

Public Expenditure and Financial Accountability Assessment

PEFA Report

Republic of South Africa
Province of Gauteng

Final Report

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National Treasury





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This assessment of the public financial management in Gauteng Province was undertaken using PEFA Performance Measurement Framework (2011) and Sub-National Government (SNG) supplementary guidelines issued January 2013. The PEFA assessment for Gauteng Province was conducted between October and November 2014 and it is based on information covering a three year period from April 2011 to March 2014. The scope of the assessment work defined by National Treasury and assigned to the ACE and SNG team as service providers. The report has been prepared by Phibian Mashingaidze (Team Leader-ACE), Zama Soji (Consultant-ACE), Muren Naidoo (S-n-g) and Serame Muthopi (S-n-g). Zama played a key role in being the team's communications officer with the Gauteng Treasury and MDAs.

Numerous meetings were held with Gauteng Provincial departments coordinated by the Provincial Treasury, supported by CFOs of key departments and respective heads /managers of MDAs. Gauteng departments of Education, Health, Finance, Infrastructure Development, Economic Development, Roads and Transport, Agriculture and Rural Development, Social Development and Provincial Treasury were involved in the PEFA assessment. Department of Human Settlements was excluded on account of having been excluded from the original list agreed between Gauteng and National Treasury (NT). Auditor General South Africa - Gauteng Province provided responses to PI-25, 26 & 28 and confirmation of audit performance issues on cross-cutting PEFA issues. The team encountered difficulties in contacting the Gauteng Legislature and was unable to obtain verbal evidence from SCOPA and budget committee, thus reliance was put on third party evidence to complete the scoring.

Mr Jeffrey Mashele was a key person who facilitated the first PEFA assessment for Gauteng Province. He was instrumental in securing appointments with CFOs, HODs and following up on documents which were outstanding. His support and that of his staff was key to the successful completion of the assessment. We would also mention the coordinators of the service providers Francisco Nassaux (ACE) and Bhavesh Govan (SNG) who had to interact with National Treasury to ensure that the work was undertaken and completed as in the Terms of reference. We appreciate their support.

In conducting the fieldwork the Team Leader received significant support from National treasury officials: Edgar Sishi, Chris Adams, Mary Matjeke and Michael Rammabi. During the exercise the team interacted with officials who are too numerous to mention and some of them are mentioned in the list of persons met by the team. Comments on the report have been received from the National Treasury, Provincial Treasury, CFOs and other stakeholders. We would like to thank all the stakeholders involved for their contribution. Responsibility for the opinions presented in the report rests with the Gauteng PEFA Assessment team.

Gauteng ACE/SNG Team

Pretoria
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ACRONYMS AND ABBREVIATIONS

AGSA	Auditor General South Africa
APP	Annual Performance Plan
CFO	Chief Financial Officer
CFS	Consolidated Financial Statements
COFOG	Classification of Functions of Government
COTS	Commercial Off-The Shelf
CPI	Consumer Price Index
DORA	Division of Revenue Act
DORB	Division of Revenue Bill
EPRE	Estimate of Provincial Revenue and Expenditure
ERP	Enterprise Resource Planning
EU	European Union
FY	Fiscal Year
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GFSM	Government Finance Statistics Manual
HLG	Higher Level of Government
HOD	Head of Department
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDMS	Infrastructure Delivery Management System
IFMIS	International Financial Management Information System
INTOSAI	International Organization of Supreme Audit Institution
IPSAS	International Public Sector Accounting Standard
MAPS	Methodology for Assessing Procurement System
MDAs	Ministries, Departments, and Agencies
MFMA	Municipal Financial Management Act
MTBF	Medium-Term Budgetary Framework
MTFF	Medium – Term Fiscal Framework
MTMIS	Motor Transport Management Information System
PAC	Public Account Committee
PEFA	Public Expenditure and Financial Accountability
PERO	Provincial Economic Review and Outlook
PFC	Provincial Finance Commission
PFM	Public Financial Management
PFMA	Public Financial Management Act
PFMAA	Public Financial Management and Accountability Assessment
PFMIS	Provincial Financial Management Information System
PI	Performance Indicator
PT	Provincial Treasury
SAIGA	The Southern African Institute of Government Auditors
SAP	Systems Application Products
SCM	Supply Chain Management
SCOA	Standard Chart of Accounts
SCOPA	Selected Committee of Public Accounts
SITA	State Information Technology Agency
SNG	Sub-National Government
TADAT	Tax Administration Diagnostic Assessment Tool

SUMMARY ASSESSMENT

i) Integrated assessment of PFM performance

South Africa has nine provinces. Gauteng Province is the second largest province in terms of fiscal resources under its control and budget. This fiscal year aggregate expenditure is expected to reach R87 billion by 31 March 2015. By the second quarter, spending had reached 47 per cent at R41.0 billion. This compares with R37.5 billion for the same period last fiscal year. According to National Treasury, Gauteng has the second largest budget at 19 per cent of the total. It currently stands at R86.4 billion. The following table shows the share of Gauteng budgets in education, health, social development and consolidated provincial personnel costs.

Table 1.0: Share of Gauteng service delivery budgets vs consolidated provincial personal costs

	Total Budget for Gauteng Provincial Departments	Total for all nine Provinces	Share of Gauteng in % terms
	Rand(R)Billions	Rand(R)Billions	Rand(R)Billions
Education- Budget	R32.8	R186.1	17.6%
Education – Personnel Costs	R24.7	R147.6	16.7%
Health budget	R31.5	R140.7	22.4%
Health Personnel Budget	R18.8	R99.6	18.9%
Social development	R3.5	R15.5	22.6%
Human Settlements	R4.4	R17.1	25.7%
Total	<u>R115.7</u>	<u>606.6</u>	<u>19.1%</u>

Source: National Treasury 2014

Gauteng is the second highest province in South Africa in terms of budgets; spending on: education, health, social development, employment and economic growth. Because of this status a PEFA assessment being a prime methodology will not only create a PFM performance baseline that we can use to develop, package and implement meaningful government reforms but also assist the National Treasury in formulating fiscal, sectorial and poverty reduction policies and deepening fiscal decentralisation on the basis of outcomes which are confirmed through this provincial PEFA assessment.

The fiscal challenges are linked to institutional weaknesses, as well as previous policy gaps, shortcomings, provincial and national economic conditions. This assessment covers many of the institutional weaknesses that have contributed to the problems, but does not address fiscal policies and international market conditions.

In line with the PEFA methodology, the Gauteng PEFA assessment focuses on the fiscal performance for the period 2012 to 2014, and the institutions and procedures that were in place during this period. Many reforms that were initiated before and up to the beginning of 2014 will have impacts on some of the indicators covered by this PFM-PR. Some of the impacts which go beyond March 2014 cannot be fully covered in this assessment but should be reflected in future assessments. It is important to note that a revised PEFA methodology encompassing revised indicators may be in use 3 years from now.

Integrated Assessment of PFM Performance

a. PFM out-turns: Credibility of the Budget (PI 1-4)

The credibility of the Gauteng budget is strong as indicated by PI 1-4. The data provided for the assessment included audited figures which were considered accurate. Arrears commonly referred to as accruals are undermining budget credibility as previous year's budgets are embedded into future budgets to clear the overdue payments. There were high deviations in departments such as the Office of the Premier, Agriculture and Roads and Transport ranging from 7% to 10%, but the overall impact is insignificant when average variances are considered. Revenue performance regarding forecasting is generally good considering that the largest revenue is made of transfers from National Treasury. The province has made an underestimation of own revenue performance as data provided for the assessment indicates that Gauteng has in actual fact over performed in terms of own revenue collection. The own revenue sources within the province are strong and can be potentially improved over time. It is important to observe that progress has been made on the introduction of measures to prepare and record consolidated expenditure payment arrears which provide an outlook of unsettled expenditure obligations of the government, but more action is needed in addressing Gauteng Department of Health with respect to intradepartmental arrears.

b. Comprehensiveness and Transparency (PI 5-10)

The state of comprehensiveness and transparency in the budget is generally observed to be very good, with strengths in the preparation, consultation, processing and approval of the budget. The budget as presented to the Provincial Legislature is comprehensive and meets the minimum requirements of the budget law. It includes aspects of the economy, underlying assumptions, issues, development plans, outstanding and contingent liabilities. Gauteng province uses financial reporting models anchored on IPSAS 1 and supported by disclosure of details in notes to financial statements. This model has enabled a budget aligned to modern financial reporting to feature in budget documents. In respect of donor funds it is a requirement that such funds be reported in MDAs as projects and disclosed in the notes to financial statements every fiscal year; however in Gauteng there were no donor funds during the period under review. An integrated approach to development expenditure has been adopted and it is reflected in the infrastructure financing and budgeting which is part of the annual and MTEF budgets. The Gauteng budget follows the international classification standards, namely the United Nations Classification of Functions of Government (COFOG) and GFS. The same is used for recording and reporting budget execution. The budget is accessible to the public, available on the provincial government website, and is also widely reported and discussed in the media when presented to the Legislature. However the monitoring of aggregate financial risk is anchored in the Office of the Head of Treasury as the consolidated risk assessment. Reporting for the AGAs and PEs, which provides individual financial reports annually, is considered weak. This needs to be reflected on for possible improvement and strengthening.

c. Policy-Based Budgeting (PI 11-12)

At the aggregate level, the ratings of the various dimensions engender a well-structured budgeting process in place, and effective and full utilization of Medium-Term Expenditure Framework (MTEF). The Gauteng budget cycle is well defined and the call circular issues clear guidelines that provide a sound context for the budget process. The budget process encompasses policy input both at the beginning, through cabinet approved departmental ceilings (for the MTEF key spending departments), as well as at the end, resulting from a debate in the Provincial Legislature before the beginning of the fiscal year in April. The multi-year budgetary framework is well developed for the Gauteng province. The MTEF issued by the province clearly articulates the medium term policy objectives and forecasts fiscal aggregates on a three-year rolling basis with all departments implementing the MTEF. Separate sector strategies have been developed for education, infrastructure and health sectors, while for other sectors, the strategies provide foundation for the MTEF supported by extensive costing for investment and recurring expenses. Debt sustainability analysis is conducted regularly but at

National Level. The DSA included the Gautrain debt which is assigned to Gauteng for regular service through an appropriate assignment instrument from National Treasury.

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

The Gauteng province has competently managed treasury functions (namely payroll and internal controls, cash flow and debt management), procurement, tax system and internal audit with notable strengths. Some weaknesses remain in procurement, internal audit, tax and revenue systems (especially forecasting). The procurement system at the provincial level is adequately provided for in the structures and systems but some weaknesses have been noted in enforcing competitive bidding and in lack of an autonomous complaints system capable of passing the independence litmus test.

Effectiveness of tax administration, a necessary condition for predictable availability of funds, is confined to the individual tax collection agencies. There were no recorded tax arrears during the last three fiscal years as whatever is taxed is collected. A regular independent audit of the records and database will need to be part of the future tax system in Gauteng as this is not regular and comprehensive.

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

It was observed that the Gauteng Government has sound accounting, recording and reporting procedures in place which are supported by the law, the institutions and the profession. Regular reconciliation of accounts is carried out monthly, quarterly and annually and is included in financial statements. In-year budget reports are prepared timely and accurately, however the absence of an integrated commitment and control system founded on an automated General Ledger system remains an area of concern. Similarly, audited financial statements are comprehensive and submitted to the Auditor General for external scrutiny in a timely manner. The absence of Government wide automated General Ledger system is also a major weakness and because Gauteng has undergone several cycles of automation, an IFMIS/PFMS audit may be necessary before the province proceeds to introduce new IFMIS projects.

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

The external audit by AGSA of provincial entities is planned, executed and completed expeditiously, but the same may not be subject to timely legislative scrutiny. The Provincial Legislature has reviewed almost all the external audit reports by the Select Committee of Public Accounts (SCOPA). Even though some delays have been experienced in publishing reports online and communicating the work to the public, the Legislature has made a concerted effort to complete the review and audit. The Gauteng province has an effective system in place for the Legislature to scrutinize the annual budget on a wide scope including fiscal policies, medium term fiscal framework and medium term priorities as well as details of expenditure and revenues. This has been consistently followed and applied in the last 3 years.

g. Donor Practices (DI 1-3)

Gauteng Province has not reported receipt of any donor funds through any of its Ministries, Departments and Agencies. In the consolidated and individual financial statements no donor funds were reported in the financial statements. Donor funds benefiting Gauteng have been disbursed directly to local government as defined in the PFMA. . Therefore donor funds are not directly disbursed and reported in the financial statements of Gauteng Provincial Government.

h. Central Government Practices (HLG-1)

The Equitable share is the largest source of funding in Gauteng allocated by the National Treasury, constituting 73% to 76% of the total provincial fiscus followed by conditional grants at 19% to 21% per annum. There was no major issue observed in the transfer of grant funds, which were timely and according to the allocations.

Summary of Major Findings

- i. **The assessment indicates that budget credibility is strong.** Arrears commonly referred to as accruals is undermining budget credibility as previous year's budgets is embedded into future budgets to clear the overdue payments.
- ii. **Secondly the existence of intra- departmental debt should not be tolerated as evidenced by the Gauteng Health Department owing money to its own trading account.** If allowed to persist and it will become an endemic problem. Although the existence of budget arrears appears to be limited across departments, the Provincial Treasury should ensure that a systematic monitoring, tracking and reporting is being used supported by a dedicated focus team at the Provincial level.
- iii. **Provincial own revenue performance (actuals) was between 109% and 120% of the budget in all the three years showing clearly weaknesses of the forecast tools and an underestimation of revenue performance.** In addition, the province has potential to increase its own revenue to finance devolved mandates and own operations. If revenue forecasting is improved, this is likely to improve credibility of the budget.
- iv. **Budget comprehensiveness and coverage is considered high based on the assessment.** The budget classification provides data that are consistent with GFSM 2001, which derives from a Standard Chart of Accounts that integrates budget, program and accounting codes. The Gauteng Province have consistently implemented national standards and comply in full with nationally issued SCOA.
- v. **The information included in budget documentation is comprehensive and complete but the key issue is the fact that budget documents may not be easily accessible from the individual websites of Gauteng departments.** A suggestion to link and integrate external website fiscal and performance information may be a worthwhile effort to showcase the performance of key departments such as Health, Infrastructure Development and others. There are no unreported government operations under Gauteng as either resources are channelled through specific department or entities which are under legal obligation to report to the government and public.
- vi. **There exists a comprehensive set of guidelines and institutionalised framework for intergovernmental fiscal resource management** which is behind the success of the budgeting, planning, scheduling, disbursement and reporting of transfers and grants from national to provincial. In addition oversight over aggregate risk appears to be satisfactory, but the impact of potential future losses on Gauteng entities inclusive of Gautrain need to be planned for through regular surveys of entities performances in line with good PE reform practices needs. There is need to develop a comprehensive risk monitoring emanating from unforeseen transfers through projection of potential losses.
- vii. **Policy based budgeting is captured through orderliness and participation in the annual budget process and MTEF framework.** Based on orderliness and participation, the Gauteng budget through various documents does provide clear linkages between budget figures and underlying government policies. From a financing perspective there is a commitment to stay within the MTEF planned targets, periods and key performance indicators. From the estimates and in the period just assessed, there was stability in the level of financing and spending in global terms. Adjustment budgets should be managed such that they stay within the ambit of the law
- viii. **There are significant weaknesses in the predictability and control of budget execution, particularly on the expenditure side and in the management of financial resources. The commitment control system is supported by both automated and manual interventions.** The internal control system supporting transaction processing is structured and operational but endemic weaknesses manifested themselves in financial reports which are revised because of material misstatements. The existence of large numbers of open transactions which have to be cleaned from the accounting system is a major weakness. As part of the transformation of the IT systems an IFMIS/ ERP audit may be necessary to review how and why ERP systems previously implemented did not fully automate PFM processing to the point of increasing accountability and commitment control.

- ix. **Coordination between taxpayer databases for different taxes/ revenues is weak and inadequate.** Tax arrears are limited due to the simplicity of the taxes and current collection practices, what is assessed for tax purposes under the various legislation is collected. The existence of a Single Treasury Account is critical in realising in liquidity management and reconciliation objectives but laxity in execution controls at some individual departments is enabled by lack of compliance with the laws and regulations to manifest itself through audit reports (AGSA 2013 & 2014) .
- x. **Internal control procedures are fully defined and provided for in the PFMA with Gauteng Audit Service delivering support as a shared service.** The existence of Audit committees which if consistently implemented could improve accountability, enhance and support internal control ensuring a robust and autonomous internal audit service is operational. Even though there are capacity constraints and limitations of how much the unit is able to execute i.e. develop a comprehensive audit plan, the unit is considered a fully functional assurance and audit service.
- xi. **Procurement rules make it clear that open competition is the default preferred method at all times, but there is a lack of commitment due to numerous violations which have been reported by AGSA in the last 3 years.** Improvements have been noted in departments such as Health, after lapses in award and contract administration. In Gauteng, there is weak contract administration with problems emanating from poor contract management and lack of clear and enforceable contract closure procedures. Gauteng Government recently adopted open tender procedures with a launch in November 2014 of a pilot project which is a sign of migration to adopting zero tolerance to corruption and abuse of public offices through contracts. The provision that family members may declare that their relative has submitted a bid is not sufficient to eliminate corruption. Best practices across the emerging markets explicitly through the law, prohibit such practices and when they arise remedial action is taken swiftly.
- xii. **There is no independent procurement grievance handling mechanism with reliance on less transparent resolution mechanisms which could have limited effect on addressing complaints of aggrieved disadvantaged bidders.** Presently, complaints could, and are regularly submitted through the Administration who are custodians of the bidding system and considering that the executive is involved in awarding contracts this may not be adequate. To address the shortcomings in contract administration, it would also be beneficial to deepen procurement reforms through the creation of an independent appeal mechanism capable of meeting the independence test / mechanism.
- xiii. **The upgrading of key functions such as Provincial Accounting Services, Supply Chain Management and Provincial budget units and SITA equivalent in Gauteng will need to be packaged into the revised IFMIS implementation.** The decision by the National Treasury to modernise systems should be exploited to benefit the provincial government. The deepening and strengthening of a Gauteng wide accounting system into an integrated system seamlessly linking all the CFO units across the province will simplify and unify transaction processing, controls, reporting and data integrity.
- xiv. **Supply Chain Management Reform Process**
Based on supply chain weaknesses observed in the procurement systems within key departments, a self-assessment of the supply chain management system based on ***Methodology for the Assessment of Procurement Systems*** (MAPS) would be beneficial and will help to drill-down into key spending and service delivery departments such as Health, Education, Infrastructure Development and Human Settlements to identify specific problems before working out a turnaround strategy. A MAPS is one of the tools that is linked to PEFA which can help to identify specific weaknesses and challenges in the supply chain management operations and functions.

PEFA PERFORMANCE INDICATORS (2014)

A. PEFA RESULTS: Credibility of Budget						
Indicator/method		Score	D (i)	D (ii)	D (iii)	D (iv)
HLG-1 (M1)	Predictability of transfers from Higher Level of Government	A	A	A	A	--
PI-1 (M1)	Aggregate expenditure out-turn compared to original approved budget	A	A	--	--	--
PI-2 (M1)	Composition of expenditure out-turn compared to original approved budget	A	A	A	--	--
PI-3 (M1)	A. Aggregate revenue out-turn compared to original approved budget	D	D	--	--	--
PI-4 (M1)	Stock and monitoring of expenditure payment arrears	B+	A	B	--	--
B. KEY CHARACTERISTICS OF ALL STAGES: Comprehensiveness and transparency						
PI-5 (M1)	Classification of the budget	A	A	--	--	--
PI-6 (M1)	Comprehensiveness of information included in budget documentation	A	A	--	--	--
PI-7 (M1)	Extent of unreported government operations	B+	A	B	--	--
PI-8 (M2)	Transparency of Inter-Governmental Fiscal Relations	A	A	B	A	--
PI-9 (M1)	Oversight of aggregate fiscal risk from other public sector entities	A	A	A	--	--
PI-10 (M1)	Public Access to key fiscal information	A	A	--	--	--
C. BUDGETARY CYCLE						
	C (i) Policy-Based Budgeting					
PI-11 (M2)	Orderliness and participation in the annual budget process	A	B	A	A	--
PI-12 (M2)	Multi-year perspective in fiscal planning, expenditure policy and budgeting	A	A	A	A	A
	C (ii) Predictability & Control in Budget Execution					
PI-13 (M2)	Transparency of taxpayer obligations and liabilities	B	A	A	D	--
PI-14 (M2)	Effectiveness of measures for taxpayer registration and tax assessment	B	B	B	C	--
PI-15 (M1)	Effectiveness in collection of tax payments	B+	B	B	B	--

A. PEFA RESULTS: Credibility of Budget						
Indicator/method		Score	D (i)	D (ii)	D (iii)	D (iv)
PI-16 (M1)	Predictability in the availability of funds for commitment of expenditures	A	A	A	A	--
PI-17 (M2)	Recording and management of cash balances, debt and guarantees	A	A	A	--	--
PI-18 (M1)	Effectiveness of payroll controls	B+	A	A	A	B
PI-19 (M2)	Competition, value for money and controls in procurement	C+	B	B	B	D
PI-20 (M1)	Effectiveness of internal controls for non-salary expenditures	C	C	C	C	--
PI-21 (M1)	Effectiveness of internal audit	B+	A	A	B	--
	C (iii) Accounting, Recording and Reporting					
PI-22 (M2)	Timeliness and regularity of accounts reconciliation	A	A	A	--	--
PI-23 (M1)	Availability of information on resources received by service delivery units	A	A	--	--	--
PI-24 (M1)	Quality and timeliness of in-year budget reports	B+	B	A	B	--
PI-25 (M1)	Quality and timeliness of annual financial statements	A	A	A	A	--
	C (iv) External Scrutiny and Audit					
PI-26 (M1)	Scope, nature and follow-up of external audit	B+	A	B	A	--
PI-27 (M1)	Legislative scrutiny of the annual budget law	B+	A	A	A	B
PI-28 (M1)	Legislative scrutiny of external audit reports	B+	B	B	A	--
D. DONOR PRACTICES						
D-1 (M1)		NA			--	--
D-2 (M1)		NA			--	--
D-3 (M1)		NA		--	--	--

1. INTRODUCTION

- I. The Public Financial Management and Accountability Assessment (PFMAA) for the Gauteng Province, provides the National Treasury with an objective, indicator-based assessment of the provincial public financial management (PFM) system. This report provides results of the PEFA assessment in a comprehensive and standardized manner, to form a baseline understanding of the overall fiduciary environment of the PFM system and to assist in identifying those areas in need of PFM reform and improvement. The 2014 Provincial PEFA Report is the first ever assessment undertaken in the province. The purpose of this PEFA assessment is to help the Gauteng Province to ensure that its public financial management systems promote effectiveness, efficiency and transparency. South African National Treasury launched this program of using PEFA Assessments to create a baseline for institutionalising the methodology in sub-national governments and to support its PFM modernization and reform agenda.
- II. The PFMA (1999) as amended has introduced substantial changes, particularly related to service delivery with the Auditor General South Africa producing a report to assess predetermined objectives reporting by auditees on their actual service delivery achievements against their annual objectives performance plans. In South Africa, several functions related to service delivery have been devolved from national to the provincial level of government and, increasing demand on the capacity of provincial institutions, systems, and processes. This necessitated and prompted the National Treasury as key sponsor of the Province of Gauteng to advocate for the PEFA Assessment in order to provide a record of the specific changes in performance between 2012 and 2014 thus identifying priority PFM areas for accelerated development of reforms.
- III. The current assessment will help the authorities define a coherent and consistent PFM reform strategy, with clear prioritization and sequencing of different steps. In addition it also provides a basis for identifying reform areas where different development partners can provide assistance, and for ensuring that this assistance is well coordinated. The assessment provides a starting-point for monitoring progress in the different areas of PFM reform thus laying the groundwork for creating PFM management capacity within the Gauteng Treasury. The assessment covered the following departments: - Education, Health, Social Development, Finance, Roads and Transport, Agriculture and Rural Development, Gauteng Treasury, Economic Development and Infrastructure Development. Gauteng Treasury was a key department as it represents the province on PFM issues and heads of key units such as Budgets, Provincial Accounting Services, Financial Governance, Payroll and Human Resources were interviewed. In the departments a significant focus was on Health, Education and Infrastructure Development representing the largest units. All other departments as listed above were fully assessed through interviews and the assessment of systems, processes and PFM operations. Key departments under the CFO included SCM, budgets, financial reporting, management accounting, and, human resource management. Interviews were conducted with key departments such as Finance which provide oversight over Gauteng Audit Services, Procurement of goods and services, IT services and revenue generation function.
- IV. The South Africa provincial PEFA assessment 2014 was conducted in accordance with the revised Public Expenditure and Financial Accountability (PEFA) Performance Measurement Framework (PFM) of 2011 (PEFA Framework). The Assessment Team refer to the applicable guidance issued by the PEFA Secretariat, particularly the PEFA Field-Guide for Assessment (May 2012) and Guidelines for the Application of the PEFA Framework at the Subnational Government Level dated January 2013. The scope of the 2014 PEFA was comprehensive with regard to the PEFA Secretariat guidance for initial assessments. This

PEFA assessment measures 32 PFM performance measurement indicators (28 for provincial government performance, 3 for donor practices, and 1 for higher-level government), grouped into 6 core dimensions of performance of an open and orderly PFM system:

- (i) **Credibility of the budget** — realism and its implementation ;
- (ii) **Comprehensiveness and transparency** — comprehensiveness of the budget and fiscal risk oversight, and accessibility of fiscal and budget information to the public (access to information);
- (iii) **Policy-based budgeting** — preparation of the budget with due regard to government policy;
- (iv) **Predictability and control in budget execution** — implementation of budget in an orderly and predictable manner, and arrangements for the exercise of control and stewardship in the use of provincial public funds;
- (v) **Accounting, recording, and reporting** - maintenance of adequate records and information, and their dissemination and use for reporting and management decisions; and
- (vi) **External scrutiny and audit** - arrangements for scrutiny of public finances and follow-up by provincial legislature.

In summary, the dimension of donor practices and transfers from the national treasury are discussed because the management of donor funds affect the PFM systems in the Gauteng province.

- V. The PFM performance for each of the 32 indicators (3 indicators are marked N/A) was assessed and assigned ratings of “A” to “D” as per criteria stated in the PFM Framework. The PEFA Framework focuses on operational performance of the key elements of the PFM system based on evidence rather than on the inputs that enable the PFM system a level of performance dictated by best practice and standards. The PEFA Assessment determines the extent to which the provincial PFM system is an enabling factor for achieving budgetary outcomes of aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery. The information provided by the PEFA report would therefore contribute to the reform process of the Gauteng Provincial Government by determining the extent to which past reforms have yielded improved performance and by increasing the ability to identify lessons learned from existing and prior reform successes. A summary assessment extracted from the Gauteng PEFA Assessment with ratings for 28 of the 32 indicators is provided in the report.
- VI. The assessment was initiated at a launch workshop on October 15, 2014, with provincial government stakeholders. Data gathering was done from October 15 until November 30, culminating in an interim report that was presented to the National Treasury on 16 December 2014. Thereafter, comments from the Government were incorporated in the Gauteng PEFA report or through direct discussion with Government officials during a series of strategic dialogue held during the second week of December 2014.
- VII. The PEFA fieldwork was carried out through a combination of field study and interviews, review of existing studies and related reports, and extensive discussion and dialogue with Gauteng Provincial Government stakeholders including the Auditor General South Africa. The Gauteng provincial Treasury was represented by a team led by the Deputy Director General(DDG) Jeffrey Mashele. A steering Group represented by Gauteng Treasury and CFOs of key departments such as Education , Health , Roads and Transport, Infrastructure , Finance and Economic Development and Treasury CFO, Agriculture , Social Development provided oversight for the assessment. The Gauteng Provincial legislature was consulted through the provincial Treasury and Office of the Auditor General through written communications , detailed questions and individualised questions for indicators relating to public accountability. Direct communication with chairmen and secretaries of the budget and Gauteng Select Committee of Public Accounts (SCOPA) was used to raise questions

obtain answers and clarifications on individual dimensions. In addition information from websites of major political parties and their assessment of PFM performance was analysed, and the press including issues on empowerment, budget preparations, draft budgets and performance. Public views of NGOs expressed in the 3 year period and PFM issues including procurement, drugs supply, empowerment, poverty reduction were extensively reviewed and used during the assessment. Detailed discussions were held to review the draft report to ensure broad participation in the deliberations and the comments received were duly considered. A list of persons who were met and documents that were used in the course of the assessment are listed in Annex B and Annex C, respectively. The preliminary results were presented during the provincial budget benchmark meeting held between the National Treasury and Gauteng Provincial Treasury on 20 January 2015. In addition quality assurance comments from PEFA Secretariat under World Bank in Washington D (23 December 2014) were used to perform the last update on the report. Even though some of the comments addressed by the PEFA secretariat had been updated following two workshops with Treasury in January and February 2015, these comments were invaluable in performing the final report update. The presentation focused on the findings of the assessment and the recommendations for addressing weak performing areas. This should lead to the preparation of a PFM Reform Strategy by the Government of Gauteng.

- VIII. Scope of the assessment was the provincial government, including provincial public entities. Detailed assessment of autonomous government agencies and municipalities is excluded. Their activities are covered through the assessment of PFM activities that include grant transfers between the provincial treasury and its respective departments to local governments, municipalities, agencies and entities. Through the review of fiscal risk assessment the scope of the assessment enabled the team to bring into purview the municipalities and state owned enterprises reporting to Gauteng Treasury or its departments. Although municipalities are governed by the MFMA and are defined by the Constitution of South Africa as autonomous bodies, the team was able to review and analyse the extent of oversight by Gauteng over the PFM activities of municipalities. Issues that relate to municipalities and their potential to increase fiscal risk for Gauteng Province would be highlighted at high level and also in individual indicators. As at March 31, 2014 Gauteng had 6 autonomous government agencies and entities, which received R1.4 billion in transfers. Gautrain represents one of the largest entities of Gauteng and is respectively included in the analysis of public debt analysis and risk oversight of entities and institutions.
- IX. The PEFA Secretariat is expected to provide Quality Assurance review of the draft final report through submission of the final draft report. The quality assurance process will be managed and coordinated by National Treasury who are the sponsor of the assessment in line with the Terms of Reference. The quality assurance process is expected to address issues of
- Adequacy and comprehensiveness of background information
 - Extend and Use of Standard indicators
 - Correct application and interpretation of indicators
 - Level and adequacy of evidence included in analysis of indicators
 - Scoring methodology and its application
 - Information sources and evidence collection , analysis and interpretation
 - PFM issues including calibration , and reform analysis and projection

2. PROVINCE BACKGROUND INFORMATION

2.1. Economic Context, Development and Reforms

Gauteng is the smallest province geographically constituting 1.4 per cent of South Africa's land size, and continues to be the economic hub of the country, contributing over 33.8 per cent of the country's GDP. The Gross Domestic Product by Region (GDPR) grew up from 3.3 per cent in 2012 to 7.3 per cent in 2014 which has seen a growth of 4 per cent in the past three years. According to PERO, the provincial GDP increased from R618 billion in 2007 to 675 billion in 2011. The growth is projected to reach R781.6 billion in 2015. It leads in the areas infrastructure investments, has the highest share of imports and its share of exports have been growing over the years. (IMF, PERO and MERO reports)

According to Development Bank of Southern Africa recent profile of Gauteng, the following are key economic characteristics.

- i. Relatively diversified economy.
- ii. Wholesale & retail trade sector largest employer in the labour market.
- iii. Good economic growth driven largely by the growth in the finance sector.
- iv. Largest contributor to national GDP at 34% followed by KwaZulu-Natal at 16% and Western Cape at 14% respectively.
- v. The province has amongst the most favourable dependency ratios in the country.
- vi. Relatively high impact on socio-economic challenges as a result of availability of appropriate investment opportunities in the province.

Key Challenges include

- vii. Rising unemployment especially amongst the youth.
- viii. Impact on employment is lowest in the infrastructure sectors
- ix. Improvement in access to basic services of water refuses removal and sanitation.
- x. Hugely burdened with provision of electricity services.
- xi. Gauteng has the biggest provincial population in the country.

Because service delivery is a key mandate in the public sector it is important to highlight the number of household without access to essential services. About 26% of households have no access to electricity, 14% have no access to refuse removal, 4% have no access to water and 17% have no access to sanitation services.

As part of the profiling of Gauteng, the following have been briefly analysed based on selected economic indicators, growth rates, unemployment rates and breakdown of the provincial budget at the aggregate level.

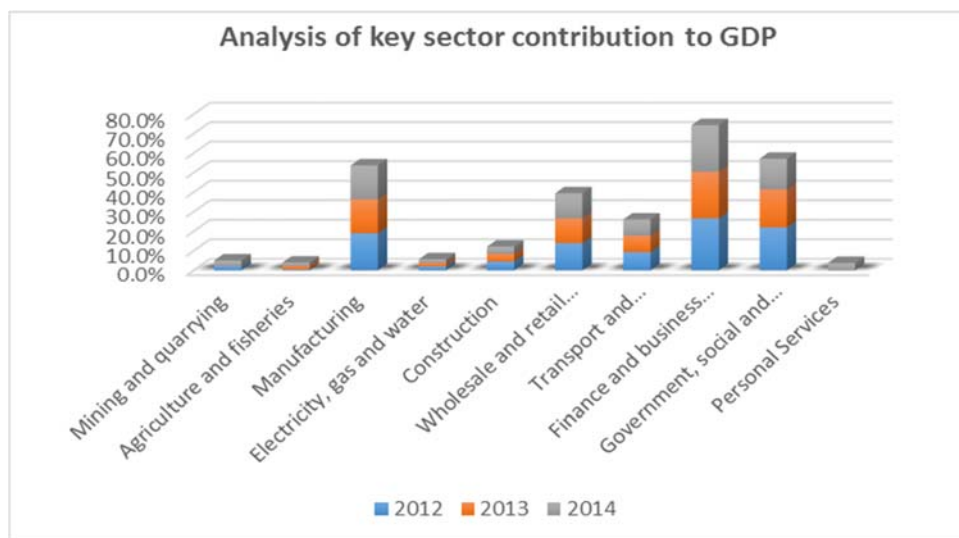
Table 2.1 Selected Economic and Development Indicators

	2012	2013	2014
Economic Sectors / Growth Rates (%)	%	%	%
Mining and quarrying	2.0	0.0	3.0
Agriculture and fisheries	0.4	1.8	1.7
Manufacturing	18.9	17.4	17.4
Electricity, gas and water	2	1.8	1.8
Construction	4.5	3.9	3.7
Wholesale and retail trade	13.9	12.7	12.8
Transport and communication	9.3	8.4	8.3
Finance and business services	26.6	23.8	23.9
Government, social and personal services	22	19.4	15.7
Personal Services	-	-	3.7

Source: Gauteng Provincial Data 2014

The Gauteng achieved an average growth of 9.6 per cent between 2012 and 2014. Mining and Agricultural sectors are the only ones that show an increase between 2012 and 2014 and all the other sectors reported a decrease since 2012.

Table 2.2: Analysis of Key Sector Contribution to Economy



Source: Gauteng Provincial Treasury Data 2014

Table 2.3 Analysis of Macroeconomic Variables

	2012	2013	2014
Total Population	11 192 029	11 328 964	12 272 264
Growth rate %	0.012	0.012	0.083
Poverty Rate %	0.15	0.157	0.157
Unemployment Rate %	0.254	0.246	0.237

Source : Gauteng Provincial Treasury, National Treasury and DBSA reports 2014

The Gauteng population reflect an average growth of 3.6 per cent this is largely due to migration of people from other provinces and other countries seeking employment in the province. The province contributes almost one third of the country's GDP. Based on recent discussions between South Africa and International Monetary Fund (Article 4 Consultations – December 2014) unemployment is estimated at 25.5% ¹.

2.2. Description of budgetary outcomes

Table: 2.4 Analysis of Transfer by Recipient

Transfers to	2010/2011 R	2011/2012 R	2012/2013 R	Total R
Province and Municipalities	551 716	748 491	1 441 852	2 742 059
Departmental Agencies and Accounts	4 800 000	2 800 000	2 231 000	9 831 000
Public Corporations and Private Enterprises	1 368 000	1 906 000	1 702 000	4 976 000
Non-Profit Corporations	3 500 000	4 400 000	4 900 000	12 800 000
	10 219 716	9 854 491	10 274 852	30 349 059

Source: National Treasury 2014

¹ IMF Country Report 14/338 – (South Africa)

The share of provincial transfers to municipalities, departmental entities and accounts, public corporations and private enterprises, as well as non-profit corporations increased from R10.2 billion in 2011, decreased to R9.9 billion in 2012 and increased to R10.3 billion in 2013.

a) Development and poverty reduction strategies

In order to address poverty reduction, the province among other strategies is investing funds in poverty alleviation through Social Development Department food bank programme. This is a programme administered by both NPOs and government to curb poverty by distributing food parcels and dignity packs in previously disadvantaged areas.

An amount of R121 million was transfers to NPOs in 2013/14 financial year, these NPO's are implementers of the province's poverty alleviation programmes. The allocation will continue to fund a number of NPOs involved in community poverty alleviation projects, school uniform production and the expansion of dignity pack and food bank programmes.

b) Fiscal policy and fiscal development

Table 2.5: Analysis of fiscal budget

R'000	2012	2013	2014
Function	Budget	Budget	Budget
1. Education	25 965 171	27 150 751	29 275 841
2. Health	22 837 577	24 519 336	27 992 680
3. Social Development	2 424 792	2 490 492	2 896 320
4. Office of the Premier	217 539	236 734	296 718
5. Gauteng Provincial Legislature	400 000	455 000	470 587
6. Economic Development	805 580	912 008	967 551
7. Human Settlements	4 568 343	4 737 125	4 616 498
8. Roads and Transport	6 241 504	4 363 790	4 769 964
9. Community Safety	423 747	435 946	496 937
10. Agriculture and Rural Development	489 850	493 976	553 571
11. Sports, Arts, Culture and Recreation	375 598	392 837	537 292
12. Finance	1 555 163	1 322 700	985 328
13. Gauteng Treasury	1 340 481	428 934	320 292
14. Infrastructure Development	0	1 371 052	1 472 513
15. Cooperative Governance and Traditional Affairs	0	0	312 560
Total	67 645 345	69 310 681	75 964 652

Sources: Gauteng Provincial Government, Estimates of Provincial Revenue and Expenditure 2014

The Gauteng total budget increased from R67 .6 million in 2012 to R76 million in 2014 which reflect an increase of 12 per cent over three years. The Health, Education, Roads and Transport and Human Settlements departments receive a larger portion of the total budget. Human Settlements department reflect a decrease in the budget allocation in 2014, this is due department of Cooperative Governance and Traditional Affairs being de-merged with Human Settlements.

c) Allocation of resources

The following table reveals the share of expenditure by key departments (MDAs) of Gauteng based on actual allocations and spending during the 3 past fiscal years.

Table 2.6: Percentage share of provincial budget

Function	2012	2013	2014
	Actual %	Actual %	Actual %
1. Education	38.5%	38.4%	39.3%
2. Health	35.1%	36.4%	35.4%
3. Social Development	3.4%	3.4%	3.7%
4. Office of the Premier	0.3%	0.3%	0.5%
5. Gauteng Provincial Legislature	0.6%	0.6%	0.6%
6. Economic Development	1.2%	1.2%	1.2%
7. Human Settlements	6.6%	6.3%	5.9%
8. Roads and Transport	8.5%	7.5%	7.0%
9. Community Safety	0.6%	0.6%	0.6%
10. Agriculture and Rural Development	0.7%	0.7%	0.7%
11. Sports, Arts, Culture and Recreation	0.6%	0.6%	0.7%
12. Finance	2.2%	1.8%	1.5%
13. Gauteng Treasury	1.9%	0.3%	0.4%
14. Infrastructure Development	0.0%	1.9%	2.0%
15. Cooperative Governance and Traditional Affairs	0.0%	0.0%	0.3%
Total in % of Total	100.0%	100.0%	100.0%

Sources: Provincial Treasury 2014

The four top spending departments are Education (38.5% to 39.4%), Health (35.1 to 35.4%), Roads and Transport (8.5% to 7%), Human Settlements (average of 6.5%) and Social Development (3.4% to 3.7%). Infrastructure Development budget has increased from 1.9% in 2013 to 2.9% in 2014 because of the shift in policy and associated increase in resource allocation evident through the MTEF. Human Settlements and Roads and Transport have had a relative decrease in the share which is expected to be maintained in ranges profiled above. The above ranking correctly reflects on the absolute figures obtaining from the provincial budget and MTEF figures. The above pattern and relative share particularly for service delivery departments will need to be sustained by a strong and sustained revenue performance during the next 5 years.

The table below shows in detail disbursement and the areas where these are allocated, spent and used to achieve provincial objectives. The report analyses expenditure using economic classification and makes clear distinctions between current payments, transfers and subsidies, payments for capital assets and payments for capital assets.

Table 2.7 Gauteng Summary of Actual and budgeted payments under MTEF 2014

GAUTENG

SUMMARY OF ACTUAL AND BUDGETED PAYMENTS - 2014 MTEF

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	Outcome			Revised estimate	Revised baseline	Revised baseline	Indicative baseline
Rand thousands							
ECONOMIC CLASSIFICATION							
Current payments	45 016 057	51 006 267	55 160 039	61 699 967	66 088 375	71 846 380	75 890 457
Compensation of employees	32 735 846	37 034 366	39 986 309	44 880 169	48 869 091	53 606 991	56 644 096
Goods and services	12 243 108	13 927 240	15 163 479	16 814 804	17 218 134	18 238 239	19 245 176
Interest and rent on land	37 103	44 662	10 251	4 994	1 150	1 150	1 185
Transfers and subsidies	14 327 522	13 968 589	14 739 644	14 964 201	16 037 603	17 604 689	19 033 141
Provinces and municipalities	551 716	748 491	1 441 852	949 664	1 025 639	1 089 390	1 150 112
Departmental agencies and accounts	4 759 683	2 808 979	2 312 663	2 200 312	2 052 752	2 392 425	2 706 004
Higher education institutions	13 583	15 728	17 156	16 916	16 581	18 057	19 014
Public corporations and private enterprises	1 368 986	1 906 130	1 702 133	1 856 239	1 951 137	2 067 324	2 176 031
Non-profit institutions	3 527 951	4 412 714	4 888 623	5 370 756	6 080 677	6 491 027	6 851 065
Households	4 105 603	4 076 547	4 377 717	4 570 314	4 870 817	5 546 466	6 130 915
Payments for capital assets	2 035 105	2 674 241	3 732 582	4 406 422	4 842 642	5 292 308	4 039 609
Buildings and other fixed structures	1 449 846	1 951 893	3 007 381	3 376 936	3 852 445	4 438 081	2 916 422
Machinery and equipment	518 628	684 059	625 704	998 687	857 912	812 557	1 050 634
Land and sub-soil assets	59 537	18 053	6 569	12 500	22 000	25 000	55 000
Software and other intangible assets	7 094	20 236	92 928	18 299	30 285	16 670	17 553
Payments for financial assets	74 602	102 913	113 078	12 019	-	-	-
Total economic classification	61 453 286	67 752 010	73 745 343	81 082 609	86 968 620	94 743 377	98 963 207

d) Decentralization and provincial governments

In general fiscal decentralisation involves legislative and institutional enabling environment; assignment of functions to subnational level assignment of a subnational set of fiscal resources and own revenue sources to the subnational level, the establishment of fiscal intergovernmental transfer system and the establishment of adequate access of sub-national governments to developmental and investment capital.

Provincial governments provide major services against a low revenue base. At a lower level municipalities raise substantial amounts of revenue against provision of key services to the residents and businesses. Rural jurisdictions provide fewer services against a background of weak revenue capacity and potential. Because provincial and local governments have constitutional mandates to provide public services, they receive shares of nationally raised revenue through equitable share and conditional grants.

In summary (and on the basis of recent Treasury data), distribution of revenue sources among key provincial sources show the following

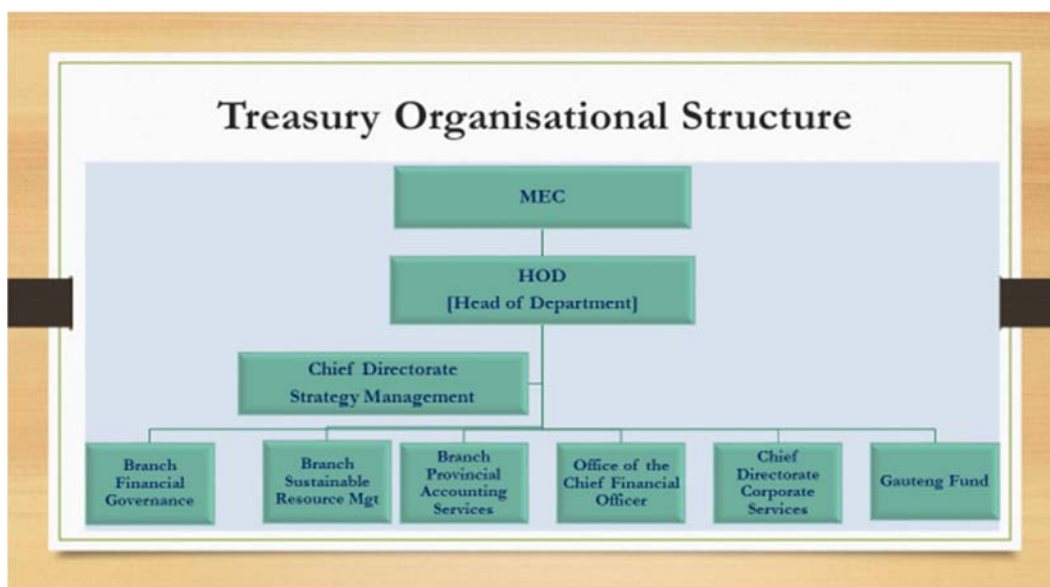
- (i) Equitable Share (largest component) constitutes an average of 80 per cent of the total revenues
- (ii) Conditional grants constitute 16 per cent of the provincial sources
- (iii) Own revenue sources (internal revenue streams) constitute on average 4 per cent of the total sources

According to National Treasury and IMF, the provincial transfer system has been evolving since the 1996 Constitution. Three categories of transfers exist: equitable share of nationally collected revenues, primarily intended to help all spheres of government to provide services assigned to them in terms of the Constitution and other relevant legislations, the second is a set of conditional grants which fund specific programmes or projects and also supplement the funding of programmes or functions funded from municipal and provincial budgets. The transfer system

is believed to address fiscal imbalances (which means subnational levels need to develop capacity to deal with growth in resources, complexities and challenges). It is also believed to alleviate inequities as the equitable share is intended as a redistributive mechanism enabling provinces and local governments to meet social service demands of their local populations. Conditional grants have been provided and expected to help provinces and local governments to deliver specific/ targeted services to the nation.

2.3. Description of the legal and institutional framework for PFM

Below is the structure of the Gauteng Provincial Treasury which is a key department to the PFM systems and processes. The Member of the Executive Council (MEC) as in the law is defined as the Head supported by Treasury HoD and the team which comprise key branches which are headed by DDGs. This is presented diagrammatically below.



The Treasury is key to the development of PFM policies and systems and managing the provincial revenue and resource mobilisation, expenditure through disbursement of service delivery budgets and leading the implementation of PFMA and various extensions of the PFM deriving from the legal mandate of the province. Key Treasury units whose smooth functioning enables the province to meet benchmarks set by the National Treasury and through PFMA include Financial Governance, Sustainable Resource Management, Provincial Accounting Services Corporate Services and Gauteng Fund. In addition the office of the Chief Financial Officer takes responsibility for domestic financial reporting for Gauteng. Gauteng departments of Education and Health are structured and organised to enable and facilitate service delivery. They are structured to focus on two core areas, which are service delivery and financial management support to enable access of resources by service delivery units and budget preparation, disbursement, fiscal monitoring, cash management and financial reporting on monthly and quarterly basis.

a) Legal

Gauteng province is one of the nine provinces in South Africa, which were established in terms of the Constitution of the Republic of South Africa. The constitution has divided the government into three spheres which are national, provincial and local government. These three spheres are autonomous and are elected into power by the voters. The provincial legislature consist of

between 30 to 80 members who have a term of office of five years. The legislature has powers to pass, amend and repeal laws in accordance with their powers and functions as set out in the Constitution. Once national government is voted into power, the President of the country appoints the Premiers for each province, who appoints executive members of Council (MEC). The MECs are allocated portfolio with a mandate to implement the national and provincial policies.

Listed below are 15 functional heads which make up Gauteng Provincial Government.

1. Office of the Premier
2. Gauteng Provincial Legislature
3. Department of Education
4. Department of Health
5. Department of Human Settlements
6. Department of Finance
7. Department of Community Safety
8. Department of Provincial Treasury
9. Department of Social Development
10. Department of Roads and Transport
11. Department of Economic Development
12. Department of Infrastructure Development
13. Department of Sports, Arts Culture and Recreation
14. Department of Agriculture and Rural Development
15. Department of Cooperative Governance and Traditional Affairs

Gauteng province had eight listed entities which were part of the departmental budgets for the period under review.

1. Gauteng Enterprise Propeller
2. Gauteng Film Commission
3. Gauteng Gambling Board
4. Gauteng Growth and Development Agency
5. Gauteng Partnership Fund
6. Gauteng Tourism Agency
7. Gautrain Management Agency
8. XHASA ATC Agency

The Constitution of the Republic of South Africa

The Constitution is the supreme law of South Africa which regulates the establishment of national, provincial and local spheres of government as well as independent institutions which include among others Office of the Public Protector, Office of the Auditor General etc.

Chapter 13 of the Constitution of the Republic of South Africa talks about national and provincial financial matters. This includes but not limited to equitable shares and allocation of revenue, national sources of provincial and local government funding, provincial taxes, national, provincial and local government budgets, Treasury controls and procurement.

These are detailed in Public Finance Management Act no.1 of 1999, Treasury regulations Government Gazette 27388 of 15 March 2005, annual Appropriations Act, annual Division of Revenue Act, Preferential Procurement Policy Framework Act, Supply Chain Management Regulations, Municipal Systems Act, The Intergovernmental Fiscal Relations Act, Municipal Structures Act and Public Audit Act.

Public Finance Management (PFMA) Act 1 of 1999

While the Constitution of the Republic of South Africa talks about the establishment of National Treasury. PFMA which must be complied with by both national and provincial government prescribes the application of the act in so far as public financial management is concerned. It further prescribes the departmental and constitutional institutions which seeks to detail the appointment and responsibilities of Accounting Officers, Chief Financial Officers and senior managers. Executive authorities also play an important role in public financial management, this is set out on Chapter 7 of the PFMA.

The Act gives more clarity on the public financial management of the province. Chapter 4 of the Act give more details on National and Provincial budget management which includes i) Annual Appropriations, Annual budget process, Multi-year forecasting, Adjustment budgets, reporting on states budgets, withholding of appropriated funds, unauthorised expenditure and unfunded mandates. The PFMA also covers reporting on revenue and expenditure in terms of section 40 as well as cash and bank management.

National and Provincial governments are to establish the Audit Committee, who are to play an oversight role on public financial management of the each department. PFMA is implemented in conjunction with Treasury Regulations and guidelines issued regularly which details the “how” part on the implementation of the Act.

Appropriations Act

The Appropriations Act is a legal framework on the appropriation of money from National Revenue Funds and Provincial Revenue Funds for the requirements of the state for the ensuing years and also prescribe conditions for the spending of the funds withdrawn. The act is in terms of section 213 (2) of the Constitution and section 26 of the PFMA. This Act is reviewed on annual basis.

Division of Revenue Act

DORA is reviewed annually and it sets out the distribution of nationally raised revenue among national, provincial and local governments. This includes equitable share and conditional grants and it provides more details on the conditions attached to conditional grants. The act requires that all receivers of the money comply with all requirements prescribed in it and it also indicate sanctions for none compliance, which include among other things withholding and stopping of funds due to none compliance. The DORA is developed from the Division of Revenue Bill (DORB) which allows discussion and dialogue before this is finalised into an Act. In addition detailed notes and guides (Annexure W1) are issued to provide clarity on the DORA and these are uploaded on National Treasury website.

Preferential Procurement Policy Framework Act (PPPFA)

The framework is in terms of the Preferential Procurement Policy Framework Act, 2000, which relates to the procurement of goods and services. This requires that the procurement processes must be transparent, equitable, economical and efficient. From the PPPFA the supply chain management regulations and model policies were developed to ensure that all spheres of government comply with as set out on Treasury Regulation 16. Gauteng departments use this model policy to develop departmental policy that meets the department needs.

The regulations require that when there is a valid reason to deviate from the policy, such deviation must be in terms of the act and they must be reported and disclosed on the department’s AFS. Details of the Procurement Legislation, rules and procedures are described in detail under PI-19, under chapter 3 of this report.

Intergovernmental Fiscal Relations Act

The law addresses the subject of institutional relations between National, Provincial and Local government. This includes functional relations based on transfers between National to Provincial, Provincial to Local Government and entities. The intention is to strengthen and harmonise fiscal relations among three spheres of government,

Municipal Structures Act (MStrA) of 1998

The act defines the establishment of different structures of local government. This includes demarcation of the municipalities, establishment of municipal councils, establishment of ward committee structures etc.

Public Audit Act, 25 of 2004

The act gives effect to the provisions of the Constitution establishing and assigning functions to an Auditor-General; to provide for the auditing of institutions financial performance in terms of s 188 of the Constitution.

Municipal Finance Management Act

Municipal Finance Management Act provides the guide for the financial management operations of Municipalities. The guidance covers revenue management and borrowing, management of operations and service delivery, budget preparation and consultation, financial accounting and reporting, audit and control processes, financial governance and related matters. Also covered as in the PFMA is the use of medium term expenditure and budgeting frameworks and how these are to be integrated with annual budgets.



b) Province special PFM features

- i. The special characteristics of the provincial PFM systems derives from the PFMA and Treasury regulations which provide detailed guidance on the preparation of the budget , consultation required to prepare a comprehensive budget , involvement of the legislature and departments and the requirements for all budgets to receipt prior review and approval through a bill and law which must be gazetted. Additional features which are specific and unique include:
- ii. Providing guidance on the selection and appointment, remuneration of audit committees who should include be qualified chartered accountants. This is provided in section 76(4) (d) and 77 of the PFMA. The internal control framework does define the role of internal audit and how they interface and work with the administration and audit committees.
- iii. Providing detailed guidance on the management, control and reporting of fiscal risk including providing oversight over public entities, trading accounts and departments. There are two areas which are the provision of guidance to Provincial Treasury and Audit committees to address fiscal risk. Within Gauteng there are specific programs where provincial resources are committed to address fiscal risk through Financial Governance. This is institutionalised in Gauteng Provincial Treasury with specific Terms of Reference providing detailed guidance on a **how to do** basis.
- iv. The statute also provides detailed guidance of the responsibilities of the provincial government through individual office holders (HoDs & CFOs) monthly and annual financial reports. In addition there is provision covering financial statements types and content which leaves clear guidance on **how to do** basis from budget management, revenue management, reporting and disclosure perspectives. There is also detailed guidance on problematic areas such as management, reporting and disclosure of advances and suspense accounts.
- v. With regard to borrowing the Provincial Government is guided and governed by section 66 of the PFMA. Section 66 when read with Act 48 of 1996 provide adequate guidance to ensure that any borrowing by MDA under the provincial government is restricted and in line with the law and where necessary that entities should borrow, the provincial MEC in charge of finance will be required to comply with the law. Effectively provincial governments are restricted from foreign borrowing as it's the sole responsibility of National Treasury and as defined in the PFMA.

3. ASSESSMENT OF PFM SYSTEMS AND PROCESSES

HLG1: Predictability of Transfers from a Higher Level of Government

No.	Credibility of Budget	Score	Justification
HLG-1	Predictability of Transfers from a Higher Level of Government	A	M1 Rating Method
(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.	A	In the last three fiscal years of assessment, Higher Level Government transfers deviated individually and globally by less than 1% per annum. There was a consistent alignment of transfers as projected through the Medium Term Framework, budgeted transfers and actuals. National Treasury transfers to the Gauteng Provincial Treasury deviated from the originally approved budget by less than 1per cent in every year during the past three years. It deviated by less 0.865% in 2011/12, 0.735 % in 2012/13 and 0.882% in 2013/14 which is well below 1% point.
(ii)	Annual variance between actual and estimated transfers of earmarked grants.	A	Variance in the budget and as provided by National Treasury for earmarked grants (composition of revenue) were below 2% in 2011/2012, 2012/13 and 2013/2014). On average, the transfers across the 3 year assessment period are well below the 2% mark.
(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).	A	A disbursement timetable/schedule forms part of the agreement between Gauteng Provincial Treasury and National Treasury which was the basis inter-fiscal relations and grant support system for the 3 year period i.e. 2011/12 to 2013/14. From both the Treasury perspective and Gauteng Provincial Treasury there is commitment and compliance with the PFMA and all the regulations governing the determination, negotiation and disbursement of earmarked grants and transfers. A key feature observed is that the National Treasury links the MTEF which is the basis for fiscal planning and multiyear budgeting (see PI-12) and earmarked and earmarked grants which are allocated and allotted during the MTEF period. There is little variation in terms of global amounts per category which creates predictability of availability of fiscal resources and ensures stability as resources availed to a provincial government according to the PFMA act.

Total Provincial Receipts from National Treasury constitute 95% (excluding financing). During the three year period, Gauteng Receipts from National have been predictable, stable and averaged 95% per annum a large part which is attributed to allocation for the provincial equitable share (PES) and conditional grants. Equitable share is the largest single source, constituting 73% to 76% followed by conditional grants at 19% to 21% per annum. During the 2013/14 fiscal year, conditional grants fell to 19.1% of the total. The downward trend is not necessarily a sign of a dwindling source. Instead this should be monitored actively to determine if a turnaround need to be activated. The contribution and composition of revenue from National compares well with other provinces. Gauteng's own revenue sources increased on year to year basis but remained at between 5.3% and 5.4% of the total. Potential performance improvements may be expected from using an assessment of the entire revenue management through TADAT (Tax Administration Diagnostic Assessment Tool) framework which was established and will be used for Revenue Assessment at National and probably at subnational level. (refer to www.tadat.org for guidance)

Table 3.1: Composition of Revenue Sources for Gauteng

R'000	2011/2012	%	2012/2013	%	2013/2014	%
Total Receipts from National Government	65 093 480	94,74%	70 168 389	94,62%	76 884 917	94,65%
Equitable Share	50 428 480	73,40%	54 545 389	73,55%	61 374 917	75,55%
Conditional Grants	14 665 000	21,34%	15 623 000	21,07%	15 510 000	19,09%
Own Revenue Source	3 613 757	5,26%	3 991 739	5,38%	4 349 093	5,35%
Total Revenue	68 707 237		74 160 128		81 234 010	

Source: National Treasury 2014

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 Gauteng Provincial Treasury deviated from the originally approved budget by less than 1 percent in every year during the past three years. It deviated by less 0.865 percent in 2011/12, 0.735 percent in 2012/13 and 0.882 percent in 2013/14 which is well below 1 percent point. See table H4 & H5 for the computations.

The provincial portion of the equitable share (see H2) increased from an adjusted R50.4 billion in 2012/13 to R61.4 billion in 2013/14, thus representing a year-to-year growth of 8.4 percent. In 2013/14 it increased by 11.4 percent. Simultaneously, conditional grants increased from an adjusted R14.5 billion to R15.6 billion in 2011/12 thus indicating an annual growth of 7.6 percent. In 2012/13 it increased by 0.6 percent.

Table 3.2: Receipts from National Treasury to Gauteng (R 000)

	2011/12		2012/13		2013/14	
	Received	Share (%)	Received	Share (%)	Received	Share (%)
Total Receipts from national	65 647 625	94.8%	70 855 465	94.7%	77 233 702	94.7%
Equitable Share	50 967 615	73.6%	55 212 862	73.8%	61 494 894	75.4%
Conditional Grants	14 680 010	21.2%	15 642 603	20.9%	15 738 808	19.3%
Own Revenue Sources	3 613 757	5.2%	3 991 739	5.3%	4 349 093	5.3%
Total Revenue	69 261 382		74 847 204		81 582 765	

Source: Provincial Treasury Financial Reports 2014.

Annual variance between actual and estimated transfers of earmarked grants

Score A: Variance in the provision of earmarked grants did not exceed 2 percentage points in any of the last three years. The equitable share allocation deviated from the originally approved budget by less than 1% in 2011/12, less than 1% in 2012/13 and less than 2 % in 2013/14.

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 is constituted in the form of a Memorandum of Understanding or Agreement and thus constitute a backbone of the relationship between Gauteng Provincial Government, which is represented by the Gauteng Provincial Treasury. The trend as described by the distribution and composition and trend shows small variations, variability during the 3 year period under review.

Table 3.3: Analysis of DORA figures against actual disbursements

	2011/12			2012/13			2013/14		
	R'000s	R'000s		R'000s	R'000s		R'000s	R'000s	
	DORA	Received	%	DORA	Received	%	DORA	Received	%
Equitable Share	50,428,480.00	50,967,615.00	1.07%	54,545,389.00	55,212,862.00	1.22%	61,374,917.00	61,494,894.00	0.20%
Conditional Grants	14,586,174.00	14,680,010.00	0.64%	15,603,784.00	15,642,603.00	0.25%	15,494,829.00	15,738,808.00	1.57%
Totals	65,014,654.00	65,647,625.00		70,149,173.00	70,855,465.00		76,869,746.00	77,233,702.00	

Source : National Treasury 2014

Table 3.4: Variance Analysis of DORA figures against actual disbursements

R'000	2011/2012				2012/2013				2013/2014			
	DoRA	Received	Share (%)	Variance	DoRA	Received	Share (%)	Variance	DoRA	Received	Share (%)	Variance
Total Receipts from National Government	65 014 654	65 647 625	94,8%	101,0%	70 149 173	70 855 465	94,7%	101,0%	76 869 746	77 233 702	94,7%	100,5%
Equitable Share	50 428 480	50 967 615	73,6%	101,1%	54 454 389	55 212 862	73,8%	101,4%	61 374 917	61 494 894	75,4%	100,2%
Conditional Grants	14 586 174	14 680 010	21,2%	100,6%	15 603 784	15 642 603	20,9%	100,2%	15 494 829	15 738 808	19,3%	101,6%
Own Revenue Source		3 613 757	5,2%			3 991 739	5,3%			4 349 093	5,3%	
Total Revenue		69 261 382				74 847 204				81 582 795		

Source: National Treasury 2014

3.1. Budget Credibility

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

Dimension	Score	Explanation
PI-1 Aggregate expenditure out-turn compared to original approved budget	A	M1 Scoring Method
Difference between actual primary expenditure and the originally budgeted primary expenditure, excluding debt-service charges and externally financed project expenditure.	A	In no more than 1 of last 3 years has actual expenditure deviated from budgeted expenditure by amount equivalent to more than 5 percent of budgeted expenditure (2011/12: 0.4 percent, 2012/13: 6.4 percent and 2013/14: 1.9 percent).

The ability of the Provincial Government to implement the budgeted expenditure is an important factor in supporting service delivery as expressed in fiscal policy statements, Budget framework documents, output commitments and work plans.

- i. Primary expenditure, consistent with the PEFA Framework, is defined as total expenditure less debt-service payments and donor-funded projects. Both categories are excluded as they are beyond the control of provincial governments. Actual debt-service payments (when they exist) may differ due to various factors. Actual receipts of donor-funded projects may depend on the bilateral agreements and disbursement letters and policies of individual donors.
- ii. The fiscal period used for computation is 2011/12 to 2013/14. The restructuring of the Gauteng Provincial Government which took place in the last 3 years had no impact on the assessment as the departments transferred maintained their budgets as approved, what changed among non-financial dimensions was the location and reporting line.
- iii. Chapter 4 of PFMA 1 of 1999 prescribe how national and provincial budgets are prepared. The Gauteng Province prepare, implement and monitor their budgets in a prescribed format in compliance with MTEF frameworks, guidelines, rules and procedures. The rules set out that a three year budget must be prepared using the guidelines as prescribed by National Treasury. The Gauteng province prepare a detailed budget book which includes MDAs budget information. Budgets are prepared to reflect both budget codes derived from the Standard Chart of Accounts(SCOA) classification which is based on Government Finance Statistics Manual of 2001(GFSM2001). The budget codes are embedded in the SCOA classification which is developed, updated and revised by National Treasury on a regular basis.
- iv. The Gauteng Treasury prepares an annual budget from input by provided by the Gauteng departments (MDAs) in response to the Budget Call Circular triggered by a budget calendar. During the year, the Executive has limited powers for budget adjustments which are strictly regulated by law. The approved budget is implemented from April each fiscal year. For the purposes of the PEFA assessment and rating, the original budget is considered for comparison even though there are small variations. Donor funds and debt servicing for fiscal years 2012 to 2014 do not presently exist as these are not used.

- v. The Gauteng Province actual expenditure versus the original budget has not deviated more than 6.4 percent in the last 3 years. Fiscal year 2012/2013 reflect the highest deviation of 6.4 percent, while 2011/12 and 2013/14 reflect 0.4 percent and 1.9 percent respectively. The table below shows the budgeted versus the expenditure out turn between 2011/12 to 2013/14 financial years. It is clear that Gauteng province deviation of budget to actual has averaged 2.9 percent per annum in the last three financial years.

Table 3.5: Budget versus Outturn

	2011/12	2012/13	2013/14
	R(000s)	R(000s)	R(000s)
Primary original estimate	67 645 345	69 310 681	75 964 652
Primary Expenditure Out-turns	67 908 855	73 745 341	77 376 877
Aggregate expenditure deviation, million R	263 510	4 434 660	1 412 225
Aggregate Expenditure Deviation %	0.4%	6.4%	1.9%

Source: Gauteng Provincial Treasury 2014

Table 3.6 Aggregate Expenditure

Table 3.2

Data for year = 2011/2012		R'000				
Administrative /Functional head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
In Millions ('000)						
1. Education	25 965 171	26 122 180	26 437 607	-315 427	315 427	1,2%
2. Health	22 837 577	23 813 393	23 386 833	-426 560	426 560	1,8%
3. Social Development	2 424 792	2 333 714	2 433 081	99 367	99 367	4,3%
4. Office of the Premier	217 539	207 233	228 742	21 509	21 509	10,4%
5. Gauteng Provincila Legislature	400 000	376 190	402 720	26 530	26 530	7,1%
6. Economic Development	805 580	797 002	822 573	25 571	25 571	3,2%
7. Local Government and Housing	4 568 343	4 460 605	4 588 379	127 774	127 774	2,9%
8. Roads and Transport	6 241 504	5 784 647	6 357 678	573 031	573 031	9,9%
9. Community Safety	423 747	400 621	423 747	23 126	23 126	5,8%
10. Agriculture and Rural Development	489 850	476 949	516 658	39 709	39 709	8,3%
11. Sports, Arts and Recreation	375 598	389 857	389 828	-29	29	0,0%
12. Finance	1 555 163	1 486 138	1 551 236	65 098	65 098	4,4%
13. Infrastructure Development	1 340 481	1 260 326	1 347 606	87 280	87 280	6,9%
Allocated Expenditure	67 645 345	67 908 855	68 886 688	346 979	1 831 011	2,7%
Contingency	0	0	0	0	0	0,0%
Total Expenditure	67 645 345	67 908 855				
Composition (PI-2) Variance						2,7%
overall (PI-1) variance						0,4%
composition (PI-2) variance						2,7%
contingency share of budget						0,0%

Source: Gauteng Provincial Treasury 2014

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

Indicator	Score	Explanation
PI-2 Deviations in composition of expenditure out-turn compared to the original approved budget	A	M1 Scoring method
(i) Degree to which the variation in composition of primary expenditure has exceeded the global deviation in primary expenditure (as defined in PI-1) in the past three years	A	Variance in expenditure composition exceeded 5 percent in no more than one of the last three years. (2011/12: 2.7 percent, 2012/13: 1.3 percent and 2013/14: 2.8 percent).
(ii) The average amount of expenditure charged to the contingency vote over the last three years	A	The Province does not provide for contingency in the budget. Accordingly because there is no evidence of a contingency vote a rating of A matches the status of Gauteng Province.

The original budgets are prepared with a certainty that estimated revenue will be received and expenditure will be incurred within the financial year as projected. Gauteng province compile the adjustment budgets during the financial year in terms of section 31 of PFMA 1 of 1999, which relates to unanticipated revenue (transfers, grants and own revenue) being available and expenditure incurred during the financial year. Adjustment budgets are as a result of unforeseeable and unavoidable expenditure, reallocation of additional national funds towards Education, Health and Infrastructure. The Gauteng province has not budgeted for Contingency expenditure in the past 3 years, hence scoring is not applicable.

Deviations between budgetary executions of global

Table 3.7: Analysis of Gauteng Province Actual Expenditure against Budget Per Vote

Vote	2011/2012		2012/2013		2013/2014	
	Budget	Actual	Budget	Actual	Budget	Actual
R'000						
1. Education	25 965 171	26 122 180	27 150 751	28 317 035	29 275 841	30 371 624
2. Health	22 837 577	23 813 393	24 519 336	26 834 347	27 992 680	27 430 045
3. Social Development	2 424 792	2 333 714	2 490 492	2 524 726	2 896 320	2 900 119
4. Office of the Premier	217 539	207 233	236 734	238 957	296 718	413 138
5. Gauteng Provincial Legislature	400 000	376 190	455 000	472 004	470 587	467 914
6. Economic Development	805 580	797 002	912 008	873 371	967 551	928 534
7. Human Settlement	4 568 343	4 460 605	4 737 125	4 630 365	4 616 498	4 546 437
8. Roads and Transport	6 241 504	5 784 647	4 363 790	5 564 906	4 769 964	5 446 488
9. Community Safety	423 747	400 621	435 946	414 662	496 937	499 111
10. Agriculture and Rural Development	489 850	476 949	493 976	515 888	553 571	550 739
11. Sports, Arts, Culture and Recreation	375 598	389 857	392 837	434 025	537 292	522 481
12. Finance	1 555 163	1 486 138	1 322 700	1 291 785	985 328	1 196 403
13. Gauteng Treasury	1 340 481	1 260 326	428 934	224 927	320 292	306 937
14. Infrastructure Development	0	0	1 371 052	1 408 343	1 472 513	1 529 645
15. Cooperative Governance and Traditional Affairs	0	0	0	0	312 560	267 262
Total	67 645 345	67 908 855	69 310 681	73 745 341	75 964 652	77 376 877

Table 3.8 Average Weighted Variance for FY2011/12

Data for year = 2011/2012		R'000				
Administrative /Functional head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
In Millions ('000)						
1. Education	25 965 171	26 122 180	26 437 607	-315 427	315 427	1,2%
2. Health	22 837 577	23 813 393	23 386 833	-426 560	426 560	1,8%
3. Social Development	2 424 792	2 333 714	2 433 081	99 367	99 367	4,3%
4. Office of the Premier	217 539	207 233	228 742	21 509	21 509	10,4%
5. Gauteng Provincial Legislature	400 000	376 190	402 720	26 530	26 530	7,1%
6. Economic Development	805 580	797 002	822 573	25 571	25 571	3,2%
7. Local Government and Housing	4 568 343	4 460 605	4 588 379	127 774	127 774	2,9%
8. Roads and Transport	6 241 504	5 784 647	6 357 678	573 031	573 031	9,9%
9. Community Safety	423 747	400 621	423 747	23 126	23 126	5,8%
10. Agriculture and Rural Development	489 850	476 949	516 658	39 709	39 709	8,3%
11. Sports, Arts and Recreation	375 598	389 857	389 828	-29	29	0,0%
12. Finance	1 555 163	1 486 138	1 551 236	65 098	65 098	4,4%
13. Infrastructure Development	1 340 481	1 260 326	1 347 606	87 280	87 280	6,9%
Allocated Expenditure	67 645 345	67 908 855	68 886 688	346 979	1 831 011	2,7%
Contingency	0	0	0	0	0	0,0%
Total Expenditure	67 645 345	67 908 855				
Composition (PI-2) Variance						2,7%

Table 3.9 Average Weighted Variance for FY 2012/13

Data for year = 2012/2013		R'000				
Administrative /Functional head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
In Millions ('000)						
1. Education	27 150 751	28 317 035	28 500 824	-183 789	183 789	0,6%
2. Health	24 519 336	26 834 347	27 191 594	-357 247	357 247	1,3%
3. Social Development	2 490 492	2 524 726	2 543 918	-19 192	19 192	0,8%
4. Office of the Premier	236 734	238 957	249 810	-10 853	10 853	4,5%
5. Gauteng Provincial Legislature	455 000	472 004	476 305	-4 301	4 301	0,9%
6. Economic Development	912 008	873 371	874 412	-1 041	1 041	0,1%
7. Local Government and Housing	4 737 125	4 630 365	4 737 125	-106 760	106 760	2,3%
8. Roads and Transport	4 363 790	5 564 906	5 737 668	-172 762	172 762	3,1%
9. Community Safety	435 946	414 662	436 798	-22 136	22 136	5,3%
10. Agriculture and Rural Development	493 976	515 888	517 659	-1 771	1 771	0,3%
11. Sports, Arts and Recreation	392 837	434 025	437 938	-3 913	3 913	0,9%
12. Finance	1 322 700	1 291 785	1 333 265	-41 480	41 480	3,2%
13. Gauteng Treasury	428 934	224 927	238 610	-13 683	13 683	6,1%
14. Infrastructure Development	1 371 052	1 408 343	1 411 281	-2 938	2 938	0,2%
Allocated Expenditure	69 310 681	73 745 341	74 687 208	-941 867	941 867	1,3%
Contingency	0	0	0	0	0	0%
Total Expenditure	69 310 681	73 745 341				
Composition (PI-2) Variance						1,3%

Table 3.10 Average Weighted Variance for FY 2013/14

Data for year = 2013/2014		R'000				
Administrative /Functional head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
In Millions ('000)						
1. Education	29 275 841	30 371 624	30 695 257	-323 633,0	323 633,0	1,1%
2. Health	27 992 680	27 430 045	28 770 785	-1 340 740,0	1 340 740,0	4,7%
3. Social Development	2 896 320	2 900 119	2 916 748	-16 629,0	16 629,0	0,6%
4. Office of the Premier	296 718	413 138	420 873	-7 735,0	7 735,0	1,8%
5. Gauteng Provincial Legislature	470 587	467 914	496 831	-28 917,0	28 917,0	5,8%
6. Economic Development	967 551	928 534	963 353	-34 819,0	34 819,0	3,6%
7. Human Settlement	4 616 498	4 546 437	4 619 641	-73 204,0	73 204,0	1,6%
8. Roads and Transport	4 769 964	5 446 488	5 671 487	-224 999,0	224 999,0	4,0%
9. Community Safety	496 937	499 111	496 937	2 174,0	2 174,0	0,4%
10. Agriculture and Rural Development	553 571	550 739	554 177	-3 438,0	3 438,0	0,6%
11. Sports, Arts and Recreation	537 292	522 481	524 192	-1 711,0	1 711,0	0,3%
12. Finance	985 328	1 196 403	1 298 355	-101 952,0	101 952,0	7,9%
13. Gauteng Treasury	320 292	306 937	322 423	-15 486,0	15 486,0	4,8%
14. Infrastructure Development	1 472 513	1 529 645	1 532 081	-2 436,0	2 436,0	0,2%
15. Local Government	312 560	267 262	312 703	-45 441,0	45 441,0	14,5%
allocated expenditure	75 964 652	77 376 877	79 595 843	-2 218 966	2 223 314	2,8%
contingency	0	0	0	0	0	
total expenditure	75 964 652	77 376 877				
Composition (PI-2) Variance						2,8%

Table 3.11: Results Matrix

Results Matrix			
year	for PI-1 total exp. deviation	for PI-2 (i) composition variance	for PI-2 (ii) contingency share
2011/2012	0,4%	2,7%	
2012/2013	6,4%	1,3%	0,0%
2013/2014	1,9%	2,8%	

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

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

Dimension	Score	Explanation
PI-3 Actual domestic revenue compared to domestic revenue in the originally approved budget	D	M1 Rating Method
Actual domestic revenue compared to domestic revenue in the originally approved budget.	D	Actual domestic revenue was between 92% and 116% of budgeted domestic revenue in at least two of the last three years.

PI- 3 compares the actual revenue with the original budget. The Gauteng province has four main contributors to provincial own revenue; these are: the Department of Roads and Transport (GDRT), Gauteng Department of Economic Development (GDED), Gauteng Department of Health (GDoH) and Gauteng Provincial Treasury. Gauteng Province's own revenue is made up of Tax receipts (Casino Taxes, Horse Racing taxes; Liquor licences and Motor vehicle licences.) On the other hand provincial non tax revenue includes but not limited to Sale of goods and services other than capital assets; Fines, penalties and forfeits; Interest, dividends and rent on land; Sales of capital assets and Transactions in financial assets and liabilities.

Therefore provincial Expenditure is financed by Equitable share, Conditional grants and own revenue as per above.

The table below shows the deviations in aggregate revenue outturn compared with the original approved budget. Significant deviations are noted on Roads and Transport and Gauteng Treasury, where the actual revenue collection is far more than originally budgeted. The variance is due to an increase in the number of new vehicles registered in the province as well as interest revenue due to favourable bank balances.

Table 3.12: Revenue Estimates and Out-Turn

	2011/12	2012/13	2013/14
Revenue Estimates R-Millions	3 010 609	3 415 206	3 972 410
Revenue Out-turns R-Millions	3 615 757	3 991 739	4 349 093
Deviation in '000 (R millions)	605 148	576 533	376 683
Deviation %	120.1%	116.9%	109.5%

Source: Gauteng Provincial Government (2014)

(*) They include only tax and non-tax revenue. They exclude grants and loans. For more details refer to HLG1 where revenue sources are compared. It shows the share of tax and non-tax revenue over the last 3 years.

An accurate revenue forecast is a key input to the preparation of a credible budget. Both optimistic and pessimistic revenue forecasts can lead to substantial impacts on expenditure allocations and incurrence. Since revenue out-turn can deviate from the originally approved budget for reasons unrelated to the underlying quality of forecast such as a major macroeconomic shock, the calibration allows for one unusual year to be excluded. This indicator was revised in January 2011.

Revenue Management is governed by Treasury Regulations (7.1.1) which deals with the identification, collection, recording and safeguarding of all revenue for which an institution is responsible. Section 7.2.1 assigns the responsibility for revenue management to the accounting officer who is required to manage revenue efficiently and effectively by developing and implementing appropriate processes that provide for the identification, collection, safeguarding, recording and reconciliation of information about revenue. As part of this fiduciary responsibility the accounting officer of an institution must review, at least annually when finalizing the budget, all fees, charges or the rates, scales or tariffs of fees and charges that are not, or cannot, be fixed by any law and that relate to revenue accruing to a revenue fund. These rates must be obtain approval from the relevant treasury for the proposed tariff structure and through the annual report tariff policies must be disclosed.

Revenue data is obtainable from key revenue collection departments. Each department has its own model for forecasting the collection of revenue. At the Provincial Treasury the revenue forecasting unit must try and harmonise models for forecasting motor vehicles, gambling and horse racing, liquor board and other sources. In modelling revenue forecasts, there is reliance on previous EPRE documents some which may have limitations in terms of benchmarking future revenue performance.

Institutional arrangements for revenue forecasting are fully functional within Gauteng Provincial Treasury. It would be important for all revenue-collecting offices utilize to the revenue centre codes against which they will be given revenue targets to be estimated and monitored on individual basis. Revenue forecasting is still not based on reliable economic and financial data of taxable activities in the province. Absence of such mechanism causes a high degree of fluctuation in the revenue out-turns, which indicates weak capacity of the provincial government to predict the revenue from own sources. According to the PEFA Framework, a “D” rating is awarded for this indicator. A diagnostic tool equivalent to TADAT model may be necessary to diagnose and assess the revenue factors and tax structure of Gauteng and establish if tax performance could improve. A potential source of revenues could potentially be donor funds since these are presently not being accessed. It is noted that to ensure credibility of revenue projections, Gauteng Treasury is in the process of developing a forecasting model with Gauteng Gambling data being used as a pilot project.

PI-4 Stock and monitoring of expenditure payment arrears

Indicator	Score	Explanation
PI-4 Stock and monitoring of expenditure payment arrears	B+	M1 Rating Method
(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.	A	Consolidated stock of expenditure payment is maintained and updated monthly, quarterly, half yearly and annually. The Provincial Accounting Service supported by the individual departments ensures that a comprehensive data on arrears at aggregated and disaggregated level is maintained throughout and regularly reported.
(ii) Availability of data for monitoring the stock of expenditure payment arrears.	B	There is reliable data on the stock of arrears from the last two years. Commitment accounting and reporting is fully operational. The amounts have gradually been reduced although there is an element of inter-departmental debt between Gauteng Department of Health and its own entity Gauteng Medical Supply Depot which is the largest amount. The department expenditure constitute the second largest budget after education.

Expenditure payment arrears are defined as expenditure obligations that have been incurred by a provincial government for which payment to the employee, supplier, contractor, or loan creditor is overdue beyond 30 days. In commercial business when debts are overdue this is cause for alarm as anything beyond 30 days attracts penalty in the form of interest charges. The PFMA requires that all debts be paid up in 30 days. The Gauteng Provincial Treasury is required to prepare a report on the status and regularly send an accountability report. According to best practice overdue debts constitutes a form of hidden financing. A high level of arrears can indicate a number of different problems such as inadequate commitment controls, cash rationing, inadequate budgeting for contracts, under-budgeting of specific items, and lack of information. This indicator is concerned with measuring the extent to which there is a stock of arrears, and the extent to which any systemic problem is being brought under control and addressed.

(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.

Gauteng Treasury PFM system of recording and reporting accounting data is designed to capture cash transactions; therefore, consolidated stock of expenditure payment arrears is being regularly prepared. The largest amount though from the tables below is the amounts owed to the Medical Supply Depot which is an interdepartmental debt. A practice of clearing such debt in time must be adopted to reduce fiscal risk. As per tabulation below, the largest amounts are what is owed to Gauteng Government entities which appear to be on a downward trend since 2012.

Table 3.13A: Payment Arrears

Payment Arrears					
Type of Accruals	2011/12	2012/13	2013/14	% Δ	% Δ
Amounts owing to Entities	1,306,366	436,288	377,450	-67%	-71%
Advances Received	994	17,114	21,710	1622%	2084%
Clearing of Accounts	11,397	155	23,012	-99%	102%
Trade Creditors	49,110	48,453	51,114	-1%	4%
Totals	1,367,867	502,010	473,286		

Table 3.13B: Payment Arrears

	2011/12	2012/13	2013/14
Expenditure Payment Arrears	1,368,000.00	502,010.00	473,286.00
Actual Expenditure	67,908,855.00	75,745,341.00	77,376,877.00
Percentage (%) of Total Expenditure	2.0%	0.7%	0.6%

Source: Gauteng Provincial Treasury 2014

Stock out-turn relates to payment arrears as at the end of the fiscal year. Section 38 read in conjunction with Regulation 8.2.3 of PFMA 1 of 1999 states that all payments due to creditors must be settled within 30 days from the receipt of an invoice. It has been observed that some of the departments failed to comply with the provisions of the act due to a number of reasons, which ranges from cash availability, insufficient information on the supplier's part e.g. expired tax clearance certificates.

The Health Department has the highest value of accruals for an amount of R1.2 billion and included in these arrears are payments owed to Medical Supplies Depot which a public entity of the department. The Departments of Infrastructure, Human Settlement and Community Safety Service reflect an average of 4.6% in 2013. This reduces to less than 2% when education and health are included in the computations. There are plans in place to address stock arrears especially at Health with the implementation of a SAP procurement system. This was discussed with Financial Accounting group – Provincial Treasury who also plan to ensure that the information on the accruals reports is complete and credible. It is envisaged that once a detailed scrutiny of the accruals reports is undertaken, stock arrears will be reduced to a reasonable period.

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

Since modified cash-basis accounting is followed, liabilities are recorded and any unpaid, valid invoices are reported in notes to financial statements. Though the Provincial Financial Management Information System (PFMIS) provides for commitment accounting through SAP and other transversal systems, the province does report regularly as it is mandatory to produce a report on any debts that are over 30 days including disaggregated reporting. The notes to financial statements do capture comprehensively such information in the balance sheets, statements of financial performance, cash flow statements and note to financial statements. In reality, the commitment is recorded at the time of presentation of the first invoice for payment. All payments raised through an electronic purchase order will track and report on unpaid balances. The presence of open orders and transactions is a major cause of concern as this is has been reported to be undermining the whole concept of an ERP/ electronic commitment control system. Data is available on accruals in all the departments and its regularly reported. The key action point is that the balances need to be managed and significantly reduced to avoid committing future budgets through outstanding accruals. This has been discussed in AGSA general reports as an issue undermining the budget credibility. Based on the above, the dimension is rated B.

Table 3. 14: Analysis of Accruals

Type of Accruals	2011/12	2012/13	2013/14	Variance (%)	Variance (%)
R'000					
Amounts owing to Entities	1 306 366	436 288	377 450	-67%	-71%
Advances Received	994	17 114	21 710	1622%	2084%
Clearing of Accounts	11 397	155	23 012	-99%	102%
Trade Creditors	49 110	48 453	51 114	-1%	4%
Totals	1 367 867	502 010	473 286		

R'000	Entities			Other Payables			Advances Received			Clearing Of Accounts			TOTAL		
	2011/12	2012/13	2013/14	2011/12	2012/13	2013/14	2011/12	2012/13	2013/14	2011/12	2012/13	2013/14	2011/12	2012/13	2013/14
Rural Development	0	0	0	0	0	0	0			666	68	458	666	68	458
Treasury					22	124					73	100	0	95	224
Economic Development		0	0		1 308	1 948		13 162	4 951		14	22	0	14 484	6 921
Education	0			42 086	25 882	274			11 440		0	22 432	42 086	25 882	34 146
Roads and Transport	75 075	59 560	59 560	1 931	1 171	697	0	1 000	1 000	0	0	0	77 006	61 731	61 257
Infrastructure	235 227	174 079	170 735	556	659	3 381	994	2 952	4 319	0	0	0	236 777	177 690	178 435
Social Development					5 710	5 417							0	5 710	5 417
Health	996 064	202 649	147 155	4 537	13 701	39 273	0	0	0	10 731			1 011 332	216 350	186 428
	1 306 366	436 288	377 450	49 110	48 453	51 114	994	17 114	21 710	11 397	155	23 012	1 367 867	502 010	473 286

Source : Gauteng Provincial Treasury 2014

PI-5 Classification of the budget

Dimension	Score	Explanation
PI-5 Classification of the budget	A	M1 Scoring Method
The classification system used for formulation, execution, and reporting of the provincial government's budget.	A	Gauteng Budget formulation and execution is based on administrative, economic, and sub-functional classification, using GFS/COFOG standards. The Treasury has legally prescribed the chart of accounts for all provincial and central government and constitutional entities for accounting, budgeting and recording of expenditure giving robust budgetary classification on functional and object basis. Consistent documentation in accordance with GFS standards is produced. In addition a structured programmatic expenditure classification is integrated into the budgets and financial reporting systems.

The Gauteng Provincial Government has a robust classification system allows the tracking of spending on the following dimensions: administrative unit, economic, functional, and program. Where international classification practices are applied, governments can report expenditure in the Government Finance Statistics (GFS) 2001 and Classification of Government Format (COFOG) format and track poverty reducing and other selected groups of expenditure.

- i. The budget formulation and execution is based on administrative, economic and sub-functional classification, using GFS/COFOG standards or a standard that can produce consistent documentation according to those standards. (Program classification may substitute for sub-functional classification, if it is applied with a level of detail at least corresponding to sub-functional).
- ii. The South African provincial governments are mandated to use the Standard chart of accounts (SCOA) prescribed for formulation and reporting of the budget, and recording of the current and development expenditure and revenue. The General Ledger runs on SCOA and books of accounts are maintained on the Public Financial Management Information System (PFMIS) from which trial balances are produced. Monthly accounts and annual financial statements based thereupon are generated in a timely fashion. Even though provinces are not allowed to borrow , debt servicing for principal and interest can be recorded as financing items in the SAP system, and reported on a quarterly and annual basis
- iii. Gauteng province classifies their budget in a prescribed SCOA format as per National Treasury classification. The maintenance of the SCOA is done by National SETA using transversal systems (BAS and Persal) however at a Provincial level Business Systems plays the facilitation role in ensuring that new item codes are created as per departments specific requirements and harmonized across the government. The classifications are detailed and it includes a Function, Program, Economic Classification and sub accounts.
- iv. The provincial budgets are prepared with detailed functional and economic classification. Spending can be tracked through use of BAS which records data of actual transactions (revenue and expenditure) on SCOA which is also used in the preparation of budgets. Once

the budget is approved by parliament it is then uploaded into the BAS which is fully operational throughout the province. Monthly, quarterly and annual reports are produced using BAS for comparison of budget performance reports using real-time data.

- v. The provincial budget is prepared with detailed functional and object classification. The chart of accounts is in accordance with the GFS standards and sub-functional classifications are in use. Data for at least 7 dimensions is captured for each transaction recorded in the IFMIS – Entity, Object, Fund, Function, Program, Sector and Project. Within each, sub-classification is provided for and in use. Spending can be tracked through use of IFMIS, which records data of actual transactions (revenue and expenditure) on the same chart of accounts that is used to prepare the budget. The budget as approved by the Parliament is fed into the IFMIS. The Systems Gauteng wide produce comparative reports for budget and actual expenditure on real-time basis. The IFMIS system which is running on a SAP ERP platform is based on the SCoA and currently is undergoing changes which will benefit and improve financial reporting through integrated processing of transactions.

Despite gaps in implementation, consistent documentation is produced in accordance with the United Nations Classification of Functions of Government (COFOG) and GFS standards. The overall “A” rating for 2014 is the most appropriate as the functional heads of expenditure are in accordance with COFOG and GFS standards are listed as follows:

1. Education
2. Health
3. Social Development
4. Office of the Premier
5. Gauteng Provincial Legislature
6. Economic Development
7. Human Settlements
8. Roads and Transport
9. Community Safety
10. Agriculture and Rural Development
11. Sports, Arts, Culture and Recreation
12. Finance
13. Gauteng Treasury
14. Infrastructure Development
15. Cooperative Governance and Traditional Affairs

The summary below depicts how economic classification based on GFSM2001 is used to prepare MTEF tables and budgets. This is evidence that the GFSM2001 & COFOG are institutionalised in the provinces.

Table 3.15 – Summary of Actual and Budgeted Payments – MTEF with Economic Classification of Expenditure

GAUTENG

SUMMARY OF ACTUAL AND BUDGETED PAYMENTS - 2014 MTEF

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/15	2016/17
	Outcome			Revised estimate	Revised baseline	Revised baseline	Indicative baseline
Rand thousands							
ECONOMIC CLASSIFICATION							
Current payments	45 016 057	51 006 267	55 160 039	61 699 967	66 088 375	71 846 380	75 890 457
Compensation of employees	32 735 846	37 034 366	39 986 309	44 880 169	48 869 091	53 606 991	56 644 096
Goods and services	12 243 108	13 927 240	15 163 479	16 814 804	17 218 134	18 238 239	19 245 176
Interest and rent on land	37 103	44 562	10 251	4 994	1 150	1 150	1 185
Transfers and subsidies	14 327 522	13 968 589	14 739 544	14 964 201	16 037 603	17 604 689	19 033 141
Provinces and municipalities	551 716	748 491	1 441 852	949 664	1 025 639	1 089 390	1 150 112
Departmental agencies and accounts	4 759 683	2 808 979	2 312 563	2 200 312	2 092 752	2 392 425	2 706 004
Higher education institutions	13 583	15 728	17 156	16 916	16 581	18 057	19 014
Public corporations and private enterprises	1 368 986	1 906 130	1 702 133	1 856 239	1 951 137	2 067 324	2 176 031
Non-profit institutions	3 527 951	4 412 714	4 888 523	5 370 756	6 080 677	6 491 027	6 851 065
Households	4 105 603	4 076 547	4 377 217	4 570 314	4 870 817	5 546 466	6 130 915
Payments for capital assets	2 035 105	2 674 241	3 732 582	4 406 422	4 842 642	5 292 308	4 039 609
Buildings and other fixed structures	1 449 846	1 951 393	3 007 381	3 376 936	3 892 445	4 438 081	2 916 422
Machinery and equipment	518 628	684 059	625 704	998 687	897 912	812 557	1 050 634
Land and sub-soil assets	59 537	18 053	6 569	12 500	22 000	25 000	55 000
Software and other intangible assets	7 094	20 236	92 928	18 299	30 285	16 670	17 553
Payments for financial assets	74 602	102 913	113 078	12 019	-	-	-
Total economic classification	61 453 286	67 752 010	73 745 343	81 082 609	86 968 620	94 743 377	98 963 207

PI-6 Comprehensiveness of information included in budget documentation

Indicator	Score	Explanation
PI-6 Comprehensiveness of information included in budgetary documentation	A	M1 Scoring method
(i) Proportion of information mentioned above and contained in the most recent budgetary documentation published by the central government.	A	Recent budget documentation fulfils at least seven of the nine key information requirements. These are captured in detail in the EPRE documents for Gauteng Province. These include macroeconomic information, public debt, fiscal deficit, deficit financing, fiscal assets and results of previous year's budget. It is noted that Gauteng provincial departments prepare budgets in a prescribed format which include basic information as defined in MTEF and Budget guidelines provided in the PFMA and annual budget circulars. Source: Gauteng Provincial Government - Estimate of Provincial Revenue and Expenditure 2014

The indicator requires that annual budget documentation (the annual budget and budget supporting documentation), as submitted to the legislature for scrutiny and approval, should allow a complete picture of the provincial government fiscal forecasts, budget proposals, and out-turn of previous years. The status of the Gauteng Provincial Treasury is provided in the

table. EPRE represents Estimates of Provincial Revenue and Expenditure. The budget proposal documentation contain EPRE as the prime source for review, consultation or analysis.

Section 27 and 28 of PFMA 1 of 1999 and Regulation 5.2.3 prescribe the content of the information to be included in the budget documents which is submitted to Provincial Legislature for approval. The information is then compiled in a book called Estimates of Provincial Revenue and Expenditure (EPRE), which profiles all departments and their budgets. The budgets are classified in terms of revenue and expenditure.

Table 3.16: Information Contained In Budget Documentation

Documentary Requirement	Fulfilled	Document
1. Macroeconomic assumptions, including aggregate growth, inflation and exchange rate estimates, at the very least.	Yes	EPRE, and Socio Economic Review and Outlook
2. Fiscal deficit.	Yes	EPRE
3. Deficit financing	Yes	EPRE
4. Debt stock.	Yes	EPRE
5. Financial Assets.	Yes	EPRE
6. Results of previous budget exercise	Yes	EPRE
7. Results of the current year's budget	Yes	EPRE
8. Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous year.	Yes	EPRE
9. Explanation of the budget implications of new policy initiatives.	Yes	EPRE

Source : Gauteng Provincial Treasury 2014

PI-7 Extent of unreported province operations

Indicator	Score	Explanation
PI-7 Extent of unreported government operations	B+	M1 Scoring Method
(i) Level of extra-budgetary expenditure (as distinct from that for projects financed by donors) which is not declared, in other words does not appear in fiscal reports.	A	Based on detailed discussions with CFOs of spending departments, the overall amount involved under un-reported provincial expenditure is very small in absolute and relative terms and remains well below 1% of total provincial expenditure for the Province. Based on the relatively low levels of expenditure a rating awarded for dimension (i) is 'A'.
(ii) Information on income and expenditure relating to projects financed by donors that is included in fiscal reports.	B	There is Complete income and expenditure information, for loan financed projects is included in fiscal reports which is founded on Generally accepted Accounting Practice and consistently applied through disclosure in notes to financial reports . The donations which have not been consistently reported are far less than 0.01% of the budget and insignificant.

The Gauteng province annual budget estimates, in-year execution reports, year-end financial statements and other fiscal reports cover all budgetary and extra-budgetary activities to project fiscal completeness in terms of reporting provincial revenues and receipts, expenditures across key spending categories, programs and sub-programs and financing. Provincial activities which constitute mainstream budget but are executed outside the Gauteng provincial government budget and fiscal /accounting system (any international or national donor funding) are to be included (as per GFS coverage) in government fiscal reports unless these are insignificant.

By definition, extra budgetary expenditure refers to transactions that do not pass through the budgetary mechanism and thus, are not subject to same level of legislative analysis, scrutiny oversight, monitoring and accountability by the Government. The term also refers to funds that are earmarked for specific purpose (funds) and are spent through special arrangements other than normal financial accounting system. These funds are not essentially outside the budget but are accounted for in the budget in aggregate terms and through statutory entities/mechanisms established for the purpose.

Revenues received by the Gauteng Provincial Government and its departments is credited to the provincial revenue fund. The provincial receipts are divided into revenue or capital. Revenue receipts are provincial taxes, non- tax provincial receipts, and national grants(transfers), on the other hand capital receipts consist of inflows on account of permanent (domestic and foreign) and floating debts(if any), recoveries of loan advances (if any) and funds borrowed(if any) for specific assisted project.

Gauteng Provincial government transacts expenditure through the provincial revenue fund once the budget is approved by the legislature. The expenditure is classified under current and development where current expenditure consists of Noncapital and operational cost and debt (Gautrain) repayments. Development expenditure is incurred to achieve specific targets programs/sub-programs including infrastructure projects and social sector programs

(i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported

The level of extra budgetary activities, which are not reported, is insignificant. This includes funds received and spent on account of special trust funds operated in government owned institutions (consultant fee fund in hospitals, sport fund in schools etc.). These funds are created for specific purposes and are operated with the approval of Provincial Treasury and National Treasury guidelines. Based on detailed discussions with CFOs of spending departments, the overall amount involved under un-reported provincial expenditure is very small in absolute and relative terms and remains well below 1% of total provincial expenditure for the Province. *Based on the relatively low levels of expenditure a rating awarded for dimension (i) is 'A'.*

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

Substitution of section 16 of Act 10 of 2009(as per 2014 amendment) provides on donor funds

16. (1) At least ten months prior to the start of the financial year, the Accounting Officer must prepare a draft budget for Parliament and present it to the Executive Authority. (2) Parliament's budget must— (a) cover the following financial year and the two financial years thereafter or other period determined by law; (b) specify Parliament's expected revenues distinguishing between— (i) money to be appropriated through the annual national budget; (ii) [funds that are a direct charge against the [National Revenue Fund] conditional and unconditional donor funds; and (iii) funds derived from Parliament's own revenue sources[, excluding donor funds]; and ;...

(f) provide details of all transfers to other entities; and [(g) contain a schedule of planned expenditure under Parliament's donor funded projects.

Donor funds flows are recorded as inflows in budget documents and corresponding expenditure as use of resources. The donor funds are either disbursed using Single Treasury Account or through revolving fund account (designated account for project) to ensure financial autonomy and efficient funds flow. The mode of disbursement affects the level of details available in fiscal reports (budget documents and financial statements) and for international donors, grant agreements and disbursement letters prescribe both disbursement and reporting formats and procedures. In the case of revolving fund; Treasury requires clearly defines the procedures for budgeting, accounting and reporting of expenditure on foreign aided projects. Detailed financial reports are prepared and expenditures reported quarterly and annually with updates as defined in the project agreements. The standard is as prescribed in the agreements with no clear standardisation. The overall FM system in Gauteng is based on good practice and adequately captures any donor funding that is significant and specific.

Because projects are executed either at entity level or also within the city and local administrations, these are not reported in the Gauteng Provincial fiscal reports. City and Local governments are constitutional entities entitled to autonomous reporting. Because of the cascaded structure of the reporting we observed that a total of US103, 408,000 (R1.1 Billion) from PEPFAR had had been received through various structures of Gauteng (HIV/ TB funding) in 2012 but in the books of Gauteng was not reported or referred to in the notes to financial statements. Donations for health and education projects are administered through trust funds controlled at institutional level. Although the information we received was that these funds were very small to be disclosed in the Gauteng Provincial Treasury fiscal reports, the lack of baseline data and its consolidation is a sign that donor funds are not being captured adequately at consolidated provincial level. Thus there is provision for Donor funds to be reported in the financial statements as there are provisions for disclosure in the notes, but for small donations in kind which are fairly small and less than 1% of the Gauteng Provincial Budget are not adequately reported. Because each individual spending agent reporting on these makes a value judgement based on application of IPSAs, the fact that these donations are erratic and small means their impact on financial reports is either insignificant or small. Our criticism is that these need to be consolidated at Provincial Level and disclosed. Based on the sum of the above data for this dimension and evidence received, a ' B' rating is appropriate.

PI-8 Transparency of inter-governmental fiscal relations

Indicator	Score	Explanation
PI-8 Transparency of inter-governmental fiscal relations	A	M2 Scoring Method
i) Transparent systems based on regulations regarding horizontal allocation between sub-national governments of unconditional and conditional transfers from central government (budgeted and real allocations)	A	The horizontal allocation of almost all transfers (at least 90% by value) from central government is determined by transparent & rules based systems.
ii) Timely provision of reliable information to sub-national governments about the allocations to be made to them by central government in the coming year	B	SN governments are provided reliable information on the allocations to be transferred to them ahead of completing their budget proposals, so that significant changes to the proposals are still possible. Transfers are only effected upon the signing of the Memorandum of Agreement.
iii) Degree to which consolidated fiscal data are gathered and made known (at least in terms of income and expenditure) relating to general government, broken down by sectoral categories	A	Fiscal information (ex-ante and ex-post) that is consistent with central government fiscal reporting is collected for 90% (by value) of SN government expenditure and consolidated into annual reports within 10 months of the end of the fiscal year.

This indicator covers fiscal transfers from Gauteng Provincial Government to provincial agencies and local government. All transfers to either agencies or municipalities are published on Provincial Gazette. Transfers from national to provincial government done outside of the Gauteng PFM system are not covered. Legally, the provincial gazette provide detailed information on the purpose of the transfer, anticipated date of transfer and the reporting mechanism insofar as the grant implementation is concerned.

- i. **It is also important to highlight that the Constitution provides for the transparent and equitable division of nationally collected revenue between the three spheres of government, namely national, provincial and local (see Sections 214 and 227).** The annual Division of Revenue Bill (DORB) lays down the division of nationally collected revenue between the three spheres and regulates the rules-based transfers of discretionary equitable share allocations and non-discretionary (conditional) grant allocations to provincial and local governments.
- ii. **The DORB requires the province to publish and gazette the projections of intergovernmental transfers to municipalities once the bill is enacted.** Once enacted, DORA provides the official confirmation of intergovernmental transfers to provinces, enabling provinces to table their annual Appropriations Bills and gazette grant transfers to municipalities.
- iii. **The Appropriations Bill contain the high-level projected allocations to each vote and within each vote's programmes the projected grant allocations (under the item "transfer payments") to municipalities.** Therefore it is open for public scrutiny how provincial resources are allocated to municipalities within each sector such as health, education or housing, as well as the functional areas, i.e. the different programmes. In as much the gazette provide the transfer dates, this will solely depend on the signing of the memorandum of understanding by the agencies and municipalities. Detailed information on fiscal transfers is found on the Gauteng Provincial Gazettes which are produced with the Main budget in March, January with the Adjustment Budget.
- iv. **Provincial grants to municipalities are aligned to national, provincial and local government priority areas and are categorized in terms of the delivery of mandated local government basic services, e.g. water and electricity provision.** Performance information on the intended use and applicable performance indicators are included in the Annual Performance Plans of transferring Departments. Provincial grants to municipalities are predictable and facilitate planning and budgeting due to the early gazetting of projected grant allocations over the medium-term timeframe. These grant allocations are not rules-based to the extent that there is a slice of provincial

resources that need to be divided between all municipalities. These grant allocations are for approved projects and require that recipient municipalities qualify in terms of specific criteria. Continued grant allocations are a function of the satisfactory delivery on projects and municipal service delivery.

- v. **Financial information is collected by the Gauteng Provincial Government from municipalities as per the requirements of the PFMA and MFMA.** Respective municipalities submit monthly revenue and expenditure returns as per Section 71 of the MFMA and more detailed financial and non-financial information every six months as per Section 72 of the MFMA. Such reports detail the receipt and execution of grant transfers from the Gauteng Provincial Government Departments. Furthermore, municipalities are required to report quarterly to the provincial Department on their performance against the transferred amounts. The municipalities' performance on these grants is monitored on a monthly basis by means of the Provincial Treasury's IYM tool and during quarterly visits to municipalities.
- vi. **Annual Reports of both municipalities and transferring Departments disclose through annual financial reports as provided under the Treasury Regulations and PFMA performance of provincial grant allocations to municipalities.** As noted in PI-7 above, the content and timing of the compilation and tabling of Annual Reports and the Annual Financial Statements are strictly regulated for provincial Departments and their Public Entities. The MFMA likewise require similar standards of fiscal compliance for municipalities to be met.

Extent of consolidation of fiscal data for general government according to sector categories.

The Standard Chart of Accounts(SCoA) prescribed by National Treasury is applicable to all provincial governments such as Gauteng. The provincial governments were given legislative, operational and financial autonomy in terms of the Constitution, the PFMA and their respective laws issued under their own legislatures. As stated under PI-25, the law clearly defines the types and levels of compliance for provincial governments, provincial legislatures and trading entities including a requirement to comply with the same law that applies to provinces. Through implementation of transversal systems and integrated financial management systems such as SAP financial reports are standardised. IFMIS and other transversal systems capture, record, and consolidate all the transactions executed by provincial governments.

The Gauteng provincial accounting reports and financial statements and budget execution reports contain data of provincial government built on a uniform classification basis. Through automation, financial statements of Gauteng will derive from an integrated financial reporting data of provincial budgetary allocations and expenditure which data model ensures that once data is uploaded it is accessible through user accounts , in addition information is entered once instead of repeated entry and update .

Summary

- a. ***Dimension PI-8 (i) receives a B rating because horizontal allocation of almost all transfers (at least 90% by value) from central government is determined by transparent and rules based systems.*** The recent introduction of reforms will improve performance through individual justification for transfers but will obviously disadvantage provinces that are not so responsive. A mechanism of accommodating slow respondents should be inbuilt into the processing mechanism to avoid penalising provinces in need. According to National Treasury, the amount of infrastructure conditional grants allocated to each province is calculated through a formula. This formula based approach does not take account of a rigorous planning process for infrastructure projects or the capacity of provinces to implement. To address this perceived shortcoming the Medium Term Budget Policy Statement 2012 provided that a new approach to infrastructure conditional grants would be introduced and is intended to institutionalise proper planning. Thus provinces will be required to bid for these allocations two years in advance and financial incentives will be built into the grant for provinces that implement best practices in delivering infrastructure.

- b. **Dimension PI-8(ii)** This receives a rating of A based on the conclusion that sub-national governments are provided with reliable information on the allocations to be transferred to them ahead of completing their budget proposals, so that significant changes to the proposals are still possible. Transfers are only effected upon the signing of the Memorandum of Agreement and / or compliance with the requirements of the Conditional Grant Framework contained in the Division of Revenue Act.
- c. **Dimension PI – 8 (iii)** receives an “A” rating because fiscal information using classification consistent with the provincial government is available in a timely manner and consolidated in annual fiscal reports.

Reforms

It is noted that the amount of infrastructure conditional grants allocated by National Treasury to each province is calculated through a formula. Review of recent changes in the assessment concluded that the formulae based approach does not take account of a rigorous planning process for infrastructure projects or the capacity of provinces to implement. In response and through the MTBPS of 2012 the government decided that to derive and achieve better value for money from investment in provincial infrastructure a new approach to infrastructure conditional grants allocation was needed. The objective is to institutionalise structured planning through compelling provinces to bid for these allocations two years in advance. As part of the reform financial incentives will be built into the grant for provinces that implement best practices in delivering infrastructure. The new reforms are already in process and Gauteng which is part of this change is expected to benefit through introduction of rigor. Thus safeguards are needed to protect the beneficiaries in provinces where officials may not necessary meet the Treasury performance standards in terms of responsiveness and speed for a provincial government in need.

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

Indicator	Score	Brief explanation of status
PI-9 Oversight of aggregate fiscal risk caused by other public sector entities	A	M1 Scoring Method
(i) Extent of central government monitoring of autonomous government agencies and public enterprises.	A	Autonomous government agencies and public enterprises (Gauteng Entities) are audited and their annual fiscal reports are submitted to departments with which these are attached. These reports are consolidated and submitted as part of the annual reporting process. Reports are received from Audit Committees, Internal Audit and discussed with Gauteng Provincial Treasury and reviewed by Portfolio Committees of the Provincial Legislature. The Legislative Committees are at liberty to probe, investigate, and interrogate members of the audit committees, internal audit units (shared service) under the Gauteng Audit Services. Annual reports of the departments include a report by Audit Committee whose scope cover risk oversight issues. Although the primary responsibility for risk oversight is in the hands of Gauteng provincial Treasury, the Audit Committee which are appointed in terms of the law do provide an independent mechanism inclusive of public entities as defined in the PFMA. Audit committees are independent professionals who work with Heads of Departments and officials of Gauteng provincial government and report on the basis of law to the legislature and through the MEC (finance and economic Development) and sector MECs.
(ii) Extent of central government monitoring of subnational governments' fiscal position.	A	A rating of A is suitable as Municipalities cannot generate fiscal risk for provincial governments since they are constitutional bodies. The law clearly provide for separation of powers and functions in the area of short term and long term borrowing through PFMA.

Assessment under this indicator examines the extent to which the provincial government manages and monitors fiscal risks.

(i) Extent of monitoring of autonomous government agencies and public enterprises.

The PFMA provide for fiscal risk oversight of public entities and agencies. Within the Gauteng Treasury the Accounting Officer has the mandate supervise fiscal risk as provided under the law through

- Appointment of Boards and Audit Committees for Public entities
- Establishing Internal Audit units as required by the PFMA law
- Requiring PEs to submit quarterly, half yearly and annual reports on their performance disclosing extent of compliance with risk management framework for Gauteng
- Internal Control and Corporate Governance framework as defined by the PFMA and as defined in the scope of work and terms of reference of the Financial / Fiscal Governance Unit
- The law which ensures that members of Audit committees in the entities are independent but also that they are professionally not in a full time employment of the province and they are members of the South African Institute of Chartered Accountants.
- Creating an Audit Charter for every Internal Audit Unit and ensuing it operates according to the provisions of the PFMA

Autonomous government agencies and public enterprises (Gauteng Entities) are audited and their annual fiscal reports are subject to parliamentary oversight and submitted to departments to which they are attached. These financial reports are consolidated and submitted as part of the annual reporting process. Review and oversight Reports are received from Audit Committees, Internal Audit and discussed with Gauteng Provincial Treasury and reviewed by Portfolio Committees of the Provincial Legislature. The Legislative Committees are at liberty to probe, investigate, and interrogate members of the audit committees, internal audit units (shared service) under the Gauteng Audit Services. Annual reports of the departments include a report by Audit Committee which discuss risk oversight issues. Although the primary responsibility for risk oversight is in the hands of Gauteng Provincial Treasury, the Audit Committees which are appointed in terms of the law do provide an independent mechanism which covers public entities to the extent possible as defined in the PFMA. Audit committee members are independent professionals who work with Heads of Department and officials of Gauteng provincial government and report on the basis of law to the legislature and through the MEC (finance and economic development) and sector MECs.

A suitable rating would be an A based on the criteria as the consolidation happens quarterly, six monthly and annually. A focal unit provides functional oversight with functions whose scope are defined in a term of reference and which are clearly assigned in the GPG structure.

(ii) Extent of monitoring of lower level governments' fiscal position

Lower Local Governments in South Africa include municipalities in the mainstream and because Gauteng is small in terms of land size, it has 10 municipalities under its jurisdiction. Municipalities are sub-provincial as provided under the Municipal Financial Management Act. A major source of risk for municipalities is short-term and long term borrowing. The legal power of municipalities is constitutional and institutional structure of the local government sphere is relatively coherent in its fiscal aspects. Thus expenditure responsibilities, policy authority and revenue raising powers are consistent and congruent. In this respect 90% of municipal revenues are generated internally through property rates and service charges - the balance (10 per cent) being transferred from central government in the form of subsidies and agency payments – and local authorities have wide discretionary powers over the use of these revenues. Though there is regulation through national legislation, the constitution gives sufficient autonomous fiscal powers for municipalities to pledge their tax base in order to borrow for capital investment programs. This constitutional and institutional structure offers a solid basis for the development of the decentralized, direct-access framework system.

The bulk of the revenues constituting 65 per cent are generated by the “trading services” which include electricity, water, and sanitation and refuse removal. Municipalities thus play unique role in direct delivery of such services. It is important therefore to state clearly that even though there is an assumption that Provincial Governments structurally and hierarchically should provide oversight over municipalities this is only ceremonial as they are constitutional bodies with the same autonomy as a provincial department. Thus the oversight over municipalities is only nominal.

PUBLIC ENTITY/ GOVERNMENT COMPONENT	PFMA SCHEDULE	ENABLING LEGISLATION
1. Gauteng Enterprise Propeller	3C	Gauteng Enterprise Propeller Act, 5 of 2005
2. Gauteng Gambling Board	3C	Gauteng Gambling Act, 4 of 1995 (as amended)
3. Gauteng Growth and Development Agency	3C	Blue IQ Investment Holdings Pty Ltd Amendment Act, 1 of 2012
4. Gauteng Tourism Agency	3C	Gauteng Tourism Amendment Act 3 of 2006

5. Gauteng Partnership Fund	3C	Cabinet decision
6. Gautrain Management Agency	3C	Gautrain Management Agency Act, Number 5 of 2006
7. Gauteng Film Commission	N/A	N/A

Because of their independence and autonomy sub-national government at the level of municipalities cannot generate fiscal risks for Provincial Governments. At national level they are capable of borrowing short term and long term and therefore could increase public debt. Through a National PEFA assessment the impact can be assessed as it is possible for municipalities to generate fiscal risk through borrowing of short term and long term resources to finance their activities and projects.

The following is a list of public Entities under the Gauteng Provincial Government.

Reforms

Recent observations by AGSA highlight the fact that the category C entities elsewhere in South Africa were running at a loss which echoes the risks highlighted in IMF -Article 4 Consultation report of December 2014. An effort to monitor and publish AGA and PE performance data is necessary to bring into public view and domain the impact the entities have on the operations of government. Public enterprise monitoring tools exist that can enable financial/ fiscal analysts to report on how these entities are performing without the Provincial Government violating the principles of an arm's length relationship which is important for autonomy of the public entities and independence in operational terms. The information on public enterprise/ entity performance should be made public and shared through central repositories under the Gauteng Provincial Government.

PI-10 Public access to key fiscal information

Performance Indicator	Score	Explanation
PI-10 Public access to key fiscal information	A	M1 scoring method
Number of elements listed above regarding public access to information that is fulfilled.	A	The provincial Treasury prepares and makes available to the public at least five to six of the key listed types of information. These include annual budget documentation; in-year budget execution reports, year-end financial statements, external audit reports , contract awards and resources available to service delivery units

Under PI-10 we are measuring transparency which depends on whether information on fiscal plans, positions and performance of the government is easily accessible to the general public or at least the relevant interest groups. Based on analysis of PI-6, PI-11 & PI-12 and financial reporting and procurement information provided by Gauteng to various stakeholders either as a best practice or legal obligation and compliance with existing legislation the province had comprehensive set of information. This was availed through Gauteng Treasury, Gauteng Department of finance (procurement, open tender access information), health (annual reports,

budget, sector policy and other performance data), education (educational information, annual reports, budget information). The information met all the requirements of this indicator except disclosure of information on resources available to primary service units. In as much as the information is available at the Gauteng Treasury and spending departments, the presentation of this information is not structured to address this requirement. The format and regularity of disclosure (probably monthly and quarterly in advance) needs to be institutionalized and assigned in the Provincial Treasury and key service delivery units.

Elements of information to which public access is essential include:

- (i) **Annual budget documentation:**
There is complete access to this information on websites of key departments (i.e. www.treasury.gpg.gov.za). Some of the departments need to make significant improvement to ensure that the presentation of information is improved and the information availed and updated regularly. An alignment and linkage mechanism is necessary to ensure that whatever is presented, approved or reviewed by the legislature, is accessible immediately to members of the public through appropriate websites.
- (ii) **In-year budget execution reports:** These reports are available on the websites and accessible through GPT.
- (iii) **Year-end financial statements:** The statements are made available to the public through departmental websites and embedded in the Annual reports.
- (iv) **External audit reports:** All reports on provincial government consolidated operations are made available to public through reports of the Auditor General. These were confirmed during the discussion and website information review and considered more than adequate. Reports of the AGSA on Gauteng are availed in hard copy and electronic formats
- (v) **Contract awards:** Award of all contracts with value above approx. R1,2 million(est. 2014 prices) are published on an ongoing basis through GDF which consolidate the entire information set for Gauteng . The introduction of an open tender system by Gauteng Treasury also recently published and being piloted will build upon existing public tender information on opportunities and awards. The information provided meets MAPS requirements and if rolled out to the rest of the Gauteng departments it would become a model for provinces in South Africa.
- (vi) **Resources available to primary service units:** Information is publicized through appropriate means at least annually, or available upon request, for primary service units with provincial coverage in at least two sectors (such as elementary schools or primary health clinics). This information is available but as stated above it needs to be organized and structured to ensure it is published as and when resources become available (the fact should be announced in advance)

Section 15 (10 (A) of Promotion of Access to Information Act of 2000 and the PFMA does list the nature of documents which must be put to public domain by the Gauteng Treasury.

The Gauteng Treasury uses different media platforms to share information which is in the interest of the public. It has been noted with concern that the uploading of information on departmental websites has not been timely and in terms of content consistent. Thus during the assessment, the PEFA team met with provincial Communications directorate to understand the nature of the problem.

In as much as the advertising and awards of tenders may sometimes not be available on websites, Provincial newspapers and Tender bulletin are also utilised.

Table 3.17: Indicators Of Public Acces To Key Financial Information

Key information	Situation of public access
(i) Annual budget documentation: A complete set of documents can be obtained by the public through appropriate means when it is submitted to the province legislature.	Budgets are published in the newspapers, on the department's website as well as filed in the provincial libraries.
(ii) In-year budget execution reports: The reports are routinely made available to the public through appropriate means within one month of their completion.	This is done on a monthly and quarterly basis and published on the National Treasury website.
(iii) Year-end financial statements: The statements are made available to the public through appropriate means within six months of completed audit.	Annual Financial Statements are made public with the departmental annual report.
(iv) External audit reports: All reports on province consolidated operations are made available to the public through appropriate means within six months of completed audit.	External audit reports are made public with the departmental annual report.
(v) Contract awards: Award of all contracts with value above approx. USD 100,000 equiv. is published at least quarterly through appropriate means.	Tender Bulletin is used to publish all provincial tender awards.
(vi) 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 (elementary schools or primary health clinics).	The Gauteng Provincial Government publishes through the Provincial Gazette resources made available to schools and health institutions. This is published and accessed in a timely manner

Reforms

Considering that some information was shared centrally but not available through the respective department websites it would be important to rationalize and harmonise the disclosure and reporting of PFM information from key departments. For example Gauteng Department of Health and procurement information will also be available directly on their website as well as the GDF and Provincial Treasury. In addition links would exist in the Gauteng Legislature as well as Gauteng Treasury ensuring that irrespective of which website you access from you will have access to uniform content from all external websites, units and departments.

PI-11 Orderliness and participation in the annual budget process

Indicator	Score	Explanation
PI-11 Orderliness and participation in the annual budget process	A	M2 scoring method
(i) Existence and observance of a fixed budgetary calendar	B	A budget calendar with fixed dates is made available to all departments.
(ii) Directives on the preparation of budgetary documents	A	A detailed guideline give directives to Budget Administrators
(iii) Timely approval of the budget by the Legislature	A	Budgets are usually approved on time.

Source: Gauteng Provincial Treasury Budget reports 2011- 2014

The Gauteng Treasury drives the annual budget process; but effective participation in the budget formulation process by all departments, agencies and entities as well as the political leadership, impacts the extent to which the budget will reflect macro-economic, fiscal, and sector policies. At National Treasury, critical dates are set of which the provincial budget process must be aligned with. The process is to ensure that resources are allocated to meet South Africa's development priorities and to improve the quality and effectiveness of spending within sustainable fiscal limits.

The Provincial Executive Committee sets out the provincial priorities, which must be considered when preparing annual budgets. Multiyear Budgets are prepared in terms of s28 (a) and in conjunction with Treasury Regulations 6.1.

(i) Existence and observance of a fixed budget calendar

Provincial Treasury prepares an annual budget calendar in consultation with stakeholders. This budget calendar is then revised and disseminated to all provincial government departments to prepare the necessary input and rollout the process for implementation. Individual Gauteng departments must comply with the budget process and deadlines thus ensuring that the budgets are prepared and approved on time as per the budget timeline.

Table 3.18: Calendar For The Budget Preparation Process (For 2014 Budget)

DEADLINE	ACTIVITY
July	Technical Committee on Finance (TCF) Lekgotla
	Budget Council meeting (provisional)
August	Provincial treasuries submit first draft 2015 Budgets to National Treasury: Estimates of Provincial Revenue and Expenditure and database
September	Technical Committee on Finance meeting
October	Preliminary conditional grant frameworks and allocations submitted to National Treasury
	Budget Council and Budget Forum meeting

DEADLINE	ACTIVITY
	Tabling of Medium Term Budget Policy Statement (MTBPS) in Parliament
	Preliminary allocation letters issued to provinces – equitable share and conditional grant allocations
November	Provincial treasuries submit 2nd draft 2015 Budgets to National Treasury: Estimates of Provincial Revenue and Expenditure and database
	Technical Committee on Finance meeting
December	Provincial benchmark exercise for 2015 Budget
	Final conditional grant frameworks and allocations submitted to National Treasury
	Second allocation letter to provinces
January	Provincial benchmark exercise for 2015 Budget (2nd round)
	Technical Committee on Finance meeting
February/March	Final allocation letters issued to provinces
	Budget Council meeting
	Provincial 2015 Budgets tabled at provincial legislatures

Source: Gauteng Provincial Budget Calendar

Attached is a published budget calendar for 2011. The current calendar for Gauteng which integrates provincial and national budget processes was presented as evidence for the assessment exercise. That calendar is not accessible from any of Gauteng public documents hence the following sample is attached to show the content and nature.

(ii) Guidance on the preparation of budget submissions

- a. Since the promulgation of the Public Finance Management Act (1999) , the National Treasury has issued scores of circulars annually to address, advise and guide provincial treasuries and sector departments (health, education, infrastructure , social development , etc.) that are coined category to prepare detailed budgets for approval by the provincial legislatures. Circulars are also issued to public entities, constitutional bodies and trading accounts and funds. The promulgation of these guidance some very technical is meant to harmonize and standardize budgeting. For Provincial Governments guidelines on how to bod for earmarked and conditional grants are updated every year at national through a guideline and updated frameworks.
- b. A detailed budget management and MTEF Budget guidelines is issued by National Treasury to Provincial Treasury, requiring who will then issue an annual budget circular to provincial departments to start the development and consultation process necessary for a complete and comprehensive budget to be developed and approved. Various categories of budget guidelines are meant to guide Budget Officers to compile a credible and policy driven budgets. All departments are to comply with the ceilings as set out on the budget guide lines. A key step is to ensure that Departmental draft budgets are presented to the Legislative Budget Committee for review, and input and compliance with the guidelines. The

budget guidelines set out revenue and expenditure ceilings for the next three years, supported by macroeconomic assumptions.

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

The Gauteng provincial budget is approved by the legislature before commencement of the fiscal year. This has been consistently followed by the legislature in the past 3 fiscal years; FY2011/12 (approved March 2012); FY2012/13 (approved March 2013); FY2013/14 (approved March 2014). In the circumstances the most appropriate rating would be A.

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

Indicator	Score	Explanation
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	A	M2 Scoring Method
(i) Multi-annual fiscal forecasts and functional allocations	A	Three year budget estimates are prepared and submitted in line with National Treasury budget frameworks and guidelines
(ii) Scope and frequency of debt sustainability analyses	A	The scope is comprehensive involving National Treasury and Provincial Treasury. It is submitted as part of the Provincial budget and DSA is done annually in line with NT standards and guidelines.
(iii) Existence of sector strategies with cost determination	A	The projects and outputs are developed and presented on a comprehensive cost basis. National Treasury provides an escalation guide to attempt to assist departments with the calculation of Compensation of employees as well as goods and services items which contribute to the cost of a department delivering a service.
(iv) Links between investment budgets and future expenditure estimates	A	GPG has a comprehensive budget which is presented in the Estimate of provincial Revenue and Expenditure (EPRE). This encompasses the full budget of the department. In addition, to provide more detail on the nature of investment in infrastructure and improve transparency and accountability, GPT produces an Estimate of Capital Expenditure (ECE).

Expenditure policy decisions have multi-year implications and must be aligned with the availability of resources in the medium-term perspective. Expenditure policy decisions or options should be described in sector strategy documents, which are calculated and modelled in terms of estimates of forward expenditures to determine whether current and new policies are affordable within aggregate fiscal targets.

Regulation 5.1.1 of PFMA 1 of 1999, states that the Accounting Officer must prepare a budget that is consistent with a period covered by Medium Term Expenditure Framework (MTEF). Budget estimates are informed by any changes which may occur in policy direction. The next adjustment and forward planning take into account the varying conditions under which a budget is crafted and how these must be factored into the next MTEF three year forecast. The budget is classified at a programme, sub-programme level as well as per economic classification.

According to the IMF (Article 4 Consultation -2014) , public debt sustainability data coverage is consistent with the data on government debt reported by the National Treasury, the fiscal assumptions in the DSA are based on the national government's main budget (which cascades to the Gauteng Province). While this specific coverage excludes provincial governments, social security funds, and extra-budgetary institutions, these entities are not allowed to incur debt, the Gautrain is national debt assigned to the Province under the management arrangements. Accordingly most provincial and municipal expenditure is funded through transfers from the national government and thus is already captured in the projections. The IMF also highlights in the staff report that DSA also excludes SOEs, whose indebtedness has increased rapidly in recent years. Gautrain is one of the public enterprises or SOE . Around 45 percent of SOEs' borrowing is covered by government guarantees and the DSA therefore includes an analysis of the fiscal impact of the realization of these contingent liabilities.

Treasury(including Gauteng) also remain firmly committed to fiscal sustainability and to taking the measures necessary to achieve this objective. Stronger growth in the medium term will buoy tax revenue, allowing fiscal space to be rebuilt at the same time as spending can be expanded to achieve the goals of eliminating poverty and lowering inequality. Finally, while the government will support strategic SOEs, it will explore ways to divest nonstrategic assets and will encourage high standards of efficiency in public investment projects.

Treasury officials deem that expenditure ceilings and a deficit reduction path remain appropriate anchors of their fiscal framework at all levels. They also point out that several factors underpin South Africa's sustainable debt position among them is that net debt at about 40 percent of GDP which is considered low. Maturity of public debt portfolio is well structured, and debt denominated in foreign currency is only about 10 per cent of the total, which limits the consequences of rand depreciation (current weakness). It is within the above that Gautrain debt was contracted. Accordingly Gautrain has 5 sources of funding – DoRA (Division of Revenue Act) money from central government via the Department of Transport – , MTEF (Medium Term Expenditure Framework) from Gauteng Provincial Government – . Private Sector Equity – , Private Sector Borrowing – and Provincial Borrowing

According to the revenue report for Gauteng , spending within the Transportation and Roads department decreased between the 2010/11 and the 2012/13 financial years mainly as a result of the Gautrain grant that was allocated for the completion of the construction phase of the project in the 2011/12 financial year. The allocation therefore fluctuates from R6.2 billion in 2010/11 down to R5.7 billion in 2012/13 to a further decrease of R5.8 billion in 2013/14. Over the MTEF the allocation recovers to R6.2 billion in 2014/15 and R7.2 billion in 2016/17. The Gautrain allocation that includes the patronage guarantee payment as part of the original allocation which is aligned to the financing plan for the project. Based on the information available and discussions with authorities including National Treasury the quality of debt reporting and data is high at National and Provincial Level. **A suitable rating would be A for this dimension.**

Gauteng has a model for detailed formulation and costing of key sector strategies (Tourism, infrastructure, health, education, roads and transport, housing, agriculture etc.). Through MEC there is wide consultation with sector stakeholders to ensure the policy and short and medium term plans are representative of the vision and the agreed roadmap and are aligned to the resource envelopes available through MTEF budgets in each key department. The Provincial Treasury does ensure that the recurrent and capital budgets are aligned, parcelled and package through the key sectors and department to achieve sector policies. The MTEF and investment budgets couched on the basis of National Treasury Standards are used to create a seamless link between investment budget and future spending. The Gauteng Provincial Treasury does ensure that there is packaging and alignment of PPP and infrastructure projects and programs irrespective which department is executing them.

3.2. Predictability and Control in Budget Execution

PI-13 Transparency of taxpayers' obligations and liabilities

Indicator	Score	Explanation
PI-13 Transparency of taxpayers' obligations and liabilities	B	M2 Scoring Method
(i) Clarity and comprehensiveness of tax liabilities	A	<p>For the Department of Transport, each motor vehicle is supposed to be registered as per regulation and National Road Traffic Act of 93, of 96. The Gauteng Province complies with the NRTA Regulation 24(2) (b) in that it determines its own registration and license fees, which are increased from time to time, if there is an adjustment in the fees such will be made available in the government gazette and to the Provincial Department of Roads and Transport website (http://www.roadsandtransport.gpg.gov.za)</p> <p>The Department of Economic Development's Gauteng Gambling Board collects taxes as per mandate of the Gauteng Gambling Act 4 of 1995. The Gauteng Gambling Board regulates gambling activities within the province as a whole. This institution serves as an agent of the Department of Economic Development.</p> <p>The legislation and procedures for the major own tax revenues, e.g. motor vehicle licenses; gambling licences and liquor licenses are comprehensive and clear. In general, the obligations and liabilities managed locally are published to the general public and any change is informed periodically through provincial government gazettes. The AGSA report did not report any significant material findings with regards to this indicator for Department of Transport, Gauteng Gambling Board and Gauteng Liquor Board. The rating only includes information for Transport and Gambling board.</p>
(ii) Access by taxpayers to information about responsibilities and administrative procedures in relation to taxes	A	<p>Taxpayers can access information about their tax liabilities and administration procedures by going through the Gauteng Department of Transport website which is updated regularly. Furthermore the department issues brochures to tax payers and has a dedicated help desk for the public to access information about tax information. By accessing the Gauteng Liquor Board's website (http://www.ggb.org.za), tax payers can access information about responsibilities and administrative procedures in relation to their tax liabilities. Taxpayers have easy access to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures for some of the major own tax revenues. The AGSA report did not report any significant material findings with regards to this indicator for Department of Transport, Gauteng Gambling Board and Gauteng Liquor Board. The rating only includes information for Transport and Gambling board and Liquor Board.</p>

Indicator	Score	Explanation
iii) Existence and functioning of a tax appeals mechanism.	D	Because there is no Revenue Authority and in all cases the Provincial Treasury is the last appeal authority , a rating of D would be appropriate. The AGSA report did not highlight any significant material findings with regards to this indicator for Department of Transport, Gauteng Gambling Board and Gauteng Liquor Board.

For the Department of Transport, each motor vehicle is registered as per regulations and National Road Traffic Act of 93, of 96. The Gauteng Province complies with the NRTA Regulation 24(2) (b) in that it determines its own registration and license fees, which are adjusted from time to time, if there is an adjustment in the fees such will be announced, gazetted and available through the Provincial Department of Transport website.

The Department of Economic Development's Gauteng Gambling Board collects taxes as per mandate of the Gauteng Gambling Act 4 of 1995. The Gauteng Gambling Board regulates gambling activities within the province as a whole. This institution serves as an agent of the Department of Economic Development.

Legislation and procedures for the major own tax revenues, for example motor vehicle licenses are comprehensive. In general, the obligations and liabilities managed locally are published to the general public and any change is informed periodically through provincial government gazettes.

Taxpayers can access information about their tax liabilities and administration procedures by going through the Gauteng Department of Transport website (<http://www.roadsandtransport.gpg.gov.za>) which is updated regularly. Furthermore the department issues brochures to tax payers and has a dedicated help desk for the public to access information about tax information. Through the Gauteng Liquor Board's website, tax payers can access information about responsibilities and administrative procedures in relation to their tax liabilities. Taxpayers have easy access to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures for some of the major own tax revenues.

Below a sample of the Gauteng Motor Vehicle Licenses is provided to enhance understanding of how provincial tax revenue operates in the province.

Table 3.19: Fees and Rates

Below is a sample of current Motor Vehicle Licenses for Gauteng

FEES		TYPE OF VEHICLE	
TARE			
Exceeding	Not Exceeding	Rigid vehicles*	Trailers and semi-trailors
0 kg	250 kg	R156,00	R156,00
250 kg	500 kg	R216,00	R180,00
500 kg	750 kg	R240,00	R240,00
750 kg	1 000 kg	R264,00	R288,00
1 000 kg	1 250 kg	R312,00	R336,00
1 250 kg	1 500 kg	R420,00	R432,00
1 500 kg	1 750 kg	R480,00	R516,00
1 750 kg	2 000 kg	R612,00	R612,00
2 000 kg	2 250 kg	R708,00	R744,00
2 250 kg	2 500 kg	R864,00	R840,00
2 500 kg	2 750 kg	R972,00	R996,00
2 750 kg	3 000 kg	R1 104,00	R1 128,00
3 000 kg	3 250 kg	R1 176,00	R2 112,00
3 250 kg	3 500 kg	R1 404,00	R2 328,00
3 500 kg	3 750 kg	R1 620,00	R2 592,00
3 750 kg	4 000 kg	R1 800,00	R2 856,00
4 000 kg	4 250 kg	R1 956,00	R3 048,00
4 250 kg	4 500 kg	R2 112,00	R3 372,00
4 500 kg	4 750 kg	R2 316,00	R3 612,00
4 750 kg	5 000 kg	R2 484,00	R3 912,00
5 000 kg	5 250 kg	R3 744,00	R4 272,00
5 250 kg	5 500 kg	R4 140,00	R4 584,00
5 500 kg	5 750 kg	R4 536,00	R4 920,00
5 750 kg	6 000 kg	R5 004,00	R5 280,00
6 000 kg	6 250 kg	R5 388,00	R5 664,00
6 250 kg	6 500 kg	R5 760,00	R6 048,00
6 500 kg	6 750 kg	R6 372,00	R6 408,00
6 750 kg	7 000 kg	R6 768,00	R6 780,00
7 000 kg	7 250 kg	R7 128,00	R7 152,00
7 250 kg	7 500 kg	R7 524,00	R7 560,00
7 500 kg	8 000 kg	R8 316,00	R8 340,00
8 000 kg	8 500 kg	R9 504,00	R9 480,00
8 500 kg	9 000 kg	R10 344,00	R10 416,00
9 000 kg	9 500 kg	R11 484,00	R11 532,00
9 500 kg	10 000 kg	R12 492,00	R12 528,00
10 000 kg	10 500 kg	R13 932,00	R13 992,00
10 500 kg	11 000 kg	R15 132,00	R15 204,00
11 000 kg	11 500 kg	R16 536,00	R16 608,00
11 500 kg	12 000 kg	R18 024,00	R18 108,00
Above 12 000 kg (for each additional 500 kg, or part thereof):		+ R1 224,00	+ R1 476,00
* The rate for rigid vehicles applies to all truck-tractors whether used for farming or not.			
OTHER VEHICLE TYPES (irrespective of tare)			
Motor Cycles	Caravans		
R144,00	R204,00		
Motor vehicle registration fee: R132,00		Application for motor trade plate :R108	

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

Indicator	Score	Explanation
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	C+	M2 Scoring Method
(i) Application of controls in the taxpayer registration system	B	All new motor vehicles in the Gauteng province are registered on the National Traffic Information System (eNaTis) (http://www.enatis.com) eNaTis is an online system used by the Department of Transport for motor vehicle registration and licensing. The system is not linked to any other system within the Gauteng Province. The Gauteng Gambling Board has an up to date database for licensed institutions, furthermore taxpayers are screened and licensed through the process. Applicant can download registration forms on the websites for tax compliance registration. The AGSA report did not capture any significant material findings with regards to this indicator for Department of Transport, Gauteng Gambling Board and Gauteng Liquor Board.
(ii) Effectiveness of sanctions for failure to register and declare taxes	B	In terms of the National Road Traffic Act (Act No. 93 of 1996), failure to license or register a vehicle will result in penalties charged to the specific individual or organisation. The penalties are incurred automatically from the date of non-compliance or expiry and will remain as such on eNaTIS until they are settled by the defaulter. The system is configured in such a way that an individual cannot perform any transaction until their account is updated accordingly. In the case of Gauteng Gambling Board compliance for registration is enforced by penalties, revocation or suspension of licence. AGSA report did not report any significant material findings with regards to this indicator for Department of Transport, Gauteng Gambling Board and Gauteng Liquor Board.
iii) Planning and control of tax audit programmes	C	Audits are carried throughout the year by the Department of Community Safety and the office of the Chief Directorate. Gauteng Gambling board has carried 170 inspection and 176 audits in the financial year under audits, however reports of such audit were not submitted to us for confirmation of the occurrence of such audits. The AGSA report did not report any significant material findings with regards to this indicator for Department of Transport, Gauteng Gambling Board and Gauteng Liquor Board. The rating only includes information for Transport and Gambling board.

New motor vehicles in the Gauteng province are registered on the National Traffic Information System (eNaTis). ENaTis is an online system used by the Department of Transport for motor vehicle registration and licensing. The system is not linked to any other system within the Gauteng Province. The Gauteng Gambling Board has an up-to-date database for licensed vehicle owners and institutions, furthermore taxpayers are screened and licensed through the process. Applicants can download registration forms on the websites for tax compliance registration. In terms of the National Road Traffic Act (Act No. 93 of 1996), failure to license or register a vehicle will result in penalties charged to the specific individual or organization. The penalties are incurred automatically from the date of non-compliance or expiry and will remain as such on eNaTIS until they are settled by the defaulter. The system is configured in such a way that an individual cannot perform any transaction until their account is updated accordingly. In the case of Gauteng Gambling Board compliance for registration is enforced by penalties, revocation or suspension of license. Audits are carried throughout the year by the Department of Community Safety and the office of the Chief Directorate. Gauteng Gambling board has carried 170 inspection and 176 audits in the financial year under audits, however copies of reports of such audit were not submitted to us for confirmation of the occurrence of such audits.

PI-15 Effectiveness of tax collection

Indicator	Score	Explanation
PI-15 Effectiveness of tax collection	B+	M1 Scoring Method
(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of fiscal year, which was collected during that fiscal year (average of the last two fiscal years)	B	Revenue; tax and nontax revenue is managed by the Department of Finance and Economic Development. Revenue collection departments inclusive of all tax revenue agencies fall under the department's policy direction. Within Gauteng Provincial Treasury a unit provides revenue oversight and reporting. There are three agencies that administer taxes (Gambling Board, Transport and Liquor Licenses). The eNaTIS, Gambling Board databases and Liquor Board information do not reflect disaggregated information including arrears. Because of the penalties for violating deadlines, the tax collection agencies do not track, record and monitor arrears because they are insignificant. The reports from the systems give a total amount due. Gauteng Gambling Board does not have arrears from taxpayers as all payers are up to date as non-compliance results in cancellation and revocation of licenses. AGSA report did not report any significant material findings with regards to this indicator for Department of Transport, Gauteng Gambling Board and Gauteng Liquor Board. Financial statements and notes to financial statements do not disaggregate revenue by departmental source as cited above. It was confirmed that there are no arrears worth reporting by the Gauteng Treasury and its also confirmed through AGSA Gauteng Province
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.	B	The three tax revenue departments/ agencies surrenders the tax revenue to the Provincial Revenue Fund in line with the law. Specifically, the Department of Transport surrender or pays over all collections for the preceding month including tax revenues to the Provincial Treasury in the current month. The payment advice is compiled and captured on the

Indicator	Score	Explanation
PI-15 Effectiveness of tax collection	B+	M1 Scoring Method
		system and cash is transferred to the Provincial Treasury. Taxes due are directly deposited into the bank account of Gauteng Gambling Board when they are due and the board transfers what they have collected monthly to the Provincial Revenue Fund. All liquor board licenses are collected and transferred in time. AGSA report did not report any significant material findings with regards to this indicator for Department of Transport, Gauteng Gambling Board and Gauteng Liquor Board
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and transfers to Treasury.	B	The Departments of Finance and Economic Development and Transport perform comprehensive reconciliation between tax assessments, collections, arrears records and transfers to Treasury. Gauteng Gambling Board and Liquor board also perform reconciliation between collections and transfers to Provincial Treasury at least within a month of end of quarter. Normal reconciliations for all accounts are undertaken regularly and monthly inclusive of revenue accounts. This happens at collections units and at the level of Provincial Treasury.

The eNaTIS does not give a breakdown of what each individual tax payer is owing, the arrears amount is combined with the current amount to come to a total which will be payable when the individual is registering or renewing their vehicle licenses. The report from the system gives a total amount due. Gauteng Gambling Board does not have arrears from taxpayers as all payers are up to date as non-compliance results in cancellation and revocation of licenses. Department of Transport surrender or pays over all collections for the preceding month including tax revenues to the **Provincial Revenue Fund** in the current month. The payment advice is compiled and captured on the system and cash is transferred to the Provincial Treasury. Taxes due are directly deposited into the bank account of Gauteng Gambling Board when they are due and the board transfers what they have collected monthly to the Provincial Revenue Fund. The Department of Transport performs a comprehensive reconciliation between tax assessments, collections, arrears records and transfers to Treasury. Gauteng Gambling Board also performs reconciliation between collections and transfers to Provincial Treasury on a regular and ongoing basis. In summary whatever is due is collected from the tax-payers.

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

Indicator	Score	Explanation
PI-16 Predictability of availability of funds for commitment of expenditure	A	M1 scoring method
(i) Degree to which cash flow forecasting and monitoring is carried out	A	Cash flow projections are compiled a month before the beginning of the financial year, revised, updated reported and monitored on weekly, monthly and quarterly basis. The work is supported by focus teams at the provincial level and at each department. Gauteng Treasury

Indicator	Score	Explanation
PI-16 Predictability of availability of funds for commitment of expenditure	A	M1 scoring method
		have developed financial management tools that are integrated in ensuring regular update, reporting and monitoring of the status at provincial level and departmental level. Cash-flow planning, tracking and reporting is an integral part of the Gauteng Treasury operations which is run and operating in line with best practice standards.
(ii) Reliability and time horizon of the periodic information during the year providing the MDAs with information about maximum limits and payment commitments	A	All departments submit fund requisitions on monthly basis which to Provincial Treasury for cash distribution and payment of monthly expenditure. This is administered by a team of financial and treasury operations managers and specialists. The operation of the Gauteng - Treasury operations not only meet the minimum requirements of Treasury Reference Model (TRM) but have maintained and operated within the limits of best practice and exceeding the requirements in terms the operational and financial control requirements.
(iii) Frequency and transparency of the adjustments made to the budgetary allocations available at a level higher than MDA administrations	A	Section 31 of PFMA 1 of 1999 stipulates that the MEC for finance in a province may table an adjustment budget in the provincial legislature as and when necessary. During the last 3 years adjustments have been undertaken and authorised in line with the law and correct procedures and consultations have been followed. For example during 2014, total main appropriation has been adjusted upward by R 237.7 million from R86.9 billion to R87.2 billion.(GPT/2014). These adjustment budgets are published in the official budget booklet every year. In 2013/14 the budget was adjusted by 4.38 % of appropriation. It is noted that budget adjustments are the sole responsibility of MEC for Finance who operate within the law.

Section 40 (4)(a) and Regulation 15.10.2 of PFMA 1 of 1999, states that the Accounting Officer must each year before the beginning of the financial year provide the relevant treasury in the prescribed format with a breakdown per month of the anticipated revenue and expenditure of that department for that financial year. All departments in the Gauteng province prepare their annual revenue and expenditure cash flow projections and submit to Provincial Treasury in March each year. Departmental cash flows are consolidated and submitted to National Treasury to allow them to plan fiscal distribution.

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

Cash flows are revised on weekly, monthly and quarterly basis to support Treasury operations. Models used for cash-flow forecasting , planning , distribution and management meet the litmus test such as defined by a typical *Treasury Reference Model (TRM) developed by international Model Fund*. Cash-flow distribution and actual disbursement is based on revenue streams which will take into account periods of shortfalls. Key service delivery departments (Health and Education) are given high priority and the department of Education is provided with a higher portion of equitable share in April. Funds for conditional grants, compensation of employees and critical services are ring fenced (protected) for the purpose. The Gauteng publishes regularly funds available to education and health delivery units . It is gazetted in terms of the law and published for access to recipients and Gauteng MDAs involved in its financial management.

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

Provincial departments compile a list of monthly creditors to be paid and submit Fund Requisitions to the Provincial Treasury, which will then transfer funds to departments according to their moderated fund requests in terms of Regulation 15.7 of PFMA 1 of 1999. Processing of payments is centralized and is run by Business management unit at the Provincial Treasury. Should funds requested become more than what is available, Financial Accounting services may use surpluses, failing which re-prioritization of payments will be made.

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

Section 30 of PFMA 1 of 1999 stipulates that the Minister may table an adjustment budget in the National Assembly as and when necessary. The adjustment budget is subjected to analysis and review by stakeholders such as political representatives, civil society organisations, government MDAs, analysts and legislators. This has been religiously followed and complied with during the 3 year period of assessment.

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

Indicator	Score	Explanation
PI-17 Recording and Management of Cash balances, Debt and Guarantees	A	M2 scoring method
i) Quality of the records and reports presented on debt data.	A	A suitable rating for the records which are self-evident through a very comprehensive Debt Sustainability Analysis is an A considering that this is comprehensive and detailed and structured as one of the best among OECD and Emerging market countries.
ii) Degree of consolidation of government cash balances	A	All cash balances are calculated daily, updated weekly, monthly and consolidated. The Gauteng Provincial Government operates a Single Treasury Account that is the fulcrum of Consolidated cash flows. All accounts operate systematically as a single account with tokens enabling financial controllers to monitor movements, transfers in and out on a daily basis. Key departments such as Health, Education, Transport and Infrastructure are weaved into the control framework.

Indicator	Score	Explanation
iii) Systems for contracting loans and issuance guarantees	A	Central government's contracting of loans and issuance of guarantees are made against transparent criteria and fiscal targets, and always approved by a single responsible government entity. The authority captured in the law is embedded in the Minister in charge of Finance and Economic Development as advised by Gauteng Treasury.

Cash management and the Treasury function are the centre of liquidity management which enables the Provincial Treasury to function smoothly as it fulfils its mandate.

Cash management has the following purposes: aggregate control of spending, efficient implementation of the budget, minimization of the cost of government borrowing and maximization of return on government deposits and financial investments. The key principles which are operational in Gauteng and founded on the *Treasury Reference Model (TRM)* are:

- a. **Centralization of cash balances.** This centralization (not to be confused with Centralization of payments), is made through a "Treasury Single Account".
- b. **Treasury Single Account is an account or a set of linked accounts through which all government payment transactions are made.** It have at least the following features: (i) daily centralization of the cash balance (when it is possible); (ii) accounts open under the responsibility of the Treasury; and (iii) transactions recorded into these accounts along the same set of classification. This model could fit both centralized and decentralized arrangements in public expenditure management, providing modern information technology is available.
- c. **Cash planning is essential.** It includes: (i) the preparation of an annual budget implementation plan, which should be rolled over quarterly; (ii) within this annual budget implementation plan, the preparation of monthly cash and borrowing plans; (iii) weekly review of the implementation of the monthly cash plan. In turn, in order to prepare monthly cash plans, it is necessary to monitor commitments in order to avoid arrears generation or delays in payment.
- d. **Borrowing policy needs to be set in advance, and the borrowing plan must be made public.** Borrowing by subnational governments must be regulated, and should be consistent with overall fiscal targets. External debt should be contracted in accordance with the budget or a multi-year expenditure program, and monitored closely.

j) Quality of debt data recording and reporting

The Gauteng Treasury does have any public debt inclusive of nominal debt which was assigned to the province (under a special arrangement) for Gautrain. This is fully funded by National Treasury with debt service funds being transferred to Gauteng for the purpose. This debt is serviced by Gauteng on an agency basis but is pure commercial debt which was assigned as part of the financial agreement between National Treasury, Gauteng and commercial partners of the Gautrain project. A suitable rating for the records which are self-evident through a very comprehensive Debt Sustainability Analysis is an A considering that this is comprehensive and detailed and structured as one of the best among OECD and Emerging market countries.

It is best practice (consistent with Treasury Reference Model) to avoid unnecessary (indirect) borrowing and interest costs(consequential) through ensuring government bank accounts are managed through a **Single Treasury Account** (consolidation Tool) (including extra-budgetary funds accounts and government controlled project accounts). Computation and consolidation of bank accounts is facilitated where a single Treasury account exists or where all accounts are centralized. In order to achieve regular consolidation of multiple bank accounts that are physically dispersed, timely electronic clearing and payment arrangements with the Gauteng government bankers is functional and executed by all its departments

ii) Degree of consolidation of the government's cash balance

The Gauteng Province has a Single Trading Account, where all departmental bank accounts are controlled and maintained. Cash Management Unit reconciles these accounts daily and consolidates on a monthly basis. For this reason, individual departments submit fund requisitions to the Cash Management unit on an ongoing and monthly basis. This unit will then check if there is sufficient cash for the departments in line with the respective Liquidity Management benchmarks. Cash controllers and managers under the Provincial Treasury review the needs on an ongoing and continuous basis (daily, weekly and monthly) using modern tools and instruments to track, update, revise and project dynamic needs for various departments and at the consolidated level. Alignment of departmental cash needs to available cash resources reflected by the cash balances is a critical success factor for making resources available to service delivery units in a timely manner.

iii) Systems for contracting loans and issuance of guarantees

Gauteng Province follow regulated procedures when contracting for loans. Section 66 of PFMA read in conjunction with Provincial Borrowing Powers Act 48 of 1996 clearly spells out the processes to be followed when the province decides to borrow funds for the province. The Provincial Borrowing Powers Act requires for the establishment of the Loans Co-ordination Committee (LCC), which is made up of the Minister of Finance as a chairperson and MECs from other provinces as members. All decisions relating to provincial borrowings are strictly made in compliance with procedures set out on the Provincial Borrowing Act.

PI-18 Effectiveness of payroll controls

Indicator	Score	Explanation
PI-18 Effectiveness of payroll controls	A	M1 methodology
(i) Degree of integration and reconciliation between personnel registers and payroll data	A	Payroll records are currently kept manually supported electronically through the PERSAL system. System Records are organised and archived in line with the various functions of Gauteng Treasury structure. Changes to personnel master records are updated on a daily basis through the PERSAL system through recruitment, advancement, promotion, demotion, suspension and dismissal. As soon as the system updates the changes are reflected on payroll system and records. The manual and electronic records and integrated seamlessly through the processes and procedures of the HR department,
ii) Timeliness of changes to personnel records and the payroll.	A	The HR department ensure that personnel and payroll records are updated on a monthly basis and salary disbursements are processed timely and regularly. Salary payments are made on the 15 th of every month for permanent staff and at month end for temporary/ contract staff or 'permanent on probation'. The mandate to review, update and approve changes is in Master Data (Manual and Electronic) is enshrined in the TOR of personnel units. From the information provided there are no retroactive approval, these are rare or /do not exist .
(iii) Internal control of changes to the staff register and payroll	A	The PERSAL system is a core control measure in relation to changes in personnel records and payroll instructions. Mandates are centralized in the Gauteng Department of Finance and which administers the control processes accordingly. This is done through the Departmental HR

		Administration component. The creation of “ghost workers” is stringently monitored by means of giving pay point heads (DD level and above) the responsibility of ensuring that every employee under their scope of supervision signs for pay slips so as to ensure that ‘warm bodies’ and not ‘ghost employees’ are the ones that receive salaries (outlined in SOP in relation to Payroll). In the event of “unauthorized changes to payroll instructions”, this function does not fall under the Departmental level but rather at the GDF thus not much accountability or control can be assumed here (from a Departmental perspective). Any changes results in an audit trail.
(iv) Payroll auditing to identify weaknesses and/ or ghost workers	B	The current (2014) action in relation to payroll audits is undertaken in response to past Audit findings. The Directorate: Human Resources and Personnel Administration have adopted a policy of regularly auditing pay sheets to monitor compliance with the approved payroll process as outlined in the Departmental Statement of Operating Procedures (SOPs) on Payroll Administration. There is a verification check performed by each department annually using the Individual Verification system (IVS) which requires the employees thumb print to complete the verification. There is both records audit and physical check which creates completeness in the audit trail and processes.

- i. Records are currently maintained both manually and electronically through the PERSAL system. Primary Records entry, amendment and update are divided in line with the various components of the Departmental structure. The changes to Personnel records are updated on a daily basis through the PERSAL system by means of recruitment. As soon as the system updates the changes are reflected on payroll. The personnel and payroll records are updated on a regular and reflected monthly through the payroll. Payments are made on a regular basis and predictable basis. Salary payments are made on the 15th of every month for permanent staff members and at the end of the month for the staff that are employed on a non-permanent basis or who are 'permanent on probations.
- ii. The PERSAL system is used as a core control measure in relation to changes in personnel records and payroll instructions. Mandates are forwarded to the Gauteng Department of Finance and administered accordingly and then reflected on the Persal system. This is done through the Departmental HR Administration component. The creation of “ghost workers” is stringently monitored by means of giving pay point heads (Deputy Director level and above) the responsibility of ensuring that every employee under their scope of supervision signs for pay slips so as to ensure that ‘warm bodies’ and not ‘ghost employees’ are the ones that receive salaries (outlined on SOP in relation to Payroll). In the event of “unauthorized changes to payroll instructions”, this function does not lie at the Departmental level but rather at the GDF thus not much accountability or control can be taken here (from a Departmental perspective). The current (2014) action in relation to payroll audits is undertaken in response to past Auditor findings.
- iii. The Directorate: *Human Resources and Personnel Administration* (HRPA) have adopted a policy of regularly auditing pay sheets to monitor compliance with the approved payroll process as outlined in the Departmental SOP on Payroll Administration. There is a verification process done by every department annually using the Individual Verification system (IVS) which requires the employees thumb print to verify them. The Auditor-General did report any material significant findings on the effectiveness of payroll controls. They only reported concerns on the overall vacancy rate within the province which is not covered within the dimensions of PI-18.

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

Indicator	Score	Explanation
PI-19 Competition, value for money and controls in procurements	C+	M2 scoring method
i) Transparency, comprehensiveness and competition in the legal and regulatory framework	B	The legal framework meets five of the six listed requirements. These requirements for legal and regulatory framework including <i>i. organized hierarchically and precedence clearly established;</i> <i>ii. freely and easily accessible to the public through appropriate means;</i> <i>iii. applied to all procurement contracts undertaken using government funds;</i> <i>iv. making 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;</i> <i>v. providing for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints;</i> There are some questions concerning existence of an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature. This is highlighted as a weakness.
ii) Use of competitive procurement methods	B	When contracts are awarded by methods other than open competition, they are justified in accordance with the legal administrative and regulatory requirements. Refer to the treasury legislation document on less competitive bids.
(iii) Public access to complete, reliable and timely procurement information	B	At least three of the key procurement information elements are complete and reliable for government units representing 75% of procurement operations (by value) and made available to the public in a timely manner through appropriate means. The Gauteng Provincial Government recently adopted a pilot 'transparent, open' tender bidding model. This will provide an opportunity to inform and communicate bidding information to the bidders and business community. This recent improvement has been well received by the business community judging by its extensive coverage in the Gauteng and National press. The tender information for all Gauteng departments is warehoused under Gauteng Department of Finance website and accessible to the public.
(iv) Existence of an adequate administrative procurement complaints system	D	There is a process to follow for complaints in general which include procurement as one of them. This is done through various channels, for example, the Premiers hotline, the national treasury or court of law. There is no independent procurement specific complaints review body. As stated above the piloting of an open bidding model will require an independent and autonomous complaints review body with sufficient power and legal authority to enforce decisions. This is the practice in institutions where an open tender system has been adopted. Key characteristics as listed under PI-19 are not fully met, barely 3 of the key aspects are satisfied. Thus a D is suitable for the current status.

Several characteristics of the legal and regulatory framework for public procurement in Gauteng are presented below to create a comprehensive understanding.

LEGAL AND REGULATORY FRAMEWORK FOR PROCUREMENT

Documentary Requirements	Fulfilled	Explanation
1. Procurement legal framework is organized hierarchically and precedence is clearly established	Yes	Constitution of the Republic of South Africa -which supersedes all other laws in the country and section 217, provides basic guidelines and provisions for the procurement of goods and services. Public Finance Management Act 1 of 1999 – Promotes the objective of good financial management in order to maximise service delivery through the effective and efficient use of the limited resources and section 38 provide for general

Documentary Requirements	Fulfilled	Explanation
		<p>responsibilities of the Accounting Officers for National and Provincial departments as well as trading entities.</p> <p>Municipals Finance Management Act No. 56 of 2003 - It aims to put in place a sound financial governance framework by clarifying and separating the roles and responsibilities of the council, mayor and officials.</p> <p>Treasury Regulations of March 2005-Section 16A gives guidance on how to deal with supply chain management system.</p> <p>Preferential Procurement Framework Act No. 5 of 2000 and Preferential Procurement Regulation of 2011- It gives guidance on how to empower historically disadvantaged individuals.</p>
2. Procurement laws and regulations are freely and easily accessible to the public through appropriate means	Yes	The documents are freely accessible from each institution's website as well as the National treasury website.
3. The legal framework applies to all procurement undertaken using government funds.	Yes	Yes the legal and regulatory framework for procurement is applied to all procurement undertaken using government funds.
4. The legal framework makes open competitive procurement the default method of procurement and defines clearly the situations in which other methods can be used and how this is to be justified	Yes	Yes open competition is there and departments are mandated to follow the competitive bidding process for all tenders above R500 000.The minimum threshold value for competitive bidding is R500 000 (VAT inclusive). However, should it be impractical to invite competitive bids for specific procurement, e.g. in urgent or emergency cases or in case of a sole supplier , the accounting officer / authority may procure the required goods or services by other means, such as price quotations or negotiations in accordance with Treasury Regulation 16A6.4. (deviation) The reasons for deviating from inviting competitive bids should be recorded and approved by the Accounting Officer / Authority or his / her delegate
5. The legal framework provides for an independent, administrative procurement review process for handling procurement complaints by participants prior to contract signature	Yes	<p>Government Procurement Plans - The Accounting Officers of departments and constitutional institutions must submit to the relevant treasury by 30 April of each year, a procurement plan containing all planned procurement of goods, works and/or services which exceed R500 000(all applicable taxes included) for the financial year. These procurement plans must be approved by the Accounting Officer or his/her delegate prior to submission. Currently the procurement plans are not available for public access. However there is a plan in future to make the procurement plans accessible to the public.</p> <p>Bidding opportunities - Yes, the public has access, Competitive bids should be advertised in at least the Government Tender Bulletin and in other appropriate media should an Accounting Officer / Authority deem it necessary to ensure greater exposure to potential bidders. The responsibility for advertisement costs will be that of the relevant Accounting Officer / Authority.</p> <p>Contract Awards: The departments are required to publish the award of bids in the Government Tender Bulletin under GDF where disclosure is undertaken through the website for the entire province and other media by means of which the</p>

Documentary Requirements	Fulfilled	Explanation
		<p>bids were advertised. The Gauteng Department of Finance is currently pilot testing an open tender system which is meant to increase transparency in the procurement of goods and services in the province. This change was made in November 2014 and is to be rolled out across the province.</p> <p>Data on resolution dispute: No, there is no public access to procurement complaints or a mechanism for warehousing and sharing the information with the public. As the province migrates to an open tender system, it would be beneficial to integrate such information into the publicly disclosed information through GDF tender bulletin.</p>
<p>6. The legal framework provides for public access to all of the following procurement information: <i>government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints</i></p>	<p>No</p>	<p>There is no independent body that is responsible for reviewing procurement processes when handling procurement complaints. However, there is a process that is used to deal with complaints: The complainant can write a complaint to the Accounting Officer of the department concerned in order for the investigations to be done and the Accounting Officer is required to provide an informative response within 60 days. In an event where the complainant is not satisfied with the outcome from the investigation done by the department they can forward the matter to Gauteng Provincial Treasury for further investigation which has to be done within 30 days and the matter can also be referred to National Treasury for further investigations and if the matter cannot be addressed at National Treasury it can then be referred to Court of Law to make ruling regarding the matter.</p>

- **Constitution of the Republic of South Africa**-which supersedes all other laws in the country and section 217, gives the basics when dealing with procurement of goods and services.
- **Public Finance Management Act 1 of 1999** – Promotes the objective of good financial management in order to maximise service delivery through the effective and efficient use of the limited resources and section 38 provide for general responsibilities of the Accounting Officers for National and Provincial departments as well as trading entities.
- **Municipals Finance Management Act No. 56 of 2003** - It aims to put in place a sound financial governance framework by clarifying and separating the roles and responsibilities of the council, mayor and officials.
- **Treasury Regulations of March 2005**-Section 16A gives guidance on how to deal with supply chain management system.
- **Preferential Procurement Framework Act No. 5 of 2000 and Preferential Procurement Regulation of 2011**- It gives guidance on how to empower historically disadvantaged individuals

Competitive Bidding/ Tendering

The documents are freely accessible from each institution's website as well as the National Treasury website. The legal and regulatory framework for procurement is applied to all procurement undertaken using government funds. Open competition is there and departments are mandated to follow the competitive bidding process for all tenders above R500 000. However, should it be impractical to invite competitive bids for specific procurement, e.g. in **urgent or emergency cases** or in case of a **sole supplier**, the accounting officer / authority may procure the required goods or services by other means, such as price quotations or negotiations in accordance with Treasury Regulation 16A6.4 (Deviation). The Accounting Officers of departments and constitutional institutions must submit to the relevant treasury by 30 April of each year, a procurement plan containing all planned procurement of goods, works and/or services which exceed R500 000 (all applicable taxes included) for the financial year. These procurement plans must be approved by the Accounting Officer or his/her delegate prior to submission. Currently the procurement plans are not available for public access. However there is a plan in future to make the procurement plans accessible to the public. Competitive bids should be advertised in at least the Government Tender Bulletin and in other appropriate media should an Accounting Officer / Authority deem it necessary to ensure greater exposure to

potential bidders. The responsibility for advertisement costs will be that of the relevant Accounting Officer / Authority. The departments are required to publish the award of bids in the Government Tender Bulletin and other media by means of which the bids were advertised. , there is no public access to procurement complaints.

Independent Complaints Review Mechanism

There is no independent body that is responsible for reviewing procurement processes when handling procurement complaints. The process for lodging complaints involves a complainant writing to the Accounting Officer of the department concerned to trigger investigations with an expectation for the Accounting Officer to respond within 60 days. In an event where the complainant is not satisfied with the outcome from the investigation done by the department they can forward the matter to Gauteng Provincial Treasury for further investigation which has to be done within 30 days and the matter can also be referred to National Treasury for further investigations and if the matter cannot be addressed at National Treasury it can then be referred to Court of Law to make ruling regarding the matter.

Procurement Audit Findings

The Auditor-General reported that there was an improvement in the number of auditees that had material findings of non-compliance with supply chain management regulations from 12 (34%) to 9 (26%). Consistent with the prior period, the most significant findings involved i] material uncompetitive or unfair process at eight (23%); and ii] awards to employees and their close family members which were not declared or approved in five departments. These findings have impact on performance and compliance and affect perception of the business on openness of Gauteng tender system.

Supply Chain Management Reform Process

Based on weaknesses observed in the procurement systems within key departments, a self-assessment of the supply chain management system based on **Methodology for the Assessment of Procurement Systems** (MAPS) would be beneficial and will help to drill-down into departments such as Health, Education, Infrastructure and Human Settlements to identify specific problems before working out a turnaround strategy. A MAPS is one of the tools that is linked to PEFA which can help to identify specific weaknesses and challenges in the supply chain management operations and functions.

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

Indicator	Score	Explanation
PI-20 Effectiveness of internal controls on non-salary expenditure	C	M1 Scoring Method
(i)Effectiveness of controls on expenditure commitments	C	<p>Gauteng Departments utilise the In year Monitoring system (IYM Report). Detailed Internal Expenditure Reports showing expenditure outturn reports (Budget vs Expenditure) are prepared. Department also have Budget controllers in Finance who track expenditure and Budget and also indicate on each commitment if the Budget is available.</p> <ul style="list-style-type: none"> ▪ It is also each Budget Holder, usually all Deputy Directors who take responsibility to spend as budgeted and allocated avoiding under performance. There are areas where Gauteng province has underspend and also carried over accruals to the following year (AGSA general report 2012/14). Underspending and existence of accruals is a sign of control weaknesses on infrastructure components. ▪ The introduction of an automated ERP system (such as SAP system) within Gauteng will enhance controls through electronic purchase ordering. This ensures and links all purchases to funds availability check and commits resources ensuring link between budgets,

Indicator	Score	Explanation
PI-20 Effectiveness of internal controls on non-salary expenditure	C	M1 Scoring Method
		<p>spending, procurement and payment processing. In addition it will ensure prompt and timely reporting of open orders and appropriate action taken. Because it was not possible to determine what percentage of the transactions are under the current SAP supply chain management system we can only recommend that the Gauteng Treasury considers an ERP Audit and implementation in key spending departments.</p> <ul style="list-style-type: none"> It was observed that in key departments such as Health, there are a large number of open orders which are deleted from the system. In addition the increase in accruals reaching 90 days is a matter of concern as AGSA has reported that penalties have been incurred through interest and litigation charges. There is clear violation of the requirement to pay suppliers and creditors in 30 days. It would be important for Gauteng Treasury to adopt a zero tolerance for departments and CFOs who fail to enforce the 30 day payment deadline. A clearance of the existing backlogs could be an important step in the normalization and migration towards compliance with the 30 day rule.
(ii) Scope, relevance and understanding of other internal control regulations and procedures	C	The Auditor General observed that Gauteng had experienced ineffective administrative leadership and lack of adequate oversight. This was a sign of lack of compliance with laws and regulations especially on procurement processes. It is important to highlight that procurement issues affected some of the key departments such as Health. A second area is the lack of adequate monthly reconciliations and maintenance of financial management documents and inability to implement action plans to address shortcomings. Significant revisions to financial statements emanated from unreliable fiscal data generated by current systems. This also points out to the need to automate information in a harmonized and integrated way. The adoption of an ERP system such as SAP Enterprise is encouraging and will address existing and past flaws which are characteristic of predominantly standalone and semi- manual systems.
iii) Degree of compliance with the regulations for processing and registering transactions.	C	Will refer to the Auditor General report on internal control of the province. This was discussed extensively with an indication that internal controls around transaction processing are weak because of the use of manual and automated systems. Predominant use of spreadsheets irrespective of how sophisticated they are undermines integrity of transaction data and financial information.

In the 2012/13 general report, Auditor- General (AGSA) diagnosed and reported significant deficiencies in Internal controls within the province attracting lower rating for each dimension. Most departments did not give sufficient responses with corroborating evidence to this indicator, which summarizes that there is a need to address compliance issues and use modern tools to ensure improved internal controls in process transactions for Gauteng. *A strong and independent internal audit is not adequate to engender improvements in PFM systems.* Modernization of systems and controls is an important part of transformation of Gauteng province which should embrace upgrading automated systems through Integrated Financial Management Systems (IFMIS) that satisfy TRM standards. Such as system will ultimately reduce and minimize direct human intervention through automation. The current modular approach to implementation of SAP Enterprise software is an excellent opportunity to modernize and upgrade financial systems including

- General Ledger
- Accounts payable
- Procurement and purchasing
- Commitment Control and expenditure management , monitoring and control
- Introduction of modern audit tools that monitor , track and report on data integrity, adequacy of internal controls and exceptional reporting
- Integrated data management through master data processes cutting across key functions of Gauteng financials
- Integrated financial reporting and budget reporting based on the SCOA
- Data integrity in the generation and preparation of monthly quarterly and annual financial reports
- Sharing of large volumes of procurement and transactional information across departments and in key departments to make better procurement selection decisions and ranking

PI-21 Effectiveness of Internal Audit

Indicator	Score	Explanation
PI-21 Effectiveness of Internal Audit	B+	M1 Scoring Method
i. Scope and quality of internal audit function	A	Internal audit is operational for all provincial government entities, and generally meet professional standards. It is a shared service located within the Department of Finance (serves all departments except Education and Legislature which have their own units). It is focused on systemic issues inasmuch as 70% of staff time. Strategic plans are developed, endorsed by departments and approved by the respective Audit Committees.
ii. Frequency and distribution of reports	A	Reports adhere to a fixed schedule and are always distributed to the audited department and the respective Audit Committee as well as to AGSA.
iii. Management response to internal audit findings	B	Prompt and comprehensive action is taken by many (but not all) CFOs of audited department. AGSA reported significant findings on the effectiveness of internal control which has a direct link to whether management acts on the recommendations of internal audit findings and AGSA findings.

The Gauteng Audit Services operate as an assurance and advisory service to top management on the execution of the systems for which management is responsible of. This unit is centralised and monitors all the departments under Treasury. Headed by a Chief Audit Executive, the unit provides monitoring as well as support services to the Risk Management units in each department within the Province. The Gauteng Provincial Chief Directorate of internal audit was set up as a centralised unit under sections 38 (i) (a) (ii) and 76 of the PFMA and paragraph 3.2.3 of the Treasury Regulations. There is an Internal Audit Charter which profiles the role, purpose, authority and responsibility of the internal audit function in the Gauteng Province. The Charter was prepared in accordance with the International Standards for the Professional Practice of Internal Audit and it is reviewed annually in line with changes in legislation, professional practice and requirements of the Gauteng Province. The scope of work of the internal audit is to determine whether the network of risk management, internal control, governance, compliance and reporting on predetermined objective processes as designed by the respective departmental management is adequate and functioning in an effective manner in all mandated departments. Reports on performance are compiled quarterly and annually.

3.3. Accounting, recording and reporting

PI-22 Timeliness and regularity of accounts reconciliation

Indicator	Score	Explanation
PI-22 Timeliness and regularity of accounts reconciliation	A	Scoring method M2
(i) Frequency of reconciliation of bank accounts	A	Bank reconciliations are prepared and submitted in terms of section 40 of (1)(a). In practice this is undertaken weekly, monthly and quarterly as it is a tool for managing treasury operations and liquidity management practice.
(ii) Frequency of reconciliation and clearance of suspense accounts and advances	A	Reconciliations of suspense account are cleared and managed in terms of Regulation 17.1 of PFMA 1 of 1999. Suspense accounts are managed through review and clearance and monthly and quarterly action is taken and reports updated. Detailed evidence was provided that this is practiced as stated. Advances for Gauteng are managed within the realm of the financial procedures. The external auditors and Gauteng Audit services have not reported issues concerning advances not cleared. From the evidence requested and submitted advances do not constitute a significant component of problems in this area. Their impact on the finances is clearly less than 1% and based on scrutiny of various evidence a rating of A is suitable.

The Accounting Officer is responsible for establishing systems, procedures and training awareness programs to ensure efficient and effective banking and cash management. Regulation 15.10.12 (j) states that bank reconciliations must be performed on daily basis to detect any unauthorized entries.

j) Regularity of bank account reconciliations

Bank reconciliations are performed by all departments and are reviewed by a cash group unit at Provincial Treasury. Reconciliations are performed at a detailed level and unallocated receipts are followed up on daily basis and there are no transactions older than 30 days. Twenty two (22) bank accounts are managed by Cash Management unit at PT. Monthly reconciliations are submitted to PT in 15 days after the end of the period in terms of section 40 (4)(c).

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

The Gauteng Province has 44 suspense accounts in total which are reconciled bi-weekly under the directorate of General Accounting. A dashboard with all departments is monitored by PT and follows up on a daily basis. Suspense accounts are used to pay salaries for Gauteng Funding Agency, and they are cleared 5 days after month end. Gauteng Province has suspense account procedures which stipulate accounts that must be zero at month end, **“period end balance not allowed”** of which month end procedure cannot be finalised if they have balances. The

procedures further list the suspense accounts that “**must be zero**” at the end of the year as well as those accounts that are “**preferable zero**” at the end of the year.

The Suspense and Advances Accounts are disclosed in the financial statements of Gauteng and disclosed as part of accruals and shown below. This same diagram is used for PI- 4 for analysis.

Table 3:20 - Analysis of Accruals and Suspense Accounts

Type of Accruals	2011/12	2012/13	2013/14	% Δ	% Δ										
Amounts owing to Entities	1,306,366	436,288	377,450	-67%	-71%										
Advances Received	994	17,114	21,710	1622%	2084%										
Clearing of Accounts	11,397	155	23,012	-99%	102%										
Trade Creditors	49,110	48,453	51,114	-1%	4%										
Totals	1,367,867	502,010	473,286												

	Entities			Other Payables			Advances Received			Clearing Of Accounts			TOTAL		
	2011/12	2012/13	2013/14	2011/12	2012/13	2013/14	2011/12	2012/13	2013/14	2011/12	2012/13	2013/14	2011/12	2012/13	2013/14
Rural Development	0	0	0	0	0	0	0	0	0	666	68	458	666	68	458
Treasury					22	124					73	100	0	95	224
Economic Development		0	0		1,308	1,948		13,162	4,951		14	22	0	14,484	6,921
Education	0			42,086	25,882	274			11,440		0	22,432	42,086	25,882	34,146
Roads and Transport	75,075	59,560	59,560	1,931	1,171	697	0	1,000	1,000	0	0	0	77,006	61,731	61,257
Infrastructure	235,227	174,079	170,735	556	659	3,381	994	2,952	4,319	0	0	0	236,777	177,690	178,435
Social Development					5,710	5,417							0	5,710	5,417
Health	998,064	202,649	147,155	4,537	13,701	39,273	0	0	0	10,731			1,011,332	216,350	186,428
Totals	1,306,366	436,288	377,450	49,110	48,453	51,114	994	17,114	21,710	11,397	155	23,012	1,367,867	502,010	473,286

Sources: Gauteng Provincial Treasury Financial Reports 2011/12 - 2013/14

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

Indicator	Score	Explanation
PI-23 Availability of information on resources received by service delivery units	A	M1 Scoring method
Compilation and processing of information to show the resources effectively received (in payment or in kind) by the majority of front-line service delivery units.	A	The Gauteng province has a robust PFM system characterized by a structured and strong budgeting system and regular and systematic financial reporting. Even though there are some problems with compliance and issues associated with revision of annual financial reports these are temporary and derive from short-term problems such as staff turnover, failure to retain skilled staff and structural changes which impacted some departments in 2012/13. There exists system of financial management at provincial and departmental level supported by routine data collection and accounting systems that provide information and capture all types of resources received in cash or in kind (donations / transfers) by primary schools and health clinics across the province. The information is found at consolidated, departmental and unit level broken in appropriation, economic classification, programmatic, sectorial and functional classification.

Indicator	Score	Explanation
PI-23 Availability of information on resources received by service delivery units	A	M1 Scoring method
		The information is compiled regularly and consistently into monthly, quarterly, half yearly and annual report types across departments (health, education, and infrastructure).

- i. The Gauteng province has a robust PFM system characterized by a structured and strong budgeting system and regular and systematic financial reporting. Even though there are some problems with compliance and issues associated with revision of annual financial reports these are temporary and derive from short-term problems such as staff turnover, failure to retain skilled staff and structural changes which impacted some departments in 2012/13.
- ii. There exists a system of financial management supported by routine data collection and accounting systems that provide information and capture all types of resources received in cash or in kind (donations / transfers) by primary schools and health clinics across the province. The information is found at consolidated, departmental and unit level broken in appropriation, economic classification, programmatic, sectorial and functional classification. The information is compiled regularly and consistently into monthly, quarterly, half yearly and annual report types across departments (health, education, and infrastructure). This information is complemented by IYM, payments schedule, procurement plans and disbursement schedules including notes to financial statements or budget (appropriation statements).
- iii. Departments of Health and Gauteng Education have detailed information which is available on the Gauteng Treasury website, Gauteng Department of Finance and respective individual websites. It is important to mention that the websites do not display information that is standard hence Department of Health is not up to date but the disclosure and display of the information in key fiscal reports at the GPT adequately addresses that shortcoming.

Government Reforms

- i. In as much as Department of Health has been engaging in health sector reforms, there is opportunity to undertake limited PFM improvements that will enable the department (*accounts for 40% of provincial budget*) to upgrade and show case its budget, financial management, financial reporting and quarterly and in-year performance information. Such information will be very useful for donors, development partners and other government agencies to access and share useful and standard PFM information through the website. Ideally the same information on budgets, reporting, oversight work, internal audit, MTEF and PETS reviews which is displayed on central websites such as GDF and GPT, GPL may include disaggregated information including sliced and packaged information displayed on the Department of Health websites to not only meet the Access To information needs but to also harmonize databases and inform, educate and communicate health sector policies.
- ii. As stated under Government reform, the adoption of MAPS model to assess the supply chain management in key Gauteng departments such as health, education, human settlements, and infrastructure development will be beneficial to the PFM systems as improvements may be secured. The MAPS model has been shared with supply chain management group in Health Department.

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

Indicator	Score	Explanation
PI-24 Quality and timeliness of in-year budget reports	B+	Scoring method M1
(i) Scope of reports in terms of coverage and compatibility with budgetary forecasts	B	Classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditure information accessible in the systems should include commitment, which enables matching of commitments and payments. Prior to the month-end closure, necessary checks and balances are conducted to ensure completeness of information in the reports. The commitments are not included on the actual expenditure; they are only captured on the legislature's report.
(ii) (ii) Timeliness in the presentation of reports	A	Reports are prepared quarterly or more frequently, and issued within 4 weeks of end of period. All Government departments in Gauteng province produce In-Year Reports on monthly basis. It is a legal requirement under the PFMA that IYM reports and because there are specific officer's assigned responsibility for disclosure and publication these reports are produced monthly and quarterly.
(iii) Quality of the information	B	There are some concerns about accuracy, but data issues are generally highlighted in the reports and do not compromise overall consistency/ usefulness. AGSA have reported cases if revised estimate which is a major weakness.

- i. In-year budget reports are produced on monthly basis in a prescribed format in compliance with section 40 (4) (b). The reports compare the actual revenue and expenditure with approved budgets and variance explanations are provided on significant variances. The information is classified using SCOA and it detailed up to economic classification level.
- ii. The reports are produced on monthly basis in terms of PFMA and are submitted to relevant Treasury and the executive authority responsible for that department in a prescribed format within 15 days of the end of the period, as well as on quarterly basis to the Gauteng Legislature.
- iii. Prior to the month-end closure, necessary checks and balances are conducted to ensure completeness of information in the reports. The commitments are not included on the actual expenditure; they are only captured on the legislature's report.

PI-25 Quality and timeliness of annual financial statements

Indicator	Score	Explanation
Overall	A	M1 Scoring Method
(i) Completeness of financial statements.	A	The Annual financial statements of Gauteng at the consolidated level and departmental level exceed the minimum requirements of IPSAs, GRAP for municipalities and entities. The financial statements are subjected to review and assessment by Accounting Standards Board, South Africa Institute of Government Auditors and the Institute of Chartered Accountants. The Gauteng Provincial Treasury have set a high standard in preparing financial statements which is incentivised by competition and Quality assurance at two levels within each department and when the AFS are submitted to AGSA for audit. The statements meet the requirements of the PFMA, IPSAS and Treasury Regulations. An Appropriate score would be an A for meeting the requirements.
(ii) Timeliness of submission of the financial statements.	A	Annual financial statements are submitted well within 6 months from the end of the financial year. Annual financial statements of the Gauteng provincial government both at the consolidated level and at departmental level must be submitted within 3 months of the end of the year. Throughout the June 30 deadlines have been met by all departments as the AGSA has not reported any department missing a deadline. The issues of revising the statements which has been identified as an outcome is not a major issue as no statements have been issued and signed off with errors. Instead these revisions which affect the quality where they occurred have been addressed before they are published during the audit process. In terms of timing the Gauteng has fully complied with the submission timetable and deadline as enshrined in both the Municipal Financial Management Act and the Public Finance Management Act, PAA and other directives associated with financial reporting.
(iii) Accounting standards used.	A	Financial statements are being prepared under cash basis of accounting and are aligned with the format given by the cash basis IPSAS, and in addition the disclosure presentation format and content follows IPSAS to the letter. Details to the financial statements are found in the notes. In the PFMA there is a clear listing of the types of financial statements which must be produced by departments, entities, trading accounts, funds and other agencies. The commercial and state enterprise type are required to comply with GRAP standards which are published by the Accounting Standards Board (ASB). Across South Africa annual financial statements comply with both the law and standards. This is because the provinces including Gauteng have highly qualified accountants capable of interpreting and reporting on the basis of IPSAS and IFRS. In as much as they use GRAP (entities) and IPSAS1 – modified Cash Basis, they try in every way possible to go an extra mile to ensure that the notes and details disclose accruals that can easily help with tracking and reporting on liabilities. SAIGA, the Auditor General and Gauteng Provincial Treasury have introduced annual reporting competition that enables the departments with the best annual financial statements to be recognised with an annual award. The assessment is that the Gauteng like other provinces have raised the financial reporting bar through consistent application of standards. Short term problems like revision to financial statements exist before audit is complete but improvements have been registered through audit outcomes.

(i) Completeness of financial statements.

Annual financial statements which are prepared by departments, entities and funds are covered in detail in various part of the PFMA and in particular Treasury Regulations 18.4: annual financial statements (sections 40(1)(b) and 90(3)(30 of the PFMA define reporting entities (p144-145) as

- a. National and provincial revenue funds
- b. Departments , Parliaments and Provincial Legislatures
- c. Trading entities and
- d. Constitutional bodies

According to the above regulations the **annual financial statements** must consist of

- 1. statement of liabilities and financially related assets;
- 2. an income statement;
- 3. a cash flow statement;
- 4. notes to the annual financial statements;
- 5. a report on the financial position of and performance by the Treasury; and
- 6. Such other statements as may be determined by the Accounting Standards Board.

The annual financial statements must be prepared on a cash basis and must be accompanied by the audit opinion of the Auditor-General. The annual financial statements must, by means of figures and a descriptive report, explain any other matters and information.

Table 3.21 Financial Statements for 2011/12 - 2013/2014

Components	Components included "Yes" or "No"	
Departmental combined Financial Statements	Yes	
Accounting Policies	Yes	
Statement of Financial Performance	Yes	
Statement of Financial Position	Yes	
Statement of Changes in Net Assets	Yes	
Cash Flow Statements	Yes	
Disclosure Notes, Notes to the AFS, Summary of significant accounting policies and other explanatory notes	Yes	

Source: Gauteng Provincial Treasury

The annual financial statements of Gauteng at the consolidated level and departmental level exceed the minimum requirements of IPSAs, GRAP for municipalities and entities. The financial statements are subjected to review and assessment by Accounting Standards Board, South Africa Institute of Government Auditors and the Institute of Chartered Accountants. The Gauteng Provincial Treasury have set a high standard in preparing financial statements which is incentivised by competition and Quality assurance at two levels within each department and when the AFS are submitted to AGSA for audit. An Appropriate score would be an A for meeting the requirements.

(ii) Timeliness of submission of the financial statements.

The Annual Financial Statements is detailed beyond the minimum requirements defined under the IPSAS 1 requirements and provide comprehensive information on provincial revenue, expenditure, assets and liabilities with prior year comparative figures. In addition, in terms of presentation of information, a complete set of Consolidated Financial Statements comprises information listed above (i) to (vi).

Individual Gauteng Departments produced annual financial statements, which were audited by 30 June for the 3 year period (2011/12 – 2013/14) then were submitted by the Provincial Treasury for assessment.

Table 3.22 Analysis of Submission of Financial Statements

Departments	Date of submission	Date of Submission	Date Submission	of
	2013/2014	2013/2012	2012/2011	
Provincial Treasury	30/05/2014	31/05/2013	Register provided	not
Department of Health	30/05/2014	31/05/2013	Register provided	not
Department of Education	30/05/2014	31/05/2013	Register provided	not
Department of Social Development	30/05/2014	31/05/2013	Register provided	not
Department of Economic Development	30/05/2014	31/05/2013	Register provided	not
Department of Infrastructure Development	30/05/2014	31/05/2013	Register provided	not
Department of Agriculture	30/05/2014	31/05/2013	Register provided	not
Department of Roads and Transport	30/05/2014	31/05/2013	Register provided	not

Source: Gauteng Provincial Treasury

The Auditor –General South Africa did not report on late submission of financial statements on their annual report for 2012/2013. Consolidated financial statements were submitted to Auditor-General on the 22nd August 2014 for audit.

An A rating would be the most appropriate considering the achievement and level of performance achieved by Gauteng Provincial Treasury and departments falling under the provincial government.

(i) Accounting standards used.

- i. Financial statements are being prepared under cash basis of accounting and are aligned with the format given by the cash basis IPSAS, and in addition the disclosure presentation format and content follows IPSAS to the letter. Details to the financial statements are found in the notes. In the PFMA there is a clear listing of the types of financial statements which must be produced by departments, entities, trading accounts, funds and other agencies. The commercial and state enterprises are required to comply with GRAP standards which are published by the Accounting Standards board. Across South Africa annual financial statements comply with both the law and standards. This is because the provinces including Gauteng have highly qualified accountants capable of interpreting and reporting on the basis of IPSAS and IFRS. In as much as they use GRAP (entities) and IPSAS1 – modified Cash Basis , they try in every way possible to go an extra mile to ensure that the notes and details disclose accruals that can easily help with tracking and reporting on liabilities.
- ii. SAIGA , the Auditor General and Gauteng Provincial Treasury have introduced annual reporting competition that enables the departments with the best annual financial statements to be recognised with an annual award. The assessment is that the Gauteng like other provinces has raised the financial reporting through consistent application of standards. Short term problems like revision to financial statements exist before audit is complete but improvements have been registered through audit outcomes.
- iii. Following the Southern African Institute of Government Auditors (SAIGA) 13th Annual Public Sector Reporting Awards, Gauteng Department of Economic Development have won the SAIGA annual reporting award. SAIGA introduced a series of important awards in the public sector to recognise the pursuit of excellence in annual reports published by all provincial and national departments which are acting as an incentive for improving financial reporting. The awards have become the public sector reporting benchmark –

inspiring departments to strive for better reports, disclosure and accountability. For the year ended 31 March 2013 GDED acquired a score of 91.96 per cent for the reporting year, thus ranking the department as one of the best in financial reporting. *Awards engender positive competition in financial reporting and Gauteng Treasury can create an environment of mentoring departments with weak financial reporting to improve.*

3.4. External Scrutiny and Audit

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

Dimension	Score	Explanation
Overall Score	B+	M1 Scoring Method
(i) Scope and nature of audit performed (including adherence to auditing standards).	A	Provincial entities representing more than 99% of the expenditure are annually audited. ISA & INTOSAI auditing standards are adopted and used extensively, including special and value for money audits which equally observe global audit standards issued by INTOSAI and IFAC. The Auditor General South Africa has modernised their audits and adopted key audit outcomes for each department. A key feature is the focus of predetermined audit outcomes, adoption of best practices, pushing hard on clean audit outcomes, ensuring integrity of financial reports and information submitted for audit. In addition the auditor General does develop audit reports which delineate key sectors bringing out performance issues, weaknesses, gaps and system lapses. AGSA produce a consolidated report covering the 9 provinces which does produce compliance and performance statistics for similar units. Improvements in audit performance whether financial, assurance, compliance and performance and special technical audit reports. The reports for the last 3 years under review covered; overview of audit outcomes, risk areas on a cross cutting basis and across departments, internal controls and linkage to root causes of audit outcomes, impact of key units / players and audit outcomes of individual portfolios(MDAs). The coverage, breadth and depth of the audits are both wide and detailed including encapsulating specific cases of weaknesses (performance) and non-compliance.
(ii) Timeliness of submission of audit reports to legislature.	B	Audit reports are submitted months from the end of financial year.
(iii) Evidence of follow up on audit recommendations.	A	In many cases, the Departmental Accounts Committee is not convened. However, the formal response to audit observations is made during PAC hearings.

The above indicator (PI-26) is meant to ensure that high-quality external audit which is an essential requirement for creating transparency in the use of public funds is operational. Key components of the quality of external audit include the scope and coverage of the audit; adherence to appropriate auditing standards, including independence of the external audit institution; focus on significant and systemic PFM issues in its reports; performance of the full range of performance & special audits. Also important are coverage issues such as reliability of financial statements, regularity of transactions, and functioning of internal control and procurement systems. Inclusion of some aspects of performance audit would also be expected of a high-quality audit function. Where internal Audit is functional and professional, we expect that the internal audit has migrated away from routine and inspection type of work to systems, value for money audit

and reliance on tools to ensure assurance. In some jurisdictions the reliance by the Auditor General becomes an important feature of a mature internal audit. Also critical layer in the audit and assurance structure and process is the existence of audit committee system bolstered by law and providing oversight over the internal audit function.

Constitutional and legislative mandate of Auditor General of South Africa

Mandate and functions

- i. Chapter 9 of the Constitution of the Republic of South Africa, 1996 establishes the Office of the Auditor-General of South Africa (AGSA) as a key state institution supporting constitutional democracy. The Constitution recognizes the importance and guarantees the independence of the Auditor-General of South Africa (AGSA), stating that the AGSA must be impartial and must exercise its powers and perform its functions without fear, favour or prejudice. (<http://www.agsa.co.za/About/Legislation.aspx>)
- ii. The functions of the AGSA are described in section 188 of the Constitution and further regulated in the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), which mandates the AGSA to perform constitutional and other functions. Constitutional functions are those which the AGSA performs to comply with the broader mandate described in the Constitution. Section 4 of the PAA makes a further distinction between mandatory and discretionary audits.

Accountability and reporting

- iii. The AGSA is accountable to the National Assembly in terms of section 181(5) of the Constitution and section 3(d) of the PAA and has to report on its activities and performance of its functions in terms of section 10 of the PAA. The main accountability instruments are the AGSA's budget and strategic plan, as well as the annual report, both of which are tabled annually in the National Assembly. The Standing Committee on the Auditor-General (SCoAG), established in terms of section 10(3) of the PAA, oversees the performance of the AGSA on behalf of the National Assembly.

Products of the AGSA

- iv. The AGSA annually produces audit reports on all government departments, public entities, municipalities and public institutions. Over and above these entity-specific reports, the audit outcomes are analysed in general reports that cover both the Public Finance Management Act (PFMA) and Municipal Finance Management Act (MFMA) cycles. In addition, reports on discretionary audits, performance audits and other special audits are also produced. The AGSA tables reports to the legislature with a direct interest in the audit, namely Parliament, provincial legislatures or municipal councils. These reports are then used in accordance with their own rules and procedures for oversight.
- v. The PFMA and MFMA require that the annual financial statements are audited by the Auditor General. The audit process is guided and regulated by the Public Audit Act. And our audits are performed based on the responsibility to express an opinion on the financial statements based on audit. AGSA conduct audits in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued (see attached directive) in terms thereof and International Standards on Auditing.
- vi. All audits are performed under the PFMA and the MFMA. No audits are excluded from the audit process. Therefore, 100% of the total expenditure has been tested on a sample basis in accordance with the AGSA audit methodology. No audits are excluded from the audit process. Therefore all Departments, public entities, trading entities, municipalities and municipal entities are audited. The scope involves both audit of transactions and balances as well as audit of their information system controls.

- vii. Under the AG Directive auditors (AGSA) perform evaluation of public financial and performance management, perform our audit in accordance with the International Standards on Auditing (ISA) as well as relevant principles contained in the International Standards of Supreme Audit Institutions (ISSAIs) and the INTOSAI Guidance for Good Governance (INTOSAI GOVs). In terms of the AG Directive, AGSA also perform Audit of performance against predetermined objectives (sections 20(2)(c) and 28(1)(c) of the PAA), as well as Auditing of compliance with applicable legislation relating to financial matters, financial management and other related matters- sections 20(2)(b) and 28(1)(b) of the PAA. Furthermore do they evaluate the internal controls of our auditees and report on internal control deficiencies. Performance audits are performed based on the discretion of the AG in accordance with the AG Directive. Finally the audits conducted by the Auditor General are executed in accordance with the International Standards on Auditing (ISA)

Table 3.23 Sample Audit Reports FY 2012/13

Department	Budgets 2013/14 [R-000]	Audit Outcome Areas
Department of Health and Gauteng Medical Supplies Depot	27 430 045	<ul style="list-style-type: none"> ▪ Supply chain Management ▪ Quality of Financial Statements ▪ Information Technology issues ▪ Human Capital Management Issues
Department of Housing and Local Government Gauteng Partnership Fund Gauteng Housing Fund		<ul style="list-style-type: none"> ▪ Financial Statements with material misstatements ▪ Capacity Issues in Finance Unit & SCM Unit ▪ Poor Compliance with Laws and Regulations ▪ Documentation and Inadequate Management of Housing Projects
Gauteng Department of Education	30 371 624	Stagnation in Audit Outcomes <ul style="list-style-type: none"> ▪ Lack of credible financial and performance reports ▪ Compliance with legislation not reviewed and monitored (SCM) ▪ Lack of Consequences for Poor performance and transgressions
Gauteng Infrastructure Development	1 529 645	<ul style="list-style-type: none"> ▪ Instability of vacancies in key positions ▪ Quality of Financial Statements ▪ Document Management Systems and project information systems
Department of Social Development	2 900 119	<ul style="list-style-type: none"> ▪ HR Issues not addressed ▪ IT controls have weakened ▪ Vacancies in key positions ▪ Quality of financial Statements
Gauteng Department of Roads and Transport	5 446 488	<ul style="list-style-type: none"> ▪ Material Misstatements in AFS submitted by DRT and G-Fleet ▪ Weaknesses involving fixed assets register ▪ Legal and administrative compliance limitations
Human Settlements	4 546 437	<ul style="list-style-type: none"> ▪ Financial Management operations ▪ Procurement and disbursement issues
Economic Development	928 534	<ul style="list-style-type: none"> ▪ Quality of Financial Statements of GLB submitted for audits ▪ Procurement and Contract Management Weaknesses
Department of Finance		<ul style="list-style-type: none"> ▪ Compliance with laws and regulations (HR) ▪ Improvements in Shared Services – Quality of Assurance and Audit Services ▪ Adequate Review of Annual Financial Statements

Source: AGSA Audit Reports 2011/12 -2013/14

Timeliness in submission of audit reports to the Legislature

- i. The auditor General need to finalize the report within two to five months after receipt of the Annual Financial Statements from auditees. During the last fiscal year it was 5 months and the previous two years it was under 2 months for the 2 year period.

- ii. The processes that are followed by AGSA are as follows. The auditee submit annual financial statements for auditing within two months after their year-end (PFMA year end is 31 March and MFMA year end is 30 June). The AGSA has two months after receipt of the annual financial statements to perform the audit and issue audit report and management report for PFMA (the deadline is 31 July). For MFMA auditees the AG has three months after receipt to issue audit report and management report (30 November). The annual reports including AFS are submitted by the auditees (Gauteng departments) to the legislature within 30 days after the audit report.

Table3.24: Timetable for External Audit of Provincial Accounts

Financial year ending March 31	Deadline for submission of Annual Financial Statements. Met = Yes / Missed=NO	Period between submission of financial statements and submission of audit report
2012	June 30 , 2012 Deadline Met + Yes	<ul style="list-style-type: none"> ▪ 5 months period between publication of AFS & Provincial Audit Report ▪ AGSA Report published July 2012
2013	June 30 2013 Deadline Met +Yes	<ul style="list-style-type: none"> ▪ 5 months period between publishing of AFS & Provincial Audit Report ▪ AGSA Report published on 20 August 2013
2014	June 30, 2014 Deadline Met + Yes AGSA Confirmed General Report	<ul style="list-style-type: none"> ▪ 5 months period between publication of AFS & Provincial Audit Report ▪ AGSA Report published on November 26 2014

Source: AGSA 2014

(iii) Evidence of follow up on audit recommendations

- In summary AFS for Gauteng comply with applicable standards as auditors (AGSA) play a lead role in advising them. There have been issues of reliability of Annual financial reports submitted for audit. Because these are integrated into Audit Outcomes of the AGSA – Gauteng , these are addressed during audit engagements and training provided so that report are quality assured during monthly and quarterly drafting of reports . The South African provincial departments have modern accounting and financial reporting standards which are enforced, reviewed and supported by SALGA (Local governments), CFO councils , Institute of Chartered Accountants and accountants in general. This puts pressure on the affected departments to meet improved outcomes including improved financial reports and clean audits.
- Concerning follow up and execution of recommendations the AGSA issue a Management Report (Management Letter) together with the audit report to the auditee. AGSA follow up on the progress of the implementation of the recommendations. Past experience indicates that the auditees are implementing the recommendations. During the 2013-14 PFMA audit cycle there were a significant improvements in the audit outcomes, and this is indicating that the auditees are implementing AGSA audit recommendations. There are regular meetings with the MECs to discuss the progress of the audit, quarterly discussion of the internal control dashboard (Confirmed by AGSA), the progress on the implementation of the audit recommendation and the progress on the implementation of the commitments made by the MECs.
- An important element in two areas of accountability and internal control is the role played by Auditee Committees in planning and executing the recommendations of the Auditor General and thus ensuring that this is monitored quarterly and reported to Portfolio committees and SCOPA. The process and information is captured in detail in auditor general's reports.

Reforms

- a. Because of the importance of PEFA Assessment to the future of provincial financial governance, reforms and transformation, the AGSA need to be involved in the oversight of any future PEFA assessments because they are independent and have information which is useful for scoring indicators. They could participate as a member of the Steering Committee.
- b. In as much as a PEFA assessment is not an audit but evidence based assessment of PFM (including intergovernmental fiscal relations) systems based on PEFA, it would be significantly beneficial to engage AGSA together with Provincial Legislature so they become active participants to creating a strong foundation for improved accountability and reporting in the future.
- c. The Gauteng Treasury supported by AGSA should develop and institutionalize an annual report award competition hosted by the MEC for finance and economic development supported by incentive system and annual reviews which encourage CFOs to meet high reporting requirements enshrined in continuous compliance and improvement. Annual prize ceremonies which reward the respective CFOs and their departments will encourage help to encourage excellent financial reporting practices. The AGSA may be involved in assessing and recommending the winners supported by the Institute of Chartered Accountants and SAIGA

PI-27 Legislative scrutiny of the annual budget law

The power to give the government authority to spend rests with the legislature and is exercised through the passing of the annual budget law. If the legislature does not rigorously examine and debate the law, that power is not effectively exercised and will undermine the accountability of the government to the electorate.

Dimension	Score	Brief explanation of status
Overall	B+	M1 Scoring method
(i) Scope of the legislature's scrutiny.	A	The legislature's review covers detail of expenditure and revenue at a stage when detailed proposals have been finalized.
(ii) Extent to which the legislature's procedures are well established and respected.	A	The procedure for legislature's budget review is simple, well established, and respected. The legislative procedures for budget review are institutionalized and embedded in the parliamentary procedures and committee system. Functional committees with clear mandates will interrogate all individual department submissions (planning, budgeting and performance reporting). In addition a timetable / calendar is circulated with specific engagements and outputs for departments to follow. Documentation was confirmed in discussion with Gauteng Budgets. The procedures for budget review by the finance committee are detailed and include internal organizational arrangements such as specialized review processes.
(iii) Adequacy of time for the legislature to provide response to budget proposals, 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).	A	The budget proposal is presented to and adopted by the legislature within the month of February every year, thereby allowing between one and two months to debate and approve the budget. A period of 3 months would ordinarily be adequate and would allow adequate participation and consultation. Although the budget calendar allocated February and March 3 months could be set aside allowing thorough analysis and diagnosis before the budget is passed.
(iv) Rules for in-year amendments to the budget without ex ante approval by the legislature.	B	The rules are clear and respected. These allow both extensive reallocation and expansion of ex ante-approved budget by the legislature.

(i) Scope of the legislature's scrutiny.

Under the parliamentary system of democracy present in Gauteng, the Executive Authority is granted an independent role to adopt economic and fiscal policies to fulfil its short to medium term vision as determined by the Medium Term Budget Framework policy document. The legislative role in budget formulation is limited to ensuring there is an independent review and that the legislature, internal and external stakeholders are consulted and participate in the formulation and review. Practically, the budget is presented and approved by the legislature as prepared and projected by the Executive Authority represented by the Premier and his team. The fiscal policies, MTEF, and medium-term priorities which constitute the budget key documents do not receive approval by the Parliament are submitted as evidence that the minimum requirements of a comprehensive setoff budget documents have been used to present the budget. As stated in PI-6, detailed budget documents are submitted for legislative approval along with the supplementary budget of previous year for ex post approval. Evidence shows that the budget from the last three years has been approved as tabled. The Executive submits the details of estimated revenue and expenditure as a finance bill at a stage when detailed proposals have been finalized. The approval by the Executive Council (Provincial Cabinet) is a key stage for creating and embedding ownership of the budget by the executive authority as defined in the PFMA and provincial specific laws.

(ii) Legislative procedure for budget review.

The legislature exercises full oversight on all fiscal plans and budgets for Gauteng Province. The following budget documents are included in the review:- EPRE, ECE, Cabinet Memo, Appropriation Bill, Media Booklet accompany the presentation. The Annual Performance Plan (APP), strategic plan and budgets are reviewed in detail by the legislature. The review covers revenue, expenditure, fiscal policies, MTEF, and medium priorities. The Committee system is predominantly the instrument used when a typical budget review is performed. In this case various committees (organized into portfolios) have clear mandates to interrogate all departments, entities and constitutional bodies. This review is driven and based on a timetable with a clear indication of the processes and outputs.

The standard procedure is very simple and involves the review of a general discussion, moving of cut motions and proposals from members only, and voting thereupon with a provision to refer to any specialized committees for the purpose. The cut motions and proposals are responded to on the floor of the House and also voted upon. *An A rating is assigned for this dimension.*

(iii) Time for review of budget proposals.

The budget for the following year along with supplementary budget of current year for ex post approval is tabled and adopted within 2 months of the end of the current fiscal year (February to March) . In the calendar there is provision for a two month review before approval of the budget. Thus for the period under review, the budget was presented and approved within March allowing up to two months of legislative review. *Accordingly, the "A" rating is achieved.*

(iv) In-year budget amendments by Executive.

The provincial government shall have the powers to authorize expenditure from the Provincial Revenue Fund (PFMA 1999 as amended and Treasury Regulations), whether the expenditure is charged by the constitution upon that fund or not, and shall cause to be laid down before the Provincial Assembly an adjustment budget that is within the powers of the MEC and the laws of Gauteng. The Auditor-General has observed that in addition to the adjustment budget accruals literally consume up to 10 per cent for some departments of the previous year's budget through a displacement of budget year expenditure.

The rules are clear and respected and since it's a two stage process consultation to complete the adjustment budget and to accommodate the requirements and the provision for approval by the Provincial Legislature (which introduces a control element in the processing of adjustments). Because of the potential for the budget to change due to adjustments which will require justification through the Provincial Legislature and due to the fact that Executive Authorities of Gauteng may accommodate adjustments that are justifiable in terms of the law based on the circumstances, this has the potential to allow an expansion of total expenditure thus "B" rating is assigned.

PI-28 Legislative scrutiny of external audit reports

<i>Dimension</i>	<i>Score</i>	<i>Explanation</i>
Overall	B+	
(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years).	B	In practice SCOPA examines and disposes of the Audit report within 6 months after the AGSA reports are laid before a sitting of the provincial legislature. (SCOPA Report of 09 March 2012)
(ii) Extent of hearings on key findings undertaken by the legislature.	B	Public Accounts Committee conducted hearings regularly with MECs, head of departments and CFOs, Head of SCM and Internal Audit and Audit Committee members. The SCOPA members discuss all material audit observations with them. The Provincial Treasury is required to observe and participate in the SCOPA discussions to provide answers to specific technical issues related to mandate and role of the GPT.
(iii) Issuance of recommended actions by the legislature and implementation by the executive.	A	The Provincial SCOPA issues directives for implementation by the Executive which are contained in the Annual Financial Statements of each provincial department. For example Department of Health Vote 4 under the report of the Accounting Officer have verbatim resolutions of SCOPA which are reported capturing what action the HoD has taken to address the observations by SCOPA and Auditor General. The SCOPA reports are also followed up by Auditor General who independently report on their execution.

The legislature has a key role in exercising scrutiny over the execution of the budget that it approved. A common way in which this is done is through a legislative committee, in this case the Public Accounts Committee of the Gauteng Provincial Legislature, which examines the external audit reports and questions responsible officials about the findings of the reports. The SCOPA is by far one of the operation of the committee is depends on adequate financial and technical resources, and on adequate time being allocated to keep up to date on reviewing audit reports. The committee may also recommend actions and sanctions to be implemented by the Executive, in addition to adopting the recommendations made by the external auditors.

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

- Public funding of Provincial budgets is controlled by the Provincial Legislature through a process, exercised by the public representatives through budget proposal review and consultation and approval. At the proposal stage the Gauteng Provincial Government through its Treasury presents budget bids and proposals for the Provincial Legislature review and approval, which is imperative to give effect to its policies and programs. The result stage relates to the control over the management of budgets and expenditure of public funds and assets. In the second stage is where SCOPA plays a key role by ensuring that there is accountability for performance through examining the appropriations of the provincial government.
- Under the Constitution, the Auditor General of South Africa submits annual audit reports to the MEC for Finance who causes these reports to be laid before the Gauteng Provincial Legislature Assembly for detailed examination and scrutiny. These reports are referred to the SCOPA in order to examine whether the public funds captured in the annual financial statements and reports as having been disbursed, was legally made available for and applicable to the services or purpose to which they have been applied

or charged. In particular and under the law if the funds for service delivery were timely disbursed and reported in time and in accordance with procedures.

- An important part of the accountability process was the reviews reported by the Parliamentary Monitoring Group. In the absence of up to date information on SCOPA deliberations and reports Parliamentary Monitoring Group acted as a reliable source of data. Some of the key issues were minutes of budget deliberations reports of SCOPA meetings annual and quarterly performance reviews.
- The Gauteng Legislature through SCOPA examined reports for fiscal years 2011/12 to 2013/14. Formal reports SCOPA have been released giving detail of audit observations discussed and directions issued. Since the previous 3 years reports were examined in line with the law, this dimension (i) would achieve an A rating but because of inability to avail reports timely and electronically through the Legislature website downgrades this to B.

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

The last constituted SCOPA hearing held various in-depth meetings with the MEC, Accounting officers and other concerned officers to discuss the audit observations submitted to the SCOPA during the last 3 years. The SCOPA gave directives to various accounting officers which were by the press including.

Table 3.25: List of SCOPA Hearings

Item	Category	Action
1.5.3.3	Recommendation	Expenditure Management Irregular Expenditure of R9 448 126 be investigated through a forensic audit
1.5.3.3.2	Unauthorized Expenditure	Unauthorized expenditure is not approved Payments in excess of 30 days be promptly settled
1..5.3.3.4	Transfer of Funds	Department failed to ensure that municipalities implemented adequate control measures before transfer of funds (Treasury regulation 8.4.1)

SCOPA does undertake filed visits, undertake or commission special investigations all meant to establish the truth and also in compliance with the law ensure that there is respect for SCOPA work. Because of the depth, breadth and extent of the hearings including allowing members of the public to comment, SCOPA is a sufficiently independent and powerful institution capable of enforcing accountability requirements as provided in the various laws. Because of how effective and independent the SCOPA operate through an independent, open and consultative approach, the Provincial Legislature has become a respected institution whose review and oversight over financial governance and PFM systems is taken seriously by the Provincial Government. Because of the fact that SCOPA are functional and discharging their mandate as provided in the law, there is a semblance of accountability and transparency in use and management of public finances and assets. This dimension (ii) earns a “B” rating.

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

The SCOPA examines the audit reports for Gauteng Departments in detail. The representatives of the Auditor General are present during the hearings and brief the participants about the context and documentation on which any issue is raised. The SCOPA either settles the para or issue directives for the Accounting Officer or other offices involved in the issues raised by the Auditor General of South Africa.

AGSA – Gauteng (Auditor General) keeps records of the SCOPA hearings and directives as issued. During the following year’s audit, the Auditor General checks that the directives of the SCOPA have been complied with and implemented. The existence of the Audit Committee and Risk Management Committees helps to propel the robustness of the accountability and

accountability system by ensuring that the Accounting Authority represented by the Accounting Officer is addressing audit issues and implementing them as per SCOPA resolutions. The Auditor General probes, racks and monitors on progress in implementing audit observations and resolutions of the SCOPA. This is reported through the annual report and other audit communication. For example during the 2011/12 issues discussed in SCOPA in the current and previous year (2010/11) were captured in the annual report. As an assurance any issue which was captured in SCOPA will continue to appear as outstanding until an action is taken. Below SCOPA meetings for Health and Education departments for the year 2011/12 presented in a SCOPA report dated 09 March 2012. These reports provide the information shown in Table 3.17 on implementation of PAC directives.

Table 3.26 Implementation of Public Accounts Committee Directives, 2011/12 by Gauteng Department of Health and Gauteng Department of Education

<i>Department</i>	<i>No. of items discussed</i>	<i>Items where Accounting officer responded</i>	<i>Outstanding Items from Prior years</i>	<i>% Compliance</i>
Education	08	07	1	88%
Health	04	04	3	75%

There is no mechanism available within the Public Accounts Committee whereby it can examine compliance of self-issued directives. In view of the above, this dimension continues to earn a “B” rating.

3.5. Donor Practices

D-1 Predictability of direct budgetary support

Indicator	Score	Explanation
D-1 Predictability of direct budgetary support		Scoring method M1
i) Annual deviation in real budgetary support with respect to that forecast by donor organisations at least six months before the Government presents its budgetary proposals to the Legislature (or other equivalent body responsible for approving the budget)		NA
ii) Timeliness of disbursements by donors throughout the year (fulfilment of aggregate quarterly estimates)		NA

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

Indicator	Score	Explanation
D-2 Financial information provided by donors for budgeting and reporting on project and programme aid		Scoring method M1
i) Comprehensiveness and timeliness of donors' budgetary estimates for project support		NA
ii) Frequency and coverage in the presentation of reports by donors on effective flows for project support		NA

i) Comprehensiveness and timeliness of donors' budgetary estimates in relation to project support

ii) Frequency and coverage of the presentation of reports by donors in relation to effective resource flows for project support

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

Indicator	Score	Explanation
D-3 Proportion of aid managed by use of national procedures		Scoring method M1
i) Proportion of aid funds for the central government that are managed in line with national procedures		NA

4. GOVERNMENT REFORM PROCESS

4.1. Description of Major PFM Reforms

The following table summarizes major reform options and the areas where improvements in PFM performance could be secured.

Performance Indicator / Area	Reforms
Transparency of inter-governmental fiscal relations	Introduction of structured planning and institutionalisation of a new approach to conditional grants allocation should continue to be developed to achieve value for money in resource allocation use and management. This is an initiative of National Treasury
Public access to key fiscal information	Considering that some information was shared centrally but not available through the respective department websites it would be important to rationalize and harmonise the disclosure and reporting of PFM information from key departments. For example Gauteng Department of Health and procurement information will also be available directly on their website as well as the GDF and Provincial Treasury. In addition links would exist in the Gauteng Legislature as well as Gauteng Treasury ensuring that irrespective of which website you access from you will have access to uniform content from all external websites, units and departments.
Competition, value for money and controls in procurements	<p>Supply Chain Management Reform Process</p> <p>Based on weaknesses observed in the procurement systems within key departments, a self-assessment of the supply chain management system based on <i>Methodology for the Assessment of Procurement Systems</i> (MAPS) would be beneficial and will help to drill-down into departments such as Health, Education, Infrastructure and Human Settlements to identify specific problems before working out a turnaround strategy. A MAPS is one of the tools that is linked to PEFA which can help to identify specific weaknesses and challenges in the supply chain management operations and functions. As stated under Government reform, the adoption of MAPS model to assess the supply chain management in key Gauteng departments such as health, education, human settlements, and infrastructure development will be beneficial to the PFM systems as improvements may be secured. The MAPS model has been shared with supply chain management group in Health Department.</p>
Enhanced Automation of PFM systems	<p>Modernization of systems and controls is an important part of transformation of Gauteng province which should embrace upgrading automated systems through Integrated Financial Management Systems (IFMIS) that satisfy TRM standards. Such as system will ultimately reduce and minimize direct human intervention through automation. The current modular approach to implementation of SAP Enterprise software is an excellent opportunity to modernize and upgrade financial systems Integrated financial reporting and budget reporting based on the SCOA</p> <ul style="list-style-type: none"> ▪ Data integrity in the generation and preparation of monthly quarterly and annual financial reports ▪ Sharing of large volumes of procurement and transactional information across departments and in key departments to make better procurement selection decisions and ranking
Engagement of AGSA and Provincial Legislature on PFM reform issues	Both the legislature and External Audit should be involved in the planning of a typical PEFA assessment. This will require consultation and training and knowledge transfer to members of SCOPA and Budget committee and departmental committees. It was observed the SCOPA and budget committee who are instrumental in ensuring an independent review mechanism exists for decisions made by legislature have not been involved in any PEFA exercise.

4.2. The government's PFM reform agenda

Accounting systems reforms

The Gauteng Provincial government is fully aware of key PFM weaknesses described in the report which have been part of ongoing dialogue and engagements with audit and oversight agencies and , and is already taking steps to address many of them. In particular strengthening PFM systems through modernisation of fiscal planning and budgeting, Provincial Accounting systems and departmental accounting systems is in line with reform agenda, guidelines and standards set by National Treasury. In particular the Accountant General in a press release dated 28 November 2014 announced the launch by National Treasury of a multi-billion Rand project to integrate all government systems. The announcement could not have come at a more opportune time than now when the NT is undertaking and sponsoring the first ever PEFA assessment for Gauteng Provincial Government.

In November 2014, Accountant General made some important announcements on Accounting reforms- that;

- i. *South African government is continually improving the way it manages public resources through, inter alia the regular refinement of financial management and human resource management policies and procedures.*
- ii. *In order to support policy environments and the governance upgrades, government decided to upgrade the financial management systems to replace the Legacy Systems currently in use.*
- iii. *In November 2013, after national government reviewed the feasibility of the hybrid COTS/bespoke system, Cabinet approved an IFMS with a seamless fully integrated and secure ERP COTS Solution.*
- iv. *Programmes such as the National Treasury's Financial Management Improvement Programme (FMIP), the upgrades of human resource and supply chain management policies and processes are part of a general programme to transform the SA government for improved service delivery through better resourcing, reporting and accountability*

The above has already been documented as a reform that will bind and benefit in the **medium term and long as highlighted. In the details (last chapter) benefits accruing to both national and provincial governments such as Gauteng will discussed.**

Infrastructure Grant Reform

Currently the amount of infrastructure conditional grants allocated to each province is calculated through a formula. This does not take account of a rigorous planning process for infrastructure projects or the capacity of provinces to implement. **Through Medium Budget Policy Statement 2012 National Treasury announced a major reform agenda. "Over the next three years government aims to achieve better value for money from investment in provincial infrastructure. A new approach to infrastructure conditional grants is intended to institutionalise proper planning. Provinces will be required to bid for these allocations two years in advance and financial incentives will be built into the grant for provinces that implement best practices in delivering infrastructure."** Based on current statistics provinces including Gauteng are dependent on grants from national which are expected to remain so in the future. Because infrastructure is a major transformation tool and instrument Provinces now have to compete for these grants based on specific criteria. Effective in 2013 the following was introduced. According to Section 26 (4) of DORA

(a) Departments must submit..., by—

- i. Beginning of July a provincial IDMS for the relevant provincial departments regarding infrastructure delivery, approved by the Executive Council;
- ii. Before end July, a user asset management plan; and

- iii. By middle September, an infrastructure programme management plan and construction procurement strategy for infrastructure programmes.

(b) The National Treasury must, by beginning of December notify the national transferring officer and the affected provincial departments of outcomes.

Based on the above, Gauteng must adopt elements of the above as a reform agenda in order to institutionalise and compete for the infrastructure conditional grants now and in the future.

Supply Chain Management Reform Process

In 2010 the policy was promulgated with the following key objectives

- i. Promoting uniformity in the processes relevant to the repealing of tender board legislation in the various spheres of government and devolving the responsibility and accountability for procurement-related functions to accounting officers/authorities.
- ii. Promoting uniformity in the various spheres of government in the interpretation of government's preferential procurement legislation and policies, also in the context of other broad-based but related legislative and policy requirements of government.
- iii. Replacing the outdated procurement and provisioning practices in government with a supply chain management function and a systematic competitive procedure for the appointment of consultants as an integral part of financial management in government that conforms to internationally accepted best practice principles.
- iv. Introducing parameters for the promulgation of a regulatory framework in terms of the PFMA and MFMA to ensure compliance to minimum norms and standards; but in such a manner that the principles of co-operative governance are observed.
- v. Capacity building would include the establishment of supply chain management units in the relevant CFO structures, the establishment of clear lines of authority and accountability and performance criteria for the minimising of risk, quicker and more efficient sourcing and better asset and inventory management.
- vi. It is the responsibility of every accounting officer/authority to ensure that their supply chain management personnel are adequately trained.

Based on weaknesses observed in the procurement systems within key departments, a self-assessment of the supply chain management system based on **Methodology for the Assessment of Procurement Systems (MAPS)** would be beneficial and will help to drill-down into departments such as Health, Education, Infrastructure and Human Settlements to identify specific problems before working out a turnaround strategy. A MAPS is one of the tools that is linked to PEFA which can help to identify specific weaknesses and challenges in the supply chain management operations and functions.

4.3. Institutional Factors Supporting the Planning and Implementation of Reforms

- a. The Gauteng provincial government have adopted a 10 pillar program envisaging transformation. According to the GPG- the reforms which cover 10 pillars include modernisation of public service and transformation of the state and -government. These pillars condense over PFM functions, operations and systems. Thus next five-to-fifteen years, will see the Gauteng Provincial Government (GPG) take active decisive steps to make Gauteng an integrated city-region characterised by social cohesion and economic inclusion. To achieve this, the provincial government has adopted multi-pillar programme of radical transformation, modernisation and reindustrialisation of Gauteng. Specific areas relevant to PFM are four pillars namely
 - (i) Radical economic transformation
 - (ii) accelerating social transformation
 - (iii) Transformation of the state and governance
 - (iv) Modernisation of the public service

Relevant specific areas include

Gauteng 3.27 Pillar Table :

Pillar	Components	Relevant PFM area
I. Radical Economic Transformation	(i) Interventions in Key Sectors of the Economy (ii) Revitalising of the township economy	Use the budget to address the transformation. Work with National Treasury to draw and package elements necessary to support the strategy for radical economic transformation
II. Accelerating Social Transformation	(i) Smart Schools (ii) Improve quality of care (iii) Modernise Health Institutions (iv) Rollout National Health Insurance (v) Tackle Urban Poverty and social development challenges (vi) Dramatically improve community Safety	Use the Gauteng Health Budget and infrastructure to achieve the transformation. Ensure the MTEF addresses this policy objective. Poverty reduction strategy is aligned to budgets and MTEF objectives. Service delivery includes key components of Poverty Reduction Strategy (PRS) policy paper and framework. Community Safety requires investment in security infrastructure and capacity development through national police and other institutions.
III. Modernisation of Public Service	(i) Green and Smart public services and infrastructure to deliver services effectively and efficiently (ii) Build connected government , vertically, horizontally , back office , intranet to government to citizens and citizens to government	Modernisation of Public involves automation of PFM systems and processes. An automation/IFMIS audit is mandatory before undertaking any modernisation. Establish roadmap for automation and professionalization. Security systems are already automated and lessons learned can be drawn from this experience. Automation of health and school systems and service providers will simplify life and make Government an effective service delivery.
IV. Transformation of the State and Governance	(i) Build developmental state capabilities through better organisation and professionalization	This integrates with the above but the cost should be established. Does modernisation means increasing the cost of running a government. All these visions must be cost and budgeted for.

- i. Since the new Gauteng government developed the reform agenda the reform organisation must be structured to first ensure that the entire vision is aligned to national and province specific reforms. Before reforms are undertaken a key process is to develop a vision and roadmap that addresses new and ongoing reforms. The roadmap requires a steering mechanism and a governance framework. In as much as we inquired there appeared to no specific steering committee integrating and harmonising the implementation of PFM reforms.
- ii. The GPG through the Provincial treasury must take advantage of the Premier's vision to seek an audit of existing and ongoing reforms. A key component of this review is to do an ERP and automation audit because Gauteng is very modern yet a significant amount of transactions continue to be processed semi-manually. The decision by National Treasury to upgrade and modernise through an IFMIS (ERP) is an opportunity that will need to be embraced at the highest level especially if the IFMIS project is fully funded.

Conclusion and recommendations

Gauteng has been implementing IT systems in areas such as records automation identification and security systems albeit on an incremental basis but have not comprehensively implemented automation of provincial wide PFM systems. The leadership of the province appears to be pursuing a transformation agenda, the GPT should see this as an opportunity to develop provincial wide PFM systems that address shortcomings identified by the AGSA and the PEFA assessment. Implementation of an ERP system will require a comprehensive systems implementation audit which will answer several questions such as why previous ERP projects have not yielded the expected outcomes and also why Gauteng continues to use spreadsheets when applications capable of addressing weaknesses in transaction processing are available in the market.

ANNEXES

5. ANNEX A

5.1. Detailed score calculations

A. PFA RESULTS: Credibility of Budget					
Indicator/method	Score	D (i)	D (ii)	D (iii)	D (iv)
HLG-1 (M1)	A	A	A	A	--
PI-1 (M1)	A	A	--	--	--
PI-2 (M1)	A	A	A	--	--
PI-3 (M1)	D	D	--	--	--
PI-4 (M1)	B+	A	B	--	--
B. KEY CHARACTERISTICS OF ALL STAGES: Comprehensiveness and transparency					
PI-5 (M1)	A	A	--	--	--
PI-6 (M1)	A	A	--	--	--
PI-7 (M1)	B+	A	B	--	--
PI-8 (M2)	A	A	B	A	--
PI-9 (M1)	A	A	A	--	--
PI-10 (M1)	A	A	--	--	--
C. BUDGETARY CYCLE					
C (i) Policy-based budgeting					
PI-11 (M2)	A	B	A	A	--
PI-12 (M2)	A	A	A	A	A
C (ii) Predictability and control in budget execution					
PI-13 (M2)	B	A	A	D	--
PI-14 (M2)	B	B	B	C	--
PI-15 (M1)	B+	B	B	B	--
PI-16 (M1)	A	A	A	A	--
PI-17 (M2)	A	A	A	--	--
PI-18 (M1)	B+	A	A	A	B
PI-19 (M2)	C+	B	B	B	D
PI-20 (M1)	C	C	C	C	--
PI-21 (M1)	B+	A	A	B	--
C (iii) Accounting, recording and reporting					
PI-22 (M2)	A	A	A	--	--
PI-23 (M1)	A	A	--	--	--
PI-24 (M1)	B+	B	A	B	--
PI-25 (M1)	A	A	A	A	--
C (iv) External scrutiny and audit					
PI-26 (M1)	B+	A	B	A	--
PI-27 (M1)	B+	A	A	A	B
PI-28 (M1)	B+	B	B	A	--
D. DONOR PRACTICES					
D-1 (M1)	NA			--	--
D-2 (M1)	NA			--	--
D-3 (M1)	NA		--	--	--

6. ANNEX B

6.1. Statistical Tables: Detailed calculations for PI-1, PI-2 and PI-3 etc.

Statistical Tables

Table 1 - Fiscal years for assessment

Year 1 =	2011/2012
Year 2 =	2012/2013
Year 3 =	2013/2014

The budget only have 15 Functional heads in 2013/14; 14 in 2012/13 and 13 in 2011/12.

Table 3.2

Data for year =		2011/2012	R'000			
Administrative /Functional head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
In Millions ('000)						
1. Education	25,965,171	26,122,180	26,437,607	-315,427	315,427	1.2%
2. Health	22,837,577	23,813,393	23,386,833	-426,560	426,560	1.8%
3. Social Development	2,424,792	2,333,714	2,433,081	99,367	99,367	4.3%
4. Office of the Premier	217,539	207,233	228,742	21,509	21,509	10.4%
5. Gauteng Provincial Legislature	400,000	376,190	402,720	26,530	26,530	7.1%
6. Economic Development	805,580	797,002	822,573	25,571	25,571	3.2%
7. Local Government and Housing	4,568,343	4,460,605	4,588,379	127,774	127,774	2.9%
8. Roads and Transport	6,241,504	5,784,647	6,357,678	573,031	573,031	9.9%
9. Community Safety	423,747	400,621	423,747	23,126	23,126	5.8%
10. Agriculture and Rural Development	489,850	476,949	516,658	39,709	39,709	8.3%
11. Sports, Arts and Recreation	375,598	389,857	389,828	-29	29	0.0%
12. Finance	1,555,163	1,486,138	1,551,236	65,098	65,098	4.4%
13. Infrastructure Development	1,340,481	1,260,326	1,347,606	87,280	87,280	6.9%
Allocated Expenditure	67,645,345	67,908,855	68,886,688	346,979	1,831,011	2.7%
Contingency	0	0	0	0	0	0.0%
Total Expenditure	67,645,345	67,908,855				
Composition (PI-2) Variance						2.7%
overall (PI-1) variance						0.4%
composition (PI-2) variance						2.7%
contingency share of budget						0.0%

Table 3						
Data for year = 2012/2013 R'000						
Administrative /Functional head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
In Millions ('000)						
1. Education	27,150,751	28,317,035	28,500,824	-183,789	183,789	0.6%
2. Health	24,519,336	26,834,347	27,191,594	-357,247	357,247	1.3%
3. Social Development	2,490,492	2,524,726	2,543,918	-19,192	19,192	0.8%
4. Office of the Premier	236,734	238,957	249,810	-10,853	10,853	4.5%
5. Gauteng Provincial Legislature	455,000	472,004	476,305	-4,301	4,301	0.9%
6. Economic Development	912,008	873,371	874,412	-1,041	1,041	0.1%
7. Local Government and Housing	4,737,125	4,630,365	4,737,125	-106,760	106,760	2.3%
8. Roads and Transport	4,363,790	5,564,906	5,737,668	-172,762	172,762	3.1%
9. Community Safety	435,946	414,662	436,798	-22,136	22,136	5.3%
10. Agriculture and Rural Development	493,976	515,888	517,659	-1,771	1,771	0.3%
11. Sports, Arts and Recreation	392,837	434,025	437,938	-3,913	3,913	0.9%
12. Finance	1,322,700	1,291,785	1,333,265	-41,480	41,480	3.2%
13. Gauteng Treasury	428,934	224,927	238,610	-13,683	13,683	6.1%
14. Infrastructure Development	1,371,052	1,408,343	1,411,281	-2,938	2,938	0.2%
Allocated Expenditure	69,310,681	73,745,341	74,687,208	-941,867	941,867	1.3%
Contingency	0	0	0	0	0	0%
Total Expenditure	69,310,681	73,745,341				
Composition Variance (PI-2)						1.3%

Table 4

Data for year = 2013/2014 R'000

Administrative /Functional head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
In Millions ('000)						
1. Education	29,275,841	30,371,624	30,695,257	-323,633.0	323,633.0	1.1%
2. Health	27,992,680	27,430,045	28,770,785	-	1,340,740.0	4.7%
3. Social Development	2,896,320	2,900,119	2,916,748	-16,629.0	16,629.0	0.6%
4. Office of the Premier	296,718	413,138	420,873	-7,735.0	7,735.0	1.8%
5. Gauteng Provincial Legislature	470,587	467,914	496,831	-28,917.0	28,917.0	5.8%
6. Economic Development	967,551	928,534	963,353	-34,819.0	34,819.0	3.6%
7. Human Settlement	4,616,498	4,546,437	4,619,641	-73,204.0	73,204.0	1.6%
8. Roads and Transport	4,769,964	5,446,488	5,671,487	-224,999.0	224,999.0	4.0%
9. Community Safety	496,937	499,111	496,937	2,174.0	2,174.0	0.4%
10. Agriculture and Rural Development	553,571	550,739	554,177	-3,438.0	3,438.0	0.6%
11. Sports, Arts and Recreation	537,292	522,481	524,192	-1,711.0	1,711.0	0.3%
12. Finance	985,328	1,196,403	1,298,355	-101,952.0	101,952.0	7.9%
13. Gauteng Treasury	320,292	306,937	322,423	-15,486.0	15,486.0	4.8%
14. Infrastructure Development	1,472,513	1,529,645	1,532,081	-2,436.0	2,436.0	0.2%
15. Cooperative Governance and Traditional Affairs	312,560	267,262	312,703	-45,441.0	45,441.0	14.5%
allocated expenditure	75,964,652	77,376,877	79,595,843	-2,218,966	2,223,314	2.8%
contingency	0	0	0	0	0	
total expenditure	75,964,652	77,376,877				
Composition (PI-2) Variance						2.8%

Results Matrix

year	for PI-1 total exp. deviation	for PI-2 (I) composition variance	for PI-2 (ii) contingency share
2011/2012	0.4%	2.7%	
2012/2013	6.4%	1.3%	0.0%
2013/2014	1.9%	2.8%	

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

Transfers to provinces

Transfers to	2010/2011 R	2011/2012 R	2012/2013 R	Total R
Province and Municipalities	551,716	748,491	1,441,852	2,742,059
Departmental Agencies and Accounts	4,800,000	2,800,000	2,231,000	9,831,000
Public Corporations and Private Enterprises	1,368,000	1,906,000	1,702,000	4,976,000
Non-Profit Corporations	3,500,000	4,400,000	4,900,000	12,800,000
	10,219,716	9,854,491	10,274,852	30,349,059

Table 1 - Fiscal years for assessment

Year 1 =	2011/2012
Year 2 =	2012/2013
Year 3 =	2013/2014

The budget only have 15 Functional heads in 2013/14; 14 in 2012/13 and 13 in 2011/12.

Table 2

Data for year =		2011/2012			
Administrative /Functional head	Budget	Actual	Adjusted Budget	Deviation	Percent
In Millions ('000)					
1. Education	25,689	44,452	27,385	18,763	173.0%
2. Health	489,514	454,064	489,514	-35,450	92.8%
3. Social Development	-	-	-	0	0.0%
4. Office of the Premier	103	465	103	362	451.5%
5. Gauteng Provincial Legislature	-	-	-	0	0.0%
6. Economic Development	635,078	614,726	635,078	-20,352	96.8%
7. Local Government and Housing	3,995	20,073	16,358	16,078	502.5%
8. Roads and Transport	1,798,510	2,283,877	1,798,510	485,367	127.0%
9. Community Safety	11,712	13,781	11,712	2,069	117.7%
10. Agriculture and Rural Development	1,348	1,058	1,348	-290	78.5%
11. Sports, Arts and Recreation	359	295	359	-64	82.2%
12. Finance	31,341	167,330	100,050	135,989	533.9%
13. Infrastructure Development	12,960	15,636	12,960	2,676	120.6%
Allocated Revenue	3,010,609	3,615,757	3,093,377	605,148	120.1%
Total Revenue	3,010,609	3,615,757			
Composition (PI-3) Variance					120.1%

Table 3
Data for year = 2012/2013

Administrative /Functional head	Budget	Actual	Adjusted Budget	Deviation	Percent
In Millions (R'000)					
1. Education	42,000	48,612	46,675	6,612	115.7%
2. Health	471,551	506,939	471,551	35,388	107.5%
3. Social Development	2,697	5,941	3,494	2,447	220.3%
4. Office of the Premier	110	277	246	31	251.8%
5. Gauteng Provincial Legislature	-	-	-	0	0.0%
6. Economic Development	663,762	721,855	663,762	58,093	108.8%
7. Local Government and Housing	4,194	13,142	4,194	8,948	313.4%
8. Roads and Transport	2,144,732	2,466,851	2,406,856	59,995	115.0%
9. Community Safety	12,681	20,612	12,681	7,931	162.5%
10. Agriculture and Rural Development	1,374	2,106	1,566	540	153.3%
11. Sports, Arts and Recreation	365	184	365	-181	50.4%
12. Finance	1,740	2,355	1,813	542	135.3%
13. Gauteng Treasury	55,000	187,810	150,000	37,810	341.5%
14. Infrastructure Development	15,000	15,055	15,000	55	100.4%
Allocated Revenue	3,415,206	3,991,739	3,778,203	218,211	116.9%
	0	0	0	0	0%
Total Revenue	3,415,206	3,991,739			
Composition (PI-3) Variance					116.9%

Table 4

Data for year = 2013/2014					
Administrative /Functional head	Budget	Actual	Adjusted Budget	Deviation	Percent
In Millions (R'000)					
1. Education	44,100	40,979	44,100	-3,121.0	92.9%
2. Health	509,429	527,709	493,721	18,280.0	103.6%
3. Social Development	2,713	4,691	4,963	1,978.0	172.9%
4. Office of the Premier	190	533	565	343.0	280.5%
5. Gauteng Provincial Legislature	0	0	0	0.0	0.0%
6. Economic Development	710,701	763,922	710,701	53,221.0	107.5%
7. Human Settlement	3,969	4,888	3,969	919.0	123.2%
8. Roads and Transport	2,606,626	2,707,443	2,610,556	100,817.0	103.9%
9. Community Safety	13,442	29,852	13,442	16,410.0	222.1%
10. Agriculture and Rural Development	1,390	1,029	1,390	-361.0	74.0%
11. Sports, Arts and Recreation	383	313	206	-70.0	81.7%
12. Finance	1,807	1,409	1,048	-398.0	78.0%
13. Gauteng Treasury	60,205	247,893	180,205	187,688.0	411.7%
14. Infrastructure Development	17,000	17,756	17,000	756.0	104.4%
15. Cooperative Governance and Traditional Affairs	455	676	455	221.0	148.6%
Allocated Revenue	3,972,410	4,349,093	4,082,321	376,683	109.5%
	0	0	0	0	
Allocated Revenue	3,972,410	4,349,093			
Composition (PI-3) Variance					109.5%

year	for PI-3 Total Revenue deviation
2011/2012	120.1%
2012/2013	116.9%
2013/2014	109.5%

Score for indicator PI-3: C

Overall Score for indicator PI-2 A

R'000	2011	2012	2013	2014
Own Revenue	2,820,298	3,010,609	3,415,206	3,972,410
Equitable share	45,869,090	50967615	54545389	62880944
Conditional Grants	13,962,117	14673913	15603784	17003673
	62,651,505	68,652,137	73,564,379	83,857,027
		6,000,632	4,912,242	10,292,648
		10%	7%	14%
Total Expenditure	61,453,384	67,645,345	69,310,681	75,964,652
Surplus/Deficit	1,198,121	1,006,792	4,253,698	7,892,375
		-191,329	3,246,906	3,638,677
		-16%	76%	46%

Score for indicator PI-3: C

Table 5 - Results Matrix

Financial Year	PI-2 (i) Composition Variance	PI-2 (ii) Contingency Share
2011/2012	2.7%	0
2012/2013	1.3%	
2013/2014	2.8%	

**Overall Score for
indicator PI-2 A**

2011	2012	2013	2014
2,820,298	3,010,609	3,415,206	3,972,410
45,869,090	50967615	54545389	62880944
13,962,117	14673913	15603784	17003673
62,651,505	68,652,137	73,564,379	83,857,027
	6,000,632	4,912,242	10,292,648
	10%	7%	14%
<u>61,453,384</u>	<u>67,645,345</u>	<u>69,310,681</u>	<u>75,964,652</u>
<u>1,198,121</u>	<u>1,006,792</u>	<u>4,253,698</u>	<u>7,892,375</u>
	-191,329	3,246,906	3,638,677
	-16%	76%	46%

	2011/2012			2012/13			2013/14		
	R'000s	R'000s		R'000s	R'000s		R'000s	R'000s	
	DORA	Received	%	DORA	Received	%	DORA	Received	%
Equitable Share	50,428,480.00	50,967,615.00	1.07%	54,545,389.00	55,212,862.00	1.22%	61,374,917.00	61,494,894.00	0.20%
Conditional Grants	14,586,174.00	14,680,010.00	0.64%	15,603,784.00	15,642,603.00	0.25%	15,494,829.00	15,738,808.00	1.57%
Totals	65,014,654.00	65,647,625.00		70,149,173.00	70,855,465.00		76,869,746.00	37,957,292.00	

NB: Conditional Grants was taken from EPRE for each financial year.

All revenues

R'000	2011/2012	%	2012/2013	%	2013/2014	%
Total Receipts from National Government	65,093,480	94.74%	70,168,389	94.62%	76,884,917	94.65%
Equitable Share	50,428,480	73.40%	54,545,389	73.55%	61,374,917	75.55%
Conditional Grants	14,665,000	21.34%	15,623,000	21.07%	15,510,000	19.09%
Own Revenue Source	3,613,757	5.26%	3,991,739	5.38%	4,349,093	5.35%
Total Revenue	68,707,237		74,160,128		81,234,010	

Departmental Budgets 2012 - 2014

R'000	2012	2013	2014
Function	Budget	Budget	Budget
1. Education	25,965,171	27,150,751	29,275,841
2. Health	22,837,577	24,519,336	27,992,680
3. Social Development	2,424,792	2,490,492	2,896,320
4. Office of the Premier	217,539	236,734	296,718
5. Gauteng Provincial Legislature	400,000	455,000	470,587
6. Economic Development	805,580	912,008	967,551
7. Human Settlements	4,568,343	4,737,125	4,616,498
8. Roads and Transport	6,241,504	4,363,790	4,769,964
9. Community Safety	423,747	435,946	496,937
10. Agriculture and Rural Development	489,850	493,976	553,571
11. Sports, Arts, Culture and Recreation	375,598	392,837	537,292
12. Finance	1,555,163	1,322,700	985,328
13. Gauteng Treasury	1,340,481	428,934	320,292
14. Infrastructure Development		1,371,052	1,472,513
15. Cooperative Governance and Traditional Affairs			312,560
Total	67,645,345	69,310,681	75,964,652

R'000	2011/2012				2012/2013				2013/2014			
	DoRA	Received	Share (%)	Variance	DoRA	Received	Share (%)	Variance	DoRA	Received	Share (%)	Variance
Total Receipts from National Government	65,014,654	65,647,625	94.80%	101.00%	70,149,173	70,855,465	94.70%	101.00%	76,869,746	77,233,702	94.70%	100.50%
Equitable Share	50,428,480	50,967,615	73.60%	101.10%	54,454,389	55,212,862	73.80%	101.40%	61,374,917	61,494,894	75.40%	100.20%
Conditional Grants	14,586,174	14,680,010	21.20%	100.60%	15,603,784	15,642,603	20.90%	100.20%	15,494,829	15,738,808	19.30%	101.60%
Own Revenue Source		3,613,757	5.20%			3,991,739	5.30%			4,349,093	5.30%	
Total Revenue		69,261,382				74,847,204				81,582,795		

7. ANNEX C

7.1. List of contacts

Name	Title	Organisation
Jeff Mashele	Deputy Director General	Gauteng Provincial Treasury
Michael Rammabi	Director: Provincial Budget Analysis	National Treasury
Mulalo Nemudivhiso	Director SCM	Gauteng Roads and Transport
Barry Venter	Director Financial Management	Gauteng Department of Agriculture and Rural Development
Lionel Hartle	Director SRM Budget Management	Gauteng Provincial Treasury
Lucky Mahlake	Director	Gauteng Provincial Treasury
Babalwa Chegodi	Financial Business Systems	Gauteng Provincial Treasury
Michelle Marais	Director: Cash Book & Banking Services	Gauteng Provincial Treasury
Tintswalo Baadjie	Director: General Accounting	Gauteng Provincial Treasury
Nomfanelo Genuka	Director Management Accounting	Gauteng Provincial Economic Development
Ronald Tabatsindi	Deputy Director Management Accounting	Gauteng Provincial Economic Development
Desree Legwale	Chief Financial Officer	Gauteng Provincial Social Development
Zanele Mbolekwana	Deputy Director: Local Government Resource Management	Gauteng Provincial Treasury
John Sukazi	Head of Marketing and Communication	Gauteng Provincial Treasury
Dave Selby	Director SCM	Gauteng Provincial Health S
John Hlakudi	Director SCM	Gauteng Provincial Treasury
Walter Mashaba	Director Financial Accounting	Gauteng Provincial Economic Development
Suzy Mokobane	Director SCM	Gauteng Provincial Economic Development
Rendani Maringa	Deputy Director	Department of Roads and Transport
Ryan Du Toit	Technical Manager: Product Champion's Office	Auditor General South Africa
Eunice Sithole	Deputy Director	Gauteng Health Department
Babita Deokaran	Chief Director Financial Accounting	Gauteng Health Department
Thupana Motjoadi	Director Financial Planning	Gauteng Education Department
Andiswa Thantamiso	Personal Assistant	Gauteng Provincial Treasury

8. ANNEX D

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