourced to an external consultant company. From the sample selected it was established that Teammate and ACL is utilised by Provincial Treasury, Department of Public Works, Department of Health and Department of Education. Department of Cooperative Governance, Traditional Affairs and Human Settlements do not utilise any software in performing their internal audit functions.

The PEFA assessors reviewed the Annual Reports for the 2012/13 financial year end and noted the following:

- The Audit Committee for the Department of Health was not satisfied that the internal audit function was operating effectively.
- The Audit Committee for the Department of Human Settlements raised concerns that the three year strategic plan and annual plan was not risk based due to the non-completion of the risk assessment process by the risk management sub directorate.

The AGSA raised concerns about “*internal control deficiencies*” at the 2011/12 Combined Financial Statements for the following Departments:

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

(ii) Frequency and distribution of reports

Score A: Internal audits are carried out according to the annual plans and Final Reports are issued to the respective HOD, Chief Directorate, the AGSA and the respective Audit Committee.

The Internal Audit Unit presents quarterly reports to the Shared Audit Committee of the respective Department. The reports are also made available to the Office of the AGSA during their audits of the annual financial statements. For each audit report finalised, the report is distributed to the HOD, Chief Directorate of the relevant section and the CFO where applicable. Provincial Treasury’s Risk Management and Internal Audit Unit will review these reports issued during the Department’s bi-annual KPI evaluations.

(iii) Extent of management response to internal audit function

Score B: Management have a timeframe to response to internal audit findings. These are reported quarterly to the Audit Committee. It has been noted that with the implementation of the KCM's and the overall monitoring and evaluation of the Department by Provincial Treasury's Risk Management and Internal Audit unit they is a drive to further improve the action taken by management by holding them accountable.

Each internal audit unit has a system in place in where management is required to provide a response within 30 days. Management's response includes the corrective action that will be taken, the person responsible and the time frame to address the findings. The internal audit unit conducts follow up audits generally within six months. These findings usually remain open and are included in the annual plan until they are resolved. Additionally, the Internal Audit Unit reports to the Audit Committee a Performance Report against their Annual Audit Plan which is then reported by the Audit Committee in the annual report.

The 2012/13 Internal Audit Plans for COGTA and Department of Public Works had to be revised due to challenges experienced in staff capacity within the Internal Audit Unit.

3.5 Accounting, recording and reporting

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

PI-22 Timeliness and regularity of accounts reconciliation

Overall score (score method 2): B+

(i) Regularity of bank reconciliation

Score A: Bank reconciliation for all Provincial Consolidated Fund managed bank accounts take place on a monthly basis, usually within 4 weeks from end of month. Only minimal differences appear. These include donor-related operations which are also captured within the Provincial Consolidated Fund.

Minimal unexplained differences in bank reconciliations emerge after the closing of every financial year. The Free State Provincial Treasury monitors and follow-up on outstanding bank reconciliations in order to, amongst others, manage the cash according to the payment schedule from the National Treasury.

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

Score B: Reconciliation and clearance of suspense accounts and advances take place on a monthly and quarterly basis, and yet, some accounts have uncleared balances brought forward over the past three years.

The Free State Key Control Matrix requires Departments to report on the clearance of suspense accounts and advances monthly. In spite of the requirement, the total amount of claims recoverable more than tripled and uncleared balances on pre-payments and various advances increased more than 10 times over the past three years with social ministries alone (Tables 3.18 and 3.19). Although the Key Control Matrix of each Department is scored and feedback provided, such a drastic increase points to the fact that the reconciliation and clearance of these accounts are not adequately performed and monitored by Departments and/or the Provincial Treasury.

Table 3.18: Stock of Suspense Accounts within Social Sectors (R millions)

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

Source: Annual performance reports.

Table 3.19: Pre-payments and Advances Balances within Social Sectors (R millions)

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

Source: Annual performance reports.

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

Score D: Departments have, through the BAS, information available on resources allocated to service delivery units. The information, however, is not reported to the general public and to the service delivery units themselves, likewise, it is not analysed, interpreted and used for measuring and explaining the extent of performance, both financial and non-financial. Neither is the information used to inform decisions on future resource allocations to the service delivery units.

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

The information, however, is not used by management and departmental budget offices to inform decisions about resource allocation to these service delivery units. An analysis of the budget allocations and expenditures of the Departments of Health, Education and Social Development for the past three financial years revealed that the budget allocation for Compensation of Employees increased on average by 2.3% while the budget allocation for Goods and Services decreased by 3.16%. Furthermore, an average of 36.78% of the allocation for G&S is spent under the Programme: Administration.

The budget resources availed to service delivery units are not reported regularly itemised by unit/district i.e. the Free State Provincial Government website. These reports on budget resources for service delivery units appear only on a consolidated basis and are availed together with the Departmental Annual Performance Reports. These reports do not provide information on budget resources and performance of individual units/districts. All the stakeholders interviewed indicated that they are not aware of any high level reports/research/surveys on the relationship between resource allocations, outputs and outcomes of service delivery units in the recent past.

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

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

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

In terms of Section 40 (4), the Free State Provincial Treasury records financial transactions through BAS and reports on a monthly basis the consolidated revenue and expenditure in the prescribed format "In Year Management and Reporting Model". The prescribed excel format is determined by National Treasury detailing the revenue and expenditure per line items. In terms of this format the model reflects the following:

- actual revenue and expenditure for that month against the budget;

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

Overall score (score method 1): C+

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

<p>Score C: The IYM Reports are standard excel formats which has been implemented by National Treasury. IYM Reports form part of the monthly KCM's in which CFOs are required to sign off confirming compliance to the PFMA requirements. Information on the IYM model is reflected on the payment stage only,</p>

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

Commitments are not shown in the IYM report. However, the PEFA assessors have been informed that the commitment figures per Department are included in the projections, a figure which is supported by a separate excel spreadsheet "*Paragraph 5.5 of Instruction Note Number 1*" signed off by the accounting officer of each Department.

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

(ii) Timeliness of the issue of reports

<p>Score A: IYM reports are prepared monthly by the Departments and submitted electronically to FS Provincial Treasury by the 15th of each month. FS Provincial Treasury consolidates the IYM reports and submits these reports electronically by the 22nd of each month to National Treasury. National Treasury publishes these reports on a quarterly basis on its website.</p>
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Section 40 (4) (c) of the PFMA requires each department "within 15 days of the end of each month to submit to the relevant treasury and executive authority responsible for that department –

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

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

(iii) Quality of information

Score B: There are some concerns regarding the accuracy of information related to the consolidated figures presented by FS National Treasury. Office of the AGSA raised concerns regarding the classification for payment of goods and services at the Department of Health.

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

PI-25 Quality and timeliness of annual financial statements

In terms of Section 19 of the PFM Act "*A provincial treasury must –*

- a) Prepare consolidated financial statements, in accordance with generally recognised accounting practice, for each financial year in respect of –
 - i. provincial departments in the province;
 - ii. public entities under the ownership control of the provincial executive of the province; and
 - iii. the provincial legislature in the province; and
- b) Submit those statements to the Office of Auditor General within three months after the end of that financial year.

Free State Provincial Treasury prepares two sets of combined financial statements for the 31 March financial year end. The Combined Financial Statements for the Provincial Departments, Legislature as well as the Provincial Revenue Fund are prepared on a modified cash basis. The Combined Financials for the Public and Trading entities are prepared on an accrual basis. The Combined Financial Statements have been prepared in accordance with the guidelines as set out in the Departmental Financial Reporting Framework Guideline.

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

Overall score (score method 1): A

(i) Completeness of the financial statements

Score A: The Accountant General at FS Provincial Treasury prepares Combined Financial Statements annually which includes comparative figures and full information on revenue, expenditure and financial assets/ liabilities.

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

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

The complete set of Combined Financial statements comprises:

1. Accounting Officer's Review;
2. Report of the Auditor General;
3. Departmental Combined Financial Statements;
4. Review of Operating Results;
5. Accounting Policies;
6. Combined Statement of Financial Performance;
7. Combined Statement of Financial Position;
8. Combined Statement of Changes in Net Assets;
9. Combined Cash Flow Statements; and
10. Annexure to the Combined Financial Statements i.e. notes, comprising a summary of significant accounting policies and other explanatory notes.

(ii) Timeliness of submissions of the financial statements

Score A: In terms of the Auditor General Report for the 2010/11 and 2011/12 financial years, the annual financial statements have been submitted for external audit within the prescribed legislative framework.

Each Department and Public Entity prepares their own financial statements that are completed within two months of the close of the financial year end and are submitted to the Office of the Auditor General for audits. The audits of these departments are completed within a month and these audited financial statements are submitted to the Provincial Office of the Accountant General for consolidation. The Combined Financial Statements are then submitted to the Office of the Auditor General for audit.

The 2010/11 and 2011/12 General Report of the AGSA indicates that the statutory period for submissions of the annual financial statements by the Departments in terms of the legislative framework have been compiled with. The draft Combined Financials for the 2012/13 financial year end were submitted to the Office of the Auditor General on 28 June 2013.

(iii) Accounting standards used

Score A: The Combined Financial Statements are prepared in terms of the national accounting rules set forth in Departmental Financial Frameworks compatible with international standards.

The PFMA requires departments to “*prepare financial statements for each financial year in accordance with generally recognised accounting practice*”.

The Combined Financial Statements (CFS) are prepared in terms of the Departmental Financial Framework as prescribed by National Treasury. Comparative figures are shown and where necessary a summary of significant accounting policies and other explanatory information is also presented.

3.6 External scrutiny and audit

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

The process of reviewing the budget appropriation bill and the quarterly and annual public accounts within the Provincial legislature resides within the roles and responsibilities of one single unit, namely, the Portfolio Committee on Public Accounts and Finance.

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

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

Overall score (using scoring method M1): B+
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(i) Scope/nature of audit performed (including adherence to auditing standards)

Score A: Annual audits of public sector institutions, including those in Free State, are carried out solely by the Office of Auditor General, the supreme audit Institution of South Africa, and cover a comprehensive scope of financial transactions and public accounts including revenues, expenditures and various receivables and payables.
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The public sector financials are audited in terms of the Public Finance Management Act of South Africa and the International Standards of Auditing. The Office of the Auditor General (AGSA) will express an opinion on the state of the audit. Over and above the regulatory audit performed on the annual financial statements, system audit as well as performance audits has been performed by the Office of the AGSA.

For each Department the AGSA prepares a management report and an audit report. It prepares a consolidated report for the Province “*General Report of the Provincial Audit Outcomes*” which provides graphical overview of the main findings from:

1. Audit of Financial Statements;
2. Audit of Reporting on Pre-Determined Objectives; and
3. Audit of Compliance with Laws and Regulations.

(ii) Timeliness of submission of audit reports to legislature

Score B: The Combined Financials for FY 2012/13 and 2011/12 had been submitted to the Legislature within October, that is, 7 months after financial year end.

According to Section 19(2) of the PFMA “*The Auditor General must audit the consolidated financial statements and submit an audit report on the statements to the provincial treasury of the province concerned within three months of receipt of statements*”.

According to Section 19(3) of the PFMA “*The MEC for finance in a province must submit the consolidated financial statements and the audit report, within one month of receiving the report from the Auditor General, to the provincial legislature for tabling in the legislature*”; and

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

The AGSA’s General Report for the 2011/12 financial year on the “*Status of the audit of consolidated financial statements for the province*” indicates that AGSA did not meet the legislative deadline, 30 September 2012, for the completion of the consolidated audits.

For the 2011/12 and 2012/13 financial year, the Combined Financial Statements were submitted by the MEC to the Legislature on 29 October 2012 and 31 October 2012 respectively i.e. 7 months after the financial year end which is within the prescribed legislative framework of PFMA.

(iii) Evidence of follow-up on audit recommendations

Score B: Provincial Treasury has made progress over the years regarding follow up on audit recommendations by maintaining an excel spread sheet regarding the audit findings and monitoring these findings. The AGSA in the 2011/12 Annual Report has also noted improvement however this has not yet impacted on the effectiveness of the function in all the Departments with repeat findings noted .

The AGSA has issued “clean audit” initiative for the Province. As per our discussion with the AGSA as well as the Office of the Provincial Accountant General there are systems in place whereby Treasury do have evidence of follow ups regarding audit findings for both Treasury and Departmental basis. The AGSA did raise concerns regarding the follow ups at Municipality levels. Visits to the Municipality are performed on a quarterly basis however the AGSA is not yet satisfied in the progress and follow up of Municipality findings.

As noted earlier, AGSA raised concerns regarding Department of Health however they have stated that Treasury has now implemented steps to monitor and evaluate the progress of findings at the Department. Department of Health has implemented a turnaround strategy.

PI-27 Legislative scrutiny of the annual budget law

Overall score (using methodology M1): D+

(i) Scope of the legislature’s scrutiny

Score A: The scope of the Provincial Legislature’s budget scrutiny includes discussion of the medium term macroeconomic outlook and fiscal framework, the medium term overlook, the detailed revenue and expenditure estimates, strategic sector plans and annual performance plans, among others.

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

For FY 2013/14 a thorough presentation took place within the Portfolio Committee on Public Accounts²¹ whose focus was on enabling the achievement of mainly 6 out of 12 Outcomes of the Province, according to the priorities agreed with the National Government. These refer to Outcome 4 (Decent employment through inclusive economic growth), Outcome 5 (Skilled and capable workforce to support an inclusive growth path), Outcome 6 (An efficient, competitive and responsive economic infrastructure network), Outcome 9 (Responsive, accountable, effective and efficient Local Government System), Outcome 11 (Create a better South Africa, a better Africa and a better world), and Outcome 12 (An efficient, effective and development oriented public service and an empowered, fair and inclusive citizenship).

Furthermore, the Portfolio Committee relied on the following sources as references for its budget oversight function:

- 2013 State of the Nation Address;
- 2013 State of the Province Address;
- 2013 Budget Speech of Minister of Finance (including the Estimates of the Provincial Revenue and Expenditure);
- 2013 Budget Speech of MEC for Finance;
- 2013 Budget Speeches of Vote1 (Office of the Premier, Vote 2 (Free State Legislature and Vote 4 (Provincial Treasury));
- Free State Growth and Development Plan (2012 Revision);
- Financial and Fiscal Commission Recommendations (2013/14);
- Division of Revenue Act (2013);
- Auditor General's reports as tabled and referred;
- Annual Reports (2012/13) of Vote1 (Office of the Premier, Vote 2 (Free State Legislature and Vote 4 (Provincial Treasury) tabled in the House during September 2013;
- 2013/14 Annual Performance Plans (Vote 1, 2 and 4) as tabled in the House on the 14th March 2013;
- Previous Committee Resolutions not yet implemented;
- House resolutions not yet implemented after tabling and adoption; and
- Oversight Visit Report.

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

Score B: The Legislature's procedures and rules on the reviewing and approval of the annual budget appropriation bill are simple but well understood and respected by members of the Portfolio Committee on Public Accounts and Finance (the PAFOL Committee).

The way in which the Province Legislature handles the Budget is well understood, and the arrangements are generally respected. These form part of the Free State Legislature Standing Rules and Orders of 2009 (Seventh Edition, Revised in 2013), and mainly Chapter 10 on Bills, Section Two on Money Bills (Rules 164-177). However these arrangements do not give the legislature any real possibility of influencing the shape of the provincial government's proposals also because specialised

²¹ Minutes of the Portfolio Committee on Public Accounts, Finance, Office of the Premier, and the Legislature, October 16, 2013.

financial management committees, i.e., costing of provincial services over time, are not used for the most part. The effectiveness of the review is limited by time constraints. If it wasn't for these time constraints the Committee should amongst other things be able to integrate the work of sector- and technical committees to provide direction in determining priorities and budget allocations.

The above procedures are common in essence to all provincial legislatures after successful consultations and a voluntary agreement made between the National Parliament and Provincial Legislatures' Speakers in the form of a Speakers Forum. The main purpose supported by the South African Legislature Secretaries Association (SALSA) was to improve and enhance the legislative sector's performance on public finance oversight. It further served to ensure a coordinated approach to the sector's application of oversight practice in each legislature. Working on this mandate, SALSA commissioned a project to develop an oversight model for the South African Legislative Sector—to this end, a project team of officials in the legislative sector was established to develop a Sector Oversight Model²².

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

Score D: The Legislature does not spend more than two to three weeks on all stages of the Budget debate and subsequent approval of the Appropriation Bill.

The time for review the above amount of information and debate in the Provincial Legislative Portfolio Committee representatives of the Budget proposals is restricted to around 10 to 14 days from start of deliberations.

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

Score C: Same simple rules are replicated as above for the adjustment budget by the executive, and are usually respected, but they allow for extensive departmental reallocations albeit not much expansion of expenditure on the aggregate. The limited time slotted for House Plenary to table, review and approve the Adjustment Appropriation Bill is usually a concern, according to PAFOL Committee.

The PFM Act allows the use of the adjustment budget by means of re-appropriations amongst departments and the undertaking of additional spending by means of Supplementary Warrants issued by the PT with a public announcement and legislature approval. In-year budget amendments are clear to all budget institutions.

PI-28 Legislative scrutiny of external audit reports

Overall score (scoring methodology M1): C+

The PFM Act, Chapter 3, Section 19 on Annual Consolidated Financial Statements (CFS) require that the AGSA first audits the CFS and submits a certified audit report on the Statements to the Provincial Treasury of Free State within three months of receipt of the Statements. The MEC for Finance in Free State is then required to submit the CFS and the audit report, within one month of receiving the report from the AGSA, to the Provincial Legislature for tabling in the legislature.

²² "Oversight Model of the South African Legislative Sector", Speakers Forum of South Africa/SALSA, September 2011.

Additionally, the Free State Legislature Standing Rule and Orders and in accordance to the PFM Act, Section 65, requires that Provincial Departments must table an annual report and financial statements in the Legislature before the consideration of the budget of such Department for the next financial year by the Legislature. The Member of the Executive Council responsible for a Provincial Department must introduce the annual report of the Department by delivering an introductory speech and thereafter by submitting it to the Speaker.

The regular business of Free State legislative scrutiny requires that at least one sitting day after the annual report has been introduced by the responsible Member of the Executive Council, it must be referred to the Committee of the Whole House, and the responsible Member of the Executive Council must answer questions of the Members on clarity of the report. The annual report is thereafter referred for consideration to the Portfolio Committee to whom the budget vote of that Department will be referred for consideration with the budget of the Department, and report to the Legislature as well as the Portfolio Committee on Public Accounts, Finance, Office of the Premier and Legislature (refer to Sections 114 and 133 of the Constitution).

The next step is that the relevant Portfolio Committee considers the annual performance report together with the financial statements and tables a report with recommendations to the Whole House within such time-frames as may be determined by the Speaker or this House. The Portfolio Committee's report must be debated in this House. Finally, the Portfolio Committee on Public Accounts, Finance, Office of the Premier and Legislature (PAFOL) shall consider the report of the Auditor General on the financial statements contained in an annual report tabled in terms of the Standing Rule No. 131, including the report of the Audit Committee, and shall table a report with recommendations to this House within such time-frames as may be determined by the Speaker or this House.

As far as other Provincial organs of state, Standing Rule No. 132 establish that these must table an annual report and financial statements in the Legislature within the prescribed time-frames as provided for in the PFM Act. The annual report and financial statements must comply with such provisions of the PFM Act as may be relevant and/or required and the report is thereafter referred to the relevant Portfolio Committee for consideration and report to the Legislature. The Portfolio Committee's report must be debated in the Legislature (refer to Sections 114 and 133 of the Constitution).

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

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

Score A: Scrutiny of audit reports is completed by the PAFOL Committee within three months from receipt of reports. Audited financial statements are usually considered within November just before the December recess, according to evidence gathered.

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

- (1) The Committee shall meet on a quarterly basis to monitor the implementation of Resolutions of the Free State Legislature and to receive feedback from Provincial Treasury.
- (2) Ordinary meetings of the Committee are scheduled according to the referral of Reports of the Auditor General, tabled in the Free State Legislature.
- (3) Greater coordination and participation between the Office of the Auditor General and the Committee regarding the dates of tabling of Reports will ensure that the schedule of sittings of the Committee is determined timeously.
- (4) The Work programme will also be affected and determined by the following:-
 - Resolutions of the Committee, adopted by the Free State Legislature, will require implementation before a particular date concerned;
 - In terms of Rule 126(3) of the Rules, the Premier must furnish a report on the actions taken by the executive authority in response to resolutions of the Legislature affecting the executive authority within 30 days of communication thereof.

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

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

Score B: According to evidence gathered, in-depth hearings on key findings usually take place with Accounting Officers for some Departments that received significant and recurring audit findings. As noted previously, these are supported by quarterly monitoring undertaken together with PAFOL, the provincial Treasury and relevant Departments and internal auditors, as part of Portfolio Committee meetings.

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

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

Score C: Recommendations were issued by PAFOL in response to reports by the Auditor General during the reference period, some of which were actually rapidly implemented by the audited Departments. Usually, however, some of the issues recur again in the following yearly audit reports thus suggesting recommended actions not addressed and solved accordingly overall. This recurrent situation is predominant particularly in the Department of Education, according to the Auditor General.

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

3.7 Donor practices

D-1 Predictability of Direct Budget Support

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

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

Not applicable provided the insignificant involvement of donors in the budget process

4 CHAPTER IV – GOVERNMENT REFORM PROCESS

4.1 Description of provincial government reforms

The PFM reform programme in the Province comprises:

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

4.2 Free State-specific reforms

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

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

- planning timeframes; and
 - prescribed format of Strategic Plans and Annual Performance Plans.
- d) Adoption of a Uniform Programme and Budget Structures in Provincial Government. Closely related to the framework for Strategic Plans and Annual Performance Plans is the uniform structure for budget programmes for the 2014/15 MTEF.

The Guide for the Format of the Estimates of Provincial Revenue and Expenditure is updated annually and forms the basis for communicating a Provincial Government budget to a wide range of stakeholders, which include the citizens of a Province, the general public of the country, researchers and the international community. It further provides valuable insight into the priority areas of Government, focuses on resource allocation and attempts to capture the main outputs these funds are buying.

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

The format gives a snapshot of the socio-economic and demographic profile of the province and illustrates how it links to the Free State Growth and Development Strategy. It provides an overview of the Provincial Budget, budget process and discusses current and anticipated medium term budget trends. Overview of Provincial Revenue and Expenditure offers a detailed analysis of provincial receipt and payment performance, covering infrastructure; transfers to public entities and local government. It provides information on payments by municipality, district and ward; personnel numbers and costs; and payments on training.

Estimates of Provincial Revenue and Expenditure allows departments to compile and communicate their budgets, provides current and anticipated medium term budget trends, provide an overview of departmental estimates based on the standardised budget and programme structures for a particular sector, focuses on strategic service delivery and gives a high level overview of performance measures and targets as defined in departmental Strategic Plans and Annual Performance Plans.

- e) Adopting a Generic Organisational Structure for Provincial Treasuries. The National Treasury has introduced a generic Functional Structure for Provincial Treasuries in September 2013. The Free State Provincial Treasury has commenced preparatory work to organise itself in accordance with the generic structure.
- f) Rollout of an Integrated Financial Management System. The main objective is to enhance the integrity and effectiveness of financial management, human resource management, supply chain management and reporting in the public service and contribute to effective service delivery. The IFMS includes modules for financial management (including payroll), human resource management, supply chain management (including asset and procurement management) and business intelligence. Certain modules of the IFMS are currently being piloted in certain key National Departments and some Provincial Governments with a view to make final design updates before full implementation.

4.3 National Treasury reforms impacting upon PFM in Free State Province

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

development partners. Major objectives are to: (1) improve procurement and human resource management processes, internal controls, and systems; (2) better integrate cash planning to procurement and performance plans, and cash and debt management to a commitments calendar and contractor management and deliverables (3) adoption of a comprehensive commitments controls framework so as to enable line departments' and service delivery units' non-salary expenditures to better align within the available budget resources allocated for the remainder of the year; (4) consolidate and strengthen the country's public procurement system; and (5) overall capacity building among provincial treasuries and training programmes targeting at provincial finance officials and line managers. In addition, a number of steps have been taken to strengthen the capacity of the provincial legislature to oversee the government's PFM activities, including the unprecedented dynamic Legislative Scrutiny by the National Finance and Public Accounts Committees; other activities provide support to district governments. Coordination among different elements of the reform programme has grown over time, but as yet these efforts are not guided by an integrated overall PFM reform plan.

4.4 Public sector capacity building

Public sector capacity building consists of three major capacity building initiatives within the Free State Province. These comprise the following:

- a) Induction of Finance Members of Provincial Executive Council, Accounting Officers and Heads of Provincial Treasuries. The National Treasury has introduced a comprehensive induction dossier for Finance Members of Provincial Executive Council, Accounting Officers and Heads of Provincial Treasuries. The dossier aims to emphasise the key responsibilities, with reference to the regulatory prescripts, of the respective office bearers.
- b) Develop a Municipal Finance Management Technical Assistance Programme. The Municipal Finance Management Technical Assistance Programme (MFMTAP) seeks to assist in the strengthening of operational capacity in municipalities. It provides technical assistance in implementing municipal financial management reforms. Through the programme advisors are placed in municipalities. Additionally, roving advisors are allocated to provincial treasuries to assist provinces in performing their role in respect of the MFMA. Currently the area of supply chain management is being targeted while expert consultants are placed in municipalities to update policies and streamline processes not only to ensure compliance to legislation, but mainly to ensure that the supply chain management process does not impact negatively on service delivery.
- c) Implementation of a Financial Management Improvement Programme III. The FMIP III provides a national perspective to address financial management capacity constraints in the public sector. These challenges include scarce skills; high levels of vacancies and staff turnover; a lack of suitable education, training and development programmes; limited knowledge management; inadequate monitoring and evaluation; ineffective performance management; non-adherence to legislation; poor audit results; and an absence of effective partnerships. The strategy sets out the four strategic objectives listed below to address this challenge:
 - Support the development of an enabling environment;
 - Enhance organisational capacity;
 - Develop and empower a corps of competent and committed high-performance employees;
 - Create an environment that enables and sustains mutually beneficial stakeholder relationships.

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

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

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

4.5 Province Tax Administration Reform

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

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

Annex 1: Summary of PEFA Assessment Scores, 2013

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

PFM Performance Indicator		Scoring Method	Dimension Ratings				Overall Rating
			i.	ii.	iii.	iv.	
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					

Annex 2: List of Officials Consulted

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

			TS Mokoena; Chief Director PJ Batho; Director:Municipal Finance PN Viljoen; Act Director DCP Gouws; Manager; EY Lesley Khiba, Acting Chief Directorate Kodu Mtlouns; Director, SCM Lisebo Sefako; Deputy:Internal Auditor Onkhopotse Mathibela; Deputy:Internal Auditor
			Miss Anna Fourie; Senior Executive Manager (Financial Governance) Ms Elsabe Rockman, MEC
OTHERS	PROVINCIAL	TREASURY	Mr Motseko Maqabe, Senior Manager:Provincial Risk Management and Internal Audit
AND MEC FOR FINANCE			Mr Leon Steinmann
EDTEA			Jeffrey Motseste, CFO, EDTEA
DEPARTMENT	OF	HUMAN	NT Mokhesi; HOD Human Settlements
SETTLEMENTS			Lebogans; DD
			Nel H; Senior State Accountant E Ntlabezo, Deputy Director P Visagie, Manager(Treasury:B M) MJ Mothebe; Director LT Mokoena : Director :Internal Audit
DEPARTMENT OF EDUCATION			NC Lebone:ASD TL George Vezi: DD:IA VG Gubuza: DD Strat Plan G De Wee: Acting Chief Directorate MJ Motsamal: Dep Director: Fin Accounting A Minnie; DD: Salary Administration
SCOPA, Portfolio Committee, Free State Legislature			Hon. Van Rooyen, Chairman of SCOPA, and eight members of Portfolio Committee Shirley Mamashie, Researcher, SCOPA
AUDITOR GENERAL			Ms. Irma Goose, Manager

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Annex 4: Stages in the budget preparation process

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

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

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

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

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

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

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

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

Combining all the departmental estimates into one sum and matching it with the Budget Council's allocation

The 10x10 meeting is the consultative intergovernmental technical committee forum which formulates sector specific policies and priorities for concurrent functions between the spheres of government. This forum is comprised of representatives from 9 provincial departments and national department, and 9 Provincial Treasuries and National Treasury. These meetings form part of the budget process to formulate the priorities for the coming MTEF in line with the MTSF.

Trying to match department estimates and budget allocation

The National and Provincial Treasury now look at the vertical and horizontal allocations the Budget Council decided on. They must be sure their combined estimates match the allocations of the Budget Council. All the departmental estimates for Free State Province added together must match

the allocation letter received from National Treasury or the prescribed increase as per National Treasury Guidelines.

September – October: Medium Term Expenditure Committee Hearing

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

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

- The proposed revisions to the departments’ medium-term plans and the link to government’s broad policy priorities and key challenges identified by each department;
- The credibility of costing and affordability of the new proposals;
- The departmental revisions to three year Medium-Term Expenditure Framework (MTEF) baselines, and the preparation of detailed costed plans for possible new funding;
- The appropriation of available resources in line with policy priorities;
- The performance of spending programs in relation to measurable objectives and past targets;
- The viability of spending plans relating to any requests for additional funding;
- The departments’ ability to implement their new proposals over the MTEF period based on past performance and expenditure trends;
- Accommodation of inflation-related increases in expenditure estimates;
- How identification of slow spending items, shifting of funds from non-performing programs, efficiency savings, non-recurrent items, rescheduling and reprioritization have been factored into expenditure estimates;
- Departmental spending estimates exceeding baseline allocations over the MTEF; and
- Reprioritization within the baseline and options for expansion of services, or new services.

Provincial and national departments often have to take tough decisions about budget cuts to ensure that their estimates match the amount allocated. After finalization of this process, the Provincial Treasury will host the Provincial Lekgotla, whereby the Provincial Executive Council will meet to consider the recommendations from the Provincial Medium Term Expenditure Committee (PMTEC).

November – December: Overall MTEF is finalized and a Medium Term Budget Policy Statement is published.

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

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

Once the Budget Council and Cabinet have approved the overall MTEF, the vertical and horizontal divisions are finalized. Allocations to national government and to each province are adjusted to meet the requirements of this draft.

National departments and Provincial Treasuries are then informed about how much they will be allocated. At this stage, National departments and Provincial Treasuries are required to finalize their MTEFs to fall in line with this allocation. This includes finalizing how much they will allocate to different departments, programs and sub-programs. In terms of allocating the funds, they must take into consideration any recommendations from the Provincial Executive Councils, Budget Council, Cabinet or sectorial MTEF teams.

Provincial Budget Lekgotla

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

Tabling of the Medium Term Budget Policy Statement (MTBPS) and Adjustment Budget

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

The Medium Term Budget Policy Statement (MTBPS) contains amongst other the following:

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

Provincial Adjustment Budget

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

- The appropriation of funds that have become available to the Province;
- Unforeseeable and unavoidable expenditure recommended by the Provincial Executive Council of the Province within the framework determined by the Minister of Finance;
- Any expenditure for emergency situations as prescribed by section 25 of the PFMA;
- Money to be appropriated for expenditure already announced by the MEC for Finance during the tabling of the annual budget;
- The shifting of funds between and within votes or to follow the transfer of functions in terms of section 42 of the PFMA;
- Utilization of savings under a main division within a vote for the defrayment of excess expenditure under another main division within the same vote in terms of section 43 of the PFMA; and

- The roll-overs of unspent funds from the preceding financial year.

January: Benchmark exercise

The National Treasury engages all Provincial Treasuries each year in the January Benchmark Exercise. The main objectives of Benchmark Exercise are to:

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

Final stamp of approval

The final MTEF is submitted to Treasury Committee and Executive Councils (EXCOs) for approval. At this stage the EXCOs are mainly considering changes flowing from the Budget Council as well as Benchmark. Once this process is done, the Treasuries prepare the documentation for the tabling of the budget.

February and March: Budget Day and follow up discussion

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

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

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

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

The different stakeholders in the Portfolio Committee deal with the following:

- The budget is dealt with by a standing committee on appropriations comprising members of both houses;
- Individual portfolio committees dissect budget and strategic plan for each department;

- Parliament/Legislature votes on the Appropriation bill and could either approve or reject, but cannot change the bill;
- Legislature also looks at the quarterly performance reports of departments and entities;

Public accounts committee deals with post-facto issues raised by the Auditor General.

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Table 30: Free State Province-Composition Variance Results Matrix

Table 1: Free State Province-Summary of fiscal operations
(R millions)

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

Source: Provincial Treasury.

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

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

Source: HIS Global Insight.

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

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

Source: Statistical appendix, tables 1 and 2.

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

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

Source: Statistical appendix, table 1.

Table 5: Free State Province-Functional composition of government expenditure (R millions)

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

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

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

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

Source: Statistical appendix, table 5.

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

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

Source: Statistical appendix, tables 2 and 5.

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

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

Source: Provincial Treasury.

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

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

	2010/11		2011/12		2012/13	
	Budget	Actual	Budget	Actual	Budget	Actual
Premier	167,942.0	187,276.7	220,756.0	213,472.8	253,113.0	252,855.3

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

Source: Provincial Treasury.

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

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

	2010/11		2011/12		2012/13	
	Budget	Actual	Budget	Actual	Budget	Actual
Total	12,346,914.6	12,558,890.6	14,093,535.9	14,203,499.5	15,239,550.3	15,556,302.5
Premier	110,127.0	105,384.5	124,116.0	116,678.4	167,990.0	172,261.3
Legislature	153,638.0	150,134.0	203,406.0	195,588.0	212,422.0	202,511.0
Economic Devel. Tourism and Env. Affairs	151,807.0	127,843.0	168,292.0	146,874.4	169,884.0	163,024.8
Treasury	118,195.6	108,026.5	135,536.7	123,833.8	150,334.3	140,512.7
Health	3,575,952.0	3,772,860.3	4,277,430.0	4,372,332.4	4,596,327.0	4,944,006.3
Education	6,666,435.0	6,811,521.5	7,444,127.0	7,568,045.9	8,054,391.0	8,119,926.0
Social Development	323,424.0	311,013.7	339,932.0	364,107.4	393,591.0	416,062.4
Coop. Governance and Traditional Affairs	170,343.0	157,396.5	198,775.0	185,154.5	150,498.0	133,820.2
Public Works	287,224.0	273,924.8	320,309.0	298,902.8	344,135.0	313,992.0
Police, Roads and Transport	390,427.0	367,927.0	427,248.0	398,210.6	477,303.0	447,361.4
Agriculture	222,520.0	216,481.5	261,932.0	250,477.1	271,542.0	264,786.6
Sport Arts Culture and Recreation	138,015.0	122,672.6	146,299.2	144,014.1	171,959.0	159,291.2
Human Settlements	38,807.0	33,704.9	46,133.0	39,280.0	64,552.0	64,901.3
Rural Development					14,622.0	13,845.2
<i>Memo: Social services</i>	10,604,618.0	10,929,100.4	2,107,622.0	12,343,765.8	13,108,861.0	13,544,896.0

Source: Provincial Treasury.

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

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

Source: Provincial Treasury.

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

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

Source: Provincial Treasury.

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

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

Source: Provincial Treasury.

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

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

Source: Statistical appendix, table 8.

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

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

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

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

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

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

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

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

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

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

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

Source: Statistical appendix, table 8.

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

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

Source: Statistical appendix, table 10.

Table 20: Free State Province-Administrative composition of purchases of goods and services outturns (% of originally approved budget)

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

Source: Statistical appendix, table 11.

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

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

Source: Statistical appendix, table 12.

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

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

Source: Statistical appendix, table 13.

Table 23: Free State Province-Primary expenditure 1/
(% of GDP)

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

Source: Statistical appendix, tables 2 and 8.

1/ Excludes interest payments and external-funded capital expenditure.

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

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

Source: Statistical appendix, table 11.

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

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

Source: Statistical appendix, table 12.

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

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

Source: Statistical appendix, table 13.

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

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

Source: Statistical appendix, table 9.

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

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

Source: Statistical appendix, table 9.

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

	budget	actual	adjusted budget	deviation	absolute deviation	percent
Premier	253,113.0	252,855.3	260,830.6	(7,975.3)	7,975.3	3.1%
Legislature	212,422.0	202,511.0	218,898.9	(16,387.9)	16,387.9	7.5%
Economic Devel. Tourism and Env. Affairs	436,894.0	407,139.0	450,215.2	(43,076.2)	43,076.2	9.6%
Treasury	212,104.0	206,017.4	218,571.2	(12,553.8)	12,553.8	5.7%
Health	7,382,601.0	7,597,912.4	7,607,701.2	(9,788.9)	9,788.9	0.1%
Education	10,044,352.0	10,502,510.0	10,350,610.7	151,899.3	151,899.3	1.5%
Social Development	865,450.0	867,136.2	891,838.1	(24,701.9)	24,701.9	2.8%
Coop. Governance and Traditional Affairs	323,042.0	300,501.9	332,891.8	(32,389.9)	32,389.9	9.7%
Public Works	1,269,707.0	1,255,249.6	1,308,421.2	(53,171.6)	53,171.6	4.1%
Police, Roads and Transport	1,755,500.0	1,927,679.9	1,809,026.3	118,653.5	118,653.5	6.6%
Agriculture	579,482.0	561,275.2	597,150.8	(35,875.6)	35,875.6	6.0%
Sports, Arts Culture and Recreation	435,559.8	444,964.7	448,840.3	(3,875.6)	3,875.6	0.9%
Human Settlements	1,058,221.0	1,067,938.1	1,090,486.8	(22,548.8)	22,548.8	2.1%
Rural Development	40,600.0	33,630.5	41,837.9	(8,207.4)	8,207.4	19.6%
Allocated expenditure	24,869,047.8	25,627,321.0	25,627,321.0	0.0	541,105.6	
Contingency						
Total expenditure	24,869,047.8	25,627,321.0				
Overall (PI-1) variance						3.0%
Composition (PI-2) variance						2.1%
Contingency share of budget						0.0%

Source: Statistical appendix, table 9.

Table 30: Free State Province-Composition Variance Results Matrix

Year	for PI-1	for PI-2 (i)	for PI-2 (ii)
	total exp. deviation	composition variance	contingency share
FY 2010/11	1.63%	2.96%	0.00%
FY 2011/12	2.65%	2.44%	
FY 2012/13	3.05%	2.11%	

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