Public Expenditure and Financial Accountability Assessment

PEFA Report

Republic of South Africa

Province of Limpopo

Final Report

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Prepared by EY and ACE International Consultants for National Treasury

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List of abbreviations and acronyms

AccG	Accountant General
ADR	Alternative Dispute Resolution
AFS	Annual Financial Statements
AG	Auditor General
AGA	Autonomous Government Agencies
ALM	Assets and Liability Management (Division)
AO	Accounting Officer
APP	Annual Performance Plan
ASB	Accounting Standards Board
ASGISA	Accelerated and Shared Growth Initiative for South Africa
BAS	Basic Accounting System
BBEEA	Broad Based Black Economic Empowerment Act
BC	Budget Council
BIU	Business Intelligence Unit
BO	Budget Office
BS	Budget Support
BAS	Basic Accounting System
CFI	Consolidated Financial Information
CFO	Chief Financial Officer
COFOG	Classifications of Functions of Government
CPD	Corporation for Public Deposits
CPI	Consumer Price Index
CRO	Chief Risk Officer
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
DDG	Deputy Director General
DG	Director General
DoRA	Division of Revenue Act
DORB	Division of Revenue Bill
DPSA	Department of Public Service and Administration
EC	European Commission
ENE	Estimates of National Expenditure
EP	Economic Policy (Division)
FDI	Foreign Direct Investment
FINEST	Financial Efficient Strategic System (for Procurement)
FMIP	Financial Management Improvement Programme
FY	Fiscal Year
GDP	Gross Domestic Product
GM	General Manager
GFS	Government Financial Statistics
GNI	Gross National Income
GRAP	Generally Recognised Accounting Practice
HDI	Human Development Index
HOD	Head of Department
HR	Human Resources
IA	Internal Audit
ICT	Information & Communication Technology
ID	Identification Document
IDASA	Institute for Democracy in South Africa

IDC	International Development Co-operation
IFMS	Integrated Financial Management System
IGR	Intergovernmental Relations (Division)
IIA	Institute of Internal Audit
IMF	International Monetary Fund
INTOSAI	International Organisation of Supreme Audit Institutions
ISA	International Standards on Auditing
IIA	Institution of Internal Auditors
IYM	In Year Monitoring
JBC	Joint Budget Committee
LG	Local Government
LOGIS	Logistical Information System
MCB	Ministers Committee on Budget
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MF	Minister of Finance
MTBPS	Medium Term Budget Policy Statement
MTEC	Medium Term Expenditure Committee
MTEF	Medium Term Expenditure Framework
NA	National Assembly
NDM	National Department Minister
NDP	National Development Plan
NCOP	National Council of Provinces
NRF	National Revenue Fund
NT	National Treasury
OAG	Office of the Accounting General
ODA	Official Development Assistance
OMA	Offices, Ministries, Agencies
PAA	Public Audit Act
PAIA	Promotion of Access to Information Act
PCF	Portfolio Committee on Finance
PE	Public Enterprise
PEFA	Public Expenditure and Financial Accountability
PERSAL	Personal and Salary Administration System
PETS	Public Expenditure Tracking Survey
PF	Public Finance (Division)
PFM	Public Finance Management
PFMA	Public Finance Management Act
PFM PMF	Public Finance Management Performance Management Framework
PI	Performance Indicator
PMG	Payment Master General
PPP	Public Private Partnership
PRF	Provincial Revenue Fund
PTCF	Provincial Technical Committee on Finance
PU	Procurement Unit
R	Rand, South African currency
RDP	Reconstruction and Development Programme (Fund)
SA	South Africa
SACCI	South African Chamber of Commerce Institute
SACU	Southern African Customs Union
SADC	Southern African Development Community
SARB	South African Reserve Bank

SARS	South African Revenue Service
SBS	Sector Budget Support
SCM	Supply Chain Management
SCOA	Standard Chart of Accounts
SCOPA	Standing Committee on Public Accounts
SEIFSA	Steel and Engineering Industries Federation of South Africa
SITA	State Information and Technology Agency
SM	Senior Manager
SNG	Sub National Government
SOE	State Owned Enterprise
TOR	Terms of Reference
TSA	Treasury Single Account
VAT	Value Added Tax

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The information contained in this report does not necessarily reflect the position or opinion of the National Treasury and/or the Provincial Treasury. Responsibility for the views expressed and for any remaining factual errors stays with the team who is accountable for providing an accurate assessment of events, opinions and comments.

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Currency and Exchange Rates	Fiscal Year	Assessment Period
Currency Unit - Rand (R)	April 1st to March 31st	FY 2010/2011
Euro 1 = 14.64 ZAR		FY 2011/2012
US$ 1 = 10.70 ZAR		FY 2012/2013

Summary Assessment

1. Assessment Process and Stakeholders involvement

This Public Expenditure and Financial Accountability (PEFA) assessment was initiated and sponsored by the National Treasury and is being undertaken for four provinces in South Africa. The current PEFA has been undertaken with the formal agreement and active support of the Provincial Government of Limpopo. The assessment adopts the methodology of the Public Financial Management Performance Measurement Framework (PFM-PMF) issued by the PEFA multi-donor programme in June 2005, revised in 2011, and subsequently adapted to sub-national governments (2013). The approach is based upon evidenced, demonstrated public financial management (PFM) systems, procedures and practices in the Province of Limpopo at the time of the assessment, as determined through direct interviews with Provincial Government officials and the review of official documents and reports.

In 2008, a PEFA assessment of the National Government public finance management systems was conducted and has been served throughout the current PEFA process as a reference for the national PFM systems and practices description and performance.

The purpose of the current PFM Performance Report is to present the results on the status of the public financial management systems of the provincial government of Limpopo. The TOR identifies the main objective of this PEFA Assessment as:

1. Establishing a baseline for future monitoring of progress in financial management performance and for informing the Financial Management Capacity and Maturity Model (FMCMM) and donors
2. Feeding future work on improving financial management in provinces

The overall assessment takes a view of the province as a whole through the Provincial Treasury (PT). The PT is responsible for preparing the provincial budgets and enforcing uniform treasury norms as prescribed by the National Treasury, deriving its powers through the PFMA (Section 18) and thus more relevant for the overall provincial view. The assessment involved review of documents, mainly from the National and Provincial Treasury. Further to that a series of interviews were held with the relevant Departments in conjunction with the Provincial Treasury.

The main focus of the Limpopo Assessment is based on the five departments namely:

- The Provincial Treasury
- The Department of Health
- The Department of Education
- The Department of Roads and Transport
- The Department of Public Works

A preliminary Draft Report was presented to the Provincial Treasury on 13 November 2013 for comments. Subsequently a revised Draft Report was made available on 10 January 2014. A workshop with National Treasury and Provincial Treasury took place on 15 January 2014 to take stock of further comments and agree on future steps to finalise the report. This Final Report is submitted to the National and Provincial Treasury and takes into account comments and suggestions presented at the said workshop, as well as final comments in writing by Provincial Treasury received subsequently.

This assessment is not designed to comment upon any aspects of specific fiscal or expenditure policy. It has not taken into account considerations of capacity, except to the degree implicit in the capacity to successfully carry out the assessed PFM procedures. It is important to underscore that the objective of the assessment has not been to evaluate and score the performance of institutions or any PFM offices or officials, but rather to assess the capacity of the PFM systems themselves to support sound fiscal policy and financial management[1].

2. Integrated Assessment

This PEFA assessment has been undertaken for the first time to measure the performance of public financial management within Limpopo Province. The sections that follow summarises the performance of the PFM systems, procedures and practices as measured through the PEFA assessment in terms of six critical dimensions of PFM. These dimensions are: credibility of the budget; comprehensiveness and transparency of the budget process; policy based budgeting; predictability and control in budget execution; accounting, recording and reporting; and external scrutiny and audit.

Credibility of the Budget

The budget credibility is assessed with reference to five performance indicators and the main purpose is to assess whether the budget is realistic, predictable and has been implemented as intended. The Province scored quite well with regards to revenue and expenditure estimates versus outturns, as well as for the control of arrears payments. However, the variance of transfers from higher level of government to the Province impaired the budget predictability, mainly due to the annual variance between actual and estimated transfers of the equitable share portion. The average for the composition variance was more than 5% during the period under review, which includes a deviation of 21.7% in the equitable share portion in 2012/13 that is explained by technical adjustments in the data that informs the equitable share formula and from carry through costs of the 2011 employees wage agreement (supplementary funding granted by National Treasury to cover part of the deficit).

Transparency and Comprehensiveness

The comprehensiveness and transparency of the budgeting process is assessed with reference to six performance indicators. The dimension assesses whether the budget and the fiscal risk oversight are comprehensive and fiscal and budget information is accessible to the public. The scores indicate that the budget documentation is complete, comprehensible and comprehensive. The standards adopted for the budget formulation and execution are based on economic, administrative, programme and sub-programme classification that is consistent with GFS/COFOG. The budget documents submitted to the Provincial Legislature are comprehensive and include a Medium Term Expenditure Framework. Public access to key fiscal information in the Province is transparent, generally comprehensive, user-friendly and timely. The main source of information is the internet, though relevant information is also made available through other means such as printed media and on request at the Provincial Departments. The area in which the Province did not score well is on oversight of aggregate fiscal control due to the fact that the Provincial Government's monitoring of the Provincial Public Entities and their fiscal position is significantly incomplete.

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1 This assessment provides a measure of whether the main necessary conditions for delivering sound PFM practice have been met, rather than providing an insight into all of the conditions necessary to conclude that sound PFM is being carried out. For example, while it assesses whether the PFM systems provide a sound framework for assessing fiscal risk arising from Public Enterprise activity, it makes no comment as to what authorities do or should do, in response to the information provided by the fiscal risk assessment. Providing such responses would be beyond the scope or competence of a PEFA assessment.

Policy-based budgeting
Budget planning and timeliness of the process, together with the linkages to multi-year sectorial and strategic plans are crucial to ensure that the budget is actually reflecting adequately the strategic policy choices. This remains an area for large improvements in Limpopo. Even though a clear annual budget calendar exists, delays are often experienced in its implementation and the different Departments suggested that the actual time formally allocated to the process (budget circulars) is not always respected. Moreover, the budget circulars are issued but do not include ceilings by departments, and the Provincial Cabinet is involved in approving the allocations only immediately before submission of detailed estimates to the Legislature, thus having almost no opportunities for major adjustments. In the three years reviewed under this assessment, the budget was signed into law at least two months after the start of the corresponding fiscal year. Recognising the fact that sector strategies have been prepared for some sectors, none of them have substantially complete costing of investments and recurrent expenditure. Therefore, a majority of important investments selected on the basis of relevant sector strategies, are not necessarily identifying and including recurrent cost implications in forward budget estimates for the sectors.

Predictability and control in budget execution
Predictability and control in budget execution assesses whether the budget is implemented in an orderly and predictable manner and if there are arrangements for the exercise of control and stewardship in the use of public funds. This dimension of the budget is assessed with reference to six performance indicators. The Province scored well only with regards to the predictability in the availability of funds for commitment of expenditures. The review of the annual financial statements for two departments that had negative bank balances revealed that a comprehensive disclosure of debt cost information associated with the liability was not made. It was also noted that the State guarantees were not approved in line with Section 66 of PFMA.

Although there are controls in place to regulate changes to personnel records and payroll expenditure, delays in processing changes for the large departments and incidents of payments to fictitious employees compromises the integrity of data in PERSAL system. Staff capacity constraints and BAS system issues are also some of the items impacting negatively on the effectiveness of expenditure controls. The Province has a functional transversal internal audit unit, however the internal audit findings are not always addressed in a timely manner and action plans to address root causes for the findings are not adequate. Furthermore, internal audit findings appear not to receive the same attention as those of the external audit by the Auditor-General.

Accounting, Recording and Reporting
The accounting, recording and reporting dimension assesses whether adequate records and information are produced, maintained and disseminated to meet decision-making controls, management and reporting purposes. This dimension is assessed with reference to four performance indicators. The Province scored relatively well with regards to the timeliness and regularity of accounts reconciliations, as well as availability of information on resources received by service delivery units. Reconciliation and clearing of suspense accounts are performed monthly, although there are exceptions with certain provincial departments where there are incidents of long outstanding and un-cleared items in the suspense accounts. There is good discipline in timely submission of in-year monitoring reports and compliance of Section 32 of PFMA. The score for the quality of in-year monitoring was negatively affected by the fact that the expenditure reports only capture items at payment level and does not include items at commitment level.

The Province also did not score well on the quality and timeliness of annual financial statements mainly due to the fact that the financial statements are not consolidated at a Provincial level and that the Provincial Treasury did not submit on time consolidated financial statements as prescribed by Section 19(1) (a) of PFMA.

External Scrutiny and Audits
High quality external audits are an essential requirement for transparency in the use of public funds by all spheres of government. In Limpopo the Auditor General audits all Provincial Departments every year within the specified period by law, performing a full range of audits, including systems, financial, compliance, procurement, IT and some performance related audits (without expressing a formal opinion). Also, the Auditor General' standards and practices comply with the ISA and INTOSAI Standards. The AG combines his audits of institutions with the audit of their financial statements. As a result, the department's audited financial statements are submitted to the Legislature within three months from the receipt of the financial statements by the Auditor General. The Auditor General's Reports are submitted to the Legislature within six months from the fiscal year-end. Even though formal responses are provided to each Department in the final management letters, and commitments are obtained from the Departments to implement corrective measures to resolve audit findings, the AG's report however shows no improvement on some systematic issues identified in the previous financial years, affecting negatively the impact of external audit findings.

The review by the Provincial Legislature is systematic and comprehensive, covering the national government and the provincial priorities, Provincial budgets are tabled by the Provincial MEC – Finance to the Provincial Legislature and only after approval by the house, the budgets are sent to the Premier's Office to be gazetted. Each Provincial department in Limpopo has a Legislative Committee that oversees the budget process from planning, budget monitoring and scrutiny. Nevertheless, the latest provincial budget process was limited to one month as the financial year for Provincial departments, ended on the 31 March 2013. The adjustment budget process that takes place in a six month period has to go through the Legislature for approval and is based on the six month performance of each provincial department and the Legislative Committees are highly involved in the process and consultations that involves the Provincial Treasury.

The 2012/2013 audit report had not been tabled to Provincial Legislature by the second week of November 2013 (at least two months of delay). The scrutiny of audit reports by SCOPA, the provincial committee responsible for overseeing the provincial government's financial performance, has been extensive and hearings are held by SCOPA on all entities with negative findings on their audit reports. Presentations are done to SCOPA through the committees responsible for these Departments. However, the recommended actions are rarely acted upon by the Executive.

3. Assessment of the impact of PFM weaknesses

An efficient PFM system is essential for the implementation of policies and the achievement of developmental objectives by supporting aggregate fiscal discipline, strategic allocation of resources and efficient service delivery. This PEFA assessment indicates that there are major strengths in some areas of PFM in Limpopo, which have led into appropriate funding of budget operations, adequate financial recording and sufficient reporting. Nonetheless, other important areas require attention and strengthening in order to improve PFM's contribution to budgetary outcomes.

Aggregate fiscal discipline
The fact that budget preparation takes place within a transparent medium-term expenditure framework is conducive to maintain aggregate fiscal discipline. This is assisted by MEC-approved budget ceilings which are generally respected in departmental budget submissions. In spite of deficiencies in certain expenditure management controls that led to important overdrafts in the past, since 2011/2012, the Province has been able to contain expenditures to its current revenue.

The amendments and expansion of the budget with formal ex-post regularisation did not hinder fiscal discipline either.

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

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

In conclusion:
Overall, the performance of PFM systems in the Province is fair but not yet sufficient to contribute effectively to achieving development objectives, and important areas in the budget execution, control and external scrutiny have to be improved in time in order to increase accountability and likelihood of contributing to fiscal discipline, strategic allocation of resources and efficient service delivery. One would also add that the overall legal and institutional framework of South Africa is generally conducive to efficient PFM, However, the national systems that are provided to the provinces (like such as BAS and other) have to ensure that they are efficient and effective tools for the provinces in order to improve their PFM and not just be requisites from national government that introduce further complications administrative burden or otherwise to provincial PFM. The oversight role played by the National Treasury and the Provincial Legislature could be improved to ensure not only compliance with the PFM deadlines, but for an effective system of financial management in the province.

It transpired during the assessment that the province is aware of the shortfalls within its PFM systems and strategies are developed with a view to improve its PFM systems. If these are implemented, PFM in the Province will be conducive to supporting aggregate fiscal discipline, strategic allocation of resources and efficient service delivery.

4. PFM Reform Program: Prospects for reform planning and Implementation

The main area of PFM reform activity planned (which will affect Limpopo Province) involves improvements to the Financial Management Systems and implementation of Integrated Financial Management System (IFMS). The Province currently uses Basic Accounting System (BAS) for financial management, PERSAL for human resource management and payroll administration and FINEST for managing and generating purchase orders. The aforementioned systems are not fully integrated. PERSAL is interfaced with BAS and FINEST is however neither integrated nor interfaced with BAS. Although the existing systems appear to capture financial information as required, their use in terms of reporting and data querying and mining is cumbersome.

The planned activities for improvements to the Financial Management Systems involve implementation of LOGIS[2] to address the short-comings of FINEST and will cover all the Provincial Departments. LOGIS supports the complete Order-to-Cash process of procurement and subscribes to sound supply chain management best practice. Furthermore, it will offer a functionality to support financial interface with BAS. It is planned to be implemented in phases and anticipated to take approximately three years to complete.

National Treasury has initiated a reform effort that aims to upgrading and modernise all financial software and integrating them to serve as a single Integrated Financial Management Information System (IFMS). The National Treasury has decided to employ standard platforms customised to meet the needs of the PFM systems and procedures. IFMS is an integrated and transversal system based on industry best practices and developed for Government by Government. It incorporates new technology, facilitates strategic reporting and supports legislation.

The implementation of IFMS should properly address the issue of cost involved in proprietary software developed from scratch as well as meet the requisite functionality not addressed by standard ERP applications. Further the approach should assure the necessary independence to provide for ready report writing, application maintenance and upgrades. The seven year implementation plan was initially approved in 2006/2007. A presentation subsequently made to the Limpopo's Department of Social Development on 27 August 2012, indicated five year implementation roll out plan, covering the fiscal periods 2011/12 through to 2015/16.

The Province faces various challenges with the planned reforms, ranging from allocation of adequate resources to deployment of sufficiently skilled and experienced personnel. The other challenge the Province needs to address relates improving audit outcomes. The past five fiscal years has seen a steady regression in favourable audit outcomes.

The commitment to continuing improvements in PFM in South Africa has political championship at the very highest levels through the Minister of Finance. At Provincial level, commitment by the Executive Authority which represents political leadership is one of the critical success factors for any reform undertaken.

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

Summary of Performance Indicator Ratings 2013 – Limpopo PEFA Assessment

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

N/A = Not Applicable

Chapter 1 Introduction

South Africa is a unitary system with a significant level of decentralisation. The PEFA 2008 performed for the country noted that the bulk of expenditure happens in provinces, where most of the financial management in terms of budget execution is done. Provinces receive most (almost all) of their funding from their equitable share which is apportioned amongst provinces based on the total population statistics and grants (conditional and non-conditional) transferred from the National Treasury. Given the constitutional allocation of responsibilities, the majority of the funds at the provincial level are dedicated to social services. This places high requirements on Provincial Treasuries and Departments and explains the importance allocated to improving public finance management (PFM) at the provincial level.

This document reports on a PFM assessment developed with the active engagement and leadership of the National Treasury and the Limpopo Provincial Treasury. It describes the performance of existing financial processes and systems of the provincial government and rates those procedures and systems against the best practices laid down for the PFM Performance Measurement Framework indicators. The assessment has been conducted in line with the Public Financial Management Performance Measurement Framework issued by the PEFA Secretariat (PFM Performance Measurement Framework, revised in January 2011), using the PEFA Sub-National Government (SNG) guidelines adapted in 2013.

1.1 Objective and coverage

The Terms of Reference identify the main objective of four subnational PEFA Assessments[3] as:

1. Establishing a baseline for future monitoring of progress in financial management performance and for informing the Financial Management Capacity and Maturity Model (FMCMM) and donors; and
2. Feeding future work on improving financial management in provinces

The PEFA assessment analyses 28 high level PFM indicators, which are grouped into six broad categories (each of which represents a key component of the overall PFM cycle). The three additional indicators that assess the impact of donor practices on the PFM system are not part of the study since they are not applicable to the South African context (donor funding is managed centrally). Therefore, the assessment is divided in six main dimensions, as follows:

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

[3] The three other than Limpopo provinces to be assessed are Free State, Western Cape and Kwa-Zulu Natal

- <u>External scrutiny and audit</u> – Arrangements for scrutiny of public finances and follow up by executive are operating adequately.

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

1.2 Process of preparing the PFM-PR

An indicative work plan for the PEFA assessment process was essentially agreed with representatives of National Treasury (NT). It was devised in a manner that responds to the objectives and needs of the PFM-PR and the Terms of Reference set out for carrying out the PEFA assessment as well as the revised PEFA Performance Measurement Framework and recommended guidelines for Sub-National Government level set forth by the PEFA Secretariat. The work of the core team of PEFA assessors was supported by counterparts from the Provincial Treasury (PT). The PEFA assessment process was carried out in three phases, namely, the preparatory work and desk study, the field work study, and the preparation of the draft and final reports.

The Desk Study begun in the week of October 2013 for the Limpopo PEFA team. During this period, the team reviewed documents received that formed the basis of background information to the mission as well as other official documents available through NT and PT websites.

The Field Work took place from October 21 to November 8, 2013. It began with a presentation of the PEFA framework to officials from the Provincial Treasury and relevant provincial Departments in Limpopo. The team reviewed specific documents, interviewed relevant officials and discussed with them PFM procedures and systems in place for the Province. Before finalising the field work the PEFA team presented the preliminary results of its work to the Provincial Treasury authorities and officials.

A working draft report was presented to the National Treasury through EY on December 13, 2013 and comments were received shortly after. A revised draft report was presented on January 10, 2014. The revised draft report was further tabled to the National Treasury and Provincial Treasury during the Budget Benchmarking exercise on the 15 January 2014. This final report takes into considerations the comments received at the aforementioned meeting, as well as written comments received subsequently from the Limpopo Provincial Treasury.

1.3 The scope of the assessment

Five departments were selected by the National Treasury of South Africa for the PEFA Assessment, namely:

- Provincial Treasury
- Department of Health
- Department of Education
- Department of Roads & Transport
- Department of Public Works

Out of these five entities, only the Department of Transport has public entities under its mandate (Gateway Airport Authority and Roads Agency Limpopo), nevertheless it was agreed with National Treasury at the beginning of the process that these public entities were not going to be covered by the assessment. The other public entities present in Limpopo are the Limpopo Agriculture Development (from Vote 4: Agriculture) and four entities from the Department for Economic Development, Environment and Tourism (Vote 6: Limpopo Economic Development Enterprise; Trade and Investment Limpopo; LIBSA; and Limpopo Gambling Board).

The table below shows the budgeted expenditure for provincial public entities to total expenditure for the province. For the past three years the total expenditure transferred to the public entities is at an average of 4%.

Table 1: Percentage of Selected Public Entities Expenditure to Total Public Expenditure for Limpopo Province (in R)

Public Entities per Vote	2010/11	2011/12	2012/13
Vote 4: Agriculture	122,342	106,000	114,480
Vote 6: Economic Development, Environment and Tourism	315,738	318,969	310,000
Vote 8: Roads and Transport	823,184	889,065	854,812
Total Expenditure to Public Entities	**1,261,264**	**1,314,034**	**1,279,292**
Total Provincial Expenditure	**31,285,586**	**34,454,882**	**36,716,238**
% to Total Public Expenditure	**4%**	**4%**	**3,5%**

Source: National Treasury Website; team calculations

Chapter 2 provides background information on the economic, budgetary outcomes, legal and institutional context of the Province for the evaluation. Chapter 3 presents the assessment through the individual Performance Indicators (PIs). Chapter 4 describes the PFM reform efforts in place, jointly at National Treasury and individual initiatives, and the prospects for further progress. A series of annexes provide more detailed reference information, including a summary Province profile, the budget data used for the quantitative indicators, the list of officials met and the different documents consulted all along the assignments.

Chapter 2 South Africa and Limpopo Profile

2.1 Country Economic and Fiscal Information

In recent years South Africa experienced the effects of the global economic crisis. This has affected economic growth over the last four years, prompting a deceleration in the rate of economic growth. South Africa experienced an average GDP growth rate of approximately 5% in real terms between 2004 and 2007. However, the period 2009 to 2013 only recorded average growth just above 2% (Table 2 below).

Table 2: Republic of South Africa — Selected macroeconomic indicators

	2009	2010	2011	2012	2013
	% annual change, unless otherwise noted				
GDP	(1.5)	3.1	3.5	2.5	2.8
Private consumption	(1.6)	4.4	4.8	3.0	2.9
Government consumption	4.8	5.0	4.6	3.6	3.3
Gross fixed capital formation	(4.3)	(2.0)	4.5	6.5	4.5
Total domestic demand	(1.6)	4.4	4.6	3.4	3.3
Exports of goods and services	(19.5)	4.5	5.9	0.7	3.7
Imports of goods and services	(17.4)	9.6	9.7	5.9	3.6
Memorandum items:					
Consumer price index	7.1	4.3	5.0	5.6	5.4
Unemployment rate	23.9	24.9	24.9	25.1	24.3
General government financial balance (% of GDP)	(4.9)	(6.0)	(5.3)	(5.0)	(4.7)
National government gross debt (% of GDP)	30.9	35.3	39.2	40.0	41.0
Current account balance (% of GDP)	(4.0)	(2.8)	(3.4)	(6.0)	(6.1)

Sources: Statistics South Africa and OECD estimates.

The Government's Consumption has been growing on average at a faster pace than Private Consumption (4.3% and 2.7% respectively) and Gross Fixed Capital Formation (1.8%). This has resulted in an average growth for Total Domestic Demand of 2.8% for the period. In this context Exports have been recovering smoothly in the last four years, although the average for the five-year period is still a negative growth of 0.9%, contrasting the average growth of 2.3% of imports for the same period of time. Unemployment rate has consequently deteriorated slightly, touching one out of four South Africans (24.6% in average). While the general government deficit situated around 5% of GDP on average between 2009 and 2013, the national gross debt grew by more than 10% of GDP in the five-year period, to situate over 40% of GDP. In this context in was inevitable to observe a further deterioration of the current account balance from 4% of GDP in 2009 to more than 6% of GDP in 2013.

It is within this macroeconomic framework that the national government of South Africa has been implementing its economic and social policies where the roles of provincial governments like the one of Limpopo are relatively important. As presented in Table 3 close to one third (or 32.5% on average) of total resources are managed at the provincial level (the 9 Provinces of South Africa).

Table 3: Allocation by sphere of government (R' 000)

Spheres of Government	2010/2011	2011/2012	2012/2013
National	519,980,624	562,174,845	622,434,681
Provincial	265,139,448	291,735,509	309,057,382
Local	30,558,566	34,107,901	37,873,396
Total	**815,678,638**	**888,018,255**	**969,365,459**
% allocated to National	63.7%	63.3%	64.2%
% allocated to Provincial	32.5%	32.9%	31.9%
% allocated to Local	3.7%	3.8%	3.9%

Source: Budget Review 2013

The percentage of local government's allocation to the total allocation is close to 4% on average (See also Annex 1 for a detailed Province Profile).

2.2 Description of Budgetary Outcome for the Province

The Limpopo Province is the fourth (out of nine) provinces in order of importance in terms of resources allocated from national level, with an average 12.3% of total resources to provinces.

Table 4: Local government allocation by Province

Provinces	2010/2011	2011/2012	2012/13	2010/2011	2011/2012	2012/13
	Allocation in R'000			Allocation in % of Total		
KwaZulu-Natal	5,712,667	6,476,001	7,210,513	18.7%	19.0%	19.0%
Gauteng	5,445,197	6,012,123	6,680,240	17.8%	17.6%	17.6%
Eastern Cape	4,453,126	5,243,046	5,859,038	14.6%	15.4%	15.5%
Limpopo	3,678,434	4,253,303	4,732,732	12.0%	12.5%	12.5%
Mpumalanga	2,909,548	3,132,492	3,439,424	9.5%	9.2%	9.1%
Free State	2,831,056	2,926,447	3,240,669	9.3%	8.6%	8.6%
North West	2,599,921	2,876,410	3,173,310	8.5%	8.4%	8.4%
Western Cape	1,998,808	2,175,019	2,403,620	6.5%	6.4%	6.3%
Northern Cape	929,810	1,013,059	1,133,850	3.0%	3.0%	3.0%

Source: Division of Revenue Act 2010/2011, 2011/2012 and 2012/2013 financial years; team calculations

Since the bulk of the allocation to provinces is on the equitable share (unconditional) transfer, strongly correlated to the total population of each province, the allocation has remained constant in the last few years.

2.3 Socio-economic context of Limpopo

The South African population grew at annual average rate of 1, 6% between 2006 and 2011. On average population growth in the provinces followed the similar trend. In 2011, the total population in Limpopo Province was 5, 5 Million and this equates to the average annual growth of 1, 8% between 2006 and 2011. Nevertheless, Limpopo provinces share of the total population in the country remained stable at around 11%.

Table 5: Population - Share and growth rates by province in South Africa

Province	Mid-year population ('000) Share of National Population (%)			Average Annual Growth (%)	
	2001	2006	2011	2001-2006	2006-2011
Eastern Cape	6 443	6 587	6 829	0,6%	0,9%
	14,3%	13,9%	13,5%		
Free State	2 753	2 701	2 759	-0,5%	0,5%
	6,1%	5,7%	5,4%		
Gauteng	9 440	1 033	11 328	2,3%	2,3%
	21.0%	21,8%	22,3%		
Limpopo	**4 970**	**5 165**	**5 554**	**1,0%**	**1,8%**
	11,1%	**10,9%**	**10,9%**		
Kwa-Zulu Natal	9 590	10 094	10 819	1,3%	1,7%
	21,3%	21,3%	21,3%		
Mpumalanga	3 347	3 459	3 657	0,8%	1,4%
	7,4%	7,3%	7,2%		
Northern Cape	1 070	1 042	1 096	-0,7%	1,3%
	2,4%	2,2%	2,1%		
North West	2 949	3 080	3 253	1,1%	1,4%
	6,6%	6,5%	6,4%		
Western Cape	4 388	4 833	5 287	2,4%	2,3%
	9,8%	10,2%	10,4%		
South Africa	**44 951**	**47 390**	**50 586**	**1,3%**	**1,6%**
	100%	**100%**	**100%**		

Source: Social Economic Review and Outlook 2011

Thus, the province population has been growing faster than the average of the country's population in the 2006-2011 period, and only two provinces (out of nine) had their population growing faster than the Limpopo province (Western Cape and Gauteng).

The province has mainly two sources of revenue, namely, transfers that are being received from national government in the form of equitable share and conditional grants, and the province own resources. Since the equitable share transfers are strongly related to the province population, the province public finances has to provide, in principle, sufficient resources organise and finance the provision of public services and goods.

Table 6: Limpopo province revenues (by source)

R' 000	2010/11	2011/12	2012/2013
Transfer receipts from national			
- Equitable share	33,706,324	36,793,208	39,259,637
- Conditional grants	5,983,201	7,113,453	8,085,645
Total transfer receipts from national	**39,689,525**	**43,906,661**	**47,345,282**
Provincial own receipts			
Tax receipts	***227,015***	***239,619***	***261,317***
- Casino taxes	20,930	22,475	31,763
- Horse racing taxes	8,660	7,740	9,752
- Liquor licenses	2,704	3,000	3,078
- Motor vehicle licenses	194,721	206,404	216,724
Non-Tax receipts	***334,183***	***272,387***	***360,216***
- Sale of goods & services other than capital assets	164,658	170,708	205,792
- Fines, penalties and forfeits	30,177	37,013	39,424
- Interest, dividends and rent on land	98,332	25,265	71,453
- Transfers received	-	-	-
- Sale of capital assets	11,543	14,308	16,056
- Transactions in financial assets and liabilities	29,473	25,093	27,491
Total provincial own receipts	**561,198**	**512,006**	**621,533**
Total provincial receipts	**40,250,723**	**44,418,667**	**47,966,815**

Source: NT Website (Publications IMR per province), Limpopo provincial publications (EPRE; Adjusted EPRE)

As presented in Table 7, total provincial own revenue represent on average 1.3% of total revenues, confirming the high dependence of the Province from the financing of National Government transfers, both unconditional (more than 82.7% of total) and conditional.

Table 7: Limpopo Province revenues by relative weight

(In Percentage)	2010/11	2011/12	2012/2013
Transfer receipts from national			
- Equitable share	83.7%	82.8%	81.8%
- Conditional grants	14.9%	16.0%	16.9%
Total transfer receipts from national	98.6%	98.8%	98.7%
Provincial own receipts			
Tax receipts	***0.6%***	***0.5%***	***0.6%***
- Casino taxes	0.1%	0.1%	0.1%
- Horse racing taxes	0.0%	0.0%	0.0%
- Liquor licenses	0.0%	0.0%	0.0%
- Motor vehicle licenses	0.5%	0.4%	0.5%
Non-Tax receipts	***0.8%***	***0.7%***	***0.7%***
- Sale of goods & services other than capital assets	0.4%	0.4%	0.4%
- Fines, penalties and forfeits	0.1%	0.1%	0.1%
- Interest, dividends and rent on land	0.2%	0.1%	0.1%
- Transfers received	0.0%	0.0%	0.0%
- Sale of capital assets	0.0%	0.0%	0.0%
- Transactions in financial assets and liabilities	0.1%	0.1%	0.1%
Total provincial own receipts	**1.4%**	**1.2%**	**1.3%**
Total provincial receipts	**100.0%**	**100.0%**	**100.0%**

Source: National Treasury Website; team calculations

2.4 Description of the Legal and Institutional Framework for PFM

2.4.1 The legal framework for PFM

The Public Finance Management Act of South Africa derives its mandate from the following Sections in the Constitution of which it gives effect to:

Section 213 - This section talks to the National Revenue Fund into which all money received by the national government must be paid, except money reasonably excluded by an Act of Parliament.

Section 215 - This section is in relation to the National, Provincial and Municipal Budgets and Budgetary Processes that must promote transparency, accountability and the effective financial management of the economy, debt and the public sector

Section 216 - This section of the Constitution gives effect to the establishment of the National Treasury and prescribes measures to ensure both transparency and expenditure control in each sphere of government, by introducing uniform reforms.

Section 217 - This section gives effect to the Procurement of Goods and Services within the government sphere and it requires that when an organ of state in the national, provincial or local sphere of government, or any other institution identified in national legislation, contracts for goods or services, it must do so in accordance with a system which is fair, equitable, transparent, competitive and cost-effective.

Section 218 - This section relates to Government Guarantees and states that the national government, a provincial government or a municipality may guarantee a loan only if the guarantee complies with any conditions set out in national legislation.

Section 219 - This section requires that an Act of Parliament must establish a Framework for determining Remuneration of Persons holding public office.

Moreover, the entity responsible for taxes this in the South African context is the South African Revenue Service. South African Tax Law incorporates the following tax laws:

- Income Tax Act
- Customs & Excise Act
- Value Added Tax Act
- Employees Tax
- Estate Duty Tax
- Transfer Duty Act
- Skills Development Levy Act
- Securities Transfer Tax Act
- Securities Transfer Tax Administration Act
- Unemployment Insurance contributions Act

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

The legal framework is comprehensive as talks to all spheres of government. It is supported further by the Treasury Regulations on financial processes covering all cycles in financial management. The Treasury Regulations cover the following financial management chapters:

- Planning and Budgeting
- Corporate Management
- Internal Controls
- Financial Misconduct
- Revenue Management
- Expenditure Management
- Asset Management
- Liability Management

Further to that it provides frameworks on:

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

Accounting and reporting requirements are also detailed in the Treasury Regulations as well as other miscellaneous issues in relation to public financial management.

2.4.2. The institutional framework for PFM

The main entities involved in PFM at the central and sub-national levels are:

- National and provincial departments,
- Trading entities
- Constitutional institutions
- Public Entities
- Local governments

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

1. Limpopo Appeal Tribunals
2. Limpopo Development Enterprise
3. Limpopo Development Tribunals
4. Limpopo Gambling Board
5. Limpopo Housing Board
6. Limpopo Liquor Board
7. Limpopo Local Business Centre
8. Limpopo Panel of Mediators
9. Limpopo Planning Commission
10. Limpopo Roads Agency
11. Limpopo Tourism and Parks Board
12. Trade and Investment Limpopo Government Agencies

In relation to the provincial departments Chapter 5 of the PFMA involves:

- Appointment of Accounting Officers[4]
- Responsibilities of Accounting officers
- Responsibilities of other officials in the provincial departments

Chapter 3 of the PFMA states that the responsibilities of the Provincial Treasury are:

- Preparation of the provincial budget

[4] Head of Department in a Provincial Department

- Exercising control on the implementation of the Provincial government
- Enforcement of transparency and effective management in respect of revenue, expenditure, assets and liabilities of provincial public entities
- To enforce the MFMA, DORA (Division of Revenue Act) and any prescripts issued by the National Treasury

2.4.3. The key features of the PFM system

Key features of the PFM system are:

- Efficient and effective financial management
- Accountability
- Transparency
- Understandability
- Reliability

Each Department in Limpopo has its own PMG[5] account which is used by them for funds received from National and Provincial Treasury's. Departments are required to submit their payment commitments for the year and are only allowed to revise these commitments during the tabling of the budget adjustments around the September/October period.

Each department in the province has its own Accounting Officer who is accountable for amoungst other, effective financial management in his/her Department. Responsibilities of Accounting Officers are detailed thoroughly within Chapter 5 of the PFMA. Chapter 3 of the PFMA in turn gives effect to the oversight role to be played by the Provincial Treasury on the provincial treasury. This is done through standardised financial reporting to monitor the budget from planning to reporting.

Monthly payment schedules are reconciled and reviewed by the Provincial Treasury for each Department as part of their oversight role. The payments are however processed on BAS[6] by each Department using their PMG account. The Provincial Treasury does have a viewing access on BAS to each departmental's payment records.

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

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

The Auditor General may audit and report on the accounts, financial statements and financial management of any institution funded from the National Revenue Fund or a Provincial Revenue Fund or by a municipality; or any institution that is authorised in terms of any law to receive money for a public purpose.

The Auditor General must submit audit reports to any legislature that has a direct interest in the audit, and to any other authority prescribed by national legislation. All reports must be made public. The Auditor General has the additional powers and functions prescribed by national legislation.

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

[6] Basic Accounting System

2.4.4 Availability of information related to service delivery or operational efficiency

Information is available and is monitored through the Monitoring and Evaluation (M&E) Framework published in 2007. Some of the principles of the M&E Framework include:

- A framework that is oriented nationally, Institutionally and locally involving service delivery and performance monitoring and evaluation;
- The service delivery performance evaluation reporting includes variables reflecting institutional performance and service delivery analysis and review, links identified and responsive strategies.

The review process of the service delivery outcomes takes effect when the Minister of Finance receives Budget Review and Recommendations Reports on the Medium Term Budget Policy Statement (MTBPS), Fiscal Framework, and Division of Revenue, from Parliament. These reports are analysed yearly between December and February for response to Parliament. The National Budget, Appropriation Bill, Division of Revenue Bill, Estimates of National Expenditure and related budget information are finalised and then tabled by the Minister of Finance.

The Annual Performance Plan as prescribed by the National Treasury, outlining the strategic outcome oriented goals of the departments in terms of service delivery programmes linked to the approved budget. This document is then incorporated to the Annual Report, which is used as the document to report the progress or achievements annually on all service delivery priorities. The PFMA Section (40)(d)(i) requires that the Accounting Officers must, within five months of the end of the financial year, submit an annual report on the activities of that department.

Chapter 3 Assessment of the PFM Systems, Processes and Institutions

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

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

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

3.1 Budget Credibility

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

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

Transfers from HLG (i.e. National Treasury and National Departments) constitute the largest share of revenue for the Limpopo Provincial Government as a whole. It comprises of equitable shares and conditional grants, which together made up more than 98,5% of provincial revenue in 2010/11, 2011/12 and 2012/13 (see Table 8). Provincial own revenue makes up only a little over 1% of the balance of the total provincial funding in the period.

Table 8: Provincial Total Revenue by source (R' million)

	2010/11		2011/12		2012/13	
	R 000	*%*	*R 000*	*%*	*R 000*	*%*
Aggregate equitable share from national	33.706.324	83.7%	36,793,208	82.8%	39,259,637	81.8%
Aggregate conditional grants from national	5,983,201	14.9%	7,113,453	16.0%	8,085,645	16.9%
Aggregate provincial own revenues	561,198	1.4%	512,006	1.2%	621,533	1.3%
Total	**40,250,723**	**100.0%**	**44,418,667**	**100.0%**	**47,966,815**	**100.0%**

Source: Overview of Provincial Revenue and Expenditure 2013/2014; team calculations

The equitable share relates to revenue emanating from taxes imposed on international trade, VAT, customs, duties, income tax, PAYE, domestic goods and consumption amongst others collected nationally by the South Africa Revenue Services (SARS). The Division of Revenue Acts (DORA) presents the origins of revenues by sphere of government and its distribution. This distribution is based upon a formula which is revised annually by National Treasury, advised by the Financial and Fiscal Commission (FFC)7, to calculate the equitable share across the provinces. This formula consists of six components that capture the relative demand for services between provinces and takes into account specific provincial circumstances namely:

- *Basic component* derived from each province's share of the national population;
- *Institutional component* divided equally between the provinces;
- *Poverty component* reinforcing the redistributive bias of the formula;
- *Economic output component* based on GDP-R data;
- *Education component* based on the size of the school-age population and the number of learners enrolled in public ordinary schools; and
- *Health component* based on a combination of a risk-adjusted capitation index for the population, which takes into account the health risks associated with the demographic profile of the population and the relative share of case-loads in hospitals.

Conditional grants are used for specific purposes; inter alia, infrastructure provision, institutional capacity building, and the implementation of various national priorities (e.g. HIV and AIDS and school nutrition programmes). Their primary objective is to promote national priorities and to compensate provinces for the provision of specialised services across provincial boundaries.

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

- Schedule 4A of DORA, which are more general grants that supplement various programmes already funded by Provinces that are aimed predominately to provincial health, education and infrastructure sectors with varied transfer and spending accountability arrangements, as more than one national or provincial Department may be responsible for different outputs;
- Schedule 5A of DORA, which are specific purpose conditional grants, with specific responsibilities for both the transferring and receiving departments of provincial accounting officers;

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

- Schedule 6A of DORA, which provides allocations in-kind through which a national department implements projects in provinces; and
- Schedule 7A of DORA, which provides for the swift allocation and transfer of funds to a province to help it deal with a disaster.

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

A comparison of budgeted versus actual revenues transferred from National Treasury and Departments is presented in Table 9 below. It shows that important deviations[8] took place for the 2012/2013 period, were larger than estimated resources came from National government through the equitable share portion (21.7%). The conditional transfer portion observed almost no deviations in the period under review.

Table 9: Revenues budgeted vs. outturns by sources

	2010/2011	2011/2012	2012/2013
Equitable share transfers			
Budget	33,706,324	36,436,545	32,259,637
Actual	33,706,324	36,793,208	39,259,637
Deviation (R 000)	0	356,663	7,000,000
Deviation (%)	**0.0%**	**1.0%**	**21.7%**
Conditional transfers			
Budget	5,983,146	7,098,313	8,085,645
Actual	5,983,201	7,113,453	8,085,645
Deviation (R 000)	55	15,140	0
Deviation (%)	**0.0%**	**0.2%**	**0.0%**
Total transfers			
Budget	39,689,470	43,891,521	40,345,282
Actual	39,689,525	43,891,521	47,345,282
Deviation (R 000)	55	0	7,000,000
Deviation (%)	**0.0%**	**0.0%**	**17.4%**

Source: EPRE 2010/2011, 2011/2012, 2012/2013 and 2012/2013 Budget Review

The deviation in the equitable share portion in 2012/2013 (21.7%) is meant to come from technical adjustments in the data that informs the equitable share formula and from carry through costs of the 2011 employees wage agreement (supplementary funding granted by National Treasury to cover part of the deficit).

As Table 10 below shows, the variance (how far a set of numbers, i.e. the individual Departments equitable share allocation share is spread out yearly from the mean) is even more important than aggregate deviations, even in those years (2010/2011 and 2011/2012) where the aggregate deviations are minimal.

[8] The deviation referred to can be positive (actual higher than estimates) or negative (actual lower than estimates) as explained in the PEFA SNG Guidelines for Application (2013).

Table 10: Comparison of Budgeted and Actual Transfers of Equitable Share

Department	2010/2011			2011/2012			2012/2013		
	Budget	Actual	Var. (%)	Budget	Actual	Var. (%)	Budget	Actual	Var. (%)
Premier	528,373	494,920	6.3	553,845	300,074	45.8	328,648	304,250	7.4
Provincial legislature	182,716	199,978	9.4	170,722	231,200	35.4	217,374	205,268	5.6
Education	16,986,261	17,714,154	4.3	18,088,376	18,740,255	3.6	19,640,183	22,882,245	16.5
Agriculture	1,189,861	1,019,806	14.3	1,248,459	1,275,932	2.2	1,304,961	1,558,506	19.4
Provincial Treasury	253,773	263,305	3.8	265,968	267,153	0.4	314,223	354,844	12.9
Economic Development, Environment and Tourism	833,235	829,872	0.4	777,428	860,544	10.7	845,331	888,686	5.1
Health and Social Development	9,014,065	9,075,595	0.7	9,515,968	9,857,490	3.6	10,105,137	12,806,871	26.7
Roads and Transport	1,907,159	2,108,111	10.5	2,285,931	2,214,108	3.1	2,035,372	3,905,396	91.9
Public Works	696,777	742,046	6.5	762,565	783,801	2.8	798,330	842,350	5.5
Safety, Security and Liaison	53,094	55,974	5.4	56,151	62,501	11.3	67,241	63,387	5.7
Co-operative Governance, Human Settlement and Traditional Affairs	649,174	640,509	1.3	588,602	793,822	34.9	900,647	2,591,274	187.7
Social Development	804,663	1,139,725	41.6	938,341	1,157,643	23.4	1,152,517	1,193,183	3.5
Sports, Arts and Culture	138,664	170,887	23.2	145,620	171,715	17.9	162,081	301,778	86.2

Source: EPRE 2010/2011, 2011/2012, 2012/2013 and 2012/2013 Budget Review

The variance between estimated and actual transfers from equitable share is relatively high in all years under review. The average for the overall variance has been 0.5% for each year under review except for 2012/2013 where it achieved more than 20%, the average for the composition variance was more than 6% during the period under review (see detailed calculations in Annexe 2).

By means of distributing conditional grants to provincial department, the national government supports higher levels of infrastructure provision and capital expenditure, particularly within the health, education, human settlements and transport departments which will not be possible otherwise (with the Province own resources). Deviations in the conditional transfer portion should be explained by the possible lack of compliance of the provincial departments with specific requirements from National Departments for transfers to flow into the Province as budgeted. Table 11 shows that total deviations and composition variance for conditional grants where inexistent, except for 2010/2011 where the total deviation was 0.9% and the composition variance reaches 1.3%, tough within optimal margins.

Table 11: Comparison of Budgeted and Actual Transfers of Earmarked Grants

R 000	2010/2011			2011/2012			2012/2013		
	Budget	Actual	Var. %	Budget	Actual	Var. %	Budget	Actual	Var. %
Office of the Premier	-	-	-	-	-	-	-	-	-
Provincial Legislature	-	-	-	-	-	-	-	-	-
Education	1,806,599	1,801,088	0.3	2,297,515	2,295,373	0.1	2,458,195	2,458,195	0.0
Agriculture	172,743	172,743	0.0	212,076	212,076	0.0	298,503	298,503	0.0
Provincial Treasury	-	-	-	-	-	-	-	-	-
Economic Development and Tourism	-	-	-	-	-	-	1,000	1,000	0.0
Health	1,469,693	1,425,524	3.0	1,707,118	1,707,118	0.0	1,858,642	1,858,642	0.0
Transport	1,084,990	1,084,990	0.0	1,226,194	1,226,194	0.0	1,636,807	1,636,807	0.0
Public Works	29,326	31,943	8.9	36,521	36,521	0.0	43,469	43,469	0.0
Community Safety and Liaison	-	-	-	-	-	-	-	-	-
Local Government and Housing	1,364,750	1,364,750	0.0	1,533,214	1,533,214	0.0	1,637,317	1,637,317	0.0
Social Development	-	-	-	3,382	3,382	0.0	11,168	11,168	0.0
Sports, Arts and Culture	106,337	96,652	9.1	137,604	137,604	0.0	140,544	140,544	0.0

Source: Overview of Provincial Revenue and Expenditures 2013/2014

Table 12 below shows the results of the analysis of variances in aggregate revenue and composition revenue. It indicates that the variances in aggregate revenue have been at least one year above 15% in the period under review (21.7% in 2012/2013). The variance composition of actual revenue to original estimates was above 5% and below 10% for at least one of the three years reviewed.

Table 12: Summary of variances in Aggregate Revenue and Composition Revenue

	2010/2011	2011/2012	2012/2013
Variance in aggregate revenue	3.0%	3.1%	21.7%
Variance in revenue composition	3.2%	2.2%	8.5%

Source: Team calculations

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

Table 13: Forecasted vs Disbursed transfers (R million)

Description	2010/2011				2011/2012				2012/2013			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Forecast												
Equitable shares	8 309 454	8 309 454	8 661 961	8 485 705	9 087 138	9 087 137	9 087 135	9 531 798	9 680 256	9 680 254	9 680 253	10 218 874
Conditional grants	1 307 390	1 531 688	1 179 593	1 850 041	1 566 971	1 908 215	1 879 057	1 930 614	1 877 564	2 179 536	2 068 278	1 430 439
Total	**9 616 844**	**9 841 142**	**9 841 554**	**10 335 746**	**10 654 109**	**10 995 352**	**10 966 192**	**11 462 412**	**11 557 820**	**11 859 790**	**11 748 531**	**11 649 313**
Disbursement												
Equitable shares	8 309 454	8 309 454	8 661 961	8 485 704	9 087 138	9 087 137	9 087 135	9 531 798	9 680 256	9 680 254	9 680 253	10 218 874
Conditional grants	1 307 390	1 531 688	1 180 383	1 657 258	1 563 839	1 911 348	1 868 077	1 957 869	1 877 564	2 179 536	2 053 892	1 137 856
Total	**9 616 844**	**9 841 142**	**9 842 344**	**10 142 962**	**10 650 977**	**10 998 485**	**10 955 212**	**11 489 667**	**11 557 820**	**11 859 790**	**11 734 145**	**11 356 730**
Disbursed	**100%**	**100%**	**100%**	**98%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**97%**

Source: Limpopo Provincial Treasury

Actual disbursements delays have been almost inexistent in the period under review, except for two (out of 12 quarters) where disbursements have been less than 3% of the amounts originally agreed.

Table 14: 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**	**C+**	
(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.	C	In no more than one year (2011/12) out of the last three years have HLG transfers deviated of the estimate by more than 15%.
(ii)	Annual variance between actual and estimated transfers of earmarked grants.	C	Variance in provision of earmarked grants exceeded overall deviation in total transfers by no more than 10 percentage points (8.5%) in no more than one of the last three years
(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 is agreed by NT and PT at the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 25% in more than one of the last three years

PI-1: Aggregate Expenditure out-turn compared to original (adjusted) budget

This indicator serves to identify differences between actual primary expenditure and the originally and adjusted budgeted primary expenditure. The assessment covers the years 2010/11, 2011/12 and 2012/13; 2012/13 being the most recent fiscal year for which final appropriations accounts were available at the time of the assessment.

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

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

The reporting formats of the budget documentation permit an identification of debt service and donor funding elements. The approved expenditure estimates presented in Table 15 below were obtained from the adjusted budget estimates (approved by Provincial Legislature in accordance with the Appropriation Act and PFMA)[9], also see Annexe B – Expenditure Variance Calculation. The actual expenditure is obtained from the National Treasury's in-year monitoring reports for the respective years.

[9] The Public Finance Management Act No.1 of 1999 and Appropriation Act No.7 of 2012 for the appropriation of money from the National Revenue Fund and for the requirements of the State for the 2012/2013 financial year

Table 15: Budget Estimates vs Actual (Primary Expenditure, R million)

	2010/11	2011/12	2012/13
Primary Adjusted Estimate	41,060,163	44,320,526	47,954,148
Primary Outturn	41,323,350	43,333,724	45,868,221
Aggregate Expenditure Deviation, million R	263,187	- 986,802	-2,085,927
Aggregate Expenditure Deviation, %	**0.6%**	**-2.2%**	**-4.3%**

Source: Estimates of Provincial Expenditure for 2010/11, 2011/12 and 2012/13

For all three fiscal years reviewed, the aggregate actual expenditures match the budget estimates to within 5%. The deviation has however worsened over the period, with the 2012/13 approaching 5%. Also, in the three fiscal years reviewed there were no substantive major exogenous factors that significantly impacted on budget expenditure.

Table 16: Aggregate expenditure out-turn compared to original approved budget

No	Credibility of Budget	Score	Justification
PI - 1	**Aggregate expenditure outturn compared to original approved budget**	A	Actual primary expenditure deviated from expenditure estimates below 5% for three of the years considered. Deviations were 0.6%, -2.2% and -4.3% respectively.

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

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

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

Therefore the two dimensions to be assessed and that affect the performance of this indicator are:

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

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

In order to obtain a measure of how much the re-allocation between budget votes have contributed to variance in the expenditure composition for the financial years 2010/11, 2011/12, 2012/2013, an analysis of the published budget documents by the Limpopo Provincial Treasury and National Treasury was performed. As in PI-1 this review takes into account the approved adjusted budget (and not the originally approved budget) versus the actual expenditure incurred within the financial years under review. The review refers to the primary expenditures and therefore excludes debt service and donor funded projects.

The South African Financial Management reforms allow for the Departments adjusting their budget estimates in terms of the PFMA10 (Section 31(1))11. The budget to expenditure deviations for each budget vote12 is presented in Table 17. An analysis of this table shows that the average weighted deviations dropped from 3.83% to 2.71% from 2010/11 to 2011/12 and increased again to 3.10% in 2012/13.

Table 16 shows that the Office of the Premier spent less compared to the original budget, while the Education spent more than what was originally budgeted for. This was a result of a function shift[13], however on an overall, Limpopo department's actual out-turns are within the 5% weighted average deviation

Table 17: Budget vs. Actual out-turns for Limpopo Province per vote

	Administrative or functional head	2010/11		2011/12		2012/13	
		Budget	Actual	Budget	Actual	Budget	Actual
1	Premier	505,272	299,898	302,588	280,541	306,138	274,538
2	Provincial Legislature	202,199	191,251	231,508	219,796	244,224	238,159
3	Education	19,440,679	20,202,227	21,068,160	21,161,705	22,883,897	21,924,734
4	Agriculture	1,394,552	1,361,547	1,492,979	1,449,203	1,560,158	1,519,867
5	Provincial Treasury	388,609	359,372	292,684	256,392	356,496	283,497
6	Economic Development and Tourism	871,535	861,071	899,943	866,943	890,338	874,207
7	Health and Social Development	10,704,084	10,505,963	11,671,685	11,374,887	12,808,523	12,821,349
8	Roads and Transport	3,440,314	3,402,262	3,671,576	3,453,790	3,907,048	3,432,351
9	Public Works	780,783	774,264	837,833	787,861	844,002	741,458
10	Safety, Security and Liaison	55,712	56,845	62,794	58,792	65,039	57,137
11	Local Development and Housing	1,898,687	2,070,731	2,330,353	2,005,756	2,592,076	2,252,436
12	Social Development	1,105,216	1,003,859	1,163,339	1,162,392	1,193,183	1,191,518
13	Sports, Arts and Culture	272,537	245,450	295,084	255,666	303,430	257,695
	Total	**41,060,179**	**41,334,740**	**44,320,526**	**43,333,724**	**47,954,552**	**45,868,946**

Source: Estimates of Provincial Expenditure for 2010/11, 2011/12 and 2012/13

Each indicator was assessed with reference to all thirteen departments within the Province. Information was sourced from the following documents :

- National Treasury Website[14] (Publications in-year monitoring reports per province)
- Limpopo provincial publications (Estimates of provincial revenue and expenditure; Adjusted estimates of provincial receipts and payments)

Table 18: Average Weighted Deviations for Limpopo Province

Year	For PI-2 (i) Composition variance
2010/11	3,83%
2011/12	2,71%
2012/13	3,10%

10 Public Finance Management Act approved in 1999, revised in 2011
11 The MEC for finance may table an adjustment budget in the Provincial Legislature provided it's in compliance with the approved financial reforms
12 "Vote" specifies the total amount, which is usually appropriated per Department in an appropriation Act and is separately approved by Parliament or a Provincial Legislature.
13 The programme as approved by the Legislature within the Annual budget
14 www.treasury.gov.za

Source: Team calculations

The contingency provision is kept and monitored within the Provincial Treasury. This is reserved for unforeseen and unavoidable expenditures in each financial year, and is used during the year to provide additional funding hence not specifically included in the estimates of provincial revenue and expenditure documentation, it is reflected as a surplus between overall provincial revenue and total expenditure. These amounts are only directly reflected in adjustment budgets and departmental votes following approval from legislature. The non-budgeted "contingency provision" protects the province against small fiscal shocks (such as unfunded mandates) that may occur in year and act as a safety net, especially in view of the spending pressures in certain departments, as well as to protect the Province in so far as it should not go into overdraft should any Department over spend its adjusted budget allocation.

An analysis of the last three-year budget review documents shows that the percentage of contingency reserve estimate was on average 2.1% of the aggregate expenditure estimate for the last three financial years assessed.On further assessment of the budget overview documents, it was noted that for the year 2010/2011, Limpopo province had a deficit of R 16, 1817 and thus the assessment does not include this financial year. And for scoring purposes only 2011/2012 and 2012/2013 financial years have been included.

Table 19: Contingency reserve as a % of aggregate expenditure estimate (R 000)

	2010\2011	2011/2012	2012/2013	Average
Contingency provision estimate	NIL	1,330	608	969
Aggregate Expenditure estimate	69,077	44,321	47,955	46,138
Percentage of contingency reserve to aggregate expenditure estimate	NIL	3%	1.3%	**2.1%**

Source: Team calculations

Each indicator was assessed with reference to all thirteen departments within the province. The information was sourced from the following documents:

- Overview of Provincial Revenue and Expenditure 2013/2014 document
- National Treasury website (publications: provincial budgets)

Table 20: Composition of Expenditure out-turn vs. original approved budget

No.	Credibility of budget	Score	Justification
PI-2	**Composition of Expenditure out-turn compared to original approved budget**	A	
(i)	Extent of the variance in expenditure composition during the last three years, excluding contingency items	A	Variance in primary expenditure composition exceeded overall expenditure deviation by less than 5% in any of the years considered. Variance in expenditure composition exceeded overall million deviation primary expenditure by 3,83%, 2,71% and 3,10% respectively.
(ii)	The average amount of expenditure actually charged to the contingency vote over the last three years	A	Actual expenditure charged to the contingency vote was on average less than 3% of the original budget over the past three financial years.

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

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

The principle sources of National Treasury revenue are income tax, customs and taxes on domestic goods and consumption. Provincial revenue comprises of three components: equitable share[15], conditional grants[16] and own revenue[17].

The equitable share is appropriated based on a number of variables within a formula, including the population statistics of each province. This is published on the Division of Revenue Act[18] (DORA) annually, and is revised half-yearly to include changes that might arise due to macro-economic forecasts. The National Treasury and the South African Reserve Bank are responsible for estimating revenues by carefully considering macroeconomic indicators.

Provincial resources derived from conditional grants are set up in relation to specific programs and projects at the national level and managed through the National Departments. They are therefore related to specific activities/programmes and triggers that the Provincial Departments will have to fullfil during the fiscal year in order for the funds to be disbursed effectively. These activities/programmes are then monitored through the annual perfomance plan to ensure effective budget implementation.

The comparison of total budgeted revenues vs. actual revenues as published in the budget overviews shows collection of revenue to be 1,72% and a great improvement in years 2011/2012 and 2012/2013 of 15% and 24% respectively. The increase in revenue between 2010/2011 and 2012/2013 is due to the positive cash flow balance and thus interest earned by the provincial treasury increased as indicated in Table 21.

Table 21: Comparison of budgeted and actual revenue receipts (Rand million)

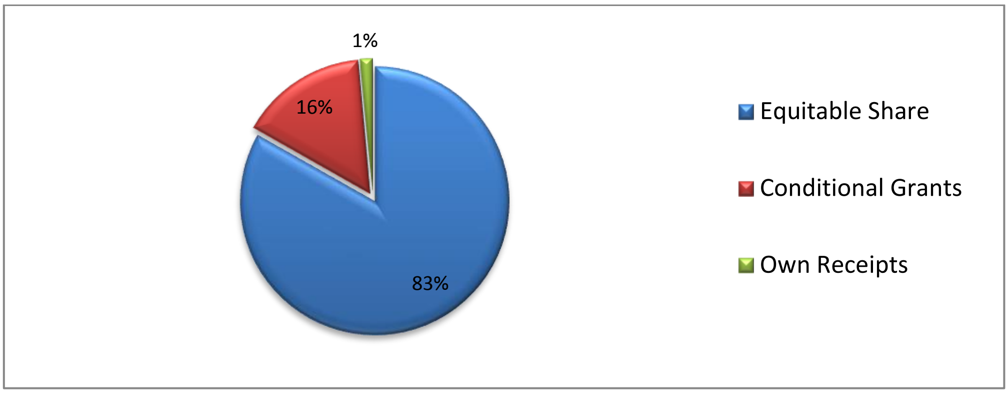
	2010/11	2011/12	2012/13
Revenue Estimates'	561 198	512 006	550 499
Revenue Out-turns	570 830	586 572	680 632
Deviation, R million	9 632	74 566	130 133
Actual Revenue to Budgeted Revenue %	**1,72%**	**15%**	**24%**

Source: National Treasury Website (Publications in-year monitoring reports per Province); Limpopo provincial publications (Estimates of Provincial Revenue and Expenditure); Limpopo provincial publications Adjusted estimates of Provincial Receipts and Payments); Division of Revenue Act 2011, 2012, 2013

The relative importance of the different sources of revenue for the Province of Limpopo (the average for the last three fiscal years) is presented in the graph below:

[15] Also referred to as the unconditional transfer from National Treasury to Provincial Governments
[16] Conditional transfers from National Treasury to Provincial Government
[17] Revenue collected from the main revenue sources by each Department
[18] Division of Revenue Act, authorised annually, policy document published and revised annually to give National and Provincial government the appropriations for each fiscal calendar

Figure 1: Provincial Revenue Allocation per Revenue Source (in %)



Source: Limpopo provincial publications (Estimates of provincial revenue and expenditure)

The principal sources of revenue for Limpopo province's economic activity is derived from the provincial Department of Transport (i.e. vehicle registration and license fees, the Department of Agriculture and the Economic Development for sale of goods and services, the Provincial Treasury (i.e. interest earned on positive bank balances at the prevailing rates) and Casino licenses and other gambling activities including horse racing from the department of Economic Development. This constituted 92,2%, 91,7% and 93% respectively of the total provincial own revenue for the three financial years assessed.

Table 22: Aggregate revenue out-turn compared to original approved budget

No	Credibility of Budget	Score	Justification
PI - 3	**Aggregate revenue out-turn compared to original approved budget**	A	The ratio of aggregate revenue out-turns to original approved budgets were -99%, 100.1% and 100.1% respectively, thus domestic revenue is between 2% to 3% of total budgeted revenue in all 3 years.

PI-4 Stock and monitoring of expenditure payment arrears

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

The indicator is assessed in terms of the following two dimensions:

i) The level of the stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock; and
ii) The availability of data for monitoring the stock of expenditure payment arrears.

The assessment covers the years 2010/11, 2011/12 and 2012/13; 2012/13 being the most recent fiscal year for which final appropriations accounts were available at the time of the assessment.

According to Section 8.2.3 of the Treasury Regulations[19] *"all payments due to creditors must be settled within 30 days from receipt of an invoice"*. Hence, an unpaid bill outstanding for more than 30 days after verification of the invoice is deemed to be a payment in arrears. The relatively low levels of indebtedness and the effective commitment control mechanisms might suggest that the accrual of significant levels of arrears does not pose a significant risk. It would further require continuing careful procurement planning and commitment control monitoring and management of in year expenditure to ensure that such risk does not become significant.

Purchase orders are initiated within the BAS[20] and FINEST[21] systems. The two systems are however not interfaced nor integrated. BAS is the financial accounting system and FINEST is the procurement system. The purchase orders are initially captured in FINEST, where they would also be printed. The orders are then manually recaptured in BAS. In order to track expenditure in arrears, a reconciliation of the two systems is necessary and this is a manual process. It is effectively performed at financial year-end, when the accrual and aging disclosure is required to compile Annual Financial Statements. The statutory Section 32[22] in-year monitoring reports also do not require information on committed expenditure. The Provincial Departments do not routinely reconcile BAS and FINEST.

The indicator was assessed with reference to all thirteen Departments. The information presented in Table 23 was sourced from the Annual Departmental Reports and in-year Budget and Expenditure Reports for the periods under review. The arrear payments were identified from the accruals disclosed in the Notes to the Departmental Annual Financial Statements (AFS) (incorporated in the Annual Reports). These accruals are aged (below 30 days, and over 30 days) and segregated between current and non-current payables.

Table 23: Stock of expenditure as a ratio of total expenditure (Rand, 1000)

	2010/11	2011/12	2012/13
Expenditure Arrears	56,797	579,065	279,213
Total Expenditure	41,323,350	43,333,724	45,868,221
Ratio, %	**0.14%**	**1.34%**	**0.61%**
Year on Year Change		872%	-54%

Sources: Budget and Expenditure Reports; and Annual Reports for the years 2010/11, 2011/12 and 2012/13.

19 Treasury Regulations issued in terms of Public Finance Management Act No.1 of 1999 and effective from 15 March 2005.)

20 The Basic Accounting System (BAS) is the financial system used by the Provincial Departments.

21 The Financial Efficient Strategic System (FINEST) is the system used by the Provincial Departments for capturing and printing of purchase orders. It is not interfaced with the financial system.

22 Section 32 (3) of the Public Finance Management Act specifies information that must be included on the statement of revenue and expenditure.

For all the three years presented in the table above, the ratio of expenditure arrears to total expenditure was lower than 2%.

Table 24: Stock and monitoring of expenditure payment arrears

No	Credibility of the budget	Score	Justification
PI-4	**Stock and monitoring of expenditure payment arrears**	**B+**	
(i)	Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and a recent change in the stock	A	The ratio of expenditure arrears to total expenditure for all three years considered was lower than 2%.
(ii)	Availability of data for monitoring the stock payment arrears	B	Departmental expenditure arrears data is provided as part of the Departmental Annual Financial Statements. The reported expenditure arrears include an aging analysis. However the data may not always be complete and accurate given the limitations/challenges faced in the use of BAS and the absence of an efficient procurement and contract management system. The current procurement system, FINEST, simply captures and prints orders and is not integrated or interfaced with BAS.

3.2 Budget Comprehensiveness and Transparency

PI-5 Classification of the budget

This indicator reviews whether the government's budget classification system is consistent and sufficiently disaggregated to ensure effective management of the budget. It is generally agreed that an appropriate classification system should allow the tracking of spending on the following dimensions: administrative, economic, and functional and by programme. Where standard international classification practices are applied, governments can report expenditure in Government Financial Statistics (GFS[23]) format and track poverty-reducing and other selected groups of expenditures. The budget should be presented in a format that reflects the most important classifications and these will be embedded in the chart of accounts to ensure that all transactions can be reported in accordance with any of the classifications used.

The Estimates of Provincial Revenue and Expenditure (EPE) and the MTEF framework on which they are based upon are structured on the basis of administrative (Departments), economic, programme and sub-programme classifications. The structure of the programmes and sub programmes are defined by the National Treasury and any amendment is informed to the Provincial level timely. The budget format is systematically provided in the Treasury Guidelines for the preparation of the MTEF framework and the annual budget. The programme and sub-programmes classifications employed for the budget are used to produce documentation consistent with COFOG at the functional level.

[23] The Government Finance Statistics Manual is an international guideline on statistical methodology and has been issued by the International Monetary Fund in 2001. The Manual updates the first edition published in 1986, and is seen as a major advance in the standards for compilation and presentation of fiscal statistics and part of a worldwide trend toward greater accountability and transparency in government finances, operations, and oversight.

The revenue budget, Division of Revenue Act (DORA), is classified into recurrent and capital revenues, with each segregated by tax type and by administrative head. Furthermore, revenues are classified as tax and non-tax revenue and by own sources and external grants (if available).

The Chart of Accounts (SCOA[24]) used for the Provincial Government budget is derived from the GFS 2001 standard and so facilitates ready monthly reports based upon those standards. The Public Finance Statistics and the Office of the Accountant General are responsible for maintaining the chart of accounts and for providing support to Departments and Provinces on the proper assignment of expenditure. Since 2005 the consolidated budgetary account has been extended to allow the incorporation of public enterprises and autonomous government agencies into a single consolidated (aggregated) financial reporting framework. This has been achieved in spite of the difference in accounting reporting standards; modified cash basis for provincial Departments and the accrual accounting standard in the case of municipalities and other autonomous provincial entities.

Table 25: Classification of the budget

No.	Comprehensiveness and transparency	Score	Justification
PI-5	**Classification of the budget**	A	The budget formulation and execution is based on administrative, economic, programme and sub-programme classification that can produce consistent documentation according to GFS/COFOG standards. The chart of accounts is derived from the GFS 2001 standard.

PI-6 Comprehensiveness of information included in budget documentation

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

The provincial budget documentation presented to Legislature every year includes information on the budgetary context and recent financial out-turns. The budget is set against a MTEF that explains the provincial government's strategic objectives. The approved votes are gazetted and promulgated as appropriation acts of Legislature. These are made available to Departments and are the basis for the preparation of disbursement schedules (for cash flow projections) against which cash management is focused and expenditure is controlled. The MTEF format includes forward estimates (budget year plus two forward years), revised estimates for the year prior to the budget year, actual audited outcomes from three years previous to the budget year.

Budget documentation for the 2012/2013 fiscal year is comprehensive, and consists of the following:

[24] Standard Chart of Accounts of 31 March 2011

- The Budget Speech by the MEC of the Provincial Treasury which outlines financing, new initiatives, activities, priorities, activities that align with national policies, as well as revenue allocation and expenditure forecasts;
- The Estimates of Provincial Revenue and Expenditure documentation which contains socio economic outlook, economic growth, structure and performance, labour market and development indicators analysis, provincial population information, the votes and programme appropriations with three year forward estimates, as well as the adjusted appropriation of year previous to the budget along with the audited outcomes for the previous three years;
- Annual Financial Statements and Department Annual Reports that incorporate the audit report and the audited financial statements including statement of financial assets and liabilities and a cash flow statement by 31 August each year; and
- The Medium Term Budget Policy Statement which is submitted to the Legislature at the beginning of the budget cycle.

The budget speech underscores the policy priorities for the respective budget year. The Budget Review contains the information pertaining to the overall macroeconomic and fiscal framework within which the Medium Term Expenditure Framework has been developed with the assistance of the National Treasury. These then form the basis for the Estimates of Provincial Expenditure which contains a range of aggregate data for both three year forward projections for the budget and actual expenditures from three previous years. The Estimates of Provincial Expenditure presents a breakdown by programme and sub-programme of proposed expenditure. The table below summarises the availability of budget information.

Table 26: Elements and availability of budget documentation

Elements of budget documentation	Availability	Notes
1. Macro-economic assumptions, incl. at least estimates of aggregate growth, inflation and exchange rate	**YES**	See the Overview of Provincial Revenue and Expenditure (OPRE) for 2012/2013 in: http://www.limtreasury.gov.za/application/docs/budget_statements/Overview%20of%20%20Provincial%20Revenue%20and%20Expenditure%202012_2013%20Final.pdf
2. Fiscal deficit, defined according to GFS or other internationally recognised standard	**N/A**	The Province presents a surplus for 2012-2013
3. Deficit financing, describing anticipated composition	**YES**	The Province presents a surplus for the last budget period (as can be seen in pag.26 of the OPRE for 2012/2013) and the description refers rather to the utilisation of the surplus to cover previous year overdrafts and unauthorised expenditures.
4. Debt stock, incl. details at least for the beginning of the current year	**N/A**	NOT APPLICABLE
5. Financial assets, incl. details at least for the beginning of the current year	**NO**	No detailed information on financial assets is presented currently
6. Prior year's budget out-turn, presented in the same format as the budget proposal	**YES**	The OPRE 2012/2013 presents budget out-turn for three previous year
7. Current year's budget (revised budget or estimated out-turn), presented in the same format as the budget proposal	**YES**	The OPRE 2012/2013 presents revised budget and estimated out-turn for the same year as budget proposal

8. Summarised budget data for both revenue and expenditure according to the main heads of the classification used, incl. data for current and previous year	**YES**	The OPRE 2012/2013 presents revised budget and estimated out-turns for the same year as budget proposal.
9. Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs	**YES**	The OPRE 2012/2013 explains the main implications for the proposed budget and changes to the expenditure programmes.

Table 27: Comprehensiveness of information included in budget documentation

No.	Comprehensiveness and transparency	Score	Justification
PI-6	**Comprehensiveness of information included in budget documentation**	A	Comprehensive budget documentation fulfils 6 out of the 7 applicable elements (Note: Only 7 of the 9 elements were applicable to the Limpopo Province, and a score A is justified when 5-7 elements out of 7 are made available)

PI-7 Extend of unreported provincial government operations

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

The Provincial Government operates a single Treasury Provincial Revenue Fund account controlled by the Provincial Treasury. All Departments revenue estimates are reflected in the budget; funds are deposited in the Provincial Revenue Fund and reported on within the budget. This makes unreported expenditure of directly managed Department accounts quite difficult and also unlikely.

While the National and Provincial governments subsidise a number of commercial public enterprises they address all subsidies through the budget. Officials state that promissory notes, repurchase agreements, sell-backs and other off balance sheet financial instruments are never used to finance subsidies. Consequently, all subsidies are reflected in the budget.

Finally, the process of aggregating the financial Departmental statements into the consolidated financial information includes the application of an aggregate reconciliation mechanism on the sources and uses of funds. This process would reveal any gaps if funds were being diverted to extra budgetary activity.

As for the information on Income/Expenditure on donor-funded projects that needs to be included in fiscal reports, there are no donors funded projects signed at the provincial level. According to the Subnational Governments Supplementary Guidelines issued in 2013 by the PEFA Secretariat, transfers from shared donor funds provided by the Higher Level of Government (from NT in local currency) should not be considered when assessing this dimension (the dimension does not apply, if the Provincial government does not receive funds directly from donors). The related funds are not donor funds from a legal point of view.

Table 28: Extent of Unreported Government Operations

No.	Comprehensiveness and transparency	Score	Justification
PI-7	**Extent of Unreported Government Operations**	**A**	.
(i)	Level of unreported extra-budgetary expenditure	A	All revenues generated directly by the Departments are transferred to the National Revenue Fund. There is no evidence of off balance sheet instruments being used to finance subsidies and deferred financing arrangements. The consolidation process of the Departmental final accounts includes an aggregate reconciliation process that would reveal any gaps in the sources and uses of funds. The level of unreported extra-budgetary expenditure, if any, remains insubstantial.
(ii)	Income/Expenditure information on donor-funded	A	Only limited donor funding (which is insignificant to the Provincial budget) is transferred directly to the Province, some Departments (Health) through projects funded to the National Government (in this case donor funding is transferred to the National sphere).

PI-8 Transparency of inter-governmental fiscal relations

Clear criteria, such as formulae, for the distribution of grants among lower level Subnational entities (i.e. horizontal allocation of funds) are needed to ensure allocative transparency and medium-term predictability of funds available for planning and budgeting of expenditure programs by these lower level SNGs. It is also crucial for lower level SNGs that they receive firm and reliable information on annual allocations from the Provincial Government (the assessed institution is the Higher Level Government in this case according to the Subnational Governments Supplementary Guidelines) well in advance of the completion (preferably before commencement) of their own budget preparation processes.

There is a two tier structure to Subnational Government in South Africa. There are nine Provinces, and 283 local authorities. The Subnational Governments are regulated by the PFMA, the Municipal Finance Management Act (MFMA) and the Division of Revenue Act (DORA) which is approved on a yearly basis. The fiscal year for Provinces goes from April 1st to March 31st, coincident with Central Government. For the Local Authorities the fiscal year runs from July 1st to June 30th.

The transfers to both provinces and local authorities are rule based and transparent. There are conditional and unconditional grants whose allocations are enacted into law through the annual Division of Revenue Act (DORA) which is always enacted into law prior to the Estimates of National Revenues (ENE) and so can inform the vertical allocations between the tiers of government reflected in it. The conditional grants are based upon sector indicators but based upon past performance indicator achievements and so though conditional remain predictable.

The transfers to the local authorities are applied exclusively to capital expenditure. Disbursements are made by the Department of the Provincial Government according to a pre-announced schedule of disbursements.

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

Table 29: Transparency of Inter-governmental fiscal relations

No.	Comprehensiveness and transparency	Score	Justification
PI-8	**Transparency of Inter-governmental fiscal relations**	**A**	
(i)	Transparent and objectivity in the horizontal allocation among SN government	A	The horizontal allocation of almost all transfers from provincial government to local governments is determined by transparent and rules based systems (DORA).
(ii)	Timeliness of reliable information to municipal governments on their allocations	B	While the transfers are not made available to Local Governments at the start of the budget preparation process, their later fiscal years (July 1st to June 30th) allow them significant time to prepare their detailed budgets after their individual allocations have been agreed in the Provincial Budget.
(iii)	Extent of consolidation of fiscal data for government according to sectorial categories	A	All the municipal fiscal information is consolidated at the NT level using the established classification within 8 months of the close of the fiscal year (national and provincial) and 5 months of the close of the municipal fiscal year.

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

While the National Government will usually have a formal oversight role in relation to other public sector entities and should monitor and manage fiscal risks with national implications arising from activities of subnational levels of government, autonomous government agencies (AGA) and public enterprises (PE), including state-owned banks, in the case of the Limpopo Provincial Treasury it is not clear whether this role extends to them since no formal oversight process could be identified.

Fiscal risks can be created by subnational government, AGAs and PEs and *inter alia* take the form of debt service defaulting (with or without guarantees issued by central government), operational losses caused by unfunded quasi-fiscal operations, expenditure payment arrears and unfunded pension obligations. If the Provincial Government is to oversight aggregate fiscal risk, it should require and receive quarterly financial statements and audited year-end statements from AGAs and PEs, and monitor performance against financial targets. AGAs and PEs often report to parent line ministries, but consolidation of information is important for overview and reporting of the total fiscal risk for the SN government. Where lower level SN governments can generate fiscal liabilities for higher level SN government, their fiscal position should be monitored, at least on an annual basis, again with consolidation of essential fiscal information. Nevertheless, no Unit is formally in charge of following up on this fiscal information and no specific report is produced to report on this issues so far.

In terms of Section 3 of the Borrowing Powers Act (1996) no person other than the responsible member may borrow monies on behalf of a Provincial Government. Local governments cannot generate fiscal liabilities for Provincial government or National government. A municipality may incur both short and long term debt without approval from Provincial Treasury since they are independent, but they are required to inform the Provincial Treasury prior to incurring debt. PT will analyse the municipality's submission and make recommendations, however the municipality is not obliged to adhere to the recommendations. Neither Provincial Treasury nor National Treasury is liable to honour the debt of a municipality should the municipality default; however, the National Treasury could refer to the Constitution and intervene to ensure continuation of service delivery at municipalities.

Table 30: Oversight of aggregate fiscal control

No.	Comprehensiveness and transparency	Score	Justification
PI-9	**Oversight of aggregate fiscal control**	**D**	
(i)	Extent of Provincial government monitoring of AGAs/PEs .	D	No annual monitoring of APGAs and PEs takes place, or it is significantly incomplete.
(ii)	Extent of Provincial government monitoring of lower level SN governments' fiscal position	D	No annual monitoring of local governments' fiscal position takes place in the Province or it is significantly incomplete.

PI-10 Public access to key fiscal information

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

Elements of information to which public access is essential include:

1. Annual budget documentation;
2. In-year budget execution reports;
3. Year-end financial statements;
4. External audit reports;
5. Contract awards; and
6. Resources available to primary service units; and
7. Fees and charges for major services.

Public access to key fiscal information is underpinned by the Constitution (1996)[25]. It also stipulates that this information should be timely, accessible and accurate to foster transparency of public administration26. The Promotion of Access to Information Act (No. 2 of 2000) lays down the procedures for accessing information from government as well as from private bodies. It seeks to promote transparency, accountability and effective governance of all public and private bodies. With

[25] The Constitution of the Republic of South Africa No. 108 of 1996 was promulgated on 18 December 1996. Section 195 of the Constitution states that Public Administration must be governed by the democratic values and principles enshrined in the Constitution; including principles such as fostering transparency by providing the public with timely, accessible and accurate information. Also see Chapter 2 (Bill of Rights) section 32 of the Constitution.

the view of protecting state interests or the privacy of a natural person the Act properly places some restrictions.

The audited annual financial statements and audit reports are made available to the public when the Annual Report is tabled at the Provincial Legislature. The annual reports must be completed and tabled at the Provincial Legislature by end of September of each year[27]. The annual financial statements are included in the Annual Report. Copies of the annual report are distributed to the National and Provincial Treasuries once the reports have been tabled at the Provincial Legislature. Once the annual reports are issued to the Provincial Treasury they are made available to the general public on request. The reports are however not always available on the National Treasury website, the last annual report issued on the website was in 2006. The distribution is further filtered down to the local community through the community outreach programme such as Batho Pele[28]. Through discussions with the Provincial Treasury and the Departments interviewed, it was ascertained the each individual departments is responsible for publishing the annual reports on their respective websites once these reports have been tabled at the Provincial Legislature, however this does not appear to be the case with most departments.

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

In-year execution reports and audit reports are routinely made available through the National Treasury and Auditor-General Office website. The Auditor General's Manual on the Promotion of Access to Information Act (PAIA[29]) provides guidelines on the provision to the public, free of charge, of a number of reports including annual reports of the AG, audit reports of national departments, public entities, provincial departments, general reports on provincial, national and local government audit outcomes and others. Resolutions on audit report findings are also made available to the public. Provincial Departments are required to submit in-year budget execution reports to the Provincial Treasury within 15 days after month end, and the Provincial Treasury then submits the consolidated reports to the National Treasury within 7 days of receipt from the Departments. National Treasury collates the in-year budget execution reports and publishes the consolidated data on its website on quarterly basis. All the quarterly in-year execution reports (for the 2012/13 fiscal year) are available on the National Treasury website (Refer to Table below for the link to the information).

With regards to public information on procurement, there is a Tender Bulletin published weekly where bids for procurement are announced. This is accessible via The Limpopo Provincial Treasury website (http://www.limtreasury.gov.za/) or with subscription. Tenders over an amount of R500,000 need to be advertised on the Provincial website (also see PI-19 for publication of tenders done through open competition). There is a Tender information Centre located in the National Treasury and also a helpdesk for telephonic inquiries for all procurement related to SCM non-compliance and

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

[28] The Batho Pele (People First) initiative aims to enhance the quality and accessibility of government services by improving efficiency and accountability to the recipients of public goods and services.

[29] AG Manual on PAIA prepared in terms of section 14 of the Promotion of Access to Information Act 2 of 2000. The latest available manual is version 4, 2013.

complaints. The Supply Chain Management Unit of the National Treasury also publishes the awarded contracts (above R500,000) on its website. The published awarded contracts are for all the Provincial Departments.

Public access to key fiscal information in the Province is transparent, generally comprehensive, user-friendly and timely. The main source of information is the internet, though relevant information is also made available through other means such as printed media and on request at the Provincial Departments.

The resources available to primary service units (such as primary health care and primary school education) are made available through the Provincial Budget. These are budgeted for under *Programme 2: District Health Services* for Department of Health and *Programme 2: Public Schools Education* for Department of Education. Expenditure and performance on these programmes is tracked in the in-year execution reports and Provincial Performance Publications which are published on the National Treasury website quarterly.

The significant fees and charges collected by the Province are generated by the Departments of Roads and Transport; and Health. Significant fees collected by the Department of Roads and Transport are derived from motor vehicle licences, registration fees and traffic fines. Significant fees collected by the Department of Health are derived from patient fees.

Table 31 below lists and discusses the public availability and means of access of the documents that make up the essential elements of information applicable to this indicator.

Table 31: Availability of elements of information for public access

#	Elements of information for public access	Availability	Link to information
1	Annual budget documentation	**Yes** - these are made available to the public through the internet when it is submitted to the legislature. The annual budget documentation includes all elements mentioned in PI-6.	http://www.limtreasury.gov.za/
2	In-year budget execution reports	**Yes** - the public has access to regular and reliable information on budget implementation. The HOD of each department has to submit the actual revenue and expenditure for the month and projections of estimated expenditure and revenue for the remainder of the current financial year within 15 days after month end. As per Section 32 of the PFMA the National Treasury makes the above information available on a quarterly basis on its website for each province.	http://www.treasury.gov.za/publications/PiP/default.aspx
3	Year-end financial statements	**No** – Audited Annual Financial Statements are prepared within 6 months after fiscal year end. The audited annual financial statements and external audit reports are included in the Annual Report. The annual reports were however tabled after six months after the end of the financial year to which they relate. Departmental Annual reports are also made available on the National Treasury website; however the last annual report that was made available on the National Treasury website was	www.treasury.gov.za/annualreports

		2005/06.	
4	External audit reports	**No** – Audited Annual Financial Statements are prepared within 6 months after fiscal year end. The audited annual financial statements and external audit reports are included in the Annual Report. These also become available on the Auditor General's website.	www.treasury.gov/annualreports www.agsa.co.za
5	Contracts rewarded	**Yes** - contract awards above R 500,000 are published on the Provincial Treasury website. Contracts below the threshold are not published on the website. Information is disclosed in terms of the Bid no, description, award bidder, amount, total points attained and the date awarded.	http://www.limtreasury.gov.za/
6	Resources available to primary service units	**Yes** - these are made available to the public through the Provincial Budgets and Expenditure Review; and Provincial Performance Reports (see PI-23).	www.limtreasury.gov.za
7	Fees and charges for major services are posted at the service delivery site and in other appropriate locations/media.	**Yes**. Charges for motor vehicle licences, registration fees and traffic fines are made available at the Traffic Department's offices as well as on provincial government gazettes. Notifications of charges for renewal of licences are also mailed to the licence holders. Traffic fines with the charge are either issue at the site of violation or mailed to the offender. Patient fees notifications are made available at the hospitals.	www.gpwonline.co.za/gazettes

Table 32: Public access to fiscal information

No.	Credibility of Budget	Score	Justification
PI -10	**Public access to fiscal information**	**B**	Five of the seven listed elements of information are made available to the public access via the web and other means.

3.3 Policy based budgeting

PI-11 Orderliness and participation in the annual budget process

The budget procedures are guided by a definite budget calendar and budget circulars submitted in June which are clear and serve as useful preparation guidelines that are generally adhered to. The calendar allows for the meaningful completion of Departmental budgets. The top-down budget process is disciplined by the macro-fiscal framework which emerges out of careful economic as well as policy considerations, as well as a bottom-up process based upon sector strategy priority considerations.

The budget process in the Limpopo Province is guided by comprehensive document titled "Preparing the Budget 2012: Provincial Treasury (Medium Term Expenditure Framework) Guidelines", issued in June of the current year to prepare the next year's budget. In addition to the document the Provincial Treasury organises a workshop to clarify the application of the guidelines and formats for all departments and public entities.

The guidelines present information on possible movements in the equitable share baselines for the new MTEF, as a result of underlying macro-economic factors and/or demographic changes and information on provincial own revenues. Nevertheless, ceilings are not provided until late in the process and the departments have to rely on the rolling MTEF estimates to launch their budget process.

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

The departments submit their funding requests (bids) and baseline reprioritisations to Provincial Treasury during the Medium Term Expenditure Committee (MTEC) process in August. The Accounting Officer, Chief Financial Officer, senior officials, as well as public entities are invited to the first MTEC hearings in September. MTEC is a technical committee which evaluates departmental budget submissions, and makes recommendations to the MinComBud. During this process Provincial Treasury requires proof of political support for funding requests and reprioritised budgets. The MinComBud recommendations are presented to Cabinet for final approval upon which Provincial Treasury will issue preliminary allocation letters to departments. The MEC for Finance tables the provincial budget before the Provincial Legislature in March.

Table 33 below describes the detailed budget cycle for Limpopo showing that, in theory, departments have a period of at least 6 weeks before the first budget submittals and another 12 weeks before the second submittals. In total, departments are allowed at least 24 weeks before their final budget submission.

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

The table below reflects the dates that the Legislature approved the budget for the last three financial years.

Table 33: Budget approval by Legislature and Appropiation

Financial Year	Budget Approval	Time Lapsed from 1 April	Appropriation Act Signed	Time Lapsed from 1 April
2010/2011	28 JUNE 2010	3 months	1 JULY 2010	3 months
2011/2012	28 JUNE 2011	3 months	8 JULY 2011	3 months
2012/2013	24 MAY 2012	2 months	6 JUNE 2012	2 months

Source: National Treasury

Table 34: Orderliness and participation in the annual budget process

No.	Policy-based budgeting	Score	Justification
PI-11	**Orderliness and participation in the annual budget process**	**D+**	
(i)	Existence of and adherence to a fixed budget calendar	B	A clear annual budget calendar exists, but some delays are often experienced in its implementation. The calendar allows MDAs reasonable time (at least four weeks from receipt of the budget circular) so that most of them are able to meaningfully complete their detailed estimates on time,
(ii)	Guidance on the Preparation of budget submissions.	D	A budget circular is issued but the circular does not include department ceilings. The Provincial Cabinet is involved in approving the allocations only immediately before submission of detailed estimates to the Legislature, thus having no opportunities for major adjustments.
(iii)	Timely budget approval by the legislature.	D	In the three years reviewed under this assessment, the budget was signed into law after two months of the start of the fiscal year.

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

Countries that have effectively introduced multi-annual program budgeting are likely to show good performance on most aspects of this indicator. South Africa has adopted a multi-year perspective to its budget formulation process which allows for a direct integration of strategic elements into the budget through the linkage to the five-year Medium Term Strategic Framework using Sector Strategies and Annual Operation Plans (APP). The MTEF is based upon three year rolling aggregate forecasts. The forecasts are allocated on the basis of cluster, economic and program classifications. These multi-year estimates are linked to the annual budget ceilings and are updated annually on a rolling basis. Forecast sector and cluster expenditures estimates serve as orientation for the departmental ceilings in the budget preparation process.

Planning and budgeting in South Africa is informed by a number of policy initiatives. The policy initiatives are Regional, National and Provincial. At the beginning of any electoral cycle, policy priorities are set, and thereafter plans are made with the purpose of achieving these priorities. Priorities are based on achievements that have already been made, together with gaps that still exist. Provincial priorities are set in line with National Priorities. The provincial policy priorities are derived from the provincial strategic priorities emanating from the Medium Term Strategic Framework, which takes into consideration the targets and priorities of the Millennium

Development Goals (MDG). Furthermore, provincial priorities as set out in the Limpopo Economic Growth and Development Plan (LEGDP) also have to be considered.

It is imperative for Strategic Plans and budget to be interrelated as it will improve effectiveness of government operations. If annual budgets and multiyear budgets are not linked to strategic plans and Annual Performance Plans the objectives will not be realized and projects will not be implemented. It does help to have well-crafted plans without well planned budgets that will make sure that the plans are realized. Provincial departments are required to develop Strategic Plans with a planning horizon of at least five years and Annual Performance Plans covering the MTEF period. Annual Performance Plans should be guided by the Strategic Plans, which reflect MTSF and subsequently political priorities.

At the beginning of the strategic planning session, the executive authority sets out clear priorities that guide the development of the Annual Performance Plan and also ensures that priorities are in line with the Strategic Plan. The departments are also expected to develop activity based costing budgets. Activity based costing take into consideration the performance level of projects. If in year one the project is still at the feasibility study level or planning level less budget will be allocated than in year two when the project will be implemented.

The Medium Term Strategic Framework has a five year planning horizon and is aligned with the political election cycle, defining the national strategic direction for this period. At the same time, all of the National Departments prepare Sector Strategies (5 year planning horizon) aligned with the national strategic framework. Departments also prepare annual operational plans (AOP). However, the preparation of sector strategies does not generally occur within aggregate fiscal forecasts and in most sectors strategies are not costed. Even where they might be costed they do not incorporate future recurrent expenditure impacts.

The Departments select projects based upon program priorities that are determined by the Sector Strategies. The Medium Term Budget Policy Statement defines the broad national policy direction over a five year horizon that shapes the prioritisation schedule of sector strategy programmes that are incorporated into the MTEF.

Table 35: Multi-year perspective in fiscal planning, expenditure policy and budgeting

No.	Policy-based budgeting	Score	Justification
PI-12	**Multi-year perspective in fiscal planning, expenditure policy and budgeting**	**C+**	
(i)	Multi-year fiscal forecast and functional allocations	A	Forecasts of fiscal aggregates are prepared for three years, including the budget year. The forecasts are directly linked to subsequent budget ceilings and include functional/sector classifications.
(ii)	Scope and frequency of debt Sustainability Analysis	N/A	The Province has no debt prerogatives and no DSA is carried out at the provincial level.
(iii)	Existence of costed sector strategies (or development plans)	D	Sector strategies may have been prepared for some sectors, but none of them have substantially complete costing of investments and recurrent expenditure.
(iv)	Linkages between investment budgets and forward expenditure estimates	C	The majority of important investments are selected on the basis of relevant sector strategies but recurrent cost implications are not necessarily identified and included in forward budget estimates for the sector.

3.4 Predictability and control in budget execution

This set of indicators reviews the predictability of funds for budget execution and the internal controls and measures in place to ensure that the budget is executed in an accountable manner. The set is divided into three sub-components: Revenue administration, budget execution and cash/debt management, and internal control systems.

The PEFA framework requires Revenue Administration to be assessed through Indicators PI-13 (Transparency of taxpayers obligations and liabilities), PI-14 (Effectiveness of measures for taxpayer registration and tax assessment), and PI-15 (Effectiveness in collection of tax payments). According to the Supplementary Guidelines for the application of the PEFA Framework to Sub National Governments[30], the Indicators **PI-13, PI-14 and PI-15** are applicable to "SN entities that raise revenue through taxes or other form of revenue similar to taxes", as per IMF GFS Manual definition. The Limpopo Province own revenue is generated from tax receipts, sale of goods and services other than capital assets, sale of capital assets and financial transactions in assets and liabilities.

PI–13 Transparency of taxpayer obligations and liabilities

This indicator assesses the clarity and comprehensiveness of tax liabilities; taxpayer access to information on tax liabilities and administrative procedures; and existence and functioning of a tax appeals mechanism.

The principal sources of Limpopo Provincial revenue were from equitable share, conditional transfers and Provincial own revenue. Provincial own revenues formed approximately 1.3% of the total receipts in the province (refer table below).

Table 36: Provincial Total Revenue by source (R' thousand)

	2010/11		2011/12		2012/13	
	R 000	*%*	*R 000*	*%*	*R 000*	*%*
Aggregate equitable share from national	33,706,324	83.7%	36,793,208	82.8%	39,259,637	81.8%
Aggregate conditional grants from national	5,983,201	14.9%	7,113,453	16.0%	8,085,645	16.9%
Aggregate provincial own revenues	561,198	1.4%	512,006	1.2%	621,533	1.3%
Total	**40,250,723**	**100.0%**	**44,418,667**	**100.0%**	**47,966,815**	**100.0%**

Source: Overview of Provincial Revenue and Expenditure 2013/2014; team calculations

The bulk of provincial own revenue is collected against tax receipts which comprises motor vehicle licences (Roads and Transport), casino and horse racing taxes and liquor licences (Economic Development). The next largest revenue collection category is the sale of goods and services particularly patient fees (Health). Roads and Transport revenue represented approximately 47% of the province's own revenue in 2012/13 (refer table below).

Table 37: Provincial Own Revenue (R' thousand)

	2010/11		2011/12		2012/13	
	R 000	*%*	*R 000*	*%*	*R 000*	*%*
Health	98,796	17.6%	107,077	20.9%	116,751	18.8%
Roads and Transport	247,213	44.1%	271,445	53.0%	292,439	47.1%
Economic Development	41,663	7.4%	39,399	7.7%	51,881	8.3%

[30] Supplementary Guidelines for the application of the PEFA Framework to Sub National Governments issued in 2013 by the PEFA Secretariat

Other Departments	173,526	30.9%	94,085	18.4%	160,462	25.8%
Total	**561,198**	**100.0%**	**512,006**	**100.0%**	**621,533**	**100.0%**

Source: Overview of Provincial Revenue and Expenditure 2013/2014; team calculations

(i) Clarity and comprehensiveness of tax liabilities

Health: The significant revenue collected by the department is patient fees and recovery of outstanding patient costs from the Road Accident Fund and motor vehicle accidents. The patient fees are based on the Uniform Patient Fee Schedule (UPFS) which is prescribed by and updated annually by the National Department of Health. These rates are fixed and predetermined and specifically indicates rates applicable for medical procedures and services. The rates are determined at National Department of Health by the Tariff Committee. The Tariff Committee is a National Structure with representation from all Provinces. The tariffs are approved by the National Minister of Health. Free services rendered by the Department are in line with the UPFS and includes primary health care services at all clinics and community health centres.

Roads and Transport: The major portion of the department’s revenue is derived from tax receipts collected in terms of the National Road Traffic Act 93 of 1996. The National Road Traffic Act (NRTA) prescribes the registration and licensing of motor vehicles, manufacturers, builders and importers, as well as the licensing of drivers of motor vehicles. The NRTA Regulation 24 (2) (b) stipulates that each province determines its own registration and licence fees, which are increased annually by proclamation in the respective provincial gazettes. The annual licence fees are assessed on the basis of the vehicle’s tare with separate scales for vehicle types. The Limpopo Department of Roads and Transport has a Revenue Committee which determines all departmental tariffs annually. The Revenue Committee consists of various members, amongst others are representative from Provincial Treasury, Transport Operation Chief Directorate, GMT, and Transport Regulation and is chaired by the Senior Manager Management Accounting. In the process the committee benchmark with all Provinces and the inflation rate is considered as determined by the National treasury.

Economic Development: The bulk of the department’s own revenue is generated from tax receipts which comprise of casino levies, horse racing taxes and liquor licenses. Levies and licence fees in respect of horse racing and gambling (Casino), are collected in terms of the Limpopo Province Gambling Act (Act No. 4 of 1996) and Limpopo Casino and Gambling Regulations of 1997. The Act and Regulations prescribe the levies and fees payable by parties licensed in terms of the Act. Betting licences and levies are determined in accordance with the Limpopo Province Gambling Act and Limpopo Betting Regulations, 2011. Betting on horse races is catered for under these Regulations.

Liqour license fees are determined in accordance with the the Liqour Act (Act No. 27 of 1989) and Regulations in terms Section 182. The liquor tariffs are are contained in the National Liqour Act Regulations and communicated by the Minister of Justice. Provinces cannot change National tariffs. Liquor License fees are payable annually. The tariffs for liquor licences are communicated from October each year with each individual license holder by a way of Form 22. The licence holders are required to produce the Form 22 when renewing the licence.

There is however the Limpopo Gambling Bill, 2012 with the object to repeal the Limpopo Province Gambling Act, 1996 (Act No. 4 of 1996) and to regulate the application and consideration of licences for casinos, gambling, betting and wagering and to provide for law enforcement procedures and matters connected therewith. Limpopo passed the Limpopo Province Gambling Act, 1996 (Act No. 4 of 1996). The Act commenced on 3 March 1997 and provided for the establishment of Limpopo Gambling Board and for the regulation of gambling in the province. The National Gambling Act, 2004

(Act No.7 of 2004), repealed the National Gambling Act, 1996 (Act No. 33 of 1996) and amended a number of provisions affecting provinces. Certain provisions of the Limpopo Gambling Act, 1996 were not consistent with the National Gambling Act, 2004 and it became necessary to replace the outdated provincial legislation with new legislation for the province that is in line with the National Gambling Act.

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

Health: The Department's fee structure is communicated through media, pamphlets and posters. Employees of the Department at service points also communicate the fees to patients on regular basis.

Roads and Transport: The Department issues Gazette annually to communicate with the public and tables of tariffs are posted on notice boards in all revenue points and registering authorities. Sending of notice for renewals is coordinated nationally by TASIMA (Pty) Ltd (service provider) on behalf of Department of Transport. The Province only confirms if the address on the notices are correct before they send them to motorists. All notices are sent to motorists one month before the expiry of the motor vehicle licence.

Economic Development: The fee structure in respect of casino, horse racing and liqour tariffs is communicated to the general public through gazettes. There were however challenges in accessing information from the Department's website as on numerous occasions it was not functioning.

(iii) Existence and functioning of a tax appeals mechanism

There is no appeals mechanism in place as the tariffs are determined in terms of legislation and are non-negotiable. The department of health's tarrif's are however categorised and certain individuals have access to various subsidies including patients who are eligible for free service provided they qualify as per procedure set and can produce all valid documentation to prove their status. Due process is followed in setting the tariffs.

Table 38: Transparency of taxpayer obligations and liabilities

No.	Predictability and control in budget execution	Score	Justification
PI-13	**Transparency of taxpayer obligations and liabilities**	**B+**	
(i)	Clarity and comprehensiveness of tax liabilities	A	There is generally clear and comprehensive legislation and procedures in respect of most major taxes and there is a limited discretionary power of the government entities involved.
(ii)	Taxpayer access to information on tax liabilities and administrative procedures	B	There is public access to comprehensive, user friendly and up-to-date information on the related fees and tariffs for some major taxes.
(iii)	Existence and functioning of a tax appeals mechanism	N/A	There is no existing tax appeals system due to the process followed prior to the tariffs being gazetted.

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

This indicator assesses controls in the taxpayer registration system; effectiveness of penalties for non-compliance with registration and declaration obligations; and planning and monitoring of tax audit and fraud investigation programs.

(i) Controls in the taxpayer registration system

Health: In line with the Uniform Patient Fee Schedule (UPFS), patients are either given free service or charged a specific fee. The fee is charged on the basis of a patient's level of income. To validate a patient's claim as to their affordability for health services, the Department has the following mechanisms in place:

- Income assessments are performed through interviews
- Patients are required to an sign income declaration document
- Payslips must be presented
- An affidavit or social worker report

The incident of high arrear patient fees however indicate that the above measures are not adequately effective (refer Table under PI-15).

Roads and Transport: All new vehicles in the province are registered and recorded on the National Traffic Information System (eNaTIS) at the point of manufacturer or entry. eNaTIS is an online system that supports the relevant legislation in terms of motor vehicle registration and licensing. The purpose of the eNaTIS system includes the registration of all motor vehicles, and the identification and monitoring of the source of motor vehicles, through the registration of motor vehicle manufacturers, importers and builders. The system identifies the title holder and owner of every registered motor vehicle and facilitates the collection and recovery of annual and outstanding motor vehicle licence fees. The South African Revenue Services (SARS) have access to the eNaTIS system however the department is responsible for collecting taxes in respect of vehicle registration and licensing.

Economic Development: The Limpopo Province Gambling Act, 1996 stipulates that gambling can only be conducted in accordance with the Act. Prospective licencees must apply and pay the required fee as set out in the Act. Applications are open to public inspection.

In terms of the Liquor Act 27 of 1989 and Regulations in terms of Section 182, prospective licensees must apply and pay prescribed fees. After lodging of the application, any person may lodge a written objection to or petition against; or a written representation or a petition is support of such application within the prescribed period.

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

Health: There are no penalties in respect of the under collection of fees.

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

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

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

Health: Provincial Internal Audit is centralized at Provincial Treasury. Provincial Internal audit unit from Provincial treasury performs the audit on behalf of the Department. The audits are done annually and focused on control environment.

Roads and Transport: The Department does not conduct audits and only performs reconciliation of the collected money. Provincial Internal Audit is centralized at Provincial Treasury focuses on control environment.

Economic Development: The Department does not perform audits of revenue collection systems of the Gambling Board.

Table 39: Effectiveness of measures for taxpayer registration and tax assessment

No.	Predictability and control in budget execution	Score	Justification
PI-14	**Effectiveness of measures for taxpayer registration and tax assessment**	**C+**	
(i)	Controls in the taxpayer registration system	B	For Roads and Transport and Economic Development, the database system and linkages are in existence however Health does not have a system in this regard. Of the own revenue considered as tax receipts, patient fees account for approximately 20%.
(ii)	Effectiveness of penalties for non-compliance with registration and declaration obligations	B	There are effective penalties for Roads and Transport; and Economic Development; no penalties applicable for Health.
(iii)	Planning and monitoring of tax audit and fraud investigation programmes	D	Revenue audits and fraud investigations are undertaken on an ad hoc basis if at all.

PI-15 Effectiveness in collection of tax payments

This indicator is concerned with effective of tax collections, transfer of tax collection to the Treasury and frequency of complete accounts reconciliation.

(i) Collection ratio for gross tax arrears

Health: The Department has very high ratio of arrear patient fees compared to revenue collected. This indicates poor revenue collection by the Department.

Economic Development: The department has indicated that they do not have any arrears as failure to pay taxes by licensees will result in their licenses being suspended and hence they will not be able to operate.

Table 40: Collection Arrears Stock (in R'000)

Health Composition of Own Revenue	2011/12	2012/13
Arrears balance	343,178	423,403
Total revenue	107,077	116,751
% of Total	**320.5%**	**362.7%**
Roads and Transport Composition of Own Revenue	**2011/12**	**2012/13**
Arrears balance	-	-
Total revenue	271,445	292,439
% of Total		
Economic Development Composition of Own Revenue	**2011/12**	**2012/13**
Arrears balance	-	-
Total revenue	39,399	51,881
% of Total	**0%**	**0%**

Source: Overview of Provincial Revenue and Expenditure 2013/2014; team calculations; data provided by departments

(ii) Effectiveness of transfer of tax collections

Health: The money collected for patient fees is banked into the Department's Paymaster General Account. Hospitals do not operate separate bank accounts. The funds are transferred into Provincial Treasury's revenue fund on a monthly basis.

Roads and Transport: The money collected at the Registering Authorities is deposited into Department's Paymaster Genera (PMG) Account. The Department also appointed South African Post Office (SAPO) as collecting agent and on receipt of the money a receipt is issued and captured into the financial system. The fees are collected on daily basis and the money is transferred electronically daily into PMG account as prescribed by the Service Level Agreement (SLA). The municipalities also licence fees for the Department. The fees are collected daily and deposited into the Municipality bank account. Revenue collected at the municipalities is then transferred into the Department's PMG account on or before the 15th of every month in line with the SLA. All revenue received by the Department is transferred monthly into the Provincial Revenue Fund in line with Treasury's cash flow management transversal policy.

Economic Development: Gambling and betting revenue is collected by the Limpopo Gambling Board and transferred to the Department's PMG account and subsequently to the Provincial Revenue. This is done on a monthly basis. Liquor licences are collected through Electronic Fund Transfers into the Department's PMG account or through the Department's cashiers. The transfer to Provincial Revenue Fund in line with Treasury's cash flow management transversal policy is done monthly.

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

Health: The cash collected and receipts for the day are reconciled on a daily basis and amount fully banked. All revenue collected is paid over into the Provincial Revenue Fund monthly in line with Treasury's Cash Flow Management Policy.

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

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

Table 41: Effectiveness in collection of tax payments

No.	Predictability and control in budget execution	Score	Justification
PI- 15	**Effectiveness in collection of tax payments**	**D+**	
(i)	Collection ratio for gross tax arrears	D	For the Department of Health, arrear patient fees are significant compared to total annual revenue. No information was submitted for the Department of Roads and Transport.
(ii)	Effectiveness of transfer of tax collections	C	The funds are transferred into Provincial Revenue Fund on a monthly basis.
(iii)	Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts	A	Complete reconciliation of revenue assessments, collections, arrears and transfers to the Provincial Revenue Fund takes place at least monthly within one month of end of month.

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

This indicator assesses the extent to which the Provincial Treasury provides reliable information on the availability of funds to Departments managing administrative (or program) budget votes[31] in the provincial budget and if they are the recipients of such information from the Provincial Treasury.

Revenue raised nationally in respect of the financial year must be divided among the national, provincial and local spheres of government for their equitable share allocations. Each province's equitable share[32] raised nationally as well as each the conditional grants allocated to Provincial Departments, is tabled every year at Parliament and published in the DORA[33]. The appropriated funds are transferred based on the approved National Payment Schedule from the National Reserve Fund (NRF) to the Limpopo Corporate Provincial Deposits Account (CPD) at the South African Reserve Bank[34]. Provincial Treasury has access to this account and will withdraw funds as required to come into the Provincial Revenu Fund (PRF)[35]. Each Department in the Province (13) has its own PMG account[36] which is used for funds received from Provincial Treasury (equitable share, conditional grants and own generated revenue).

The National Treasury must, after consultation with the accounting officer of the Provincial Treasury, determine the payment schedule for the transfer of a Province's equitable share and conditional grants allocation. The Provincial Treasury is the custodian of the provincial appropriations to the Departments as per the approved payment schedule. In determining the payment schedule, the

[31] Programme or segment to which the total amount is appropriated per provincial department in an appropriation Act, approved by the Provincial legislature.
[32] This is also referred as the unconditional transfer from National Treasury to provincial governments.
[33] Division of Revenue Act, authorised annually, policy document published and revised annually to give national and provincial government the appropriations of revenues for each fiscal calendar.
[34] Public Finance Management Act of 1999 revised in 2011 (Section 21).
[35] Provincial Revenue Fund is established through section 226 of the constitution of South Africa.
[36] Payment Master General Accounts created by each Department within the Province and utilised as their bank account for all funds received from National and Provincial Treasury.

National Treasury must take into account the monthly expenditure commitments of provinces and Departments and must seek to minimise risk and debt servicing costs for provincial government.

Departments are required to submit their payment commitments for the year and are only allowed to revise these commitments during the tabling of the provincial budget adjustments in compliance with the MFMA (Section 31)[37], around the September/October period. The payment schedule is approved in the Division of Revenue Act (DORA) of each year and conditions of the transferred are set within that approved DORA of each year. After budget approval, payment schedules alined to the approved appropriations are prepared and sent to both National and Provincial treasuries.This is monitored by the provincial treasury on a monthly basis through in year monitoring (IYM)[38] submitted on the 14th of each month. Quarterly consolidated reports of expenditure against the payment schedule are further published in the National treasury's website under publications and the provincial treasury website.

The National Treasury may, for cash management purposes or when an intervention in terms of section 100 of the Constitution[39] takes place, on such conditions as it may determine, advance funds to a Province in respect of its equitable share or a portion of it which has not yet fallen due for transfer in terms of the payment schedule. Any advances in terms of this specific allocation must be offset against transfers to the Province which would otherwise become due in terms of the payment schedule.

In accordance with Chapter 4, (30) of the Public Financial Management Act [40](PFMA), the Minister may table an adjusted budget, provided there are significant and unforseen economic or financial events. Provincial Departments may also table adjusted budgets in accordance with Chapter 4, (31) of the PFMA affecting Departmental budgets. This process takes place half yearly in terms of Provincial government spheres.

To provide for the equitable division of revenue raised nationally among the national, provincial and local spheres of government for the 2013/14 financial year and the responsibilities of all three spheres pursuant to such division, the Presidency has assented Act No.2 of the Division of Revenue Act 2013, approved and published on the 10 June 2013.

Table 42: Predictability in the availability of funds for commitment of expenditures

No.	Predictability and control in budget execution	Score	Justification
PI-16	**Predictability in the availability of funds for commitment of expenditures**	**A**	
(i)	Extent to which cash flows are forecast and monitored	A	Payment Schedule (Cash flow) forecasts/ projections are prepared annually by the Departments. The National Treasury is informed by the Provincial Treasury of the payment schedule addressing the financial commitments of the Departments within the Province. Furthermore the Provincial Treasury monitors cash flow management of the Departments on a monthly basis. Budget

[37] The MEC for Finance in the Province may table the adjustment budget in the Provincial Legislature subject to format and time as determined by the Minister of Finance.
[38] Monthly reports monitoring the budget implementation by the provincial departments, submitted to Provincial and National Treasury.
[39] Section 100 of the 1994 Constitution requires that when a province cannot or does not fulfil an executive obligation in terms of the Constitution or legislation, the National Executive may intervene by taking any appropriate steps to ensure fulfilment of the provincial mandate.
[40] Public Finance Management Act approved in1999, revised in 2011, regulates the financial management in the National government and Provincial governments.

			implementation is monitored through the In year monitoring (IYM) reports that are presented by all departments to both Provincial and National Treasury
(ii)	Reliability and horizon of periodic in-year information to Provincial Departments on ceilings for expenditure commitment.	A	Departments are able to plan and commit expenditure for at least six month in advance in accordance with the budgeted appropriations. This is evidenced by the monthly payment schedule which covers the full 12 months in each financial year.
(iii)	Frequency and transparency of adjustment to budget allocations, which are decided above the management of Line Ministries	A	Significant in-year adjustments to budget allocations take place only once a year in the month of September. These adjustments are then tabled at the provincial legislature and are further published at Provincial and National level.

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

This indicator identifies the quality of the cash balances management to avoid unnecessary debt service costs. The areas of focus are the manner in which the accounts are recorded, consolidated and reported. The maintenance of a debt data system and regular reporting on main features of the debt portfolio and its development are critical for ensuring data integrity and related benefits such as accurate debt service budgeting, timely service payments, and well planned debt roll-over. As also stated in the PEFA revised framework, critical to debt management performance are also the proper recording and reporting of government issued guarantees, and the approval of all guarantees by a single government entity (e.g. the ministry of finance or a debt management commission) against adequate and transparent criteria.

For cash balances management in the province, each department performs a monthly reconciliation on its own PMG[41] account. These reconciliations should be submitted by the 14th of every month as part of the In-Year Monitoring (IYM) oversight reports to Provisional Treasury. The Provincial Treasury performs the monthly reconcialion on the Provincial Revenue Fund (PRF) as well as on the Corporate Provincial Deposits Account (CPD).

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

Chapter 8 of the National Treasury's reporting framework and basic accouting reporting standards requires that departments disclose their liabilities within their annual financial statements (AFS)[42] and include any other disclosures relating to incurred liabilities (eg: Interest expense relating to guarantees)[43]. Departments are also required to disclose this information on a monthly basis, within

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

42 Chapter 8 of the National Treasury's reporting framework.

43 Interest accrued on the liability based on the applicable interest rate charged by the financial institution.

their In-Year Monitoring Reports. The framework further states that all disclosure notes must provide additional financial and non financial information that is useful to users of the Annual Financial Statements. It was however noted that the Annual Financial Statements for the five departments[44] assessed, state guarantees relating to housing loans by staff members were not fully recorded to reflect all debt costs and other useful information. These are disclosed in Annexure 3A & 3B of the Annual Financial Statements. The assessment further revealed that out of the five departments currently under administration,in terms of Section 100 of the Constitution, Department of Healh and Department of Education have negative cash balances. The disclosure of such balances does not include the debt cost, in this being the interest paid on that overdraft.

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

As per Chapter 8 S.66 of the PFMA[45], provinces are not allowed to commit the National Revenue Fund by borrowing loans. The state guarantees that are still ongoing in the province are thus in contradiction of the Act.

This indicator was assessed for the following departments (with reference to the three financial years annual reports and PFMA):

- Department of Education,
- Health,
- Provincial Treasury, and
- Co-Operative Governance, Human Settlements and Traditional Affairs for 2012/13;

Table 43: Recording and management of cash balances, debt and guarantees

No.	Predictability and control in budget execution	Score	Justification
PI-17	**Recording and management of cash balances, debt and guarantees**	**C**	
(i)	Quality of debt recording and reporting	C	Departments are required to disclose their liabilities within their annual financial statements (AFS) and also to disclose the debt costs relating to these liabilities (e.g.: Interest Expense). Departments are also required to disclose this information on a monthly basis, within their In-Year Monitoring Reports. The review of the annual financial statements for the two departments with negative bank balances, did not disclose comprehensively the debt cost information associated with the liability (e.g. interest expense, applicable interest rate, repayment terms).
(ii)	Extent of consolidation of the Government's cash balances	C	Calculation and consolidation of most Provincial Department's bank accounts takes place on a

[44] Departments selected for the PEFA assessment in Limpopo (Education, Public Works, Transport, Heath and Provincial Treasury)

[45] Public Finance Management Act approved in 1999, revised in 2011, regulates the financial management in the national government and provincial governments.

			monthly basis. These are prepared individually by each Department and are not consolidated at Provincial Treasury level. The province operates in a decentralised cash management system where each of the 13 departments has its own PMG account to manage and account for the flow of its budget. The PMG (Pay Master General) account is used for the purpose of receiving department's budget, payment of suppliers in the course of delivering services as well as depositing the own revenue collections which are mainly cost recoveries, such as health patient fees, motor car licensing fees, commission on insurance, etc. Treasury is also in control of the PRF through which all provincial funds flow to the PMG accounts.
(iii)	Systems for contracting loans and issuance of guarantees	C	The contracting of loans and the issuing of guarantees are bound by transparent criteria as defined in Section 66 of PFMA, where only the MEC – Provincial Treasury may authorize commitments to the PRF. Departments are required to report on all borrowings within the Annual Financial Statements Annexure E. In addition, it was noted that State guarantees are approved by Corporate Services – Senior Official level.

PI-18 Effectiveness of payroll controls

This indicator is concerned with the payroll for public servants only. Wages for casual labour and discretionary allowances that do not form part of the payroll system are included in the assessment of general internal controls (PI-20).

This indicator is assessed under the following four dimensions:

i) Degree of integration and reconciliation between personnel records and payroll data;
ii) Timeliness of changes to personnel records and the payroll;
iii) Internal controls of changes to personnel records and the payroll; and
iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.

The Department of Public Service and Administration (DPSA) is mandated to foster good governance and sound administration in the public service. The mandate of the department has evolved over the years from transforming and modernizing the public service through the development and implementation of policies and frameworks to providing implementation support to ensure compliance, improve service delivery and strengthen monitoring and evaluation. The duties of DPSA are driven by the Public Service Act[46].

It is a requirement of the Public Service Act and Public Service Regulations[47] that new posts established receive ministerial approval and must be reflected in the budget. Temporary posts are subject to budgetary constraints. The establishment is the basis for budget formulation and preparation process pertaining to salaries and wages. New employee recruitment requires Accounting Officer approval. Promotions can only be effected through the transfer of one post to another, thus introducing a degree of control over arbitrary promotions. An employee has to apply for a new post in order to get a promotion. Allowances are also attached to posts which serve as an

[46] The Public Service Act was enacted on 03 June 1994 and latest amendment being Act 30 of 2007
[47] The Public Service Regulations were approved on 5 June, 2001

effective control thereon. Terminations, especially vacations of post without notice, are effectively controlled by monthly supervisor signed payroll certificates (i.e. verification sheets) and the automatic stoppage of salary payments for any person absent from post for more than 30 days without appropriate notification. In these instances, the pay point supervisors are required to advise the HR function, which will then update the records accordingly and advise Payroll administration to stop where necessary.

Each Provincial Department directly manages posts and personnel changes. Strict links are in place between authorisations and control entries to the human resource and payroll management software (PERSAL). There is a segregation of functions between the HR management and payroll administration in PERSAL. Changes to employee records are performed by the HR function on receipt of authorised submission documents. The Payroll administration does not have access to change salary scales, these are loaded on the HR side. Once changes are authorised, only the personnel controller is authorised to process them on PERSAL. PERSAL directly links three databases: establishment of posts, personnel database, that serve as control files, and the payroll database. All civil servants are registered through PERSAL that include appropriate fields to protect against duplication. An employee retains his unique PERSAL number throughout his employment in the South African government.

Each Provincial Department is responsible to prepare reconciliation between the BAS[48] and PERSAL system on a monthly basis. The two systems are interfaced. Controls and procedures exist for all changes. Audit trails are built-in in the system. The database is encrypted and cannot be accessed directly outside the application. Personnel Officers have secured access to the database by password controls with three tiers of access recognised; data entry, supervisor and salary. Exception reports are issued each month and used to identify anomalies and any extreme changes from one pay period to the next.

Annual salary increases occur on the 1 April, which corresponds to the beginning of the National and Provincial fiscal year. This therefore limits any salary changes that could be implemented retrospectively. The increases are regulated by the DPSA and the related Bargaining Council. Retrospective adjustments are rare and usually relate to performance bonuses determined after the completion of the audit. In special cases where an adjustment to an employee’s salary moves it beyond the remuneration scales set by the DPSA, a submission to (and approval from) the MEC of the relevant Provincial Department is required before the HR function captures the adjustment in the PERSAL system. This occurs if employee concerned has a scarce skill and the Provincial Department wants to retain this talent.

All payments are made directly to bank accounts. No cash payments are made to staff whether permanent or temporary. Payments to employees are made once the relevant pay point heads (supervisors) verify and sign off on the payroll certificates to confirm existence of the employees within their respective pay points. The payroll database is reconciled to the personnel records thus mitigating payments being made to “ghost workers” and also mitigating against other fraud and error related activities. Any required changes and updates to the payroll management databases are performed monthly. The Provincial Departments are guided by the deadline/cut-off dates for payroll changes provided by National Treasury. For the smaller Departments, changes are almost always effected within the next pay period and there is rarely the need for retroactive adjustments. It is rare for the payroll changes to extend beyond two pay periods. However, there is often delay in the timely processing of changes for the larger Departments such as Health and Education. This is attributed to the organisational structure of these Departments. When an educator, for instance,

[48] Basic Accounting System (BAS) is the financial system currently used and is interfaced with the PERSAL system

resigns at school in a remote or rural area, the information is firstly collated by the school who would then submit at the circuit office. From the circuit offices the information goes to the district offices before finally reaching the Head Office. Similarly, changes at the hospital level have to go through district offices before reaching the Head Office.

The AG performs an audit on the payroll during its annual regularity audit. Furthermore, Provincial Internal Audit unit allocated approximately 10% of total hours in their 2012/13 Plan to auditing Recruitment and Compensation business cycle. The Internal Audit scope covers all the Provincial Departments, except the Legislature and the Office of the Premier (which has its own Internal Audit unit). In his 2012/13 audit report, the AG however identified payments to fictitious employees at the Department of Education.

Table 44: Effectiveness of Payroll Controls

No.	Predictability and control in budget execution	Score	Justification
PI- 18	**Effectiveness of Payroll Controls**	**C+**	
(i)	Degree of integration and reconciliation between personnel records and payroll data	A	The Province uses PERSAL system for HR management and payroll administration. It allows for a direct link between the establishment and personnel and the payroll databases. Salary, promotions and allowances are criteria attached to a post, not to a person, ensuring effective control.
(ii)	Timeliness of changes to personnel records and the payroll	B	Up to three months' delay occurs in updating of changes to the personnel records and payroll, but affects only a minority of changes. Retroactive adjustments are made occasionally.
(iii)	Internal controls of changes to personnel records and the payroll	C	The types of changes that can be made are restricted. Only authorised persons are granted access through passwords to PERSAL. Changes to employee records are made based on approved submissions. All entries create an audit trail. All payrolls have to be verified monthly by the employee's supervisor. There is a segregation of functions between HR management and payroll administration. Although there are controls regulating changes to personnel records and the payroll, delays in processing changes and incidents of payments to fictitious employees at the Department of Education compromises the integrity of data present in the PERSAL system.
(iv)	Existence of payroll audits to identify control weaknesses and /or ghost workers	B	Payroll audits are conducted through AG's annual regularity audits and Internal Audit's business cycle audits. Furthermore pay point supervisors are required to sign off on payroll certificates monthly. In spite of the regular audits and payroll verification certificates, the AG still identified in his 2012/13 audit report payment of salaries to fictitious employees at the Provincial Department of Education.

PI–19 Transparency, competition and complaints mechanisms in procurement

A well functioning procurement system should address transparency and efficiency through competition in the process leading to the spending of public funds. Transparency and efficiency are quite crutial factors as tax payers should be confident that they are getting their value for money on all government projects. Thus the process of bringing in transparency and efficiency should be initiated from the planning phase prior to the implementation of the projects.

This indicator is assessed through the following four dimensions:
(i) Transparency, comprehensiveness and competition in the legal and regulatory framework.
(ii) Use of competitive procurement methods.
(iii) Public access to complete, reliable and timely procurement information.
(iv) Existence of an independent administrative procurement complaints system.
While the dimension (i) is concerned with the existence and scope of the legal and regulatory framework, dimensions (ii), (iii) and (iv) focus on the operation of the procurement system.

Significant expenditure spending is executed in the public procurement system, better known as the Supply Chain Management System within the South African Government sphere. Section 217 of the Constitution Act[49] of the Republic of South Africa requires that the organs of state in all spheres of government, National, Provincial, Local and any other institutions and any other governement entity bound by the Constitution, when procuring goods and services must do so in a manner that is fair, equitable, transparent, competitive and cost effective. The PFMA[50] Act and its regulations (SCM Regulations) as the legal framework gives effect and mandate to both the National and Provincial Treasury and deal with the policy development and regulating of the procurement processes to all spheres of government. The PFMA, Chapter.18 also provides the monitoring and oversight functions on the procurement of lower spheres of government (Departments and Local government).

Although there are multiple regulations governing the procurement processes in the province there is however a lack in clarity around the linkage and connectivity between the regulatory frameworks. The PPPFA provides guidance to all procurement surrounding government funds. It provides management with clear guidelines of how to procure, based on the value being procured. The Promotion to Access to information Act 2000[51] also gives effect to the constitutional right to access to any information held by the state and any information that is held by another person and that is required for the exercise or protection of any rights.

The PPPFA[52](Preferencial Procurement Policy Framework Act) gives effect to Section 217 in ensuring fairness, measured through the preferential point system which is aligned to the procurement threshholds and further aligned to the broad-based black economic empowerment (BBBEE). The scoring system places its major judgment on the price charged by the service provider, compared to the functionality and or services to be rendered and thus may not necessarily promote effective expenditure spending that will ensure the quality of the services to be rendered. To bridge the gap in this regard the Departments would therefore have to ensure the specification is well captured and talks to the deliverables and is clear to obtain relevant goods or services. This is done through the Bid Specification processes and may depend on the level of expertise and knowledge regarding the goods or services to be acquired. To further ensure that the bidding process is fair and efficient, National treasury regulations require that departments appoint three independent committees. The committees are; Bid Specification[53], Bid Evaluation[54] and Bid Adjudication[55]. All these committees

[49] The Constitution Act, supreme law of the Republic of South Africa, adopted 8 May 1996 and amended 11 October 1996.
[50] Public Finance Management Act approved in 1999, revised in 2011, regulates the financial management in the national government and provincial governments.
[51] The Promotion to Access to information Act 2000, gives effect to the constitutional right to access to any information held by the state and any information that is held by another person and that is required for the exercise or protection of any rights.
[52] Preferential Procurement Policy Framework Act of 2011 gives effect to section 217 (3) of the Constitution by providing a framework for the implementation of the procurement policy contemplated in section 217 (2) of the Constitution; and to provide for matters connected therewith.
[53] Supply chain Unit Committee responsible for compilation of specifications for goods and services procured by the departments

play a very important role in the awarding of tenders within the supply chain process as set out in the National treasury regulations.

The PPPFA further gives effect to the open procurement process, determined through the legislated thresholds. The open tender process is applied to any tender above the R500 000 thresholds, thus anything below may be procured on a closed tender process. Thresholds of R0 – R500 000 are excluded from the open tender process, however there are regulations that govern non-open tender processes as stated in the again in the PPPFA[56]. The open procurement process is therefore not the default method, although the Act does clearly define the different procurement methods that can be used. This is justified based on the value being procured.

Tender information including available opportunities, tenders awarded per Provincial Department is placed on the tender bulletin (Provincial Treasury) on a monthly basis. Currently the Provincial Departments are dependent on the Provincial Treasury for the public to access their tender information, tender information relates to tender opportunities and tender awards, however data relating to disputes on tenders is not part of the tender information to the public. The Limpopo Treasury provides more information on bidding processes through the tender advice centre within the Province. The advice center is there to educate the public on tender procedures, processes and the legal framework relation to procurement within the province.

The Competition Act of South Africa[57], promotes competitive bidding within the province in terms of procurement of goods using public funds. Assessment of tender awarded in the province within the three financial years revealed that there is occasional abuse of emergency, as a reason for circumventing competitive methods without adequate justification at year end, when expenditure is rushed in a bid to prevent unspent funds being returned to the National Treasury. It further revealed that in other instances, initially approved contract values are often increased, ranging between 200-500% adjustments, sighting a major weakness with contract management processes.

Each Department within the Limpopo Province has its own supply chain unit (SCU), however the Provincial Treasury has a Transversal SCU over and above the Provincial Treasury SCU. The transversal team is responsible for ensuring implementation of the National Treasury reforms and regulations in all Departments within the Province and transversal contracts within the Province, looking at the economies of scale with a view to buy in bulk, for goods and services that are common to the provincial Departments, with the aim to save on operational costs. The transversal SCU unit is also responsible for formulating procurement policies for the Province, which are aligned to the National Treasury Transcripts.

Promotion of Administrative Justice Act 3 of 2000 (PAJA)[58] gives effect to the right to administrative action that is lawful, reasonable and procedurally fair and gives the rights to written reasons for administrative action as contemplated in Section 33 of the Constitution of the Republic of South

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[54] Supply Chain Committee responsible for evaluation of bids to ensure they are in accordance with the specification and in line with the supply chain processes as set out in the Supply chain regulations by the National Treasury

[55] Supply Chain Unit Committee responsible for the award of tenders after considering the Bid Evaluation committee recommendations

[56] Preferential Procurement Policy Framework Act (2011)

[57] Competition Act 89 of 1998, consolidated with amendments enacted by Act 35 of 1999. To provide for the establishment of a Competition Commission responsible for the investigation, control and evaluation of restrictive practices, abuse of dominant position, and mergers; and for the establishment of a Competition Tribunal responsible to adjudicate such matters; and for the establishment of a Competition Appeal Court; and for related matters.

[58] Promotion of Administrative Justice Act 3 of 2000, gives effect to the right to administrative action that is lawful, reasonable and procedurally fair and gives the rights to written reasons for administrative action as contemplated in section 33 of the Constitution of the Republic of South Africa,1996

Africa,1996. Nevertheless, complaints will not be delt at the level of an independent administrative procurement complaints system as there is currently no tribunal or complaints body within the Limpopo Province looking into procurement disputes. Disputes regarding tender processes are delt with at the Head of Departmentals level.

The Transversal SCU is in a process of formulating the Bid Committee Tribunal for the Province. This was identified as a need after the benchmark exercise with one of the other provinces, where this type of committee is already in place.

Table 45: Transparency, competition and complaints mechanism in procurement

No.	Predictability and control in budget execution	Score	Justification
PI-19	**Transparency, competition and complaints mechanism in procurement**	**D+**	
(i)	Transparency, comprehensiveness and competition in the legal and regulatory framework	C	The legal and regulatory framework meets only two of the six requirements for a Transparent, comprehensive and competitive framework in the Limpopo province being the free and accessible tender information and advice within the tender advice centre in the province and having the legislative framework apply to all procurement undertaken using government funds
(ii)	Use of competitive procurement methods.	D	The Act and Regulations do not clearly establish open competition as the default procurement method. The open tender process is applied to any tender above the R500 000 thresholds, thus anything below may be procured on a closed tender process. Thresholds of R0 – R500 000 are excluded from the open tender process; however there are regulations that govern non-open tender processes as stated in the PPPFA. Further analysis of the information provided have surfaced the following concerns: No reliable data was made available in order to establish the % of contracts awarded by other than competitive methods with appropriate justification

(iii)	Public Access to complete, reliable and timely information	C	The Provincial Departments that advertise were unable to perform the assessment for this dimension as the information provided was inaccurate, unreliable and not credible. Complaints /disputes on tenders and procurement plans are not included in the tender bulletin of the province and thus not publicised at all and therefore not all key procurement information is available to the public. The tender bulletin has information on the tender opportunities and contract award only.
(iv)	Existence of an independent administrative procurement complaints system.	D	The Province does not have an independent administrative procurement complaints system. Currently all complaints are forwarded to the Accounting Officer of each Provincial Department. Bidders are charged fees for access to tender information.

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

This indicator covers the control of expenditure commitments and payment for goods and services, casual labour wages and discretionary staff allowances. It measure whether internal control systems are relevant, incorporate a comprehensive and cost effective set of controls; are widely understood and complied with and are circumvented only for genuine emergency reasons.

This indicator will be assessed in light of the following dimensions:

- Effectiveness of expenditure commitment controls
- Comprehensiveness, relevance and understanding of other internal control rules/ procedures
- Degree of compliance with rules for processing and recording transactions

Internal control within a Department is the responsibility of the Accounting Officer[59]. He or she must ensure that internal procedures and internal control measures are in place. Further he or she must provide reasonable assurance that all expenditure is necessary, appropriate, paid promptly and is adequately recorded and reported.

Controls in place over the availability of cash:

- The rolling cash flow projections are required to be prepared on a monthly basis by each Department and submitted to Provincial Treasury.
- Provincial Treasury makes payments in tranches according to the expenditure needs. These are differentiated into the PERSAL (payments for payroll) and BAS payments (payments for goods and services). Both types of payments are made twice a month. Treasury will then assess the available cash and the Department's bank accounts (PMG's) as well as the rolling cash flow forecasts.
- Where the Department will exceed their set budget National Treasury will inform them of this. The necessary payment will however still be processed.

Controls in place around expenditure commitment:

Treasury

[59] This responsibility is prescribed is Section 39 and 40 of the PFMA and Chapters 8 and 15 of the Treasury Regulations.

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

Other departments[60]

- The annual budget for the departments and the annual procurement plan are given to the budget owners (heads of directorates) so that they know the budget available for their respective directorates.
- Segregation of duties is applied in the processing of transactions.
- A requisition for goods and services must be accompanied by the procurement plan, BAS report (to show available budget); and the motivation before the order to be approved.
- BAS and FINEST does not allow an order to be captured if there is no (or insufficient) budget available. While FINEST cannot be overridden, BAS (through which payments ultimately go through) can be with the authorisation of the Head of the Department.

Procedure manuals:

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

Areas of concern:

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

- The accounting system, BAS and the procurement system, FINEST are not interfaced nor integrated, and consequently inefficiencies result due to some of the following:
  - ✓ At the beginning of the fiscal year, the budget must be loaded separately onto both systems;

[60] The other provincial Departments assessed include Health, Public Works, Education and Roads and Transport

- ✓ Changes in the Standard Chart of Account (SCOA) must be made in both systems;
- ✓ Orders have to be captured twice, firstly in FINEST so they can be printed and then in BAS where payment will ultimately go through. The capturing of orders is also a manual process;
- ✓ Reconciliation of the two systems is a necessity and is a manual process;
- ✓ One system can be overridden while the other cannot, this result in inconsistent data between the two systems.

- Not all the users have the functional knowledge of the systems and there is lack of training thereon. There is currently no mandatory training that the staff have to go through in order to work with BAS.
- Departmental management and users of BAS complain about system issues ranging from sluggishness to total downtime. Some departments have gone to the lengths of driving to National (Pretoria) in order to capture their document backlog.
- The upgrading of BAS from version 3 to 4 initially created furthermore challenges in that the supplier information did not carry over to the new version. This did not only add to the backlog but also resulted in late payment of suppliers of goods and services.
- Capacity constraints (in terms of vacancies) were also highlighted as hindrance in effectively complying with internal control, especially segregation of duties.

Table 46: Effectiveness of internal controls for non-salary expenditure

No.	Predictability and control in budget execution	Score	Justification
PI-20	**Effectiveness of internal controls for non-salary expenditure**	**C+**	
(i)	Effectiveness of expenditure commitment controls	C	Commitment control is a requirement of the PFMA and specific procedures have been developed by Departments which are informed by (and in line with) the National Treasury guidelines. The heads of directorates are tasked with the responsibility of managing of budget in their respective directorate. Although BAS system has a budget blocking system that notifies users when the budget will be exceeded, this can however be overridden with the authorisation of the Head of Department. Furthermore capacity constraints impact on the effectiveness of the expenditure controls.
(ii)	Comprehensiveness, relevance and understanding of other internal control rules/ procedures	B	Other internal controls are well covered in the PFMA and the Treasury Regulations and manuals. Furthermore Departments have developed internal policies and procedures which are in line with the National Treasury guidelines. There however is doubt whether these procedures are widely understood and followed, given the feedback from management of the

			Departments and Transversal Financial systems.
(iii)	Degree of compliance with rules for processing and recording transactions	C	Although attempts are made to comply with the rules and procedures, capacity constraints prove to be hindrance. This is especially prevalent in the more rural districts/sites where a segregation of duties is an area of concern.

PI-21 – Effectiveness of internal audit

This indicator serves to assess the combined effectiveness of all internal audit functions. This indicator is assessed under the following dimensions:

1. Coverage and quality of the internal audit function;
2. Frequency and distribution of reports; and
3. Extent of management response to internal audit findings.

The PFMA[61] and the Treasury Regulations[62] specify the internal audit function as a compulsory requirement for all Departments. The oversight of internal audit and assurance of full implementation of audit findings (internal and external) as well as SCOPA recommendations is the responsibility of Audit Committees. The Audit Committees' mandate is to review the effectiveness of internal controls and internal audit, to review the risk areas and to ensure that internal and external audit recommendations are duly addressed and resolved to ensure compliance with the legal and regulatory framework. The majority of the Audit Committee members are selected from outside the employ of Provincial Departments. The chairperson of the Audit Committees and the Central Audit Committee is independent and from outside the employ of the government. Furthermore, the Risk Management Division within the Office of the Accountant General provides functional guidance on risk management.

The Internal Audit units are staffed by professionals who have to be qualified accountants and/or members of the Institute of Internal Audit (IIA). Internal Audit adopts the IIA standards and has developed manuals that are aligned with these standards. This is requirement of the National Treasury Regulations. Quality assurance exercises, to ensure compliance with the standards are carried out each year, with independent bodies performing the quality assurances reviews once every five years.

The Provincial Internal Audit Function consists of four units; the risk based audits, performance audits, forensic audits and the IT audits. The Provincial Internal Audit Function covers twelve of the thirteen departments, with the Provincial Legislature having its own separate internal audit function and audit committee. The twelve Provincial Departments are divided into four clusters and an audit committee is assigned to each cluster.

The Internal Audit Function performs various types of audits including:

- Financial;
- Supply chain;
- Performance;
- Risk based;
- IT; and
- Statutory.

[61] PFMA in Sections 38(1)(a)(ii), 76(4)(e) and 77
[62] Treasury Regulations (in Chapter 3.2) issued in terms of PFMA and effective from 15 March 2005.

The audit process begins with each department identifying their top ten risks; only the medium and high risks are considered during this process. Certain Provincial Departments have had challenges in trying to evaluate their risks due to capacity constraints. This in turn poses further challenges for Internal Audit when formulating their annual work plan.

A process analysis document (PAD) is then prepared which serves to provide background information on the audit. In addition, this document takes into account performance indicators that are to be tracked and monitored during the fiscal year. A risk and control matrix (RACM) is prepared, and after approval of RACM, the planning and audit programmes are prepared. Approximately 80% of the units' total available hours are allocated to core audit work.

Due to capacity constraints (currently there are seven auditors assigned to each cluster), the team is unable to perform testing on all transactions and sections. A sample of the most material transactions and high risk areas from each Department is selected for testing. This consequently implies that errors in areas classified as low risk could stay undetected until such time that accumulation therefore become material. Frequency of audits on high risk areas such as compensation for employees (payroll), are based on the risk category of any given Department, for example, payroll audits in the Departments of Health and Education are prepared annually for different districts under the Department while a payroll audit for The Department of Sports, Arts and Culture may be prepared every three years.

The function utilises Teammate software application, to facilitate their audit process. Currently not all functions within Teammate are used; however with the assistance of the IT audit unit, the function is making progress in utilising more functions within the application in order to improve efficiencies.

The Central Committee is required to review the risk profile and audit plan after which they provide comments. In certain cases (depending on the Department) the report will be made available to an audit steering committee that is tasked with evaluating and dealing with the audit findings. These committees consist of General and Senior managers of the various financial units.

Reports are prepared by the internal audit function on a quarterly basis and these reports are submitted to the Central Committee Chair who then discusses the report with the MEC.

At a departmental level the audit findings are analysed and taken into consideration by the applicable managers. Some Departments are proactive in addressing internal audit findings and others have challenges due to capacity constraints. Generally however the advice is taken into consideration even though the implementation of risk mitigating controls is slow. The AG raised a concern in his 2012/13 audit reports that the action plan developed by the Departments (such as Education, Public Works and Health) to address external and internal audit findings is not adequate to ensure that root causes that resulted in the findings are resolved and do not recur. Furthermore, internal audit findings do not receive the same attention as those of the AG (external audit).

The Provincial Internal Audit Function does not directly report to the National Treasury (NT) but rather their findings are submitted to NT through Provincial Treasury on a quarterly basis as part of the quarterly in-year reports.

Table 47: Effectiveness of internal audit

No.	Predictability and control in budget execution	Score	Justification
PI-21	**Effectiveness of internal audit**	**D+**	

(i)	Coverage and quality of the internal audit function	A	The Internal Audit Function and its supervision by Audit Committees cover twelve of the thirteen Departments with the exception of Provincial Legislature, which has its own function and audit committee. The Internal Audit Units apply the IIA standards in their audit process. The unit prepares annual work plans that include process/full expenditure chain and procurement audits, payroll, compliance and financial audits, forensic, systems including IT audits and performance audits. At least 50% of the audit time is deemed spent on system audits
(ii)	Frequency and distribution of reports	A	The audit reports carried out against a work plan are prepared and presented quarterly to the MEC, the Provincial Treasury, Audit Committee and the Auditor-General.
(iii)	Extent of management response to internal audit findings	D	The internal findings are not always addressed in a timely manner and action plans to address root causes for the findings are not adequate. Furthermore internal audit findings do not receive the same attention as those of the AG.

3.5 Accounting, Recording and Reporting

PI-22 Timeliness and regularity of accounts reconciliations

This indicator assesses the regularity of bank reconciliations; and that of reconciliation and clearance of suspense accounts and advances. Timely and frequent reconciliation of financial data from different sources is fundamental for financial data reliability.

The Provincial Treasury operates a Provincial Revenue Fund (PRF), which consists of the following two accounts:

- The IGCC CPD[63] account held with the South African Reserve Bank (SARB); and
- The Exchequer[64] account held with a provincial commercial bank.

Bank reconciliations

In addition to the PRF's accounts managed by the Provincial Treasury, each Provincial Department also manages its own bank account held within a Provincial commercial bank. These are referred to as the Payment Master General (PMG) accounts.

The equitable share for the Province is transferred by National Treasury into the CPD account. Conditional grants (from the National Sector Departments) are transferred into the PRF's Exchequer account. The transfers out of the PRF's accounts to the Departments' PMG accounts is made monthly by the Provincial Treasury based on the agreed payment schedule. The payment schedule is informed by the cash flow projections (submitted at the beginning of the financial year) and the monthly rolling cash flow forecasts. Since payments in BAS are limited to R1 million and PRF transfers are in millions, the transfers out of the PRF account are handled in the online banking system. An interface is run between BAS and the PRF accounts. A spreadsheet is also maintained which captures each transaction that has been processed in the bank accounts.

[63] This is Intergovernmental Cash Coordination (IGCC) Corporation of Public Deposits (CPD)
[64] The Exchequer account was held with First National Bank in 2012/13; however currently is held with The Standard Bank of South Africa Limited

The CPD and the Exchequer accounts are reconciled on a monthly basis, and the spreadsheet is reconciled to the bank statements. Furthermore, Annual Financial Statements (AFS) are prepared for the PRF and are audited by the Auditor General. The Provincial Treasury is however not up to date with the AFS for the PRF. The last audited AFS are for the financial period 2007/08. The 2008/09 and 2009/10 AFS have been completed; however at the time of this report they were still in the process of being audited.

The Provincial Departments are required to reconcile their respective PMG accounts on a monthly basis. The Provincial Treasury also has access to view balances in each department's PMG account. The BAS system provides an automated basis for assisting in the completion of the reconciliation process.

Suspense accounts

Section 40(1)(a) of the PFMA and Section 17.1 of the Treasury Regulations require that all suspense accounts be cleared[65] and correctly assigned to the correct cost centres on a monthly basis. National Treasury's Office of the Accountant General (OAG) provides guidance in its Basic Accounting Handbook for Government Departments[66], and this is available on the OAG's website. The Provincial Departments refer to the OAG's Handbook when processing transactions, and reconciling and clearing the suspense accounts. The most common suspense accounts are the bank interfaces; payroll interfaces, staff debt, advances for officials' subsistence and interdepartmental debt. The Provincial Departments are required to reconcile and clear the suspense accounts on a monthly basis; and submit this information to the Provincial Treasury's Financial Governance Branch for review and comments, within 15 days after month end. On receipt of the comments from the Provincial Treasury, the Departments are advised to consider these comments; however this is at their discretion.

The reviews by the Provincial Treasury have highlighted instances of long outstanding and uncleared items at the Departmental level. The causes (as observed by the CFO's and Provincial Treasury's Transversal Financial Systems) are partly attributable to the staff having limited functional knowledge of the BAS system, to staff turnover, and to delays in information reaching the action point as a result of going through various administrative channels[67] and BAS system issues. At the end of March 2013, the Department of Education, for instance, had accumulated significant balances in the suspense accounts as consequence of late termination of service. The debt account (including tax debt) was approximately at R65 million and salary disallowance account had accumulated approximately R5.7 million, the salary reversal control account accumulated about R16 million and the miscellaneous disallowance account had long outstanding amount of R20 million. The balances in these accounts are also brought forward from the previous fiscal periods and instead of being cleared, they are accumulating.

The Province experiences numerous BAS system problems ranging from sluggishness to total downtime. The system downtime and sluggishness has created backlogs in processing of transactions and capturing of orders. These impacts on the completeness and accuracy of information reported, as well as timely clearing of suspense accounts. Due to BAS downtime, bank and salary clearing accounts which would normally be cleared within a few days after payment is made, roll over to the next month adding to the backlog of transactions to be cleared.

As part of the year-end closing procedures all suspense accounts that should be nil are force closed at the end of each year to facilitate the issuance of the annual financial statements. The department

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[65] Clearing of suspense accounts refers to the exercise of properly allocating transactions or correcting errors through journals.

[66] BAHGD issued in July 2010.

[67] For large departments such as Health and Education, there is often delay in the employee termination information getting to the processing centre from the site of termination.

will be force closed if they fail to clear the suspense accounts that must have zero balance at month end. There are accounts in BAS which must have zero balances at month or year end, and if the department did not clear those accounts the system will not allow them to close their books. The system will automatically deny them to process or clear any transaction in that particular reporting period at a specified date and time (i.e. forced closed). National Treasury issues dates on which the departments must close their books monthly and yearly. Some of the suspense accounts may carry a balance at month and year end, and these may be waiting for certain processes or information before they are cleared.

Table 48: Timeliness and regularity

No.	Accounting, recording and reporting	Score	Justification
PI-22	**Timeliness and regularity**	**B**	
(i)	Regularity of Bank reconciliations	A	The PRF and departmentally managed PMG accounts are reconciled to the cash book on a monthly basis within 15 days of the close of the month. The AFS of the PRF however are not up to date.
(ii)	Regularity of reconciliation and clearance of suspense accounts and advances	C	Although the reconciliation and clearance of suspense accounts is carried out on a monthly basis, there are still incidents of long outstanding and un-cleared items. The un-cleared items are partly due to the staff's limited functionality of the BAS system, BAS system issues such as sluggishness and downtime, and delay in processing termination of employees in the PERSAL system

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

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

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

The provision of primary health care is assigned to *Programme 2: District Health Services* under the administration of Provincial Department of Health. The infrastructure required for primary health care is included and monitored under *Programme 8: Health Facilities Management*. The provision of primary school education is assigned to *Programme 2: Public Schools Education* under the administration of Provincial Department of Education. Exam related support for primary education is allocated and monitored under *Programme 9: Auxiliary and Associated Services*; and the infrastructure for the primary education schools is monitored under *Programme 8: Infrastructure Development*. Table 3.23.1 below shows the budget allocation for programmes under the Departments of Health and Education. The two programmes for primary health care and primary school education receive the most allocation in their respective departmental budgets. Furthermore an economic classification can be generated for each programme.

In addition to reporting to National Treasury in terms of Section 32 of the PFMA, the Departments are required to report to their sector departments, i.e. National Department of Health for Health and National Department of Education for Education. The non-financial performance of the programmes is included in the Department's Annual Performance Plan.

Table 49: Summary of Payment estimates per programme

Education		Health	
Programme	Budget allocation 2012/13	Programme	Budget allocation 2012/13
Programme 1 – Administration	1,347,554	Programme 1 – Administration	246,793
Programme 2 – Public Schools Education	**18,918,374**	**Programme 2 – District Health Services**	**7,027,018**
Programme 3 – Independent School Subsidies	101,457	Programme 3 – Emergency Medical Services	492,730
Programme 4 – Public Special Schools Education	316,935	Programme 4 – Provincial Hospital Services	1,661,966
Programme 5 – Further Education and Training	545,768	Programme 5 – Central Hospital Services	1,113,792
Programme 6 – Adult Basic Education and Training	163,794	Programme 6 – Health Sciences and Training	454,713
Programme 7 – Early Childhood Development	206,180	Programme 7 – Health Care Support Services	671,977
Programme 8 – Infrastructure Development	969,316	**Programme 8 – Health Facilities Management**	**1,196,534**
Programme 9 – Auxiliary and associated services	314,519		
Total	**22,883,897**	**Total**	**12,865,523**

Source – Estimates of Provincial Revenue and Expenditure 2013/14

Table 50: Availability of information on resources received by service delivery units

No.	Credibility of Budget	Score	Justification
PI -23	**Availability of information on resources received by service delivery units**	**A**	The front line service delivery units are administered under the Provincial Departments of Health and Education and the allocated resources are included in their budgets. The expenditure is tracked through the in-year monitoring processes. Non-financial Performance of the primary health care and primary school education is included in the Departments Annual Performance Plan.

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

This indicator focuses on the ability to produce comprehensive reports from the accounting system on all aspects of the budget. Coverage of expenditure at both the commitment and the payment stage is important for monitoring of budget implementation and utilization of funds released.
This indicator is assessed under the following three dimensions:

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

ii) Timeliness of the issue of reports
iii) Quality of information

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

Under the PFMA, the National Treasury may determine the format of the statement of revenue and expenditure. This format (prescribed by National Treasury[68]) permits the direct comparison of revenue and expenditure to the original budget allocations which are included in the tables in line with Section 32(3) of the PFMA. The format of the Monthly Budget and Expenditure Returns reflects expenditure only at the time of payment and does not reflect commitments; however the commitments are taken into account on the monthly rolling forecasts taken into account when payment transfers are made to the Provincial Department by the Provincial Treasury. The report format also allows for projections for the remaining months in the fiscal year. Annually, National Treasury issues out IYM Reporting guideline for implementation which provinces customise and share with provincial departments and which informs the process of reporting for the financial year.

The in-year monthly budget and expenditure reports also presents detailed information per economic classification for each Provincial Department. The Provincial Departments are required to prepare monthly in-year budget execution reports (in the format prescribed by Treasury) and submit within 15 days after the month end. Provincial Treasury consolidates the departmental information and submits this to National Treasury within 7 days of receipt from the Provincial Departments. On a quarterly basis National Treasury publishes the Provincial Budgets and Expenditure reports within 30 days of the end the quarter.

Table 45 below compares the Q4 2012/2013 year to date expenditure compared to the expenditure per the final audited Annual Financial Statements (AFS). The percentage variance is less than 1%, indicating that there are no material concerns regarding data accuracy.

Table 51: Differences in expenditure from AFS

	Audited 2012/13 AFS	2012/13 In-year monitoring reports	R amount variance	% variance
Total expenditure	45,756,747	45,868,221	-111,474	-0.24%

Source: 2012/13 Audited AFS and 2012/13 in-year monitoring reports

Furthermore, as Table 46 indicates, the variance between the 2012/2013 adjusted budget and 2012/2013 in–year monitoring expenditure is less than 5%, indicating that the expenditure is incurred almost in line with the budget.

Table 52: Differences in expenditure from Adjusted Budget

68 Section 32(4) of PFMA allows National Treasury to determine the format of the statement of revenue and expenditure; and any other detail the statement must contain.

	Adjusted Budget 2012/13	2012/13 In-year monitoring reports	R amount variance	% variance
Total expenditure	47,954,148	45,868,221	2,085,927	4.3%

Source: 2012/13 In-year monitoring reports

Table 53: Quality and timely of in-year execution reports

PI-24	Quality and Timeliness of in-year budget reports	Score	Justification
PI-24	**Quality and timely of in-year execution reports**	**C+**	
(i)	Scope of reports in terms of coverage and compatibility with budget estimates	C	Comparison to the main budget is available at the vote and main economic classifications reported for both the current period and accumulated to date. Information includes all items of expenditure at the payment level, but not at the commitment level.
(ii)	Timeliness of the issue of reports	A	Reports are prepared monthly by the Provincial Departments and submitted to the Provincial Treasury within 15 days of the end of the month. The Provincial Treasury consolidates the departmental information and submits to the National Treasury within 7 days of receipt from the Provincial Departments. This information is aggregated and published quarterly on the National Treasury's website within 30 days of the end of the quarter.
(iii)	Quality of information	A	The percentage variance between the audited AFS expenditure and in-year monitoring expenditure for the full year of 2012/13 is less than 1%. This therefore indicates that there are no material concerns regarding data accuracy.

PI-25 Quality and timeliness of annual financial statements

The objective of this indicator is to assess the provincial government's ability to prepare year-end financial statements in a timely fashion and to assess the quality of the records maintained. To be complete they must be based on details for all departments and provincial autonomous units.

As per Schedule 3A of the PFMA[69], South Africa's accounting standards are governed by the Accounting Standards Board (ASB). The Accounting Standards Board (ASB) is a juristic person whose mandate is to set standards of Generally Recognised Accounting Practices (GRAP)[70] as required by Section 216 (1) (a) of the Constitution, with the main aim of promoting transparency, effective management of revenue, expenditure, assets and liabilities across all three spheres of government. GRAP standards are derived from the International Public Sector Accounting Standards (IPSAS).

As per Chapter 3 Section 19 of the PFMA, a Provincial Treasury (PT) must prepare consolidated financial statements, in accordance with generally recognised accounting practices for each financial year in respect of: i) Provincial Departments in the Province; ii) public entities under the ownership control of the provincial executive of the Province; and iii) Provincial Legislature in the Province. The PT has to submit those statements to the Auditor General within three months after the end of that financial year. The Auditor General must audit the consolidated financial statements and submit an

[69] Public Finance Management Act approved in 1999, revised in 2011, regulates the financial management in the national government and provincial governments.

[70] "GRAP", General Recognised Accounting Practice included in the Public Finance Management Act approved in 1999, revised in 2011, approves the reporting framework for all government spheres to be on GRAP.

audit report on the statements to the Provincial Treasury of the Province concerned within three months of receipt of the statements. The MEC for Finance in a Province must submit the consolidated financial statements and the audit report, within one month of receiving the report from the Auditor General, to the Provincial Legislature for tabling in the legislature. The consolidated financial statements must be made public when submitted to the Provincial Legislature.

The current status in terms of Annual Financial Statements reporting in the Limpopo province is that Consolidated Annual Financial Statements (AFS) are not prepared as required by the PFMA.The provincial departments are currently operating on cash modified basis[71], while public enterprises are operating on accrual basis[72]. The PFMA however states that the reporting standards should be GRAP (General Recognised Accounting Standards); these standards are based on accrual basis[73]. The different reporting standards do not allow for the consolidation process to be completed at the moment.

The Provincial Department's Annual Financial Statements are however prepared and reported on a modified cash basis using the Departmental Accounting Framework endorsed by National Treasury. The framework gives clear guidelines on the annual financial statements reporting to promote consistency and uniformity within the provincial departments.

There are currently no evident reforms by the National Treasury of South Africa to move to accrual basis of reporting for the Departments so as to allow the consolidated financials to be completed. However, as per Government Gazette number.36956, in terms of Section 92 of the PFMA (Act No.1 of 1999), the Minister of Finance has exempted for the 2012/13, 2013/14, 2014/15, 2015/16 and 2016/17 financial years: (a) the National Treasury from the provisions of Section 8(1) of the PFMA, to the extent that it requires consolidated financial statements in respect of the institutions mentioned in that section, and (b) a Provincial Treasury from the provisions of section 19(1) of the PFMA, to the extent that it requires consolidated financial statements in respect of the institutions mentioned in that section. The Gazette therefore gives the Provinces a five year exemption in terms of consolidated financial statement reporting requirements.

Provincial Departments have been submitting individual annual financial statements to the Auditor General to fulfil their legal obligations but those reports have not been aggregated by the Provincial Treasury so far.

Table 54: Quality and timeliness of annual financial statements

No.	Accounting, recording and reporting	Score	Justification
PI-25	**Quality and timeliness of annual financial statements**	**D**	

[71] An accounting method that combines elements of the two major accounting methods: the cash method and the accrual method.

[72] An accounting method that measures the performance and position of a company by recognizing economic events regardless of when cash transactions occur

[73] Reporting all transactions immediately as they accrue on that financial year of reporting

(i)	Completeness of the financial statements	D	Annual Financial Statements (AFS) are prepared individually by each Department. These financials are not consolidated at a provincial level. However budget outcomes are consolidated and published at a National and Provincial level. Consolidated Financial Statements should include full information on revenue and expenditure, The Departments are reporting on a modified cash basis using the Departmental Accounting Framework by National Treasury, while Public Enterprises are reporting on Accrual basis using GRAP Standards and thus the consolidation is not currently prepared.
(ii)	Timeliness of submission of the financial statements	D	Provincial Treasury must submit consolidated annual financial statements per Department within 3 months after year – end for external audit purposes. The Limpopo Provincial Treasury did not submit consolidated financial statements as prescribed by Section 19 (1) (a) of the PFMA. This has been expressed in the 2011/2012 and 2012/2013 financial year's audit report by the Auditor General.
(iii)	Accounting standards used	A	The Provincial Department's Annual Financial Statements are prepared and reported on a modified cash basis using the Departmental Accounting Framework endorsed by National Treasury, while Public Enterprises are reporting on Accrual basis using GRAP Standards. Nevertheless, the National Treasury has issued clear guidelines (National Treasury Accounting Standards) that allows for the aggregation of all provincial financial information.

3.6 External Scrutiny and Audit

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

A high quality external audit is an essential requirement for creating transparency in the use of public funds by all spheres of government. This indicator assesses the scope/coverage, timeliness and compliance to audit standards of the audit process. The audit scope should indicate the entities and sources of funds that are audited in any given year, however it is also imperative for the audited[74] to make significant effort to improve on audit findings identified by the Auditor General[75] while the mandated oversight role players should ensure implementation of the follow up process for effective and efficient financial management and reporting on public funds.

As per Section 188 of the Constitution, the Auditor General (AG) must audit and report on the accounts, financial statements of national and provincial departments, municipalities and any other public institutions as well as institutions receiving funds from the General Revenue Fund and must submit audit reports to the legislature. In addition and subject to any legislation, the AG may audit and report on the accounts, financial statements and financial management of any institution funded from the National Reserve Fund or Provincial Reserve Fund or by a municipality or any

[74] Provincial Departments, Municipalities and any other public institutions, as well as institutions receiving funds from the General Revenue Fund

[75] The Auditor General of South Africa responsible for auditing and reporting on accounts, financial statements and financial management of national, provincial and local sphere of government by constitutional mandate Section 188 (1) of the Constitution.

institution that is authorised by in terms of any law, to receive money for a public purpose. The Auditor General is appointed by the President on the recommendation of the National Assembly and approval by the National Assembly with a supporting vote of at least 60% of the members of the Assembly (Section 193 and 194 of the Constitution) for a fixed, non-renewable term of between five and ten years (Section 189). The Auditor General is legally, financially and operationally independent from the public sector. The Auditor General is empowered to audit any and all government entities including security agencies. The Constitution (Section 188) states that *"the Auditor General must submit audit reports to any legislature that has a direct interest in the audit, and to any other authority prescribed by national legislation. All reports must be made public*". PFMA assures financial independence of the Office of the Auditor General empowering his recovery of the costs of investigations.

As per Chapter 5 S.40 of the PFMA, (d) the Accounting Officer[76] must submit within five months of the end of a financial year to the relevant treasury and, in the case of a department or trading entity, also to the executive authority responsible for that department or trading entity: i) an annual report on the activities of that department, trading entity or constitutional institution during that financial year; ii) the financial statements for that financial year after those statements have been audited; and iii) the Auditor General's report on those statements; and (e) must, in the case of a constitutional institution, submit to Parliament that institution's annual report and financial statements referred to in paragraph (d), and the Auditor General's report on those statements, within one month after the Accounting Officer received the Auditor General's audit report; and the Auditor General must audit the Annual financial statements and submit the audit report on those financial statements to the Accounting Officer within two months of receipt of the statements as requires by the MFMA, Section (40)(2).

The Auditor General's Report currently focuses on legal and regulatory requirements in accordance with the Public Accounting Act (PAA), the scope of which is limited to:

1. Audit of predetermined objectives to establish the usefulness and reliability of information in the departmental 's Annual Performance report
2. Compliance with laws and regulations
3. Internal Controls[77]
4. Performance Audits[78]

After the completion of the audit report, the Auditor General will assist the institution to come up with commitments on all areas of weakness identified during audit, this includes timelines and outputs at which the entity will be measured on, to evaluate whether progress is being made towards achieving improved audit opinions. The progress is monitored quarterly by both the entity's administration, the Auditor General and Audit Committee. On quarterly basis the progress is monitored and reported in terms of the dashboard reports to highlight improvements or non-achievement. The provincial legislature also plays a major oversight role in monitoring the audit follow up process as per the PFMA requirements.

Based on the Auditor General's provincial report tabled to the Limpopo Provincial Legislature for the financial year 2011/12, dated 15 October 2012, the Auditor General expressed a concern on the Province regarding recurring non-compliance findings around expenditure management and

[76] Head of Department in terms of the National or Provincial government departments and the Municipal Manager in terms of Local Government.
[77] Assessment of whether the entity did develop and implement efficient internal controls to effectively manage the financial matters of the institution is conducted
[78] Although the Auditor General conducts performance audits on all spheres, they are not currently expressing an opinion on that aspect; a report is however prepared and included in the Management Letter of each department or entity.

financial reporting processes. Each dimension was assessed with reference to all thirteen departments within the province.

Table 55: Scope, nature and follow-up of external audit

No.	External scrutiny and audit	Score	Justification
PI-26	**Scope, nature and follow-up of external audit**	**B+**	
(i)	Scope / nature of audit performed (incl. adherence to auditing standards)	A	The Auditor General audits all Provincial Departments and public and constitutional entities every year within the specified period by law. He performs a full range of audits including systems, financial, compliance, procurement, IT and some performance related audits (without formal opinion). The Auditor General adheres to the ISA and INTOSAI Standards.
(ii)	Timeliness of submission of audit reports to the legislature	B	The Auditor General combines its audit of the institutions with the audit of their financial statements. As a result, audited financial statements are submitted to the Legislature within three months from the receipt of the financial statements by the Auditor General. The AG's Reports are submitted to the Legislature within six months from the fiscal year-end. Audit reports tabled on the 15 October 2012 for the 2011/2012 financial year ended on the 31 March 2012. (7 months later) & November 2013 for the 2012/2013 financial year ended in March 2013 (within 8 months of the end of the financial year).
(iii)	Evidence of follow-up on audit recommendations	B	Formal responses are provided to each Department in the final management letters, furthermore commitments are obtained from the Departments to implement corrective measures to resolve audit findings. The AG's report shows no improvement on some systematic issues identified in the previous financial years

PI-27 Legislative scrutiny of the annual budget law

The main objectives of the Provincial Legislature is to play an oversight role on the Provincial Departments, Public Entities and Local government; to ensure public participation to the government programmes, especially those that have a major impact on service delivery initiatives to the tax payers; and to produce the Provincial laws. The Provincial Legislature derives its powers from Chapter 6 (114) of the Constitution[79] of the Republic of South Africa. The first Legislature of the Province was formally established in 1994, the second was constituted in 1999, the third in 2004 and the fourth in 2009. It is made up of Members of Provincial Legislature popularly known as Member of Parliaments (MPL's).

The Limpopo Provincial Legislature comprises of fifteen committees which are responsible for the oversight role. Each provincial Department is allocated a committee to oversee its performance. The

[79] The Constitution Act, supreme law of the Republic of South Africa, adopted 8 May 1996 and amended 11 October 1996.

remaining three committees are standing committees responsible for transversal issues. SCOPA[80] (Standing Committee on Public Accounts) plays a major role in the overall budget review and monitoring of the Province. SCOPA resolutions addressing provincial issues are presented annually and approved by the Legislature. Each committee is allocated with two main administrative personnel for administrative support, namely the researcher and the committee co-ordinator.

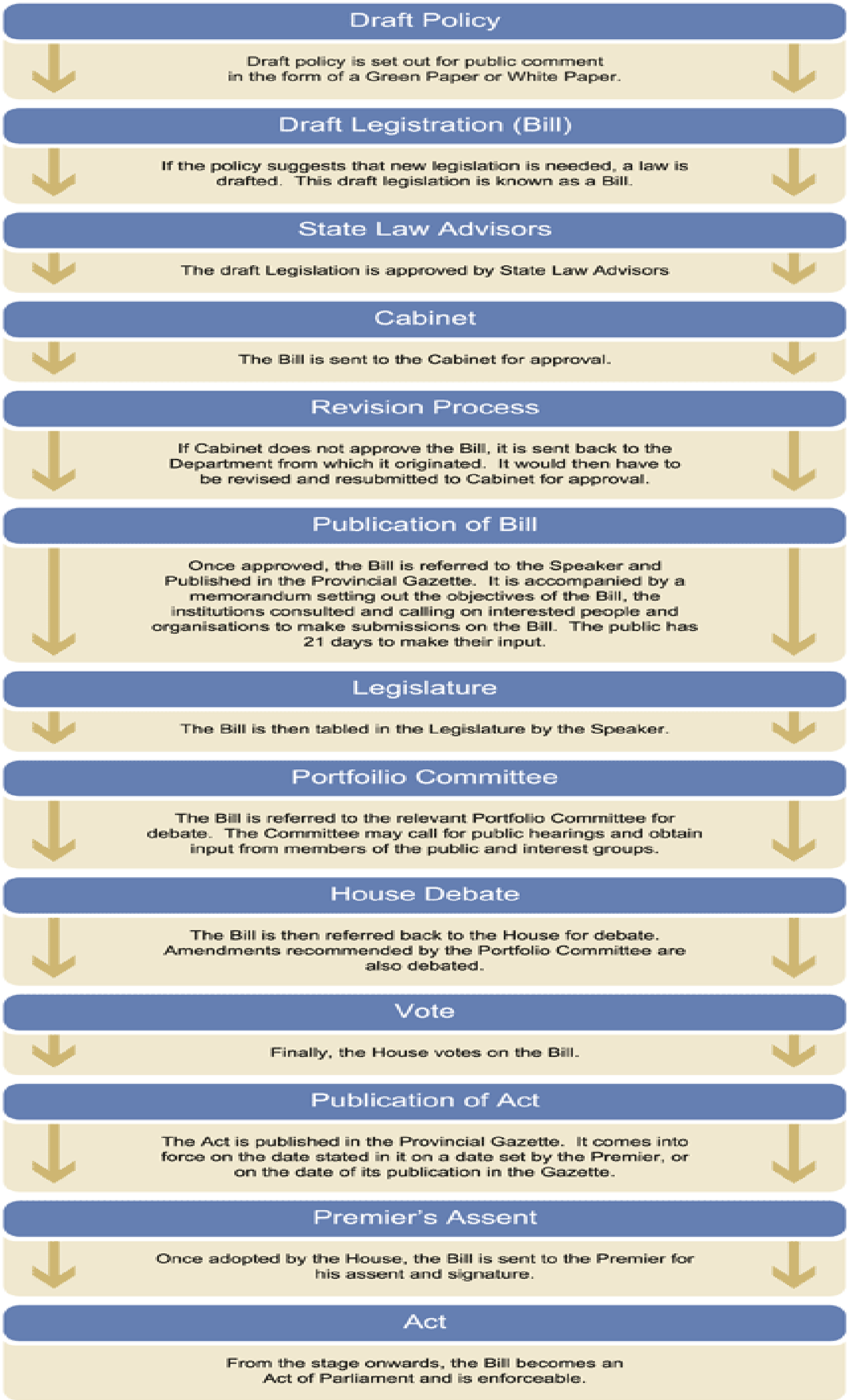
When the annual budget is presented to the Provincial Legislature, the Accounting Officer for each Department must submit to the Provincial Legislature, as may be appropriate, measurable objectives for each main division within the Department's vote. The budget is first provided to the researcher to give input on the alignment thereof to National priorities and the provincial SCOPA resolutions. The Limpopo Provincial Treasury co-ordinates these submissions and consolidate them into one document. These are then deferred back to the Provincial Departments for changes where necessary and thereafter sent to the Premier's Office for inclusion in the Provincial Gazette.

The monitoring of the Annual Budget by the Provincial Legislature is performed quarterly, based on the Annual Performance Plan[81] (APP). The researchers will scrutinise the budget plans, further verification is conducted by the committees and where necessary they engage with the communities on projects that are presented in the APP. Recommendations are then provided in terms of resolutions to the Provincial Departments. These resolutions are adopted by the Legislature and followed up to ensure implementation. The Auditor General of the Province gives support to the committees in assisting them to enhance their oversight role. The adjustment budget process follows the same monitoring and approval process and therefore approval is much dependent on the budget performance of each Department.

Figure 2: Provincial Legislature Process

[80] Committee performing an oversight role on Public Funds for the Province

[81] The APP is a budget implementation document for each Provincial Department, which aligns both the performance targets to the budget. This is evidenced from the programmes by each Provincial Department derived from the National Priorities.



Source: Limpopo Legislature

Table 56: Legislative scrutiny of the annual budget law

No.	External scrutiny and audit	Score	Justification
PI-27	**Legislative scrutiny of the annual budget law**	**C+**	
(i)	The Scope of the legislative scrutiny	A	The review by the Provincial Legislature covers the National government priorities, provincial priorities in terms of resolutions approved by the provincial legislature and the National budget format shows details of revenue that is published on the DORA and expenditure appropriated through the programmes per department
(ii)	Extent to which the legislature procedures are well established and respected	A	Provincial budgets are tabled by the Provincial MEC – Finance to the Provincial Legislature and only after approval by the house, the budgets are sent to the Premier's office to be gazette. Each Provincial department in Limpopo has a committee that oversees the budget process from planning, budget monitoring and scrutiny.
(iii)	Adequacy of time for the legislature to provide a 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)	C	The National budget is tabled by National in February of each year. The 2013 National budget was tabled on the 27 February 2013. The PFMA states that the provincial departments must table their provincial budgets before the beginning of the financial year. The provincial budget process was therefore limited to one month as the financial year for Provincial departments, ended on the 31 March 2013 as per the PFMA legislation.
(iv)	Rules for in-year amendments to the budget without ex-ante approval by the legislature	A	The adjustment budget process that takes place in a six month period has to go through the Legislature for approval and is based on the six month performance of each provincial department; the Provincial legislator committees are highly involved in the process and consultation process that involves the Provincial treasury.

PI-28 Legislative scrutiny of external audit reports

This indicator refers to the key role that the Legislature plays in exercising, through their legislature committee(s), examination to the external audit reports and to question responsible parties about the findings of the reports. The operation of the committee(s) will depend 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 (ref. PI-26).

In accordance with the PFMA[82] Section 40 (d) (i), the Accounting Officer, must submit the Annual Report including the Auditor General's Report within five months of the end of the financial year to the relevant Treasury and the executive authority responsible for that Provincial Department. The Limpopo Legislative committees on receipt of the annual reports (includes the audited financial statements) by the Auditor General, will scrutinise the results of the audit findings. The Auditor General tables the Provincial Audit results to the Legislature prior to the scrutiny by the relevant committees, as per PFMA Section 40. This process is done so as to provide an overall picture of the Province to the entire Legislature, to highlight areas of concern and improvements for all Provincial Departments, including the Public Entities that report to these Departments.

[82] Public Finance Management Act approved in 1999, revised in 2011, regulates the financial management in the national government and provincial governments.

The overall report provides a general indication of whether Provincial Departments are complying with the relevant laws and legislation frameworks, financial management and performance in terms of efficiency, effectiveness and economy factors in public spending. Further to that an overview on whether the Provincial Departments are following up with prior year issues that might already been included in the Legislative resolutions.

SCOPA will perform a follow up exercise on the negative findings and this will include resolutions already approved. A new set of resolutions are agreed on for implementation by the Provincial Department. These resolutions are adopted by the Legislature. A resolution tracking tool is currently being developed by the Limpopo Legislature. This will be used to track the implementation of the resolutions, so as to enhance the oversight process.

The PFMA Section 40 (2) clearly states that the Auditor General has two months to express its opinion through the audit report; the Accounting Officer must then ensure that the Annual report including the Auditor General's report is tabled within five months of the financial year end. The Limpopo Province tabled its 2011/2012 audit results after six months of the financial year, being the 15 October 2013. The 2012/2013 report had not yet been tabled to Provincial Legislature by the second week of November 2013.

Table 57: Legislative scrutiny of external audit reports

No.	External scrutiny and audit	Score	Justification
PI-28	**Legislative scrutiny of external audit reports**	**C+**	
(i)	Timeliness of examination of audit reports by the legislature (for reports received within the last three years)	C	The tabling of the audit reports for 2011/2012 was performed six months after the Auditor General's report were received, being the 15 October 2013. The 2012/2013 report had not been tabled to Provincial Legislature by the second week of November 2013.
(ii)	Extent of hearings of key findings undertaken by the legislature	A	Hearings are held by SCOPA on all entities with negative findings on their audit reports. Presentations are done to SCOPA through the committees responsible for these Department
(iii)	Issuance of recommended actions by the legislature and implementation by the Executive	C	Actions are recommended, but are rarely acted upon by the Executive. As a result, the Provincial Legislature is currently developing a resolution tracking tool to ensure implementation of the resolutions within the Provincial Departments.

3.7 PEFA Indicators related to Donors Practices

Indicator D1. (**Predictability of Direct Budget Support**) refers to budget support allocated directly to the Provincial Government. According to the PEFA Supplementary Guidelines for Subnational Governments (2013), if budget support is not provided directly to the SNG then the indicator **does not apply.**

Indicator D2.(**Financial Information provided by Donors for Budgeting and Reporting on Project and Program Aid**) refers to project and program support received directly by the SNG (Limpopo) from the donor agency. If this is not provided directly to the SNG, the indicator **does not apply**

Consequently if D1. and D2. are not applicable, indicator D3 (**Proportion of Aid that is managed by use of National Procedures**) should **not be applicable neither.**

Chapter 4 Government reform process

4.1 Recent and on-going reforms

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

The State Information Technology Agency (SITA) is responsible for IT networks, systems operations and security for all levels of government[83]. The Financial Systems section of the Special Services Division in the National Treasury responsible for the central and provincial government systems provides procurement, payroll and accounting software. It also provides a Business Intelligence Platform that integrates both central and provincial level and serves as a repository of financial data. The existing systems are deemed robust and appear to capture financial information as required, but their use is cumbersome in terms of reporting and data querying and mining.

Improvements to the Financial Managements Systems

The Province currently uses Basic Accounting System (BAS) for financial management, PERSAL for HR management and payroll administration and FINEST for managing and generating purchase requisitions and orders. The three systems are not fully integrated. PERSAL is interfaced with BAS, however FINEST is neither integrated nor interfaced with BAS. Procurement functionality in FINEST became limited after 2007/08 fiscal period. Up until 2007/08, FINEST was also used for goods received and processing of claims/payments against orders and goods in the SCM. The payments were then interfaced with BAS for final payments to suppliers' accounts. To address the short-comings with regards to FINEST, there is a planned implementation of LOGIS[84] that will cover all the Departments in the Province. LOGIS will be implemented in phases and anticipated to take approximately three years to complete for all Departments.

LOGIS should provide more functionality than is the case currently with FINEST. LOGIS supports the complete Order-to-Cash process of procurement and subscribes to sound supply chain management best practice. It will also offer functionality to support financial interface to BAS.

Implementation of Integrated Financial Management System (IFMS)

National Treasury has initiated a reform effort that aims to upgrading and modernise all financial software and integrating them to serve as a single Integrated Financial Management Information System. The National Treasury has decided to employ standard platforms customised to meet the needs of the PFM systems and procedures. This should properly address the issue of cost involved in proprietary software developed from scratch as well as meet the requisite functionality not addressed by standard ERP applications. Further the approach should assure the necessary independence to provide for ready report writing, application maintenance and upgrades.

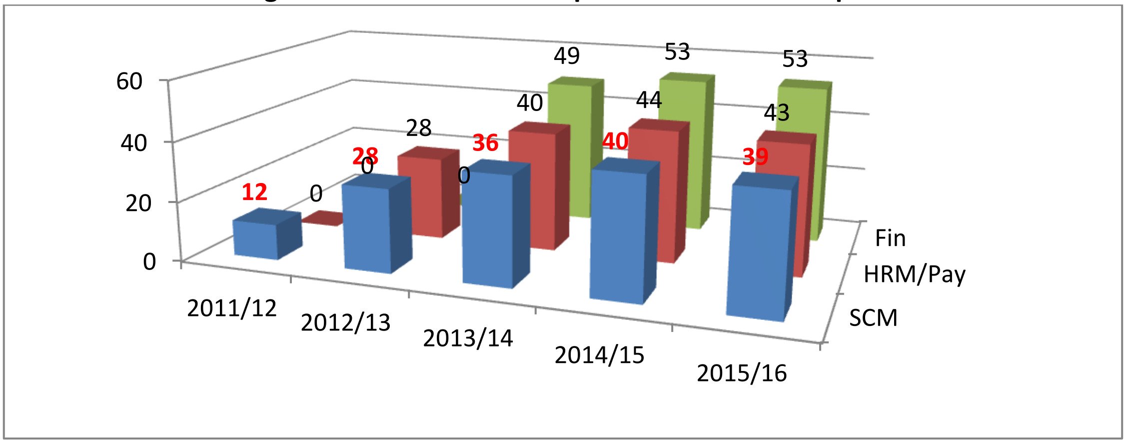
The seven year implementation plan was initially approved in 2006/2007. A presentation subsequently made to the Limpopo's Department of Social Development on 27 August 2012,

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

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

indicated five year implementation roll out plan, covering the fiscal periods 2011/12 through to 2015/16 (see Diagram 4.1 below). As depicted on the diagram below, the various platforms and modules to the IFMS will be implemented in phases over a five year period.

Figure 3: Five-Year IFMS implementation rollout plan



Source: SITA presentation to Limpopo Department of Social Development – 27 August 2012

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

The IFMS solution will provide functionality to National and Provincial Departments in the following areas:
- Supply Chain Management (SCM)
- Human Resource Management (HRM)
- Financial Management (FIN)
- Business Intelligence (BI)

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

The IFMS HRM platform will have functionality to manage the following:
- Health and safety, in respect of policies, safety audits, occupational injuries and diseases, HIV and AIDS and employee assistance programmes
- Education, training and development, such as development of training policies and strategy, management of workplace skills plan, training and development plan, mentorship, bursaries, training programmes, etc.
- Labour relations, in terms of absconding, misconduct and grievances

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

The IFMS FIN platform seeks to support the following:
- The establishment of an MTEF[85]
- The financial management business processes of national and provincial departments
- The financial management business processes of national and provincial treasuries
- The remuneration management business processes of national and provincial departments

The three IFMS platforms discussed above feed into (and are the data source for) the IFMS Business Intelligence platform. The capabilities of the IFMS BI platform are summarised below:
- Reporting – accessing of data and delivering information to the organisation
- Analysis – exploring and analysing data interactively with rapid response
- Dashboards – getting immediate visibility into metrics and KPI's[86]
- Data mining – discovering hidden patterns and indicators of future performance

A detailed project implementation plan and methodology framework has been mapped out. The required resources have been identified and project timelines established. SITA's implementation methodology has a perspective that perspective area that addresses all training requirements and process. Pre-assessments will be done for all identified potential users of the IFMS modules. The training will be cascaded down to provincial level to address provincial training needs. The potential users will also be required to take and pass assessment tests before they can use the system.

A migration strategy will be formulated to ensure complete migration of necessary data. The project critical success factors have also been compiled.

[85] Medium Term Expenditure Framework
[86] Key Performance Indicators

4.2 Institutional factors supporting reform planning and implementation Government leadership and ownership

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

At the Provincial level, commitment by the Executive Authority (MECs)[87] which represents political leadership is one of the critical success factors for any reform undertaken. The MECs are accountable for their respective Provincial Departments to the Provincial Legislature. They have a monitoring and oversight role in their portfolios and play a direct role at the Departments, as they have specific oversight responsibilities in terms of the PFMA and the Public Service Act.

4.3 Challenges

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

One of the challenges the Province is currently faced with relates to the performance of BAS. A task team, (consisting of Limpopo Treasury, Limpopo Provincial SITA, Limpopo Provincial GITO and the National Treasury's Financial Systems (BAS Team), was formed to investigate the BAS poor performance following a meeting held on 2 October 2013.

The task team identified the following factors contributing to poor performance:
- Various recommendations from the SITA performance assessment report produced in January 2013 were not implemented;
- System Controllers and departmental IT communication breakdown (Security - network access rights);
- Departmental IT not following correct BAS release procedures, resulting in version control issues;
- LAN[88] communication problems (packet losses), which will impact BAS and other applications performance;
- WAN[89] communication problems (packet losses and duplicate nodes), which will impact BAS and other applications performance.

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

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

In their October 2013 report, the task team made further recommendations aimed at improving the performance of BAS. Some of these recommendations are summarised below:

- Implement quality of service (QoS) on the data lines and optimise router utilisation. It was recommended that the individual Provincial Departments and SITA take for this recommendation. This recommendation should improve WAN traffic and minimise the excessive communication difficulties.
- Minimise the need for excessive broadcasting and unused protocols on the LAN. Excessive broadcasting increases network traffic. It was recommended that the individual Provincial Department's IT section or the party responsible for the Department take responsibility for this recommendation.
- Ensure correct version of the BAS application is utilised and codes table is marked as read only. The impact of a wrong release version is that the latest functional improvements/corrections are not available to the department. A codes table not marked as "read only", will limit a department to only five users logging onto BAS simultaneously, no other users will be able to work, consequently creating a perception that BAS is not performing correctly. It is the responsibility of the Departmental System Controller to escalate the BAS Notices to their Provincial IT
- Establish a capturing centre in the Province. This facility will provide Provincial Department's an alternative working environment, should any individual department experience difficulty to work within its own environment. It was recommended that the Limpopo Provincial Treasury takes the responsibility to establish the recommended capturing centre.
- Departmental IT was encouraged to attend BAS technical training scheduled for November 2013 to refresh skills on BAS application release procedures.

On 5 December 2011, the National Executive announced an intervention to the Limpopo Provincial Government in terms of Section 100(1) (b) of the Constitution by placing five departments under national administration. Through this intervention, the National Treasury had effectively taken oversight from the Provincial Treasury.
As the national government prepares to handover the administration of the five departments to the province's new Premier and Executive over a period of six months, the Auditor General mentions in his 2012/13 PFMA General Report that it is critical that there are sufficiently skilled personnel at the point of exit. The need to address the severe capacity constraints cannot be overemphasised if the fruit or gain from the various initiatives implemented by the administration is to be realised. The administration team appointed consultants to assist in the turnaround strategies of the five departments as well as Social Development and Sport, Arts and Culture. The report further mentions that that the appointment of consultants will only be able to yield sustainable results if there is an internal capacity to enable transfer of skills. This should be regarded as a key component of the turnaround strategy. He attributed competencies of key officials and lack of consequences for poor performance by officials as the root causes that prevent the provincial administration to improve its overall audit outcomes. He also found that the average overall vacancy rate in the Province was 22% at 2012/13 fiscal year-end, while that of senior management was 55% and that of the finance units 23%.

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

Other challenges:

Other challenges facing the Province relate to improving audit outcomes. The trend over the past five fiscal years, as observed by the Auditor-General, has shown steady regression in the Province. Overall, two auditees[90] improved since the 2011/12 fiscal year. These auditees improved from qualified audit opinions to unqualified with findings audit opinions.

Three auditees regressed from financially unqualified audit opinions in the 2011/12 fiscal year to qualified audit opinions in the 2012/13 fiscal year. The majority of the 22 auditees received the same audit opinion in 2012/13 as in the 2011/12 fiscal year. Although thirteen auditees remained with financially unqualified audit opinions, they had not addressed their findings on predetermined objectives and/or compliance with laws and regulations in order to obtain clean audits. Five auditees remained with qualified audit opinions and four auditees remained with a disclaimer[91] in 2012/13 fiscal year. There were no clean audit opinions issued for the 2012/13 fiscal year. This has been the second consecutive year where the Departments of Education and Public Works have received a disclaimer of opinion and the third consecutive year where the Department of Health has received a disclaimer of opinion.

[90] Provincial Departments and Provincial Public Entities audited by the Auditor General

[91] The Departments of Health, Education and Public Works, and Limpopo Tourism Agency received a disclaimer of opinion for 2012/13 fiscal year.

ANNEXES

Annex A - Province Profile

Limpopo Provincial Government

1. Overall sub-national government structure

• What higher-level government legislation and regulations define and guide the sub-national government structure?

1. The Constitution (at the highest level) – applicable for the 3 spheres of government
2. Treasury Regulations drawn from the Constitution
3. Public Finance Management Act (PFMA) of 1999 (as amended) informed by the Treasury Regulations
4. Departmental policies (consistent or in line with PFMA)
5. Customised Provincial Treasury instructions/guidelines (drawn from National Treasury guidelines) – issued annually

• What is the number of government levels or administrative tiers that exists, and what is their average jurisdiction size? (See Table A below)[92]

1. National/Central government
2. Provincial government
3. Local government (municipalities)

Table A: Overview of National Governance Structure in Country

Government Level/ Administrative Tier	Corporate body?	Own political leadership?	Approves own budget	Number of jurisdictions	Average population	Percentage public expend.	Percentage public revenues	Pct. Funded by intergov. transfers
Central government	Yes	Yes	Yes	9 Provinces	52 million per 2011 census	31%	64%	64 %
Provincial government	Yes	Yes	Yes	Per province	5.4 million per 2011 census	26%	32%	32 %
Local governments (managed nationally,	Yes	Yes	Yes	Per province	5.4 million	20%	4%	4%

[92] When a country's public sector is not hierarchically organized or is asymmetric, an organizational chart of the government sector should be included in the SN Country profile showing the different types and levels of Government

Provincial Treasury provide support)					per 2011 census			
Other – Public Entities	Yes	No	Yes		N/A	23%		

• What is the year of the local government law, decentralization law, or last major reform of intergovernmental (fiscal) structure? What is the name of the law or reform?

- PFMA 1999, as amended
- MFMA 2003
- DORA, revised annually
- Appropriations Act, revised annually

• How does the province subject of the assessment compare to other jurisdictions at the same government level in terms or population size, population density, economic activity, and (total and per capita) expenditures and own source revenues.

Province	Population size	Population density (p/km2)	Economic activity	Total Expenditures	Own Source Revenue
Eastern Cape	6,562,053	38,8	Automotive Manufacturing	55,927,852	1,019,034
Free State	2,745,589	21.1	Mining, Manufacturing and Agriculture	25,617,591	804,556
Gauteng	12,272,264	675.1	Financial and Business Services, Logistics, Communications, Mining and Agriculture	73,760,446	3,946,391
KZN	10,267,303	108.8	Tourism, Automotive Manufacturing, Mining, Imports and Exports, Agriculture.	85,728,762	2,664,702
Limpopo	5,404,868	43.0	Mining, Agriculture	45,868,946	680,632
Mpumalanga	4,039,938	52.8	Tourism, Agriculture, Coal Mining	31,346,263	703,634

North West	3,509,954	33.5	Mining and Minerals, Agriculture	25,587,997	866,284
Northern Cape	1,145,860	3.1	Platinum, Mining and Minerals, Agriculture	11,235,152	263,591
Western Cape	5,822,735	45.0	Tourism, Manufacturing (Clothing and Textiles), Agriculture	39,937,322	2,301,793
Total	**51,770,560**	**42.2**		**395,010,331**	**13,251,157**

Table B: Limpopo Selected Indicators

Source: www.south africa.info; Census 2011; Statistics SA Census 2011; Publications – In-year monitoring – National Treasury

2. Main functional responsibilities of the sub-national government

• Which sub-national government/administrative level is the most important in terms of public service delivery and public expenditures?

- Most important is the Provincial government through expenditure and service delivery (refer allocations per DORA and Appropriations Act)
- Secondly, local government for local and basic service delivery through allocations from National and Provincial government (refer Chapter 7 of constitution and DORA)

• What are the functions / expenditure responsibilities of the government level under consideration?

- Functions as per the 13 Provincial Departments and expenditure per the Provincial Budget
  (Refer to Annual Performance Plan for department for the Departments' mandate and applicable legislation)

• Where are these functional assignments defined (e.g., constitution or law)? Are these functional assignments generally accepted, clear, and followed in practice?

- (Refer to Annual Performance Plan for department for the Departments' mandate and applicable legislation)

3. Sub-national budgetary systems

• To what degree do central (or higher-level) laws and regulations guide the sub-national budget cycle?

- To a high degree. The PFMA, Appropriations Act, Treasury Regulations, DORA etc. are equally applicable to both National and Provincial Government.
- Furthermore National Treasury provides guidance to provincial government with regards to the budget process and timelines on an annual basis. These are aligned to PFMA and Treasury Regulations.

• What are the main features of the sub-national financial management process (e.g., do entities hold their accounts in the national Treasury or in bank accounts in their own name; and so on)?

- Each department has its own financial management function and CFO's office, its own designated account; The CFO reports to the Accounting Officer. Responsibility lies with the Accounting Officer (as the HOD) who can delegate his duties to the CFO. The Departments are also accountable to National and Provincial Treasury in terms of in-year reporting as per PFMA provisions (Section 32). The Departments must also report to their sector e.g. Provincial Department of Health will also report to the National Department of Health (and must comply with the relevant sector regulations).

• For the latest year for which actual expenditure data are available, what is the general expenditure composition of sub-national governments in terms of economic classifications? (Complete top part of Table B)

- Refer Table B below. Data source: Provincial Estimates of Revenue and Expenditure Reports

• Do sub-national governments have their own budgets which are adopted by their councils (without subsequent modification by higher level governments, other than administrative approval processes)? If not, explain.

- The provincial budget is informed by the National Budget
- National Treasury will circulate the macroeconomic factors to be taken into account in the budgeting process
- Each department (at Provincial Level) will have its own budget informed by their relevant allocations as per DORA and is submitted to Provincial and National Treasury for review
- The budget is approved by Provincial Exco before tabling at the legislature
- The MEC tables the consolidated budget at the Provincial Legislature for approval (which is the administrative approval process) (MFMA Section 28.1 - 28.2)
- Refer p20-23 MTEF guideline 2011.

• Do sub-national governments hold and manage their own accounts within a financial institution of their choice (with the context of applicable legislation/regulations)? Alternatively, are sub-national governments required to hold their accounts with the central bank or national treasury?

- The allocations for the departments are initially made to Provincial Revenue Fund (PRF).
- Transfers to Payment Master General (PMG) (Department's own account) are made monthly based on payment projections
- The selection of PMG is driven through Provincial Treasury via SCM and ALM division
- The departments are required to use/open bank accounts in the institution chosen at provincial level
- Chapter 2: Section 7 of the PFMA with regards to managing and opening of bank accounts must be complied with

• Do sub-national governments have the authority to procure their own supplies and capital infrastructure (with the context of applicable procurement legislation/regulations)? Is higher-level / external approval needed for procurement by sub-national governments and/or is there a limit (ceiling) to the procurement authority of sub-national governments?

- Yes, however it must be in compliance with the Treasury Regulations on Supply Chain Management (Refer Treasury Regulation 16A of PFMA);
- Infrastructure is a priority in the Province; therefore Province has discretion on capital expenditure therefore any capital rollovers are re-routed to infrastructure in the following periods.

4. Sub-national fiscal systems

• For the latest year for which actual revenue data are available, what is the general composition of financial resources collected and received by sub-national governments? (Complete bottom part of Table C)

- Refer Table C.

• What are the main own revenue sources assigned to the sub-national government level? What tax and non-tax revenue sources are the most important revenue generators at the local government level?

Sub-national level government:

- Tax receipts include Casino taxes, Horse racing taxes, liquor licenses, gambling licenses, motor vehicle licenses, tourism and nature/game reserves
- Non tax receipts include sale of goods and services, fines, penalties, forfeits, interest and rent on land and buildings

For local government:

- Tax – property rates; and licenses and permits; traffic fines;
- Non-tax – Equitable share, conditional grants on infrastructure as well as revenue generated from provision of municipal services such electricity, water and sanitation.

• What are the main intergovernmental fiscal transfers (including revenue sharing and/or intergovernmental grants) that are provided to the sub-national government level? How is the size of each of the transfer pools determined? How are these transfer resources distributed among eligible sub-national governments? Are these intergovernmental fiscal transfers conditional or unconditional?

- Equitable share allocated proportionately by means of a formula (informed by macroeconomic factors, population size and other stats)
- These are gazette in terms of Appropriations Act and published in DORA.
- Equitable share is unconditional; however there are transfers subject to restrictions and conditions. (These conditions and restrictions are in DORA)

• Are sub-national governments allowed to borrow? If so, what mechanisms for sub-national government borrowing are available? What legislative or regulatory restrictions (if any) are imposed on sub-national borrowing?

- Chapter 8 Section 66 of PFMA restricts public institutions from borrowing, issuing guarantees and entering into financial commitments.

Table C: Overview of NS Government Finances (Year)

Expenditure/Revenue Item	Amount (units)	Per capita (units)	As % of total
Wage expenditures	31 624 790	5 851	69%
Non-wage recurrent administration	6 414 572	1 187	14%
Capital expenditures	2 104 016	389	5%
Transfers and subsidies	5 724 237	1 059	12%
Other payments	1 331	0.25	0%
Total expenditures	**45 868 946**	**8 486**	**100%**
Own source revenues	680 632	126	1%
Intergovernmental fiscal transfers	46 513 051	8 606	99%
Other revenue sources (as appropriate)	-	-	-
Total revenues	**47 193 683**	**8 731**	**100%**

Note: Additional break-downs may be provided for main expenditure/revenue items, where appropriate.

5. Sub-national institutional (political and administrative) structures

• Does the relevant sub-national level have directly elected councils? (If not, explain.) Is the council involved in approving the budget and monitoring finances?

- Yes (i.e. Exco and Provincial Legislature), however formed following the general election of the ruling party. The provincial budget is tabled MEC of Finance at (and approved by) the Provincial Legislature. The legislature provides also oversight in terms of Section 114(2) of the Constitution (i.e. by means of portfolio committees, SCOPA, etc.).

• Is the local political leadership (executive or council) able to appoint their own officers independently of external (higher-level) administrative control? Are the chief administration officer, the chief financial officer/ treasurer, internal auditor, and other key local finance officials locally appointed and hired?

- Yes, cabinet appoints the Executive Council.
- The departments appoint their own CFO’s.

Annex B: Detailed calculations for performance indicators PI-1, PI-2 and HLG-1

Attached Excel Spreadsheet

Annex C – List of Interviewees

Name	Position	Contact number	Email address
Provincial Treasury			
Gavin Pratt	Head of Department: Provincial Treasury	015 298 7000	prattgc@treasury.limpopo.gov.za
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Auditor General			
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Annex D: Documents used

Attached Excel Spreadsheet