

# Public Expenditure and Financial Accountability Assessment

## PEFA Report

Republic of South Africa  
Province of Mpumalanga

## *Final Report*

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## LIST OF ABBREVIATIONS AND ACRONYMS

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

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PMG	Payment Master General
PPP	Public Private Partnership
PRF	Provincial Revenue Fund
PU	Procurement Unit
R	Rand, South African currency
RDP	Reconstruction and Development Program (Fund)
SA	South Africa
SARB	South African Reserve Bank
SARS	South African Revenue Service
SBS	Sector Budget Support
SCM	Supply Chain Management
SCOA	Standard Chart of Accounts
SCOPA	Standing Committee on Public Accounts
SITA	State Information Technology Agency
SOE	State Owned Enterprise
TOR	Terms of Reference
VAT	Value Added Tax



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**US\$ 1 = ZAR 11.21 at 13 November 2014**  
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The information contained in this report does not necessarily reflect the position or opinion of the National Treasury, nor of the Provincial Treasury. Responsibility for the views expressed and for any remaining factual errors stays with the team.

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## SUMMARY ASSESSMENT

### 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 five provinces in South Africa – Eastern Cape, Gauteng, Mpumalanga, North West and Northern Cape. This is the first time these provinces have been assessed on the PEFA methodology: they are baseline assessments. The National Government had an assessment in 2008 and a repeat assessment that was finalized 26 October 2014.

The current PEFA for Mpumalanga has been undertaken with the formal agreement and active support of the Provincial Government of Mpumalanga (MPG). The assessment adopts the methodology of the Public Financial Management Performance Measurement Framework 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 Mpumalanga at the time of the assessment, as determined through direct interviews with Provincial Government officials and review of official documents and reports.

The purpose of the current PFM Performance Report is to present the status of public financial management of the MPG. The TOR identifies the main objective 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 into future work on improving financial management in the province.

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 Public Finance Management Act (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.

Though the scope of the assessment covers all the institutions under the MPG, the main focus of the assessment is on eight departments:

- Provincial Treasury (Department of Finance)
- Department of Health
- Department of Education
- Department of Public Works, Roads and Transport
- Department of Economic Development
- Department of Social Development
- Department of Community Safety and Liaison
- Department of Agriculture and Rural Development.

This final report is presented to the National Treasury, Provincial Treasury and other stakeholders on 24 April 2015. The Assessment Team has addressed all comments received, including comments from the PEFA Secretariat. These latter comments and the team's responses are shown at Annex F.

The assessment is not designed to comment on any aspects of fiscal or revenue 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.<sup>1</sup>

## Integrated Assessment

This PEFA assessment is the first time the performance of public financial management has been assessed in Mpumalanga Province. The sections that follow summarize 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

Budget credibility is assessed by five performance indicators (HLG-1 and PI-1 to 4) and the main purpose is to assess whether the budget is realistic and has been implemented as intended. The Province scored very well with regard to revenue and expenditure outturns versus estimates, as well as for the control of arrears payments. The variance from budget of transfers from National Government to the Province is also very small, which is very important to PFM in Mpumalanga as the transfers account for 97% of the total budgetary resources.

### 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 fiscal risk oversight are comprehensive and whether fiscal and budget information is accessible to the public. The scores indicate that budget documentation is comprehensible and comprehensive. The standards adopted for budget formulation and execution are based on economic, administrative, programme and sub-programme classifications that are consistent with GFS/COFOG (PI-5). The budget documents submitted to the Provincial Legislature are comprehensive and include a Medium Term Expenditure Framework (PI-6). Public access to key fiscal information in the Province is transparent, generally comprehensive, user-friendly and timely. The main source of information is internet websites though relevant information is also made available through other means such as printed media and hard copy on request at the Provincial departments (PI- 10).

The area in which the Province did not score well is on oversight of aggregate fiscal risk due to the fact that the Provincial Government's monitoring of the Provincial public entities and municipalities do not include a regular consolidated review of fiscal risk (PI-9).

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<sup>1</sup> 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

A clear annual budget calendar exists, is generally adhered to and allows departments enough time to meaningfully complete their detailed estimates in accordance with the calendar. There is a high level of political participation as departments have to discuss their budgets with their Portfolio Committees. Top– down financial ceilings based on an annually updated MTEF are reconciled with bottom-up departmental plans based on sectoral strategies. PI-11 gets only a B score, however, as the budget is not approved until well into the budget year. Though there is legal provision for the release of funds before the budget is approved, late approval undermines the authority of the Legislature, particularly with regard to new projects and programmes.

Each parliament has a five-year term and elaborates five-year sectoral and strategic plans reflecting its strategic policy choices. The MTEF is a three-year rolling plan, of which the first year forms the budget, and the two following years reflect expected changes in total resources. The link between the MTEF and the budget is through Annual Performance Plans made by each department. (PI-12)

## Predictability and control in budget execution

Predictability and control in budget execution is assessed with reference to six performance indicators. The Province scored well on tax revenue management (PI- 13 to 15, though tax collections are a relatively minor item in total resources), and on the predictability in the availability of funds for commitment of expenditures (PI-16), cash management (PI-17), and on payroll management (PI-18). Procurement is a challenging area, which is subject to an extensive and complex legal and regulatory framework. This is well recognized by the Government, which has an ongoing initiative to clarify the regulations (PI-19).

Internal controls are comprehensive (PI-20) and the Province has good internal audit coverage using professional standards. However internal audit findings are not always addressed in a timely manner and action plans to address root causes of the findings are not adequate (PI-21).

## Accounting, Recording and Reporting

This dimension assesses whether adequate records and information are produced, maintained and disseminated to meet management decision-making and prescribed accountability controls. It is assessed with reference to four performance indicators. The Province scores relatively well with regard to the timeliness and regularity of bank reconciliations (PI-22), and availability of information on resources received by service delivery units (PI-23). Reconciliation and clearing of advance and suspense accounts are performed monthly, although there are some departments with long outstanding and uncleared items. There is good discipline in timely submission of in- year monitoring reports and compliance with section 32 of the PFMA. The score for the quality of in-year monitoring (PI-24) was reduced by the fact that expenditure reports capture transactions only at the time of payment and do not include commitments. Financial reports do not disclose the uncommitted balance of budget provision.

The Province also scored well on the quality and timeliness of annual financial statements (PI-25). Financial statements of the departments are consolidated (or at least aggregated), but they cannot be consolidated with the statements of public entities, which use accrual accounting standards.

## External Scrutiny and Audit

High quality external audit is an essential requirement for transparency in the use of public funds by all spheres of government. In Mpumalanga the Auditor General audits all Provincial Departments every year within the legally specified period. Financial audit and performance audit are integrated. Each audit includes systems, financial, compliance, procurement and IT audit as necessary. The Auditor General's standards and practices follow INTOSAI standards. 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. 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. There is reasonably good management response to recommendations, though action plans cannot always address root causes. There has been progress in reducing the number of auditees submitting annual financial statements with material misstatements (PI-26).

Provincial budgets are tabled by the Provincial MEC – Finance in the Provincial Legislature. The review by the Provincial Legislature is systematic and comprehensive, covering the national and the provincial priorities. Each department in Mpumalanga has a Portfolio Committee that oversees all phases of the budget cycle. An adjustment budget is processed similarly after the first six months (PI-27).

*Ex post* scrutiny of departments and public entities is done by SCOPA using the Auditor General's audit reports. SCOPA holds hearings with responsible Accounting Officers of all audited entities. Presentations are made to SCOPA by the Portfolio Committees responsible for those entities. However, the workload is high (for a relatively small legislature) and there is a backlog of audit reports for FY 2012/13 (PI- 28).

## **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 most areas of PFM in Mpumalanga, 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 aggregate fiscal discipline. This is assisted by MEC-approved budget ceilings that are generally respected in departmental budget submissions. The Province has been able to contain expenditures within its revenues. The amendments and expansion of the budget with formal ex-post regularisation have not hindered fiscal discipline. A weak point is the lack of regular consolidated reviews of fiscal risk, particularly from the public entities and municipalities.

### ***Strategic allocation of resources***

Strategic allocation of resources in the Province is facilitated by the preparation of the budget on a three-year rolling basis under MTEF, based on sectoral strategic plans. 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. The Provincial Government needs to improve the detailed costing (investment and recurrent) for the Province Development Strategy and medium-term sector plans.

### ***Efficient service delivery***

Efficient delivery of services is planned by departmental Annual Performance Plans and monitored by monthly performance reports that link resource inputs to service outputs. Internal and external audit contribute to accountability and consequently efficient delivery of public services, but this may be limited by ineffective follow up. It is not clear that best value for money is being assured by the procurement system, and insufficient public information on procurement reduces the credibility of institutions and their ability to deliver efficient public services.

It is clear that the province is aware of the shortcomings within its PFM systems and strategies are being continuously refined with a view to improve its systems. If these are implemented, PFM in the Province will even better support aggregate fiscal discipline, strategic allocation of resources and efficient service delivery.

## **PFM Reform Program: Prospects for reform planning and Implementation**

The main area of national PFM reform activity planned (which will affect Mpumalanga Province) involves improvements to the financial management systems, in particular

implementation of the 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 LOGIS for managing and generating purchase orders. The systems are not fully integrated. PERSAL is interfaced with BAS but LOGIS is 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.

National Treasury has initiated a reform effort that aims to upgrade and modernise all financial software packages and integrating them to serve as a single Integrated Financial Management Information System (IFMS). The National Treasury has decided to employ standard platforms customized to meet the needs of the PFM systems and procedures. IFMS is an integrated and transversal system based on industry best practices. 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 2006/07.

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 to improving audit outcomes.

The commitment to continuing improvement 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.

PFM reforms have underpinned the remarkable progress achieved. After 20 years of freedom, Mpumalanga has maintained its position in the provincial rankings in respect of job creation, economic growth, the provision of basic services, reduction of poverty and the wider distribution of wealth. Despite the global recession since 2008 and worsening perceptions of corruption, Millennium Development Goals are being achieved and the people of Mpumalanga have a better quality of life.

Summary of Performance Indicator Ratings 2014 – Mpumalanga 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	A	A	A		A
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	A				A
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	A	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	B	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	B	B	A		B+
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	C	C			C
PI-10	Public access to key fiscal information	M1	A				A
C. BUDGET CYCLE							
C(i) Policy-Based Budgeting							

PI-11	Orderliness and participation in the annual budget process	M2	A	A	D		B
PI-12	Multi-year perspective in fiscal planning, expenditure policy & budgeting	M2	A	NA	B	B	B+
C(ii) Predictability and Control in Budget Execution							
PI-13	Transparency of taxpayer obligations and liabilities	M2	A	B	C		B
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	A	A	A		A
PI-15	Effectiveness in collection of tax payments	M1	D	C	D		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	NA	A	NA		A
PI-18	Effectiveness of payroll controls	M1	A	B	B	A	B+
PI-19	Competition, value for money and controls in procurement	M2	C	D	D	D	D
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	A	A	A		A
PI-21	Effectiveness of internal audit	M1	A	A	C		C+
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	A	A	A		A
C(iv) External Scrutiny and Audit							
PI-26	Scope, nature and follow-up of external audit	M1	A	B	A		B+
PI-27	Legislative scrutiny of the annual budget law	M1	A	A	A		A
PI-28	Legislative scrutiny of external audit reports	M1	D	A	A		D+
D. Donor Practices							
D-1	Predictability of direct budget support	M1					NA
D-2	Financial information provided by donors on project and programme aid	M1					NA
D-3	Proportion of aid that is managed by use of national procedures	M1					NA

NA = Not Applicable

DISTRIBUTION OF SCORES	
SCORE	NUMBER
A	15
B+	4
B	4
C+	2
C	1
D+	2
D	1
Not applicable	3
<b>TOTAL</b>	<b>32</b>

# 1. INTRODUCTION

South Africa has a unitary system of public financial management (PFM) with a significant degree of decentralization. The PEFA 2014 performed at the national level noted that the bulk of expenditure happens in the provinces. Provinces receive almost all of their funding from their equitable share of central revenues which is apportioned amongst provinces based on their population, and from conditional grants 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 assigned to improving PFM at the provincial level.

This document reports on a PFM assessment developed with the active engagement and leadership of the National Treasury (NT) and the Mpumalanga Provincial Treasury (PT). It describes the performance of existing financial processes and systems of the provincial government and rates those procedures and systems against the internationally accepted good practices used as a standard by the PFM Performance Measurement Framework. 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 issued in 2013. It follows a PEFA assessment made at national level.<sup>2</sup>

## 1.1. Objective and coverage

The Terms of Reference identify the main objective of this sub-national PEFA assessment as:

- To compile a comprehensive Public Financial Management – Performance Report (PFM-PR) prepared according to the PEFA methodology, so as to provide an analysis of the overall performance of the PFM systems of the Province of Mpumalanga as well as to provide a baseline situation that permits the measuring over time of changes in performance.

The PEFA assessment at sub-national level analyses 29 high level PFM indicators, which are grouped into six broad categories (each of which represents a key component of the overall PFM cycle). Three additional indicators (D-1, 2 and 3) 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 into six main dimensions, as follows:

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

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<sup>2</sup> South Africa 'Repeat' PEFA Assessment 2014, Final Report 26 October 2014, prepared by Ecorys and Crown Agents for the National Treasury.

The 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.

The assessment is a 'snapshot' of the state of PFM at the time of the field assessment (October-November 2014). Each indicator and dimension has its own reference period. Indicators PI-1 to 3 cover the last three financial years completed, ie. FY 2011/12, 2012/13 and 2013/14. Most indicators/dimensions cover the last financial year completed or the last budget approved (see PEFA Field Guide).

The institutional coverage of the assessment is the ten departments of MPG, the Office of the Premier, oversight committees of the Provincial Legislature, the Mpumalanga office of the Federal Auditor General, and four public entities falling under the MPG departments. Most indicators/dimensions cover 'budgetary provincial government', but PI-7 (i), 19, 26 and 28 cover provincial government as defined in IMF-GFS which includes the public entities, and PI-9 covers also fiscal risk arising from the operations of public enterprises under the control of MPG and the 21 municipalities in the province.

## 1.2. Process of preparing the PFM-PR

An indicative work plan for the PEFA assessment process was agreed with representatives of the National Treasury (NT). It was devised in a manner that responded to the objectives and needs of the PFM-PR and the Terms of Reference set out for performing the PEFA assessment as well as the revised PEFA Performance Measurement Framework and recommended guidelines for Sub-National Government level issued 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 fieldwork, and the preparation of the draft and final reports.

The PEFA assessment team started desk study early October 2014. During this phase, the team reviewed on-line documents that provided background information to the mission and official documents available through NT and PT websites.

The fieldwork took place from 13 October to 11 November 2014. It began with a presentation of the PEFA framework to officials from the PT and other departments in Mpumalanga. The team reviewed key documents, interviewed relevant officials and discussed with them current PFM procedures and systems. The PEFA team presented the preliminary results of its work on 9 November 2014 to MEC, on 10 November to the Steering Committee including National Treasury and SNG partner representatives, and on 11 November 2014 to the Provincial Treasury authorities and officials. A draft report was presented for transmission to all stakeholders on 16 November 2014. Comments were received from NT on 27 November 2014, and were addressed by the assessment team in a second draft report. This was reviewed by the PEFA Secretariat, who made their comments on 6 March 2015. These are addressed in this draft final report.

## 1.3. The scope of the assessment

The assessment covers all 13 votes of the Mpumalanga Provincial Government (MPG), including the Office of the Premier and the Provincial Legislature. Special attention was paid to the PFM processes in eight departments selected by the National Treasury, namely:

- Provincial Treasury (Department of Finance)
- Department of Health
- Department of Education
- Department of Social Development

- Department of Public Works, Roads and Transport
- Department of Economic Development, Environment and Tourism
- Department of Community Safety, Security and Liaison
- Department of Agriculture, Rural Development and Land Administration

The assessment also covered oversight agencies, that is, the Auditor General (Mpumalanga office of AGSA), and the relevant committees of the Mpumalanga Legislature.

Apart from the departments, MPG has four public entities, which are autonomous bodies carrying out government functions, and controlled by boards appointed by MPG. These entities are not within the scope of the assessment except on indicators PI-7 (i), 19, 26 and 28, and with regard to the possible fiscal risk they pose to MPG (see PI-9).

The table below shows actual expenditure of departments, public entities and municipalities (local government) in the province. Only 0.4% of the total is spent by local government.

**Table 1: Breakdown of Total Public Expenditure for Mpumalanga Province in 2013/14(ZAR mn)**

Entities	Expenditure	Transfers	Net expenditure	% of total
Provincial departments (13)	33,712	-800	32,912	97.2
Public entities (4)	807		807	2.4
Local government (21 municipalities)	139		139	0.4
Total provincial expenditure	34,658	-800	33,858	100.0

Source: EPRE 2014, Consolidated Financial Statements 2013/14. Transfers are 630m to public entities, and 170m to local government (EPRE 2014, revised estimates for 2013/14).

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 with the National Treasury and individual initiatives, and the prospects for further progress. A series of annexes provide more detailed reference information, including a summary table of indicator scores, the financial data used for the quantitative indicators, the list of officials met, the different documents consulted, the organisation of the Department of Finance (Provincial Treasury), and the comments from the PEFA Secretariat and how they have been addressed.

## 2. MPUMALANGA BACKGROUND INFORMATION

### 2.1. Provincial Economic Situation<sup>3</sup>

Mpumalanga has an estimated population in 2014 of 4,229,300, being 7.8% of the country, and a land area of 76,496 km<sup>2</sup>, which is 6.5% of the country. The growth of population in the province averaged 1.4% per annum in 2006-2011 compared with 1.6% across the whole country. The four official languages are SiSwati, isiNdebele, English and Afrikaans.

The labour force at end of 2013 was 2,669,000, of whom 27.2% were unemployed. This is slightly worse than the national average of 24.1%.

The provincial gross regional product in 2012 at current prices was R 222.1 billion (7.1% of national GDP), principally from manufacturing (20.2%), mining (18.5%), and community services (16.2%). Agriculture is responsible for only 3.4% of the economy, including citrus fruit and forestry products. Mpumalanga produces more than 80% of South Africa's coal, also gold, platinum, chromite, zinc, cobalt, copper, iron and manganese. Power generation and tourism are also major sectors. The Kruger National Park is a major tourist draw. Real GDP has grown at an average 2.8% 1995-2012, slower than the national average of 3.3%.

<sup>3</sup> This sub-section draws mainly on Mpumalanga EPRE 2014 and [www.southafrica.info](http://www.southafrica.info).



Inflation (CPI) was 5.6% in 2013, compared with a national average of 5.7%.

Social indicators have been improving steadily, despite the economic constraints since 2008. Life expectancy reached 51.8 years (men) and 56.6 years (women) in the years 2006-2011. Literacy in 2012 was 87.3%. The number defined as poor (households with income below defined levels) is down to 36.9% in 2012, against a national average of 35.9%. 87.4% have access to piped water, and 86.4% of households have electricity as their main source of lighting.

## 2.2. Budgetary Outcomes in the Province

The province has three main sources of revenue, namely, transfers that are received from national government in the form of block grants (called equitable share), conditional grants, and the province's own revenues. The table below shows the breakdown of revenues over the last three years.

**Table 2: Mpumalanga province departmental revenues (by source, ZAR 000)**

	2011/12	2012/2013	2013/14
<b>Transfer receipts from national</b>			
- Equitable share	23,662,205	25,124,317	27,360,539
- Conditional grants	5,509,363	5,741,885	5,796,141
<b>Total transfer receipts from national</b>	<b>29,171,568</b>	<b>30,866,202</b>	<b>33,156,680</b>
<b>Provincial own receipts</b>			
<b>Tax receipts</b>	<b>299,080</b>	<b>383,224</b>	<b>494,343</b>
Casino taxes	55,030	62,522	68,098
Horse racing taxes	4,572	6,707	8,324
Liquor licences	540	4,708	2,312
Motor vehicle licences	238,937	309,287	415,608
<b>Non-Tax receipts</b>	<b>544,135</b>	<b>316,535</b>	<b>287,429</b>
Sale of goods & services other than capital assets	264,506	152,248	125,935
Fines, penalties and forfeits	51,082	26,566	35,171
Interest, dividends and rent on land	129,640	70,118	81,212
Transfers received	36,514	0	100
Sale of capital assets	21,024	5,025	13,332
Transactions in financial assets and liabilities (note 2)	41,369	62,578	31,679
<b>Total provincial own receipts</b>	<b>843,216</b>	<b>699,759</b>	<b>781,772</b>
<b>Other funding (see note 1)</b>	<b>590,965</b>	<b>3,784</b>	<b>122,333</b>

<b>Aid assistance</b>	<b>0</b>	<b>2,102</b>	<b>25</b>
<b>Total provincial receipts</b>	<b>30,605,749</b>	<b>31,571,847</b>	<b>34,060,810</b>

Source: Mpumalanga Consolidated Financial Statements for 2013/14 and 2011/12, Part 1 (Provincial Departments), EPRE 2014, and DEDET Annual Report 2013/14, p.136.

Note: (1) this consists of surrenders of departmental balances back to the Treasury: the consolidation of departmental accounts does not eliminate transfers between departments and the Treasury. (2) this consists of recoveries of overpayments in previous years, eg. on salaries of teachers who separated from service.

As presented in Table 6, total provincial own revenues represent on average only 2.4% of total receipts, showing the high dependence of the Province on National Government financing. There is no clear trend in this pattern.

**Table 3: Mpumalanga Province revenues by relative weight**

<b>(In Percentage)</b>	<b>2011/12</b>	<b>2012/2013</b>	<b>2013/14</b>
Transfer receipts from national			
- Equitable share	77.3	79.6	80.3
- Conditional grants	18.0	18.2	17.0
Total transfer receipts from National	95.3	97.8	97.3
Provincial own receipts Tax receipts	<b>1.0</b>	<b>1.2</b>	<b>1.5</b>
- Casino taxes	0.2	0.2	0.2
- Horse racing taxes	-	-	-
- Liquor licences	-	-	-
- Motor vehicle licences	0.8	1.0	1.2
Non-Tax receipts	<b>1.8</b>	<b>1.0</b>	<b>0.8</b>
- Sale of goods & services other than capital assets	0.9	0.5	0.4
- Fines, penalties and forfeits	0.2	0.1	0.1
- Interest, dividends and rent on land	0.4	0.2	0.2
- Transfers received	0.1	-	-
- Sale of capital assets	0.1	-	-
- Transactions in financial assets and liabilities	0.1	0.2	0.1
Total provincial own receipts	<b>2.8</b>	<b>2.2</b>	<b>2.3</b>
Other funding	<b>1.9</b>	-	<b>0.4</b>
Aid assistance	-	-	-
Total Provincial receipts	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Table 2 above.



**Table 4: Summary of Mpumalanga Government Operations (cash basis, ZAR millions)**

	2011/12	2012/13	2013/14
Total Revenue including grants	30,605.7	31,571.8	34,060.8
- Tax	299.1	383.2	494.3
- Non-tax	544.1	316.5	287.4
- Grants	29,171.6	30,866.2	33,156.7
- Other (note 1)	590.9	5.9	122.3
Total Expenditure	29,145.0	31,289.9	33,587.5
Recurrent expenditure	26,671.0	28,798.3	30,889.2
- wages and salaries	17,003.3	18,358.6	19,858.2
- goods and services	5,928.8	6,534.4	6,981.7
- transfers and subsidies	3,736.9	3,904.3	4,048.6
- Interest payment	2.0	1.0	0.7
Capital expenditure	2,709.5	2,549.8	2,807.6
Payment for financial assets	7.1	5.7	2.6
Other (not economically classified)	-242.6	-69.9	-111.8
Overall balance (surplus)	1,460.7	288.0	473.3
Disposition of surplus			
Increase in cash and net domestic receivables	1,460.7	288.0	473.3

Source: Consolidated Statement of Financial Performance for each year. Note (1) There appears to be double counting of tax revenue in 2011/12. This has been adjusted in 'Other'.

**Table 5: Actual budgetary spending by sector (ZAR mn)**

	2011/12 outcome	2012/13 outcome	2013/14 revised estimate
General public services	5,522.3	5,451.5	6,176.2
Public order and safety	788.2	844.8	1,096.2
Economic affairs and environment	697.1	789.2	812.1
Housing and community amenities	1,095.8	1,146.8	1,347.7
Health	7,022.9	7,501.3	8,481.8
Recreation, culture and religion	361.2	332.5	379.5
Education	13,024.2	14,356.0	15,165.9
Social protection	927.2	918.1	1,179.6
Total	29,438.9	31,340.4	34,638.2

Source: EPRE 2014, Table 1.13. Data differs slightly from Consolidated Statements.

## 2.3. Legal and Institutional Framework for PFM in Mpumalanga

### 2.3.1 The legal framework for PFM

The Constitution of South Africa, 1996 is the source of authority for the Public Finance Management Act 1999, and all other legislation affecting PFM. Key sections of the Constitution include:

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 establishes the National Treasury and prescribes measures to ensure transparency and expenditure control in each sphere of government, by introducing uniform reforms.

Section 217 - This section gives effect to the procurement of goods and services by government and 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.

The centrepiece of PFM legislation is the **Public Finance Management Act (PFMA) of 1999, revised in 2011**. It applies to all spheres (levels) of government. Under section 76 of the PFMA, Treasury Regulations on financial processes were issued in 1999 and revised in 2011 covering all phases of PFM. The National Treasury issues directives in the form of Circulars. The PFMA, National Treasury Regulations and Circulars prescribe the financial management processes for the departments, public entities and local government. They cover:

- Planning and budgeting
- Corporate management
- Internal controls
- Financial misconduct
- Revenue management
- Expenditure management
- Assets management
- Liabilities management
- Banking, cash management and Investments
- Public-private partnerships
- Supply chain management

Other important laws are:

**Division of Revenue Act (DORA)**. This is an annual act to provide for the equitable division of revenue to be raised nationally and divided among the national, provincial and local levels of government, and to ensure adequate reporting of allocations of revenue and expenditure therefrom.

**Government Immovable Asset Management Act, 2007.** This provides for the management of land and buildings held or used by national and provincial departments to ensure coordination with their service delivery objectives.

**Municipal Finance Management Act (MFMA), 2003.** This Act sets out the responsibilities of the Provincial Treasuries with regard to local government finances and fiscal powers.

**Preferential Procurement Policy Framework Act, 2000,** gives effect to section 217 (3) of the Constitution, with regard to procurement policy.

**Promotion of Access to Information Act, 2000,** gives effect to the Constitutional right of access to any information held by the State.

**Promotion of Administrative Justice Act, 2000,** gives the right to administrative action that is lawful, reasonable and procedurally fair, in accordance with section 33 of the Constitution.

**Public Service Act, 1994,** provides for the organization and administration of the public service, and the regulation of conditions of employment, terms of office, discipline, retirement and discharge of members of the public service.

**Mpumalanga Appropriation Act** is an annual Act that provides for the appropriation of money from the Provincial Revenue Fund for the requirements of the Provincial departments each financial year.

**Mpumalanga Adjustment Appropriation Act** is also an annual Act. It provides for the appropriation of additional money for the requirements of the Province each year.

Except for motor vehicle licence fees and some other revenues classified as taxes, all tax revenues are collected by the South African Revenue Service (SARS) under 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 **Mpumalanga Gambling Act, 1995**, as amended in 2010, set up the Mpumalanga Gambling Board, which regulates casinos, bingo and horse racing, and collects revenue from licence fees and a percentage of each kind of gross gambling revenue.

### 2.3.2 The institutional framework for PFM

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

- Provincial departments (12)
- Constitutional institution (the Provincial Legislature)
- Public entities (4)
- Local governments (21)

The Provincial Legislature derives its powers from Chapter 6 (114) of the Constitution<sup>4</sup> of the Republic of South Africa. The first Legislature of the Province was formally established in 1994, and successive legislatures have followed every five years. The last elections were held in May 2014. The Legislature is made up of 30 elected Members of Provincial Legislature (MPLs), of whom 24 are from the African National Congress. The Legislature has a Portfolio Committee for each department. The Portfolio Committee on Premier's Office, Finance, Economic Development and Tourism deals with all finance/money bills. There are also three standing committees responsible for transversal (cross-cutting) issues, such as the Standing Committee on Public Accounts (SCOPA). Each committee is supported by a researcher and a coordinator.

The executive branch of MPG is directed by the Executive Council (Provincial Cabinet), comprising the Premier and ten Members of the Executive Council (MECs, equivalent to cabinet ministers), who are responsible for the 13 provincial departments. MECs are appointed by the Premier from amongst the members of the [provincial legislature](#); he or she can also dismiss them. The provincial legislature may force the Premier to reconstitute the council by passing a [motion of no confidence](#) in the Executive Council. The Premier allocates powers and functions to the MECs; conventionally they are assigned [portfolios](#) in specific areas of responsibility. They are accountable to the provincial legislature, both individually and as a collective, and must regularly report to the legislature on the performance of their responsibilities

An organisation chart for the Department of Finance (Provincial Treasury) is attached at Annex E.

The following public entities exist under Schedule 3 of the PFMA within the Mpumalanga Province:

1. Mpumalanga Gambling Board
2. Mpumalanga Parks and Tourism Agency
3. Mpumalanga Economic Growth Agency
4. Mpumalanga Regional Training Trust

In relation to the provincial departments, chapter 5 of the PFMA involves:

- Appointment of Accounting Officers<sup>5</sup>
- 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
- Exercising control on the implementation of the provincial government budget
- Enforcement of transparency and effective management in respect of revenue, expenditure, assets and liabilities of provincial public entities
- Enforcement of the MFMA, DORA (Division of Revenue Act) and any instructions issued by the National Treasury

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<sup>4</sup> The Constitution Act, supreme law of the Republic of South Africa, adopted 8 May 1996 and amended 11 October 1996.

<sup>5</sup> Head of Department in a Provincial Department

### 2.3.3. The key features of the PFM system

Each department in Mpumalanga has its own PMG<sup>6</sup> account which is used by it for funds received from National and Provincial Treasuries. 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 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. This is done through standardized financial reporting to monitor every phase of the budget cycle.

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<sup>7</sup> by each Department using their Paymaster General (PMG) account. The Provincial Treasury has viewing access on BAS to each department's payment records.

The Auditor General of South Africa (AGSA) is the external audit body. It derives its mandate from Section 188 of the Constitution. The functions of the 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 must 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.

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<sup>6</sup> A Paymaster General Account is created by each Department in the Province and used as a bank account for all funds received from the National and Provincial Treasuries.

<sup>7</sup> Basic Accounting System.

### 3. ASSESSMENT OF THE PFM SYSTEMS, PROCESSES AND INSTITUTIONS

The following chapter presents the detailed assessment of the PFM indicators for the Mpumalanga Province. The methodology takes into account the existing situation and does not cover ongoing and planned activities that may result in reforms and that might impact performance and future assessments.

Each indicator contains one or more dimensions to assess the key elements of the PFM process. The PEFA framework uses 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 (the weakest link). A plus sign is given where any of the other dimensions is 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. The overall score is the average score of the individual dimensions. A conversion table to calculate the overall score can be found in the PEFA Blue Book (PFM Performance Measurement Framework, [www.pefa.org](http://www.pefa.org)).

The PEFA assessment reviews present PFM performance. The relevant time period of analysis varies with each indicator. For some indicators, the relevant time period is the last completed fiscal year at the time of the fieldwork. For others, it is the last three completed fiscal years. There are also some indicators that have different periods for different dimensions (see Field Guide, [www.pefa.org](http://www.pefa.org)).

#### 3.1. Budget Credibility

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

- Estimates of Provincial Revenue and Expenditure (EPRE) for each year
- Consolidated Annual Financial Statements for Provincial Departments and Public Entities, Part 1 (that deals with provincial departments only)

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

Transfers from higher level of government (i.e. National Government in this case) are the most important source of revenue for provincial governments. Poor predictability of inflows of these transfers would affect the provincial government's fiscal management and its ability to deliver services. Shortfalls in the total amount of transfers from HLG or delays in the in-year release of transfers could 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) could 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 grants (called equitable share) or conditional earmarked grants. Shared revenues collected by the National Government are included in the overall division of revenue, so are part of the block grant to the provincial government.

Transfers from HLG (i.e. from National Treasury and National Departments) constituted 97.3% of total revenue for the Mpumalanga Provincial Government in 2013/14. They comprised equitable share and conditional grants (see Table 2 above). Provincial own revenue provided only 2.3% of total provincial funding in 2013/14.

The equitable share relates to revenue 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 Service (SARS). The Division of Revenue Act (DORA) presents the origins of revenues by sphere (level) of government and their distribution.

Distribution is based on a formula that is revised annually by NT, advised by the Financial and Fiscal Commission (FFC)<sup>8</sup>, 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 such as infrastructure, 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;
- 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. For 2013/14, DORA was passed on 10 June 2013, which was after the provinces started their budget estimates (May) but well before they completed their estimates (August). 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 any unspent funds to be reallocated to them. However, equitable share cannot be reduced once approved.

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<sup>8</sup> The Division of Revenue Act (DORA) is the subject of policy research and analysis by the Financial and Fiscal Commission, an 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>



By means of distributing conditional grants to provincial departments, the national government supports higher levels of infrastructure provision and capital expenditure, particularly within the health, education, human settlements and transport departments, which would not be possible with the Province's own resources.

Deviations in the conditional transfer portion could 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. Annex B shows that total composition variances for conditional grants to Mpumalanga were small (1.4%, 0.5% and 1.6% in the respective years).

Total transfers from national level and their composition are given at Tables 2 and 3. The deviations from budget are summarised in the table below. They are less than 5% in all three years at both aggregate level and in terms of composition of revenue. This is very accurate fiscal marksmanship.

**Table 6: Summary of variances in aggregate revenue and composition of transfers**

	2011/12	2012/13	2013/14
Variance in aggregate transfers	2.3%	2.3%	1.6%
Variance in composition of earmarked transfers	1.4%	0.5%	1.6%

Source: Team calculations

With regard to the in-year timeliness of transfers (equitable share and conditional grants), a disbursement timetable based on DORA is agreed upon between the national and provincial governments and this is endorsed by all stakeholders (departments) at or before the beginning of the fiscal year. It is routinely observed. Disbursement delays are rare.

No.	Credibility of Budget	Score	Justification
<b>HLG-1</b>	<b>Predictability of Transfers from a Higher Level of Government</b>	<b>A</b>	M1
(i)	Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget.	A	In none of the last three years have HLG transfers fallen short of the estimate by more than 5%.
(ii)	Annual variance between actual and estimated transfers of earmarked grants.	A	Variance in provision of earmarked grants has not exceeded 5% points in any of the last three years
(iii)	In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within 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 are negligible

### PI-1: Aggregate expenditure out-turn compared to original budget

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



The indicator measures the actual total primary expenditure compared to the budgeted total primary expenditure. The comparison is made with the original approved budget, rather than the budget as adjusted during the year, as an appropriate measure of budget credibility. The calculations exclude the following expenditure categories:

- 1) Debt service payments, which in principle the Provincial Government cannot alter during the year while they may change due to interest and exchange rate movements;
- 2) Donor funded project expenditure, the management and reporting of which are typically under the donor agencies' control to a high degree.

The reporting formats of the budget documentation permit an identification of debt service and donor funding elements. The relevant data are shown in Annex B. They are summarised in the table below.

**Table 7: Budget estimates vs actual (primary expenditure, ZAR million)**

	2011/12	2012/13	2013/14
Original approved estimate	29,669.4	30,967.9	33,493.7
Actual out-turn	29,398.4	31,380.3	33,461.9
Aggregate deviation, %	0.9%	1.3%	0.1%

Source: Estimates of Provincial Expenditure for 2011/12, 2012/13 and 2013/14. Annual Consolidated Financial Statements for the same years.

For all three fiscal years, aggregate actual expenditure closely matched the budget estimates.

No	Credibility of Budget	Score	Justification
PI - 1	Aggregate expenditure outturn compared to original approved budget	A	Actual primary expenditure deviated from expenditure estimates by less than 5% for all three years.

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

This indicator serves to review variations in the *composition* of the aggregate expenditures as assessed 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 among the 13 budget votes (departments) 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.

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

In order to obtain a measure of how much the re-allocations among budget votes have contributed to variance in the expenditure composition for the financial years 2011/12, 2012/2013 and 2013/14, an analysis of the published budget documents by the Mpumalanga Treasury was performed (see Annex B). The assessment refers to the primary expenditures and therefore excludes debt service and donor-funded project expenditures. Since 2011, the calculation of this variance has changed: the original vote budgets are varied to allow for greater or less total resources being made available than planned.

The variance on each vote is then the difference between actual expenditure and varied budget. The absolute variances are summed and expressed as a percentage of the total varied budget.<sup>9</sup>

Annex B shows that significant variances were experienced only in 2013/14, and only by Office of the Premier (38% over budget) and Department of Community Safety (30% over budget). The latter was largely due to a transfer of certain transport functions from the Department of

Public Works, Roads and Transport. Overall, actual out-turns are within 5% of original budgets.

**Table 8: Expenditure composition variance**

Year	For PI-2 (i)
	Composition variance
2011/12	0.6%
2012/13	1.8%
2013/14	2.2%

Source: Team calculations, Annex B

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

Mpumalanga has no budget for contingencies, as any contingencies arising during the year are funded by additional conditional grants from the relevant national department. The Provincial Department of Cooperative Governance and Traditional Affairs (COGTA) make applications to the national COGTA as necessary. In 2011/12, there were no contingency grants. In 2012/13, there were a total of ZAR 15.1m, and in 2013/14, there were ZAR 70m. These expenditures go into the expenditure of COGTA and are included in supplementary appropriations. They are therefore included in the variance from the original budget. The amounts are insignificant (0.2% of total expenditure in 2013/14).

No.	Credibility of budget	Score	Justification
PI-2	<b>Composition of Expenditure out-turn compared to original approved budget</b>	A	M1
(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	There was no budget for contingency but small amounts (0.2% of total expenditure in 2012/13) were charged to the contingency code.

<sup>9</sup> The term 'varied budget' has been used here to avoid confusion with 'adjusted budget', which in South Africa means the mid-year adjustment to budgets that is submitted to the legislature and appropriated.

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

The objective of this indicator is to compare the actual revenue to the originally approved budgeted revenue. This is critical for good expenditure budgets, as over-estimation of revenue leads to expenditure cuts later in the year. Under-estimation of revenue may lead to unplanned expenditure.

This indicator covers 'domestic revenue', i.e. tax and non-tax own revenue raised by the Province, excluding equitable share and grants from national government. Provincial own revenues were 2.3% of the total receipts in the province in 2013/14 (see the summary table below).

**Table 9: Provincial total revenue by source (ZAR million)**

	2011/12		2012/13		2013/14	
	ZAR mn	%	ZAR mn	%	ZAR mn	%
Aggregate equitable share from national	23,662.2	77.3	25,124.3	79.6	27,360.5	80.3
Aggregate conditional grants from national	5,509.4	18.0	5,741.9	18.2	5,796.1	17.0
Aggregate provincial own revenues	843.2	2.8	699.8	2.2	781.8	2.3
Other	591.0	1.9			122.4	0.4
<b>Total</b>	<b>30,322.7</b>	<b>100%</b>	<b>31,571.8</b>	<b>100%</b>	<b>34,060.8</b>	<b>100%</b>

Source: Annual Consolidated Financial Statements 2012/2013; 2013/2014 team calculations

About half of Mpumalanga's own revenue is collected against tax receipts which comprise motor vehicle licences (Community Safety, Security and Liaison), and casino and horse racing taxes (Economic Development and Tourism through its state entity Mpumalanga Gambling Board). The next largest revenue collection category is the sale of goods and services from a number of departments. Each revenue item is estimated by the respective department. See Table 2 above for details.

Tax revenues are described under PI-13. These are estimated by the relevant departments. The main non-tax revenue is patient fees (part of sale of goods and services). The Health Department collects patient fees and recovers patient costs arising from vehicle accidents from the Road Accident Fund. Patient fees are nationally standardised and updated annually by the National Department of Health. Primary health care services are free and certain individuals qualify for free services. Others are charged on the basis of their assessed level of income. Nevertheless there are substantial arrears of patient fees and write-offs (9.1% of revenue in 2012/13).

**Table 10: Comparison of budgeted and actual departmental revenue receipts (ZAR million)**

	2011/12	2012/13	2013/14
Revenue Estimates	550.8	670.7	723.8
Revenue Out-turns	561.2	699.8	781.8
<b>Actual Revenue to Budgeted Revenue %</b>	<b>101.9%</b>	<b>104.3%</b>	<b>108.0%</b>

Source: EPRE each year.

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 was within 97% and 106% of budgeted revenue in two of the last 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 payment arrears, and the extent to which any systemic problem is being addressed.

- 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.

Payment arrears are expenditure obligations that have been incurred by government, for which payment to the employee, supplier, contractor or lender is overdue. According to Section 8.2.3 of the Treasury Regulations<sup>10</sup> "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 PEFA framework uses the data on arrears at the end of the last two years, i.e. at 31 March 2013 and 31 March 2014.

There are no arrears of salaries, interest, rent or utilities. Arrears arise only on purchases of goods and services and progress on capital projects. Purchase orders are initiated within the LOGIS<sup>11</sup>. The LOGIS is also used to maintain the budget and therefore the system is used to monitor commitments for the provincial departments. BAS is used for payment of services and goods, therefore BAS is the financial accounting system and LOGIS is the procurement system. The purchase orders are initially captured in LOGIS, where they would also be printed. LOGIS and BAS are interfaced and thus the order is transferred to BAS. Accrual and ageing disclosure is required and is disclosed as a note on each department's Annual Financial Statements. The statutory Section 32<sup>12</sup> in-year monitoring reports also require information on committed expenditure. The reports are sent to the SCM unit within the Treasury by the 7<sup>th</sup> of each month.

The indicator was assessed with reference to all thirteen departments through their annual financial statements for the province for the last two years. The arrears were identified from the accruals disclosed in the Notes to the Departmental Annual Financial Statements. These accruals are aged (below 30 days, and over 30 days). There is however no clear distinction or age analysis details on what is due over 30 days.

**Table 11: Stock of expenditure arrears as a ratio of total expenditure**

	2013/14 ZAR mn	2012/13 ZAR mn
Expenditure Arrears	262.0	708.1
Total Expenditure	33,711.9	31,340.4
Ratio %	0.8%	2.3%

Source: Departmental Annual Reports 2012/13 and 2013/14

<sup>10</sup> Treasury Regulations issued in terms of Public Finance Management Act No.1 of 1999 and effective from 15 March 2005.)

<sup>11</sup> Logistical Information System used for procurement and provision control

<sup>12</sup> Section 32 (3) of the Public Finance Management Act specifies information that must be included on the statement of revenue and expenditure.

No	Credibility of the budget	Score	Justification
<b>PI-4</b>	Stock and monitoring of expenditure payment arrears	B	M1
(i)	Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock	B	The stock of arrears is between 2% and 10% of total expenditure
(ii)	Availability of data for monitoring the stock payment arrears	B	Reliable and complete data is generated through routine accounting procedures at the departmental level at least at the end of each year, but there is no age profile.

### 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, functional and by programme. Where standard international classification practices are applied, governments can report expenditure in Government Financial Statistics (GFS)<sup>13</sup> 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 should 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 (EPRE) and the MTEF framework on which they are based are structured on an administrative basis (departments, the Legislature and Office of the Premier), and economic, programme and sub-programme classifications. The structure of the programmes and sub-programmes is defined by the National Treasury and any amendment is communicated to the Province. All expenditure is classified to the 12 outcomes of the National Development Plan. The budget format is systematically provided in the Treasury Guidelines for the preparation of the MTEF framework and the annual budget. Programmes and sub-programme are cross-classifiable to COFOG functions and sub-functions, though this is less useful to South Africa than the development plan classification.

The revenue budget, per the Division of Revenue Act (DORA), is classified into recurrent and capital revenues, classified by tax type and by administrative head. Revenues are also classified as tax and non-tax revenues and into own sources and external grants.

<sup>13</sup> 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 Standard Chart of Accounts (SCOA)<sup>14</sup> used for the Provincial Government budget is derived from the IMF-GFS 2001 standard and so facilitates monthly reports based on 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 revenues and expenditures. 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. However, this has not yet been implemented because of the difference in accounting/reporting standards (modified cash basis for provincial departments and the accrual accounting standard for municipalities and other autonomous provincial entities).

No.	Comprehensiveness and transparency	Score	Justification
PI-5	Classification of the budget	A	Budget formulation and execution is based on administrative, economic, programme and sub-programme classification that can produce consistent documentation according to GFS 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 initiatives 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 an MTEF that explains the provincial government's strategic objectives. The approved votes are gazette 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, and actual audited outcomes for three years previous to the budget year.

Budget documentation for the 2013/14 fiscal year is comprehensive, and consists of the following:

- The Budget Speech by the Finance Member of the Executive Committee (MEC, equivalent to Provincial Cabinet) 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 the socioeconomic 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;

<sup>14</sup> Standard Chart of Accounts of 31 March 2011

- Annual Financial Statements and departmental 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 present a breakdown by programme and sub-programme of proposed expenditure. The table below summarises the availability of budget information.

**Table 12: 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	The National Treasury conducts a macro-economic study, compiled into circulars each year. The circulars include information on the inflation rate, wage increases and other economic factors that must be factored in. All departments, public entities and municipalities are expected to use these circulars as a guide for compiling their budget documents.
2. Fiscal deficit, defined according to GFS or other internationally recognised standard	NA	No deficit
3. Deficit financing, describing anticipated composition	NA	No deficit
4. Debt stock, incl. details at least for the beginning of the current year (ie. the year before the budget year)	NA	
5. Financial assets, incl. details at least for the beginning of the current year	No	No evidence that this is reported by the province.
6. Prior year's budget out-turn (ie. 2 years before budget year), presented in the same format as the budget proposal	Yes	The finance department publishes quarterly, Estimates of Provincial Revenue and Expenditure (EPRE) which shows the audited prior year figures against the current year's budget performance.
7. Current year's budget (revised budget or estimated out-turn), presented in the same format as the budget proposal	Yes	The finance department publishes quarterly, Estimates of Provincial Revenue and Expenditure (EPRE), which shows the audited prior year figures against the current year's budget performance.
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 finance department publishes quarterly Estimates of Provincial Revenue and Expenditure (EPRE), which show the summary of the data for both revenue and expenditure per Vote for prior years against the current budget.
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 programs to expenditure	Yes	The provincial budget speech gives information on budget implications and new policy initiatives and where there are changes in programmes, this will be explained in detail on the document.



No.	Comprehensiveness transparency	Score	Justification
PI-6	Comprehensiveness information included budget documentation	A	Comprehensive budget documentation fulfils 5 out of the 6 applicable elements (Note: Only 6 elements were applicable to the Mpumalanga Province, and a score A is justified when 4-6 elements out of 6 are made available)

## PI-7 Extent 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 unreported extra- budgetary expenditures in Mpumalanga are insignificant.

### *(i) The level of extra-budgetary expenditure (other than donor-funded projects) which is not included in the Annual Budget or Consolidated Financial Statements*

Extra-budgetary expenditure is any expenditure of the provincial government, as defined by IMF-GFS including public entities under MPG control, that is not included in the MPG budget and accounting system. Grants to those entities from the MPG budget are included: the relevant amount is the excess of their expenditure over the grants.

There are four public entities, which are autonomous agencies of government outside the provincial budget and accounting system, as follows:

**Table 13: Expenditure by Public Entities**

Name	Year established	Supervising department	Expenditure in FY 2013/14 (ZAR million)	Grant from supervising department (ZAR mn)	Expenditure from other sources (ZAR mn)
Mpumalanga Economic Growth Agency (MEGA)	2010	DEDET	267.2	169.4	97.8
Mpumalanga Gambling Board	2002	DEDET	47.4	49.9	-
Mpumalanga Tourism and Parks Agency	2005	DEDET	303.5	304.4	-
Mpumalanga Regional Training Trust		Dept of Education	123.2	98.0	25.2
Total			741.3	621.7	123.0

Source: Annual reports of the public entities and supervising departments. Their accounts are consolidated (or at least aggregated) annually by the Provincial Treasury and included as Part B of the Annual Consolidated Financial Statements. These do not identify the entities that have been consolidated. Total expenditure in 2013/14 is shown at 806.7m and total grants/s



The Provincial Government operates a single Treasury Provincial Revenue Fund account controlled by the Provincial Treasury. All departmental revenue estimates are reflected in the budget; funds are deposited in the Provincial Revenue Fund and reported on within the budget.

The cash management unit has access to both the provincial revenue fund and the PMG account and these are scrutinized daily by the unit and all entries followed up with the departments where necessary. Furthermore reconciliations of own revenue including donations received per department are prepared by the cash management unit on monthly basis and submitted to the General Manager (Provincial Treasury).

The level of unreported expenditure in 2013/14 was therefore 123.0/33,461.9, which is less than 1%.

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

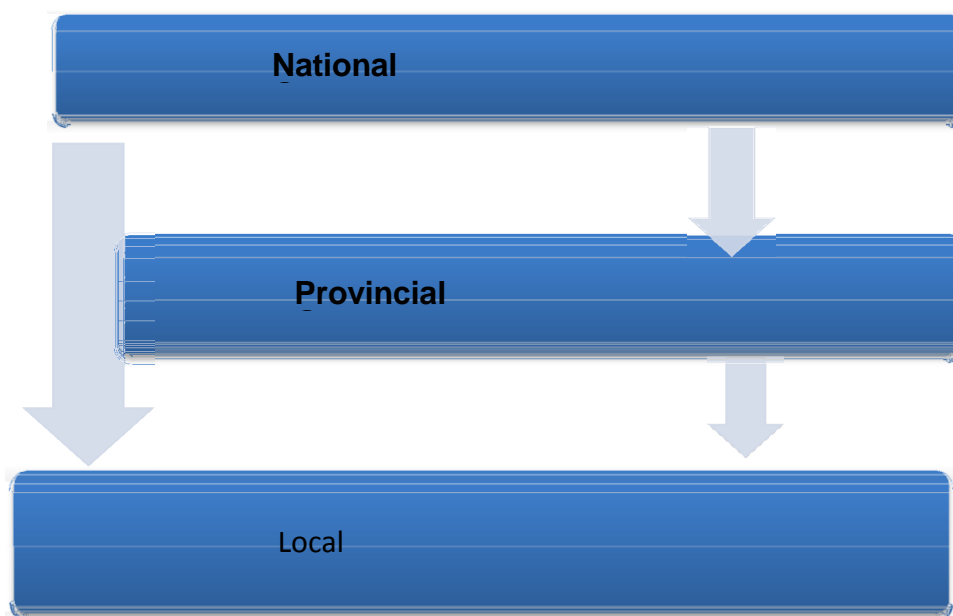
There are no donor-funded projects signed at the provincial level. According to the SNG Guidelines issued in 2013 by the PEFA Secretariat, transfers from shared donor funds provided by the higher level of government are not considered when assessing this dimension as these are assessed at the higher level. The amount of external assistance over the last three years provided directly to MPG is negligible (see Table 2 above).

No	Comprehensiveness and Transparency	Score	Justification
PI-7	Extent of unreported government operations	A	M1
(i)	The level of unreported extra-budgetary expenditure (other than donor-funded projects)	A	The level of unreported expenditure is insignificant (less than 1% of total expenditure)
(ii)	Income/expenditure information on donor-funded projects	A	Donor-funded project expenditure is insignificant (less than 1% of total expenditure)

**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 transparency in the allocations and medium-term predictability of funds available for planning and budgeting of expenditure programmes by these lower level entities. It is also crucial for lower level SNGs that they receive firm and reliable information on annual allocations from the Provincial Government well in advance of the completion (preferably before commencement) of their own budget preparation processes.

In the South African context, the vertical flow is as follows:



MPG gazettes allocations to the municipalities through the provincial treasury. The gazette gives information on the amounts of allocations and the dates of transfer. For conditional transfers, conditions attached to the grants are highlighted in the gazette. Over and above requirements in the gazette, the MFMA requires that municipalities report expenditure through the in-year monitoring reports by the 14th day after month end.

The municipalities have a financial year that runs from 1 July to 30 June. In accordance with section 126 of the MFMA, the municipal annual financial statements (AFS) are submitted to the Auditor General (AG) within two months of the financial year end, namely by 31 August of each year. The municipalities prepare their financial statements on an accrual basis in accordance with the GRAP<sup>15</sup>. 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 30 November. Once the annual financial statements have been submitted to the AG, they are also submitted to the Provincial Treasury and National Treasury.

Most of the allocations to municipalities are direct transfers from the National Government.<sup>16</sup> However, transfers are also made by the Provincial Departments to municipalities. The provincial gazette shows that these allocations are significant.

The major allocation from the province is by the Department of Public Works, Roads and Transport (DPWRT). This is in relation to the payment of rates and taxes for MPG properties. The allocation is based on invoices submitted by the municipalities, property rates schedules, and approved rates tariffs and rates policies. These are transparent and rules-based. Conditional grants may also be made for specific purposes on an ad hoc basis.

<sup>15</sup> Generally recognised accounting practices, the accounting and reporting standard used by municipalities.

<sup>16</sup> See National PEFA assessment under PI-8.

The following table shows that 80% of the allocation is by DPWRT as mentioned above. The total allocation by the provincial government constitutes just 4% of the total expenditure budget.

**Table 14: Transfers from MPG to Municipalities 2013/14**

Department	Amount ZAR 000	% of allocation
Department of Public Works, Roads and Transport	135,791	80%
Other departments	33,940	20%
<b>Total allocation to municipalities</b>	<b>169, 731</b>	

Source: 2013/2014 provincial gazette, EPRE 2014

Municipalities must submit a draft budget by the 31 March of each year. Regardless of the different fiscal periods by the provincial departments and the municipalities, not enough time is given to local government to obtain reliable information before the start of their budget process. The fiscal year for provincial departments is 1 March to 31 March while the municipal fiscal year is 1 July to 30 June.

No.	Comprehensiveness and transparency	Score	Justification
PI-8	Transparency of Inter-governmental fiscal relations (M2)	B+	M2
(i)	Transparency and objectivity in the horizontal allocation among SN government	B	The horizontal allocation of 80% transfers from provincial government to local governments is determined by transparent and rules based systems. Transfers are based on submitted invoices by the municipalities, property rates schedules and approved rates tariffs and rates policies.
(ii)	Timeliness of reliable information to municipal governments on their allocations	B	While the transfers are not intimated to Local Governments at the start of the budget preparation process, their later fiscal year (1 July to 30 June) allows 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 sectoral categories	A	All the municipal fiscal information is consolidated at the PT level using the established classification within 5 months of the close of the municipal fiscal year, that is 8 months after the close of the MPG year. Quarterly IYMs are also published by the Provincial Treasury

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

The National Government has 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.

The Mpumalanga Provincial Treasury oversees its public entities through its mandate derived from the PFMA18 (d), which states that the Provincial Treasury must monitor the implementation of the budget and reforms in provincial public entities. The Treasury is further given powers through the MFMA 5(4)(a)(iv) which states that municipalities must submit reports to the Provincial Treasury.

The Mpumalanga Provincial Treasury has a Municipal Finance Unit, supported by other divisions in the province to play an oversight role over municipalities. This unit is dedicated to enforcing compliance with the MFMA and National Treasury regulations. Over and above the support by the divisions, the provincial government gives support and builds capacity through municipal specialists that have been allocated to each municipality.

Both the municipalities and public entities are required to submit their annual budget documents to the Provincial Treasury for review prior to the approval by municipal councils and by public entity boards. Monitoring of the budget is done through the IYMs, which have to be submitted to the Provincial Treasury by the 14th day after the end of each month. The department enforces timely reporting by publishing a compliance report monthly. The Provincial Treasury units notify the HOD where necessary on non-compliance and corrective measures are communicated to the municipality or public entity. Strategic plans are developed in most instances and are monitored closely at the provincial level.

Annual financial statements for both public entities and municipalities are submitted to the Accounting Services Department within the Provincial Treasury for review. The department is currently promoting and enforcing the submission of interim financial statements.

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 it is independent, but it is required to inform the Provincial Treasury prior to incurring debt. PT analyses the municipality's submission and makes recommendations, however the municipality is not obliged to accept 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 by municipalities. Any municipal deficit would be a contingent liability at the national level.

No.	Comprehensiveness and transparency	Score	Justification
PI-9	Oversight of aggregate fiscal control	C	M1
(i)	Extent of provincial government monitoring of AGAs/PEs	C	All public entities submit monthly reports to the Provincial Treasury, but there is no consolidated overview of fiscal risk
(ii)	Extent of provincial government monitoring of municipal governments' fiscal position	C	All municipalities submit monthly financial reports, but there is no consolidated overview of fiscal risk

## 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;
8. Services provided to the community

Public access to key fiscal information is underpinned by the Constitution (1996)<sup>17</sup>. It also stipulates that this information should be timely, accessible and accurate to foster transparency of public administration<sup>18</sup>. 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 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<sup>19</sup>. 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<sup>20</sup>. 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 official languages of South Africa. The budget speech is also made available on the Provincial website.

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<sup>17</sup> 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.

<sup>19</sup> 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.

<sup>20</sup> 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.

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<sup>21</sup>) 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 regard to public information on procurement, there is a Tender Bulletin published weekly where bids for procurement are announced. This is accessible via the Mpumalanga Provincial Treasury website (<http://www.treasury.gov.za/>) or by subscription. Tenders over ZAR 500,000 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 telephone inquiries for all procurement related to SCM non-compliance and complaints. The Supply Chain Management Unit of the National Treasury also publishes at least some of the awarded contracts (above ZAR 500,000) 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 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 monthly execution reports and Provincial Performance Publications which are published on the National Treasury website quarterly.

Standard fees and charges levied by the Province such as motor vehicle licenses, registration fees and traffic fines are published by the Department of Public Works, Roads and Transport, (DPWRT) and patient fees by the Department of Health.

The various services provided by the MPG are described, with indicators, targets and actual performance, in quarterly and annual reports posted to websites by the respective departments and the Office of the Premier ([www.mpumalanga.gov.za](http://www.mpumalanga.gov.za)).

Table 15 below lists and discusses the public availability and means of access to the essential elements of information applicable to this indicator.

<sup>21</sup> 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.

**Table 15: Availability of elements of information for public access**

#	Elements of Information for public access	Availability
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. The draft budget is publicised through a road show, and through newspapers and the PT website on submission to the legislature ( <a href="http://finance.mpu.gov.za">http://finance.mpu.gov.za</a> )
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. In- year monitoring (IYM) reports are submitted monthly and published quarterly on NT and PT websites. Under section 32 of the PFMA the National Treasury also makes the above information available on a quarterly basis on its website for each province.
3	Year-end financial statements	<b>Yes</b> – 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 availability of annual reports is advertised in the newspapers and hard copies are provided free of charge at the PT office.
4	External audit reports	<b>Yes</b> – Audited Annual Financial Statements are prepared within 6 months after fiscal year end. These and the external audit report are included in each Annual Report. These also become available on the Auditor General's website ( <a href="http://www.agsa.co.za">www.agsa.co.za</a> ).
5	Contracts rewarded	<b>No</b> - contract awards above ZAR 500,000 should be published on the Provincial Treasury website and in printed Bid Bulletins, but an examination of Bid Bulletins from August to November 2014 showed that many awards are not disclosed. Contracts below the threshold are not published on the website. Information is disclosed in terms of the Bid no, description, award bidder, and the date awarded.
6	Resources available to primary service units	<b>Yes</b> - these are made known to the public, through the Provincial Budgets and Expenditure Review; and Provincial Performance Reports (see PI-23).
7	Fees and charges for major services are posted at the service delivery site and in other appropriate locations/media.	<b>Yes.</b> The standard 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. Charges for utilities apply only at the municipal level.
8	Services provided to the community	<b>Yes.</b> The quarterly and annual reports of MPG departments provide information on all the services provided by MPG. There is an annual report on MPG on <a href="http://www.mpumalanga.gov.za">www.mpumalanga.gov.za</a>

No.	Credibility of Budget	Score	Justification
<b>PI -10</b>	<b>Public access to fiscal information</b>	<b>A</b>	Seven of the eight 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 budget calendar or budget cycle 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 Mpumalanga Province for the 2014/2015 budget is guided by comprehensive Provincial Treasury- Medium Term Expenditure Framework (MTEF) Technical Guidelines, issued in June to prepare the next year's budget. In addition to the document the Provincial Treasury organises workshops to clarify the application of the guidelines and formats for all departments and public entities.

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. Ceilings are provided for the three-year planning period based on inflation and other economic factors detailing in each category the limits to which programmes can be increased. Ceilings are approved by the Executive Committee.

Departments have the opportunity to adjust their budgets after the first six months. 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 July 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 September/October. The Accounting Officer, Chief Financial Officer, senior officials, as well as public entities are invited to the first MTEC hearings in October. MTEC is a technical committee that evaluates departmental budget submissions, and makes recommendations to the Executive and the Budget and Finance Committee. During this process the Provincial Treasury requires proof of political support for funding requests and reprioritised budgets. The Budget and Finance Committee recommendations are presented to Cabinet/ Executive Council for final approval after which the Provincial Treasury issues preliminary allocation letters to departments. The MEC for Finance tables the provincial budget before the Provincial Legislature in March.

Once the Estimates of Provincial Revenue and Expenditure (EPREs) are tabled in March, the legislature reviews and debates them. 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 the 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 16: Budget approval timing**

Financial Year	Appropriation Act Signed	Time Lapsed from 1 April
2011/12	12/06/2012	2.5 months
2012/13	16/06/2013	2.5 months
2013/14	12/08/2014	4.5 months

Source: National Treasury

No.	Policy-based budgeting	Score	Justification
<b>PI-11</b>	<b>Orderliness and participation in the annual budget process</b>	<b>B</b>	M2
(i)	Existence of and adherence to a fixed budget calendar	A	A clear annual budget calendar exists, is generally adhered to and allows departments enough time to meaningfully complete their detailed estimates on time.
(ii)	Guidance on the Preparation of budget submissions.	A	A comprehensive and clear budget circular is issued to MDAs, which reflects ceilings approved by the Executive Committee
(iii)	Timely budget approval by the legislature.	D	The budget is approved more than 2 months after the start of the year in all the last 3 years, contrary to law.

## **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 three-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 programme 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 national and provincial. At the beginning of a five-year electoral cycle, policy priorities are set, and thereafter plans are made with the purpose of achieving these priorities. Provincial priorities are derived from the strategic priorities emanating from the Medium Term Strategic Framework, which takes into consideration the targets and priorities of the Millennium Development Goals.

Strategic plans and budgets should be interrelated to improve the effectiveness of government operations. Provincial departments are required to develop strategic plans with a horizon of at least three years and annual performance plans (APPs) covering the MTEF period.

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 taking into consideration the stage of each project.

Departments select projects based upon programme priorities that are determined by the sector strategies. The Medium Term Budget Policy Statement defines the broad provincial policy direction over the three-year horizon that shapes the prioritisation schedule of sector strategy programmes that are incorporated into the MTEF.

No.	Policy-based budgeting	Score	Justification
PI-12	<b>Multi-year perspective in fiscal planning, expenditure policy and budgeting</b>	<b>B+</b>	M2
(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	NA	The Province has no debt and no DSA is carried out at the provincial level.
(iii)	Existence of costed sector strategies (or development plans)	B	Statements of sector strategies exist for all major sectors and are fully costed, broadly consistent with fiscal forecasts, for sectors representing 25- 75% of primary expenditure.
(iv)	Linkages between investment budgets and forward expenditure estimates	B	The majority of important investments are selected on the basis of relevant sector strategies and recurrent cost implications in accordance with sector allocations and included in forward budget estimates for the 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 indicators cover three areas: revenue administration, budget execution and cash/debt management, and internal control and audit 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<sup>22</sup>, 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 Mpumalanga Province taxes consist of motor vehicle license fees, and gambling revenues.

#### 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.

Mpumalanga has four principal sources of tax revenue (as classified by the chart of accounts, which follows IMF/GFS classification). These are: casino tax, horse racing tax, liquor license fees (which are all collected by the Department of Economic Development, Environment and Tourism) and motor vehicle taxes (collected by Department of Community Safety, Security and Liaison). The table below shows amounts collected over the past three years.

**Table 17: Tax Collections for 2011/12 to 2013/14 (ZAR000)**

	Casino tax	Horse racing tax	Liquor licenses	MV licenses	Total
<b>2011/12</b>					
Economic Development	55,030	4,572	540	0	60,142
Community Safety	0	0	0	239,937	239,937
<b>Total</b>	<b>55,030</b>	<b>4,572</b>	<b>540</b>	<b>239,937</b>	<b>300,079</b>
<b>2012/13</b>					
Economic Development	62,522	6,707	4,708	0	73,937
Community Safety	0	0	0	309,287	309,287
<b>Total</b>	<b>62,522</b>	<b>6,707</b>	<b>4,708</b>	<b>309,287</b>	<b>383,224</b>
<b>2013/14</b>					
Economic Development	68,098	8,324	2,312	0	78,735
Community Safety	0	0	0	415,608	415,608
<b>Total</b>	<b>68,098</b>	<b>8,324</b>	<b>2,312</b>	<b>415,608</b>	<b>494,343</b>

<sup>22</sup> Supplementary Guidelines for the application of the PEFA Framework to Sub National Governments issued in 2013 by the PEFA Secretariat

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

The National Road Traffic Act, 1996 (NRTA) prescribes the registration and licensing of motor vehicles, manufacturers, builders and importers, as well as the licensing of drivers of motor vehicles, all of which are administered by the Department of Community Safety, Security and Liaison. The NRTA Regulation 24 (2) (b) stipulates that each province determines its own registration and license fees, which are increased annually by proclamation in the respective provincial gazettes. The annual license fees are assessed on the basis of the vehicle's tare with separate scales for vehicle types. The department determines its tariffs annually taking into account the national rates. The provincial treasury then keeps a tariff register. The tariff information is publicised before it is gazetted and is available for public comments.

Casino levies, limited pay-out machines and horse racing taxes are managed by the Mpumalanga Gambling Board, which falls under the Department of Economic Development. Levies and license fees in respect of horse racing and gambling (casino), are collected in terms of the Gambling Levies Act and Mpumalanga Gambling Act of 1995. The Levies Act prescribes the levies and fees payable by parties licensed in terms of the Act.

With respect to all four taxes, legislation and procedures are clear, and the departments concerned have strictly limited discretionary powers.

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

With respect to motor vehicle taxes, the Department of Community Safety, Security and Liaison issues a gazette annually 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 the Department of Transport. The Province only confirms whether the addresses on the notices are correct before they send them to motorists. All notices are sent to motorists one month before the expiry of their motor vehicle licenses.

The fee structure in respect of casino operation, horse racing and spot betting is communicated to the general public through gazettes and is also available through the Mpumalanga Gambling Board website and Gambling Act and Levies.

Information is comprehensive and clear on the gambling taxes, but not on motor vehicle licenses.

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

The tariffs are determined in terms of legislation. They are non-negotiable and are clearly spelt out for any taxpayers venturing into the gambling industry. There is no independent appeal machinery: appeal is to the relevant department. There is no appeals process in relation to tariff amounts, but taxpayers can appeal if there are errors in their obligations or believe they are inaccurate. Tax obligations are largely system calculated and linked live to the revenues generated by the taxpayers within the industry, which reduces any margin of error in calculation.

No.	Predictability and control in budget execution	Score	Justification
PI-13	Transparency of taxpayer obligations and liabilities	B	M2
(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	C	A tax appeals system of administrative procedures has been established, but needs substantial redesign to be fair, transparent and effective.

## 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

*Vehicle taxes:* The Department of Community Safety, Security and Liaison is responsible for collecting taxes in respect of vehicle registration and licensing. All new vehicles in the province are registered and recorded on the National Traffic Information System (eNaTIS) at the point of manufacture 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 sources 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 license fees. The South African Revenue Service (SARS) has access to the eNaTIS system. The eNaTIS charges transaction costs for the registration and the difference belongs to the department. Fines and penalties are collected through municipalities who retain 20% of the penalties as own revenue.

*Gambling taxes:* The Mpumalanga Province Gambling Act, 1995 stipulates that gambling can only be conducted in accordance with the Act. Prospective licensees must pay application and license fees as set out in the Act before their licenses can be approved. Applications are open to public inspection.

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

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

*Gambling taxes:* Penalties are charged for late payments and in case of non-payment, no trading will be allowed. License holders are required to renew licenses by 31 December each year. License holders pay a penalty of 10% of the amount outstanding for each month or part of a month in arrears in addition to the renewal fee, provided that such penalties shall not exceed twice the amount of levies outstanding.

If the Mpumalanga Gambling Board Chief Executive Officer is satisfied that the failure on the part of any license holder to make timely payment was not intended to avoid or postpone liability for payment of the amount due, the Chief Executive Officer may, in writing, remit the penalty and report such remission to the Board.

If the license is not renewed by 28 February it lapses and becomes invalid. If the license holder wants to revive the license, he/she is required to apply for the approval of the license as if the license had never existed.

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

On vehicle taxes, the Department of Community Safety, Security and Liaison does not conduct audits and only performs reconciliations of the collected money. Provincial Internal Audit at the Provincial Treasury focuses on the control environment.

Gambling taxes: The Department of Economic Development does not audit revenue collection systems of the Gambling Board rather the Gambling Board itself audits the controls around the revenue from gambling activities including its accuracy. The audit process at the Gambling Board is an embedded process of billing.

No.	Predictability and control in budget execution	Score	Justification
<b>PI-14</b>	<b>Effectiveness of measures for taxpayer registration and tax assessment</b>	<b>A</b>	M2
(i)	Controls in the taxpayer registration system	A	For vehicle taxes, taxpayers are registered in a database system (eNaTIS), Gambling taxpayers are also completely registered as a condition of operation. The question of linkages to other government systems is not relevant.
(ii)	Effectiveness of penalties for non-compliance with registration and declaration obligations	A	There are effective penalties for non-registration and non-assessment for vehicle taxes and gambling taxes
(iii)	Planning and monitoring of tax audit and fraud investigation programmes	A	The internal audit units of the Department of Community Safety and the Gambling Board cover the audit of these taxes within their rolling audit plans which are based on clear risk assessment criteria.

## PI-15 Effectiveness in collection of tax payments

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

### (i) Collection ratio for gross tax arrears

Gambling taxes: The Mpumalanga Gambling Board had ZAR 6.4m tax receivables all less than 30 days old as at 31 March 2014. 84% of these had been collected by April 2014. Payments are prompt as non-payment results in suspension of licenses.

Arrears of motor vehicle taxes were ZAR 234.0m at 31 March 2014, up from ZAR 186.6m at 31 March 2013, compared with total revenue collection that year of ZAR 415.6m.

Combining all taxes, arrears were about 49% of collections for the year. Assuming a steady rate of collection, it appears that the collection ratio would be below 60%.

### (ii) Effectiveness of transfer of tax collections

Vehicle license fees are collected through Registering Authorities who then deposit into the Paymaster General (PMG) account of the Department of Community Safety. Municipalities collect license fees on behalf of the Department. The fees are collected daily and deposited into the Municipality bank account. Revenue collected by the municipalities is then transferred into the Department's PMG account on or before the 15<sup>th</sup> of every month in line with their Service Level Agreement. All revenue received by the Department is transferred monthly into the Provincial Revenue Fund in line with Treasury's cash flow management transversal policy.

Gambling and betting revenue is collected by the Mpumalanga Gambling Board and transferred to the Department of Economic Development's PMG account and subsequently to the Provincial Revenue account. Transfers are made monthly in line with Treasury's cash flow management transversal policy.

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

Vehicle taxes: The Department reconciles receipts of remittances by collecting agent. All receipts are captured in the Basic Accounting System (BAS) and paid over to the Provincial Revenue Fund monthly.

Economic Development: Monthly reconciliation is performed between the Department and the Mpumalanga Gambling Board. A schedule of payment accompanies the transfers.

There is no overall statement showing opening arrears, assessments, collections and closing arrears.



No.	Predictability and control in budget execution	Score	Justification
<b>PI-15</b>	<b>Effectiveness in collection of tax payments</b>	<b>D+</b>	M1
	(i) Collection ratio for gross tax arrears	D	The debt collection ratio appears to be below 60% in 2013/14, and the total arrears (largely on motor vehicle taxes) is high (49% of collections)
	(ii) Effectiveness of transfer of tax collections	C	Tax collections are transferred into Provincial Revenue Fund on a monthly basis.
	(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts	D	Complete reconciliation of revenue assessments, collections, and transfers to the Provincial Revenue Fund takes place at least monthly within one month of end of month, but there is no overall reconciliation of arrears

## 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 budget votes<sup>23</sup> in the provincial budget.

Revenue raised nationally in respect of the financial year is divided among the national, provincial and local spheres of government for their equitable share allocations. Each province's equitable share<sup>24</sup> raised nationally as well as the conditional grants allocated to Provincial Departments, is tabled every year at Parliament and published in the DORA<sup>25</sup>. The funds are held in the National Revenue Fund Account and transferred to the province in accordance with a predetermined payment schedule and held in the Provincial Revenue Fund (PRF)<sup>26</sup>. Each of the 13 departments in the Province has its own PMG account<sup>27</sup> which is used for funds received from Provincial Treasury (equitable share, conditional grants and own generated revenue). The departments also request funds on a needs basis and are not allowed to hold onto unused funds.

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

<sup>23</sup> Programme or segment to which the total amount is appropriated per provincial department in an Appropriation Act, approved by the Provincial legislature.

<sup>24</sup> This is also referred to as the unconditional transfer from National Treasury to provincial governments.

<sup>25</sup> 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 year.

<sup>26</sup> Provincial Revenue Fund is established through section 226 of the constitution of South Africa.

<sup>27</sup> 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.

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 PFMA (Section 31)<sup>28</sup>, around October/ November. The payment schedule is set in the Division of Revenue Act (DORA) of each year and conditions of the transfers are set within the approved DORA of each year. After budget approval, payment schedules aligned 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)<sup>29</sup> submitted on the 14<sup>th</sup> of each month. Quarterly consolidated reports of expenditure against the payment schedule are further published in the National Treasury's website (under publications tab) 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<sup>30</sup> 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 (PFMA), the Minister may table an adjusted budget, provided there are significant and unforeseen economic or financial events. Provincial departments may also table adjusted budgets in accordance with Chapter 4 (31) of the PFMA affecting departmental budgets, subject to the Minister's approval. This process takes place half yearly.

No.	Predictability and control in budget execution	Score	Justification
<b>PI-16</b>	Predictability in the availability of funds for commitment of expenditures	A	M1
<b>(i)</b>	Extent to which cash flows are forecast and monitored	A	A cash flow forecast is prepared for the year, and is updated monthly on the basis of actual cash inflows and outflows throughout the year.
<b>(ii)</b>	Reliability and horizon of periodic in-year information to departments on ceilings for expenditure commitment	A	As the amounts and timing of transfers from National Departments are fixed for the year in advance, and constitute 97% of all the MPG resources, departments are able to plan and commit expenditure for the whole
<b>(iii)</b>	Frequency and Transparency of adjustments to budget allocations, which are decided above the level of departments	A	Significant in year adjustments to budget allocations take place once a year and are done in a transparent and predictable way through the Provincial Legislature.

<sup>28</sup> 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.

<sup>29</sup> Monthly reports monitoring the budget implementation by the provincial departments, submitted to Provincial and National Treasury.

<sup>30</sup> 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.

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

This indicator identifies the quality of the cash and debt management to meet all obligations as they become due and 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 the main features of the debt portfolio are critical for ensuring data integrity and related benefits such as accurate debt service budgeting, timely service payments, and well planned debt roll-over. Also critical is the proper recording and reporting of government issued guarantees, and the approval of all guarantees by a single government entity against adequate and transparent criteria.

Provincial departments do not borrow or give guarantees.<sup>31</sup> The departments are not allowed to enter into debt contracts except with the approval of the MEC. This applies also to supplier credit. Interest on debt is regarded as fruitless and wasteful expenditure and only the Provincial Treasury has an overdraft facility (currently up to ZAR 400 million). At present there is no formal debt. Dimensions (i) and (iii) of this indicator do not apply.

With regard to cash management, the Province's allocations and own revenues are transferred to the Provincial Revenue Fund (PRF) which is managed by the Provincial Treasury. Cash Management Division (CMD) within the Provincial Treasury makes monthly transfers to the departmental bank accounts (PMG accounts) in response to their monthly cash requests. The CMD has access to the PMG accounts, and monitors them daily. Any cash not used is recalled. Effectively, all the PMG accounts and Treasury accounts form a Single Treasury Account. There are no other bank accounts. Funds appropriated but not spent by the end of the financial year may be rolled over to the subsequent year, provided the conditions as per the Treasury Regulation 6.4.1 are met. In instances where these conditions are not met, the funds have to be refunded to the Provincial Revenue Fund (PRF).

No.	Predictability and control in budget execution	Score	Justification
PI-17	<b>Recording and management of cash balances, debt and guarantees</b>	A	M2
(i)	Quality of debt recording and reporting	NA	The departments are not allowed to borrow. There is no formal debt.
(ii)	Extent of consolidation of the Government's cash balances	A	All cash balances are calculated daily and consolidated by the Provincial Treasury.
(iii)	Systems for contracting loans and issuance of guarantees	NA	Only the MEC for Provincial Treasury may authorize guarantees which commit the Provincial Revenue Fund. No new guarantees are being issued.

<sup>31</sup> Previously, state employees were given guarantees against repayment of housing and vehicle loans from banks. Most employees now have access to bank loans and departments are no longer giving government guarantees. The outstanding guarantees have been reduced to ZAR 6.7 million at March 2014.

## 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). There are about 80,000 personnel on the Mpumalanga payroll, with an annual cost of about ZAR 20 billion.

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 modernising 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 set out in the Public Service Act<sup>32</sup>.

It is a requirement of the Public Service Act and Public Service Regulations<sup>33</sup> that new posts established receive ministerial approval and must be reflected in the budget. Temporary posts are subject to budgetary constraints. Post 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 from 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 serves as an effective control thereon. Terminations, especially vacations of post without notice, are effectively controlled by monthly payroll certificates signed by supervisors (i.e. verification sheets) and the automatic freezing 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 in writing. HR then updates the records accordingly and advises Payroll Administration to stop payment where necessary.

Each Provincial Department directly manages its own 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 documents. The Payroll administration does not have access to change salary scales: these are loaded by HR. 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 serves as control files, and the payroll database. All civil servants are registered through PERSAL that includes appropriate fields to protect against duplication. An employee retains his unique PERSAL number throughout his employment in the South African government.

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<sup>32</sup> The Public Service Act was enacted on 03 June 1994 and latest amendment being Act 30 of 2007

<sup>33</sup> The Public Service Regulations were approved on 5 June, 2001

Each Provincial Department is responsible to prepare a monthly reconciliation between the BAS<sup>34</sup> and PERSAL system. The two systems are interfaced. Controls and procedures exist for all changes. Audit trails are built in to the system, but may be undermined by the sharing of passwords, particularly in Payroll Units that are understaffed. 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. The Auditor General has noted that there were instances of employees working more overtime than the legislated maximum of 30% of total salaries at the Department of Health and uncontrolled leave in the Department of Education.

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 DPISA 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 DPISA, 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 employees' 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 preventing payments being made to "ghost workers" and also mitigating against other fraud and error risks. 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 in which it takes some time for information to reach the schools and clinics in remote areas and for information to come back through district and circuit offices.

The AG<sup>35</sup> performs an audit on the payroll during its annual regularity audit. This includes an audit of controls and documentation in all departments and (in every second year) a physical verification of employees. Provincial Internal Audit Units also allocate some time to audit payroll and human resources.

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<sup>34</sup> Basic Accounting System (BAS) is the financial system currently used and is interfaced with the PERSAL system

<sup>35</sup> Auditor General of South Africa

No.	Predictability and control in budget execution	Score	Justification
<b>PI- 18</b>	<b>Effectiveness of Payroll Controls</b>	<b>B+</b>	M1
(i)	Degree of integration and reconciliation between personnel records and payroll data	A	Personnel database and payroll are integrated in PERSAL to ensure data consistency and monthly reconciliation.
(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, mainly in education and health departments
(iii)	Internal controls of changes to personnel records and the payroll	B	Authority to change records and payroll is restricted and results in an audit trail as only authorised individuals can make changes to human resources and payroll information.
(iv)	Existence of payroll audits to identify control weaknesses and /or ghost workers	A	Payroll audits are conducted through AG's annual regularity audits and Internal Audit's business cycle audits.

## 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 crucial factors as taxpayers should be confident that they are getting value for their money on all government programmes and 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 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.

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

Significant government expenditure is made through the public procurement system, better known as the supply chain management (SCM) system in South African Government. However, multiple laws and regulations complicate the function.

- Section 217 of the **Constitution** requires that organs of state at all levels of government - national, provincial, local - and any other institutions and any other government 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 and its regulations and SCM Regulations** (8 June 2011) mandate the NT and PT to develop policy and regulate procurement at all levels of government. The PFMA, chapter 18 also provides for the monitoring and oversight of procurement by departments and municipalities.

- The **Preferential Procurement Policy Framework Act** (PPPFA) provides guidance on all procurement using government funds. It gives effect to Section 217 in ensuring fairness, measured through the preferential point system which is aligned to the procurement thresholds and further aligned to broad-based black economic empowerment (BBBEE). The BBBEE scoring system emphasises the price charged by the service provider over the functionality 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.
- The **Competition Act** of South Africa<sup>36</sup>, promotes competitive bidding within the province in terms of procurement of goods using public funds.
- The **Promotion of Access to Information Act** 2000 gives effect to the constitutional right to access any information held by the state.

In Mpumalanga the Provincial Supply Chain Management (SCM) Unit within the Provincial Treasury is responsible for monitoring and overseeing the implementation of procurement reforms within provincial departments, public entities and municipalities, with the exception of the Provincial Legislature. Every department and public entity has its own SCM unit, which has to comply with the provincial and national SCM reforms. The SCM units report on their activities in a standardised format to the Provincial SCM Unit each month by the 7<sup>th</sup> of the following month.

To ensure that the bidding process is fair and efficient, National Treasury regulations require that each department appoint three independent committees: Bid Specification<sup>37</sup>, Bid Evaluation<sup>38</sup> and Bid Adjudication<sup>39</sup>. All these committees play a very important role in the awarding of tenders within the supply chain process as set out in the National Treasury regulations.

The National Treasury prescribes procurement methods as follows:

- a) For all transactions up to ZAR 2,000, departments are allowed to use petty cash without inviting competitive bids or price quotations.
- b) For all transactions above ZAR 2,000 and up to ZAR 10,000, departments and provincial entities may procure using three written or verbal quotations from a provincial list of prospective suppliers. The list must be opened to applications from new suppliers each year.
- c) For amounts above ZAR 10,000 but not more than ZAR 500,000, departments should invite and accept as many written quotations as possible.
- d) For all amounts above ZAR 500,000 departments should invite competitive bids by public advertisement.

The departments are allowed to lower the thresholds, but not raise them, nor split contracts to bring them below thresholds.

<sup>36</sup> 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.

<sup>37</sup> Committee responsible for compilation of specifications for goods and services procured by the department

<sup>38</sup> 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

<sup>39</sup> Committee responsible for the award of tenders after considering the Bid Evaluation Committee recommendations



**Table 18: Elements of the legal and regulatory framework for procurement**

	Met?
Be organized hierarchically and precedence is clearly established.	No – see text
Be freely and easily accessible to the public through appropriate means.	Yes. Laws and regulations are easily accessible on Treasury websites
Apply to all procurement undertaken using government funds.	Yes
Make open competitive procurement the default method of procurement and define clearly the situations in which other methods can be used and how this is to be justified.	No
Provide for public access to all of the following procurement information: government procurement plans bidding opportunities, contract awards, and data on resolution of procurement complaints.	No
Provide for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature.	Yes, in Competition Act

**(ii) Use of competitive procurement methods**

The Auditor General does an audit of a sample of procurements each year. For FY 2012/13, 395 contracts with a value of ZAR 4.1 billion and 831 quotations with a value of ZAR 370 mn. were examined. Out of 17 auditees, six (35%) had no audit findings (they had complied with SCM regulations), three (18%) had findings, and eight (47%) had material findings. This is an indicator of non-competitive methods being used without justification under SCM regulations. Though this was better than for 2011/12, the Auditor General commented that non-compliance remains a challenge as the three departments that spend the most continued to have material non-compliance findings. The data relate to auditees rather than to the value of procurements, but it is clear that less than 60% of non-competitive procurements are justified in accordance with legal requirements.

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

The PEFA Framework specifies four key information elements: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints.

Government procurement plans are not made public.

Invitations to tender are advertised publicly in the tender bulletin and newspapers provincially and nationally. Tender documents are sold at the provincial tender administration office normally for a non-refundable nominal fee. A bid bulletin is also sold at the tender administration office. This shows details of tenders that have been issued that month by each department. Information about tenders is also available at provincial SCM websites and satellite offices. The bidding process allows for a tender briefing, which then becomes compulsory for all interested bidders. Tenders are deposited or submitted at the tender administration office and other satellite offices that receive tenders within the province. However not every satellite office receives tender documents.

The bid bulletin also shows some of the bids awarded and bid winners each month. An examination of the bid bulletins for August to November 2014 shows 41 invitations to tender issued in August, of which only 18 awards were disclosed by November, all relating to one department only. This omits crucial information for public oversight of procurement.

There is no data on the resolution of procurement complaints (see (iv) below).

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

If a bidder is not satisfied with the outcome, the bidder is allowed to complain to the Provincial SCM unit or to the Head of Department. The HOD or provincial SCM provides the complainant with such information as is required. There is no independent procurement complaints mechanism. No statistics are available on the number of complaints or their resolution.

No	Transparency, competition and complaints mechanisms in procurement.	Score	Justification
<b>PI-19</b>		D	M2
	1) Transparency, comprehensiveness and competition in the legal and regulatory framework.	C	The legal and regulatory framework meets three of the six requirements
	2) Use of competitive procurement methods.	D	Reliable data is not available, but it appears that less than 60% of the value of contracts awarded are legally justified.
	3) Public access to complete, reliable and timely procurement information.	D	The Provincial Government provides information to the public on bidding opportunities, but not departmental procurement plans, the amounts of all contract awards over the ZAR 500,000 threshold, nor data on the resolution of complaints
	4) Existence of an independent administrative procurement complaints system.	D	There is no independent procurement complaints review body in all the departments as complaints are normally made to the HODs of the departments and the provincial SCM which doesn't have a complaint body itself.

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

This indicator measures whether internal control systems relating to non-salary expenditure 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 is assessed in light of the following dimensions:

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

Internal control within a Department is the responsibility of the Accounting Officer<sup>40</sup>. He or she must ensure that internal procedures and internal control measures are in place and provide reasonable assurance that all expenditure is necessary, appropriate, paid promptly and is adequately recorded and reported.

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

- The department uses the LOGIS<sup>41</sup> system to log in orders that have been approved by each director of the department
- The LOGIS system is interfaced/integrated with the BAS<sup>42</sup> system and thus commitments are captured and accounted for from the time the order is approved. Although systems are integrated, only the LOGIS system feeds to the BAS system: the BAS system does not feed back to the LOGIS system and therefore cancelled orders have to be manually cancelled on BAS and the two systems have to be regularly reconciled.
- On payment, a two-way match is implemented whereby an invoice is matched to a purchase order before payment can be made
- Access to the systems is given to users at a departmental level
- An order cannot be processed if there is no available budget in the vote under both LOGIS and BAS. The control can however be overridden in BAS: this requires an authorisation by the Head of Department
- Exception reports are generated and should be reviewed daily by the senior managers and the financial account directorate.
- 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.

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<sup>40</sup> This responsibility is prescribed in Section 39 and 40 of the PFMA and Chapters 8 and 15 of the Treasury Regulations.

<sup>41</sup> Logistics management system used for procurement and assets in the province.

<sup>42</sup> Business Administration System used by the provincial government for payments and financial reporting purposes.

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

The departments follow National Treasury guidelines for basic accounting and processing of transactions. Departments have their own internally prepared procedure manuals in place (aligned to the National Treasury guidelines).

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

Irregular expenditure by departments identified by the Auditor General amounted to ZAR 948.5 mn in 2013/14, which is 2.8% of total expenditure (Consolidated Financial Statements note 28). Generally there is a high level of compliance.

	Predictability and control in budget execution	Score	Justification
<b>PI-20</b>	<b>Effectiveness of internal controls for non-salary expenditure (M1)</b>	<b>A</b>	M1
(i)	Effectiveness of expenditure commitment controls	A	System controls prevent commitments in excess of budget. Commitments are limited to budget availability, but cash is assured by virtue of the reliability of resource inflows (PEFA requirement for controls against cash availability does not apply)
(ii)	Comprehensiveness, relevance and understanding of other internal control rules/procedures	A	Other internal controls are well covered in the PFMA and the Treasury Regulations and manuals. Furthermore Departments have developed internal policies and procedure in line with the National Treasury guidelines. Procedures are widely understood and followed, given the feedback from management of the Departments.
(iii)	Degree of compliance with rules for processing and recording transactions	A	Compliance with rules is high, the system does not allow capturing of expenditure beyond the allocated budget and can only be overridden with the authorisation of the Head of Department in cases of emergency. Any overspending must be justified and reported to the Provincial and National Treasury

## 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:

- (i) Coverage and quality of the internal audit function;
- (ii) Frequency and distribution of reports; and
- (iii) Extent of management response to internal audit findings.

The PFMA<sup>43</sup> and the Treasury Regulations<sup>44</sup> specify the internal audit function as compulsory 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. The majority of Audit Committee members are selected from outside the employ of Provincial Departments. The chairpersons of the departmental Audit Committees and the Provincial Audit Committee are independent and from outside the employ of the government. The Risk Management Division within the Office of the Accountant General (NT) provides functional guidance on risk management.

All internal audit units adopt the international Institute of Internal Audit (IIA) standards. These are adapted to ensure that they suit the environment. This is a 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 assurance reviews once every five years.

The Provincial Internal Audit Function consists of four units: risk-based audits, performance audits, forensic audits and the IT/computer audits. The Provincial Treasury plays an oversight role in ensuring that all departments conform to internal audit standards. Eight of the 13 departments have their own Internal Audit Units. Five departments<sup>45</sup> have their internal audit based in the Office of the Premier.

Each Internal Audit Unit uses risk-based assessment to develop a three-year rolling internal audit plan which is termed Risk based Plan. This is submitted to management for comments and inputs. The plan has to be approved by the Audit Committee for implementation.

Internal Audit performs various types of audits including:

- Financial management;
- Supply chain management
- Performance
- Risk based
- IT
- Compliance

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<sup>43</sup> PFMA in Sections 38(1)(a)(ii), 76(4)(e) and 77

<sup>44</sup> Treasury Regulations (in Chapter 3.2) issued in terms of PFMA and effective from 15 March 2005.

<sup>45</sup> Department of Human Settlement, Department of Corporate Governance and Traditional Affairs, Department of Community Safety, Security and Liaison, Department of Culture, Sport and Recreation, Office of the Premier.

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 plans.

A process analysis document 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.

A sample of the most material transactions and high-risk areas from each department is selected for testing. This implies that errors in areas classified as low risk could stay undetected until such time that accumulation becomes material. Frequency of audits on high risk areas such as compensation for employees (payroll), are based on the risk category of each department. For example, payroll audits in the Departments of Health and Education are prepared annually for different districts under these departments while a payroll audit for the Department of Sports, Arts and Culture may be undertaken only once every three years.

The function utilises Teammate software to facilitate the 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 efficiency.

Each Audit 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 Audit 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 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.

	Predictability and control in budget execution	Score	Justification
<b>PI-21</b>	<b>Effectiveness of internal audit (M1)</b>	<b>C+</b>	
(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 only excepting the 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. More than 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	C	The internal findings are not always addressed in a timely manner and action plans to address root causes for the findings are not adequate.

## PI-22 Timeliness and regularity of accounts reconciliations

This indicator assesses the regularity of bank reconciliations and 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:

- i. The IGCC CPD<sup>46</sup> account held with the South African Reserve Bank (SARB); and
- ii. The Exchequer<sup>47</sup> account held with a provincial commercial bank.

<sup>46</sup> This is Intergovernmental Cash Coordination (IGCC) Corporation of Public Deposits (CPD)

<sup>47</sup> The Exchequer account was held with First National Bank in 2012/13; however currently is held with The Standard Bank of South Africa Limited



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 Paymaster General (PMG) accounts.

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 departments reconcile their respective PMG accounts monthly. 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.

In South Africa, advance accounts are called suspense accounts. In terms of Section 40(1)(a) of the PFMA and Section 17.1 of the Treasury Regulations, all Provincial departments must ensure that suspense accounts are correctly cleared to the relevant cost centres monthly. National Treasury's Office of the Accountant General (OAG) provides guidance in its Basic Accounting Handbook for Government Departments<sup>48</sup>, 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 monthly and submit this information to the Provincial Treasury's Accounting Services Division 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 of the eight departments' suspense accounts reconciliation by the Provincial Treasury have highlighted a significant amount of uncleared items at the departmental level relating to debit balances. The causes (as observed by the CFOs and Provincial Treasury's Accounting Services Division) are partly attributable to outstanding expenditure and bank rejections from payroll related deductions.

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

Table 18 below shows that the movements in the suspense accounts between FY 2012/13 and 2013/14 were cleared on the credit balances, however the debit balances have remained uncleared. The table shows that by 2013/14 86% of the debit balances remained uncleared at year end.

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<sup>48</sup> BAHGD issued in July 2010.

**Table 19: Movements in Suspense Accounts**

Department	Opening 2013/14	Balance	Movement		Closing 2013/14	Balance
	Debit '000	Credit '000	Debit '000	Credit '000	Debit '000	Credit '000
Public Works, Roads, and Transport	22 890	173 728	6 826	165 865	29 715	7 863
Department of Social Development	1 121	27	1 318	167	2 439	194
Department of Community Safety, security and liaison	1 329	4 852	2 769	-3 538	4 097	1 314
Department of Economic Development, Environment and Tourism	379	840	-94	-381	285	459
Department of Finance	39 374	197	28 004	3 023	11 370	3 220
Department of Agriculture, rural development and land administration	8 216	156	12 102	9 048	20 318	9 204
Department of Education	59 358	58 480	1 842	-47 091	61 200	11 389
Department of Health (note 1)						
<b>Totals</b>	<b>132 667</b>	<b>238 280</b>	<b>-3 241</b>	<b>204 637</b>	<b>129 424</b>	<b>33 643</b>
<b>% Variance</b>					<b>-2%</b>	<b>-86%</b>

**Note 1: DoH data was not available at the time this draft was finalized but it is very unlikely that this would change the score.**

No.	Accounting, recording and reporting	Score	Justification
<b>PI-22</b>	<b>Timeliness and regularity (M2)</b>	<b>B</b>	M2
(i)	Regularity of Bank reconciliations	A	The PRF and departmentally managed PMG accounts are reconciled to the cashbook on a monthly basis within 15 days of the close of the month and are reviewed by the Provincial Treasury.
(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 uncleared items.

## 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. The focus is on primary schools and primary health care clinics.

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, using the standard chart of accounts at detailed level.

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*.

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.

The service delivery departments are currently using the Vulindlela programme, linked to the BAS system to report on resources received by the schools and health clinics. The Vulindlela report gives a breakdown of the payments made by the departments, per programme.

		Score	Justification
PI -23	Availability of information on resources received by service delivery units	A	The health clinics and schools are administered by the Provincial Departments of Health and Education and the allocated resources are included in their budgets. Actual expenditure is tracked through the in-year monitoring process. Non-financial performance of the primary health care and primary school education is included in the departments' Annual Performance Plans. Departments are able to monitor all resources received by schools and clinics through the vulindlela system linked to BAS.

## 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 utilisation 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

The PFMA requires that the Provincial Departments prepare monthly in-year budget monitoring reports (in the format prescribed by the National Treasury) and submit these within 14 days after the month end to the Provincial Treasury. It is also a PFMA requirement that the Provincial Treasury consolidates the departmental information and submits this to National Treasury within seven 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 of the quarter.

The format of the Monthly Budget and Expenditure Returns reflects expenditure only at the time of payment against the original or adjusted budget; it does not however reflect commitments, as they cannot be captured on the BAS<sup>49</sup> system currently. Commitments are taken into account on the monthly rolling forecasts when the Provincial Treasury makes transfers to the Provincial departments. The report format also caters for projections for the remaining months in the fiscal year. The in-year monthly budget and expenditure reports also present detailed information per economic classification for each Provincial Department.

The commitments are submitted monthly to the Supply Chain Unit of the Provincial Treasury, but these are not included in the IYM reports. This creates a risk on the accuracy of reported budget spending and on the budget monitoring mechanisms implemented by the national and provincial governments.

Section 32 (2) of the PFMA 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. The IYM reports are published in the National Government Gazette within 30 days after the end of each prescribed period. Under the PFMA Act, the National Treasury may determine the format of the statement of revenue and expenditure. This format (prescribed by National Treasury<sup>50</sup>) permits the direct comparison of revenue and expenditure to the original/adjusted budget allocations and audited budget outcomes, in line with Section 32(3) of the PFMA

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<sup>49</sup> Business Administration system used by the province as the financial system for both revenue and expenditure and for all financial reporting purposes

<sup>50</sup> 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.

There is no material concern regarding data accuracy.

PI-24	Quality and Timeliness of in-year budget reports	Score	Justification
<b>PI-24</b>	<b>Quality and timeliness of in-year execution reports</b>	<b>C+</b>	M1
(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 does not include commitments as the IYMs only include cash transactions
(ii)	Timeliness of the issue of reports	A	Reports are prepared monthly by the Provincial Departments and submitted to the Provincial Treasury within 14 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	There are no material concerns about 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.

The following dimensions are measured:

- (i) Completeness of the financial statements
- (ii) Timeliness of submission of the financial statements
- (iii) Accounting standards used

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

The Auditor General must audit the consolidated financial statements and submit an audit report on the statements to the Provincial Treasury of the Province concerned within three months of receipt of 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 consolidated financial statements for 2013/14 were issued on 29 September 2014.

The current status in terms of Annual Financial statements reporting in the Mpumalanga province is that Consolidated Annual Financial Statements (AFS) are prepared, however the consolidation does not meet the standard of GRAP which is the current reporting standard requirement. An

aggregation of the annual financial statements is however prepared for all 12 departments and an aggregation of the public entities. The consolidation of the two groups is currently not possible as the departments are currently operating on a modified cash basis<sup>51</sup>, while public entities are operating on the accrual basis<sup>52</sup>. The PFMA states that the reporting standards should be GRAP (General Recognised Accounting Practices), these standards are on an accrual basis<sup>53</sup>. Therefore the different reporting standards do not allow for the consolidation process to be completed at the moment.

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 from the requirement for consolidated financial statements.

As per Schedule 3A of the PFMA<sup>54</sup>, 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)<sup>55</sup> 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).

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<sup>51</sup> An accounting method that combines elements of the two major accounting methods: the cash method and the accrual method.

<sup>52</sup> An accounting method that measures the performance and position of a company by recognizing economic events regardless of when cash transactions occur

<sup>53</sup> Reporting all transactions immediately as they accrue on that financial year of reporting

<sup>54</sup> Public Finance Management Act approved in 1999, revised in 2011, regulates the financial management in the national government and provincial governments.

<sup>55</sup> "GRAP", General recognised accounting practice included in the Performance Management Act approved in 1999, revised in 2011 approves the reporting framework for all government spheres to be on GRAP. This is part of the MFMA, there is no other specific legislation approving GRAP as the reporting framework

No.	Accounting, recording and reporting	Score	Justification
<b>PI-25</b>	<b>Quality and timeliness of annual financial statements</b>	<b>A</b>	M1
(i)	Completeness of the financial statements	A	Consolidated financial statements, although prepared are merely an aggregation of the financial statements, separated into two parts. The aggregation includes full information on revenue, expenditure and financial assets/ liabilities  (i) Aggregation for the departments who are on modified cash basis of reporting  (ii) Aggregation for the public entities reporting on accrual basis.
(ii)	Timeliness of submission of the financial statements	A	Provincial Treasury must submit consolidated annual financial statements per Department within 3 months after year-end for external audit. The Mpumalanga Provincial Treasury did submit consolidated financial statements within 6 months of the year end.
(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, based on IPSAS. The framework gives clear guidelines on the annual financial statement reporting to promote consistency and uniformity.

### 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 assessment covers the following three dimensions:

- (i) The scope/coverage and nature of the external audit, including audit standards
- (ii) Timeliness of submission of audit reports to the legislature
- (iii) Follow up on audit recommendations.

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 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 executive. The Auditor General is empowered to audit any and all government entities including security agencies. The Constitution (Section 188) states "*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*". Public Finance Management Act (PFMA) assures financial independence of the Office of the Auditor General empowering his recovery of the costs of investigations.

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 department's Annual Performance report
2. Compliance with laws and regulations
3. Internal controls<sup>56</sup>
4. Performance audits<sup>57</sup>

After the completion of the audit report, the Auditor General assists the institution to formulate a corrective action plan on all areas of weakness identified during audit, including timelines and outputs to evaluate whether progress is being made towards achieving improved audit opinions. Progress is monitored quarterly by the entity's administration, the Auditor General and Audit Committee through what is termed "the dashboard report". Progress is monitored and reported quarterly on dashboard reports to highlight improvements or non-achievement. The provincial legislature also monitors the audit follow up process. The quarterly dashboard reports have shown to be a good monitoring tool for the provincial departments and its entities. For FY 2013/14, an improvement was noted in audit opinions in the province.

Five provincial departments - Finance, Cooperative Governance and Traditional Affairs, Social Development, Mpumalanga Regional Training Trust and Gambling Board, received unqualified audit opinions with no findings.

The Departments of Education; Human Settlements; Public Works, Roads and Transport; Culture, Sports and Recreation; Economic Development, Environment and Tourism; Legislature; Mpumalanga Tourism and Parks Agency; and the Office of the Premier received unqualified audit outcomes with findings.

Four departments – Health; Mpumalanga Economic Growth Agency; Agriculture Rural Development and Land Administration; and Community Safety Security and Liaison, received qualified audit opinions with findings.

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<sup>56</sup> Assessment of whether the entity did develop and implement efficient internal controls to effectively manage the financial matters of the institution is conducted

<sup>57</sup> 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.

No.	External scrutiny and audit	Score	Justification
<b>PI-26</b>	<b>Scope, nature and follow-up of external audit</b>	<b>A</b>	M1
(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	A	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. The audit report on the consolidated financial statements for 2013/14 was issued on 30 September 2014, in accordance with the statutory requirement.
(iii)	Evidence of follow-up on audit recommendations	A	Formal responses are provided to each department in the final management letters and audit reports, furthermore commitments are obtained from the departments to implement corrective measures to resolve audit findings. Management response is monitored through dashboard reports.

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

The Portfolio Committee on Premier's Office, Finance, Economic Development and Tourism (PC-Finance) deals with all finance/money bills. It has eight members and two alternate members. They have four standing bills referred to it each year, in chronological order:

- Division of Revenue Bill
- Mpumalanga Appropriation Bill
- Division of Revenue Amended Bill
- Mpumalanga Adjustment Appropriation Bill

The Division of Revenue Bill and its amendment are introduced at the National Assembly, then referred to the Provincial Legislatures. This bill indicates the equitable share allocated to each province. Once it is tabled at the National Assembly, the Mpumalanga Appropriation Bill can be tabled. This indicates the allocation to each provincial department and public entity. The scrutiny of the budget for 2013/14 included the following steps.

- 19 March 2013: The MEC Finance briefs the PC-Finance together with the chairpersons of all the Portfolio Committees (called Extended Finance Committee). The South African Local Government Association, Auditor General and the House of Traditional Leaders may also be invited to the briefing.
- Portfolio Committees meet with departments to consider their budgets and Annual Performance Plans.
- 27 March: Public hearings on the Appropriation Bill are held in all three districts

- 4 June: The Extended Finance Committee meets with the Provincial Treasury, all Accounting Officers and Chief Financial Officers to ascertain whether the departments have proper business plans to spend their allocations
- 11 June: The Extended Finance Committee produces and adopts a report and introduces it in the House
- The Bill has its second reading, and subsequent tabling.
- 12 August: The Bill is enacted as the Appropriation Act
- The PC-Finance endeavours to meet with the Provincial Treasury each quarter to be informed on progress
- November 2013: The procedure is repeated with the Mpumalanga Adjustment Appropriation Bill.

The PFMA section 43 allows virement within each departmental vote within limits. The Accounting Officer of a department may use savings on a main division of a vote to defray excess expenditure on another main division of the vote. Virement is allowed up to 8% of the budget for a main division, with PT approval, but there are restrictions on the use of virement for personnel, transfers, and capital projects. Any expenditure that would cause an excess on the total budget for the vote may only be approved by the Legislative Assembly through an Adjustment Appropriation Act, half way through the fiscal year, which goes through the same process as the original budget. The rules are respected, though in 2012/13 one of the 13 departments exceeded its revised budget (Education, by 0.5%, EPRE 2013)

No.	External scrutiny and audit	Score	Justification
<b>PI-27</b>		<b>A</b>	
(i)	The scope of the legislative scrutiny	A	The review by the Provincial Legislature covers the MTEF, national government priorities, and provincial priorities in terms of resolutions approved by the provincial legislature
(ii)	Extent to which the legislature procedures are well established and respected	A	Procedures are firmly established. 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 Mpumalanga 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)	A	The Portfolio Committees are involved with budget scrutiny from March to August, a period of five months.
(iv)	Rules for in-year amendments to the budget without ex-ante approval by the legislature	A	In-year amendments to the budget are made through the virement process at departmental level, with approval of the Provincial Treasury. The rules are respected.

## PI-28 Legislative scrutiny of external audit reports

This indicator assesses the key role that the Legislature plays, through SCOPA and Portfolio Committees, in examination of external audit report outcomes (findings) and holding responsible parties to account. The operation of SCOPA depends on adequate financial and technical resources, and on adequate time being allocated to keep up to date on reviewing audit reports. The committee may also recommend actions and sanctions to be implemented by the Executive, in addition to adopting the recommendations made by the external auditors (ref. PI-26).

The Auditor General audits each department's annual report including its annual financial statements and sends her report to the relevant department. Each department is required by the PFMA section 40 (d) (i) to table its Annual Report including the audit report in the legislature by 30 September of each year, i.e. six months after year end.

The Mpumalanga Legislature has a Select Committee on Public Accounts (SCOPA) charged with the scrutiny of annual reports and financial statements in the light of the audit findings. SCOPA has nine appointed members, including one alternate, appointed from the 30 Members of the Provincial Legislature. Members are selected from all the parties represented in the Legislature, though not necessarily in proportion to their strength. The chairperson used to be a Member from the opposition, but presently is from the ruling party. As members of SCOPA, it is expected that they will be politically neutral and non-partisan. In practice, decisions and resolutions are determined by consensus.

In Mpumalanga, SCOPA is given a briefing on each report by the Auditor General. SCOPA then calls the Accounting Officer of each department and public entity in turn, including those that do not have negative findings so as to commend them and encourage them to continue complying. The Provincial Legislature provides technical assistance (researchers and advisors) that assist the members of the SCOPA in their analysis, and propose possible solutions. AOs may bring their CFOs and other key officers to respond to the Committee's questions. SCOPA also has technical and secretarial support from coordinators provided by the Legislature. Hearings also have the benefit of the continued presence of the Auditor General or her representative.

Hearings are open to the public, and are participated in by journalists and anyone concerned. Some meetings are held in camera, e.g. on procedural issues.

At 30 September 2014, 12 months after receipt of annual reports for FY 2012/13, SCOPA had completed its scrutiny and reported with recommendations on 7 departments and entities out of 17 for FY 2012/13. Part of the delay is due to priority given to the departmental Portfolio Committees to complete their reviews of the respective Annual Reports before SCOPA can start, as there is overlapping membership of the committees.

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. These resolutions are adopted by the Legislature. Reports are posted on the Legislature website.

No.	External scrutiny and audit	Score	Justification
<b>PI-28</b>		<b>D+</b>	<b>M1</b>
(i)	Timeliness of examination of audit reports by the legislature (for reports received within the last three years)	D	Out of 17 reports for FY 2012/13, 7 had been examined and reported on 12 months after receipt (30 September 2013).
(ii)	Extent of hearings of key findings undertaken by the legislature	A	In-depth hearings are held by SCOPA on all entities including those with good reports from the Auditor General but with an emphasis on those with negative reports. Presentations are done to SCOPA through the committees responsible for these departments
(iii)	Issuance of recommended actions by the legislature and implementation by the Executive	A	Actions are executive, implemented. recommended which are to the generally

### 3.5. PEFA Indicators related to Donor Practices

Indicator D1. (**Predictability of Direct Budget Support**) refers to budget support allocated directly to the Provincial Government. No budget support was received directly from donors. This indicator is not applicable.

Indicator D2. (**Financial Information provided by Donors for Budgeting and Reporting on Project and Program Aid**) refers to project and programme support received directly by Mpumalanga directly from the donor agency. The amounts are insignificant (see Table 2). This indicator is also not applicable.

Indicator D3 (**Proportion of Aid that is managed by use of National Procedures**) is also not applicable.

## 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 the 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<sup>58</sup>. The Financial Systems section of the Special Services Division in the National Treasury responsible for 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.

#### ***Performance accountability***

There is a greater emphasis on budgeting and accounting for performance at all levels. The National Treasury began stepping up efforts to link the allocation of resources to expected performance outcomes by the provincial departments. In terms of programme budgeting, the National Treasury released a Framework for managing performance information, which guides the measurement and specification of programme performance as an adjunct to the Presidency's government-wide monitoring and evaluation that specifies development indicators for the whole province. This aims to promote accountability and transparency of public finances through the publication of financial information and associated indicators of service delivery.

To oversee and support all budgeting reforms departments have established Budget Management Committees, and managers have been appointed as Programme and Responsibility Managers.

#### ***Auditing***

Part of the finance portfolio oversight responsibilities include reports by departments to the Provincial Legislature's Standing Committee on Public Accounts (SCOPA) on progress on how departments are implementing PFMA, and progress with SCM compliance. Departments have to submit corrective plans to the Legislature on how they will address concerns raised by the Auditor General.

Auditing of performance information is a recent development in provincial audit. The audit initially focuses on ensuring that the systems collect, verify and distribute performance information that is used to assess or determine each department's progress in complying with set standards. It will evolve to auditing actual performance in time.

#### ***Integrated procurement and financial management systems***

The province has proceeded with the initiative by National Treasury to standardise financial management systems through SITA. To ensure value for money in procurement, the National Treasury has introduced and aligned preferential procurement under the Broad Based Black Economic Empowerment Act 2003 with the supply chain management framework.

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<sup>58</sup> 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.

To promote transparency and fairness, the province has adopted the process of services by means of a 'pro-quote' system, which randomly selects the successful bidder from a list of approved service providers for bids below ZAR 500,000. For bids above ZAR 500,000 the province is enforcing public advertisement through the Provincial Treasury.

The Province currently uses Basic Accounting System (BAS) for financial management, PERSAL for HR management and payroll administration and LOGIS for managing and generating purchase requisitions and orders. The three systems are not fully integrated. LOGIS supports the complete order-to-cash process of procurement and subscribes to sound supply chain management best practice. It also offers functionality to support a financial interface to BAS.

### ***Implementation of Integrated Financial Management System (IFMS)***

National Treasury has initiated a reform effort that aims to upgrade and modernise all financial software packages and integrate them into 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. The approach should assure the necessary independence to provide for ready report writing, application maintenance and upgrades.

A seven-year implementation plan was initially approved in 2006/07. The various platforms and modules of the IFMS will be implemented in phases over a five-year period.

IFMS has the following features:

- It is an integrated and transversal (cross-cutting) system
- Based on industry best practices
- Incorporates new technology
- Facilitates strategic reporting
- Supports legislation

It 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)

These three IFMS platforms will 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 KPIs<sup>59</sup>
- 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 addresses all training requirements and processes. Pre-assessments will be made 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.

<sup>59</sup> Key performance indicators

## 4.2. Institutional factors supporting reform planning and implementation

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 Divisions. 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)<sup>60</sup> 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.

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<sup>60</sup> 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.



## ANNEXES

### Annex A

#### Summary of Indicator Scores

No.	Indicator	Scoring	Brief explanation
<b>A. PFM-OUT-TURNS: Credibility of the budget</b>			
HLG1	Predictability of transfers from a higher level of government	<b>A</b>	(i) In none of the last 3 years have HLG transfers fallen short of the estimate by more than 5% (A) (ii) Variance in provision of earmarked grants has not exceeded 5 % points in any of the last 3 years (A) (iii) A disbursement timetable is agreed between NT and PT at the beginning of the year and actual disbursement delays are negligible (A)
PI-1	Aggregate expenditure out-turn compared to original approved budget	<b>A</b>	Out-turn deviated from budget by less than 5% in all of the last three years (A)
PI-2	Composition of expenditure out-turn compared to original approved budget	<b>A</b>	(i) Composition variance was less than 5% in all of the last three years (A) (ii) No expenditure was charged to contingency in any year (A)
PI-3	Aggregate revenue out-turn compared to original approved budget	<b>A</b>	Revenue out-turn was between 97% and 106% of budget in two of the last three years. (A)
PI-4	Stock and monitoring of expenditure payment arrears	<b>B</b>	(i) Stock of arrears is just over 2% of total expenditure (B) (ii) Data on arrears is generated monthly, but there is no age profile of arrears (B)
<b>B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency</b>			
PI-5	Classification of the budget	<b>A</b>	Budget formulation and execution based on the standard chart of accounts which supports consistent economic, administrative and programme and sub-programme classifications according to GFS/COFOG standards. (A)
PI-6	Comprehensiveness of information included in budget documentation	<b>A</b>	Five out of the six applicable information benchmarks are met. (A)
PI-7	Extent of unreported government operations	<b>A</b>	(i) Unreported expenditure is less than 1% of total expenditure (A) (ii) Donor-funded project expenditure is insignificant (less than 1% of total expenditure (A)
PI-8	Transparency of inter-governmental fiscal relations	<b>B+</b>	(i) The horizontal allocation of 80% of transfers is determined by transparent and rules-based systems (B) (ii) Local governments are provided reliable information ahead of completing their budget proposals (B) (iii) Fiscal information is collected from all local governments, and is consolidated within 8 months of the end of the year (A).
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	<b>C</b>	(i) All public entities submit monthly reports to PT, but there is no consolidated assessment of the fiscal risks to MPG (C) (ii) All municipalities submit monthly financial statements to PT but there is no consolidated overview (C)

No.	Indicator	Scoring	Brief explanation
PI-10	Public access to key fiscal information	<b>A</b>	7 out of the 8 information benchmarks are satisfied. (A)
<b>C. BUDGET CYCLE</b>			
<b>C (i) Policy-Based Budgeting</b>			
PI-11	Orderliness and participation in the annual budget process	<b>B</b>	(i) Budget calendar is clear and generally respected (A) (ii) Budget circular shows ceilings approved by the Council of Ministers (A) (iii) Budget is approved more than 2 months after the beginning of each year (D)
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	<b>B+</b>	(i) Forecasts of fiscal aggregates are prepared for 3 years on a rolling annual basis and link successive budget ceilings (A) (ii) The Province has no debt and no DSA is carried out at provincial level (NA) (iii) Sector strategies exist for all major sectors, and are fully costed, broadly consistent with fiscal forecasts, representing 25-75% of primary expenditure (B) (iv) The majority of important investments are selected on the basis of sector strategies and recurrent cost implications (B)
<b>C (ii) Predictability and Control in Budget Execution</b>			
PI-13	Transparency of taxpayer obligations and liabilities	<b>B</b>	(i) Tax liabilities clearly defined with strictly limited discretion for tax collectors (A) (ii) Information on liabilities readily available on gambling taxes, less so on motor vehicle licence fees (B) (iii) The tax appeals system is functional and transparent, but is not independent of the tax authorities (C)
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	<b>A</b>	(i) For vehicle taxes, taxpayers are registered in a database system. Gambling taxpayers are also completely registered as a condition of operation. The question of linkages to other government systems is not relevant (A) (ii) There are effective penalties for non-registration and non-assessment for both vehicle licence fees and gambling taxes (A) (iii) Internal audit units of the respective agencies undertake tax audits, which are based on clear risk assessment criteria (A)
PI-15	Effectiveness in collection of tax payments	<b>D+</b>	(i) The debt collection ratio appears to be below 60% in 2013/14 and the total arrears is high (49% of collections) (D) (ii) Tax collections are transferred to the Provincial Revenue Fund monthly (C) (iii) Reconciliation of receipts, but no regular reconciliation of assessments, collections and arrears (D)
PI-16	Predictability in the availability of funds for commitment of expenditures	<b>A</b>	(i) Cash flow forecasts are prepared for the year and are updated monthly (A) (ii) As the amounts and timing of transfers from National Departments are fixed for the year in advance, and constitute 97% of all the MPG resources, departments are able to plan and commit expenditure for the whole year in accordance with the budgeted appropriations (A) (iii) Significant in year adjustments to budget allocations take place once a year and are done in a transparent and predictable way through the Provincial Legislature (A)
PI-17	Recording and management of cash balances, debt and guarantees	<b>A</b>	(i) The departments are not allowed to borrow. There is no formal debt. (NA) (ii) All bank balances are calculated daily and consolidated by the PT (A) (iii) Only the MEC for the Provincial Treasury may authorise guarantees that commit the Provincial Revenue Fund. No new guarantees are being issued. (NA)
PI-18	Effectiveness of payroll controls	<b>B+</b>	(i) Personnel database and payroll are integrated in PERSAL to ensure data consistency and monthly reconciliation (A) (ii) Up to 3 months delay occurs in updating the payroll but only for a minority of changes (B) (iii) Authority to change records and payroll changes is restricted and subject to an audit trail (B) (iv) Partial payroll audits are undertaken through the AG's annual regularity audits and internal audit's business cycle audits (A)
PI-19	Transparency, competition and complaints mechanisms in procurement	<b>D</b>	(i) Three of the 6 listed transparency requirements are met (C) (ii) Reliable data is not available, but it appears that less than 60% of the contracts awarded are justified (D)

No.	Indicator	Scoring	Brief explanation
			(iii) No publication of procurement plans, the amounts of all contract awards, nor data on the resolution of procurement complaints (D) (iv) There is no appeals machinery independent of the procuring entities (D)
PI-20	Effectiveness of internal controls for non-salary expenditure	<b>A</b>	(i) System controls prevent commitments in excess of budget. Commitments are limited to budget availability, but cash is assured by virtue of the reliability of resource inflows. (PEFA requirement for controls against cash availability does not apply). (A) (ii) Other internal controls are well covered in the PFMA and the Treasury Regulations and manuals, and departments have developed internal policies and procedure in line with the NT guidelines. Procedures are widely understood and followed, given the feedback from management of the departments. (A) (iii) Compliance with rules is high. (A)
PI-21	Effectiveness of internal audit	<b>C+</b>	(i) The Internal audit function and its oversight by audit committees is operational in all executive departments, focuses on systemic issues and substantially meets professional IIA standards (A) (ii) Reports are issued quarterly to the MEC, PT, Audit Committee and Auditor General (A) (iii) Findings are not always addressed in a timely manner and action plans to address root causes of findings are not adequate (C)
<b>C (iii) Accounting, Recording and Reporting</b>			
PI-22	Accounts Reconciliations	<b>B</b>	(i) The Provincial Revenue Fund and departmental bank accounts are reconciled to the cashbook monthly within 15 days of the end of the month (A) (ii) Although suspense (including advance) accounts are reconciled and cleared monthly, there are several long outstanding and uncleared items (C)
PI-23	Availability of information on resources received by service delivery units	<b>A</b>	Expenditure of individual health clinics and schools is tracked in year by the respective provincial departments which are able to monitor all resources received by clinics and schools using the <i>vulindela</i> system linked to BAS.
PI-24	Quality and timeliness of in-year budget reports	<b>C+</b>	(i) Comparison to the budget is available at each vote and main classification, but only for payments made, not commitments (C) (ii) Consolidated reports on the Provincial departments are submitted by PT monthly to NT issued within 21 days of the end of the month (A) (iii) There are no material concerns about data accuracy (A)
PI-25	Quality and timeliness of annual financial statements	<b>A</b>	(i) The latest annual financial statements include full information on revenue, expenditure, and all assets and liabilities (A) (ii) Annual statements are submitted for audit within 3 months of the year end (A) (iii) Provincial departmental and consolidated reports are presented in consistent format over time according to national standards (GRAP) which are based on IPSAS (A)
<b>C (iv) External Scrutiny and Audit</b>			
PI-26	Scope, nature and follow-up of external audit	<b>A</b>	(i) Audit by the Regional Auditor General covers 100% of expenditure, using ISA and INTOSAI standards. Audits cover financial regularity, compliance, performance, etc (A) (ii) Audit reports are submitted to the Provincial Legislature within 3 months of receipt of financial statements (A) (iii) Formal responses are made and commitments to implement corrective measures. Management response is closely monitored (A)

No.	Indicator	Scoring	Brief explanation
PI-27	Legislative scrutiny of the annual budget law	<b>A</b>	(i) Legislative scrutiny covers the MEFF, and national and provincial government priorities as well as the detailed estimates (A) (ii) Procedures are firmly established and respected and involve Portfolio Committees for all departments (A) (iii) The Portfolio Committees are involved in budget scrutiny from March to August, a period of 5 months (A) (iv) The PFM Act allows in-year amendments to the budget for a division within a vote by departmental accounting officers within limits and the limits are respected (A)
PI-28	Legislative scrutiny of external audit reports	<b>D+</b>	(i) Examination of most audit reports is not completed within 12 months of receipt. (D) (ii) In-depth hearings are held by SCOPA on the audit reports with responsible officers of all agencies (A) (iii) Actions are recommended to the executive and are generally implemented. (A)
<b>D. DONOR PRACTICES</b>			
D-1	Predictability of Direct Budget Support	<b>NA</b>	MPG receives no direct budget support. The indicator is not applicable. (NA)
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	<b>NA</b>	The amounts are insignificant. The indicator is not applicable. (NA)
D-3	Proportion of aid that is managed by use of national procedures	<b>NA</b>	Not applicable. (NA)

## Annex B

### Detailed calculations for performance indicators HLG-1, PI-1 and PI-2

HLG-1	Budget	Actual	Adj. Budget	Abs.Deviation
2011/12				
Office of the Premier			0	0
Mpumalanga Provincial Legislature			0	0
Department of Finance			0	0
Cooperative Governance and Traditional Affairs			0	0
				0
Agriculture, Rural Development and Land Administration	148,130	164,885	154,735	10,150
Economic Development , Environment and Tourism			0	0
Department of Education	1,275,088	1,415,165	1,331,947	83,218
Department of Public Works, Roads and Transport	1,510,666	1,690,316	1,578,030	112,286
Community Safety, Security and Liaison		196	0	196
Department of Health	1,219,022	1,228,656	1,273,381	44,725
Department of Culture, Sport and Recreation	104,879	104,879	109,556	4,677
Department of Social Development		0	0	0
Department of Human Settlements	916,677	916,677	957,553	40,876
Non-earmarked transfers	23,094,080	24,008,319	24,123,891	115,572

	28,268,542	29,529,093	29,529,093	411,700
<b>Composition variation</b>				1.4%
<b>Aggregate variance</b>				4.5%
<b>2012/13</b>	<b>Budget</b>	<b>Actual</b>	<b>Adj. Budget</b>	<b>Abs Deviation</b>
Office of the Premier			0	0
Mpumalanga Provincial Legislature			0	0
Department of Finance			0	0
Cooperative Governance and Traditional Affairs			0	0
Agriculture, Rural Development and Land Administration	167,787	171,356	171,601	245
Economic Development , Environment and Tourism		1,000	0	1,000
Department of Education	1,400,233	1,451,546	1,432,063	19,483
Department of Public Works, Roads and Transport	1,756,567	1,773,184	1,796,497	23,313
Community Safety, Security and Liaison		522	0	522
Department of Health	1,182,330	1,265,236	1,209,206	56,030
Department of Culture, Sport and Recreation	108,705	114,112	111,176	2,936
Department of Social Development			0	0
Department of Human Settlements	965,127	965,127	987,066	21,939

Unearmarked transfers	24,722,507	25,250,020	5,707,609	34,474
Total	30,303,256	30,992,103	30,992,103	159,942
<b>Composition variance</b>				0.5%
<b>Aggregate variance</b>				2.3%

2013/14	Budget	Actual	Adj. Budget	Abs Deviation
Office of the Premier		0		0
Mpumalanga Provincial Legislature				0
Department of Finance				0
Cooperative Governance and Traditional Affairs				0
Agriculture, Rural Development and Land Administration	190,936	190,699	194,082	3,383
Economic Development , Environment and Tourism	1,431	1,431	1,455	24
Department of Education	1,216,583	1,233,938	1,236,628	2,690
Department of Public Works, Roads and Transport	1,971,339	1,973,010	2,003,819	30,809
Community Safety, Security and Liaison	819	819	832	13
Department of Health	1,163,723	1,447,797	1,182,897	264,900
Department of Culture, Sport and Recreation	118,985	118,895	120,945	2,050
Department of Social Development			0	0

Department of Human Settlements	1,124,332	1,150,596	1,142,857	7,739
Unearmarked tfrs	27,146,927	27,360,539	27,594,209	233,670
Total	32,935,075	33,477,724	33,477,724	545,279
<b>Composition variance</b>				1.6%
<b>Aggregate variance</b>				1.6%

#### PI-1 and PI-2 CALCULATION

**Table 1 - Fiscal years for assessment**

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



**Table 2**

	Data for year = 2011/2012						
administrative or functional	budget	actual	adjusted budget	deviation	absolute deviation	percent	
Office of the Premier	147,253.0	144,554.0	146,109.0	-1,555.0	1,555.0	1.1%	
Mpumalanga Provincial Legislature	207,443.0	190,698.0	205,831.4	-15,133.4	15,133.4	7.4%	
Department of Finance	225,325.0	223,270.0	223,574.5	-304.5	304.5	0.1%	
Cooperative Governance and Traditional Affairs	464,599.0	477,549.0	460,989.6	16,559.4	16,559.4	3.6%	
Agriculture, Rural Development and Land Administration	957,873.0	951,603.0	950,431.5	1,171.5	1,171.5	0.1%	
Economic Development , Environment and Tourism	703,262.0	697,147.0	697,798.5	-651.5	651.5	0.1%	
Department of Education	13,149,309.0	13,024,202.0	13,047,154.6	-22,952.6	22,952.6	0.2%	
Department of Public Works, Roads and Transport	3,593,209.0	3,534,642.0	3,565,294.1	-30,652.1	30,652.1	0.9%	
Community Safety, Security and Liaison	452,799.0	788,195.0	449,281.3	338,913.7	338,913.7	75.4%	
Department of Health	7,345,486.0	7,022,897.0	7,288,420.4	-265,523.4	265,523.4	3.6%	
Department of Culture, Sport and Recreation	367,344.0	361,173.0	364,490.2	-3,317.2	3,317.2	0.9%	
Department of Social Development	961,091.0	927,196.0	953,624.5	-26,428.5	26,428.5	2.8%	
Department of Human Settlements	1,094,449.0	1,095,820.0	1,085,946.4	9,873.6	9,873.6	0.9%	
21 (= sum of rest)			0.0	0.0	0.0		
allocated expenditure	29,669,442.0	29,438,946.0	29,438,946.0	0.0	733,036.3		
contingency							

total expenditure	29,669,442.0	29,438,946.0				
overall (PI-1) variance						0.8%
composition (PI-2) variance						2.5%
contingency share of budget						0.0%

**Table 3**

**Data for year = 2012/2013**

administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Office of the Premier	164,926.0	163,862.0	163,812.5	49.5	49.5	0.0%
Mpumalanga Provincial Legislature	232,331.0	231,048.0	230,762.5	285.5	285.5	0.1%
Department of Finance	255,865.0	244,434.0	254,137.6	-9,703.6	9,703.6	3.8%
Cooperative Governance and Traditional Affairs	347,409.0	330,037.0	345,063.6	-15,026.6	15,026.6	4.4%
Agriculture, Rural Development and Land Administration	982,333.0	958,953.0	975,701.0	-16,748.0	16,748.0	1.7%
Economic Development , Environment and Tourism	792,640.0	789,215.0	787,288.7	1,926.3	1,926.3	0.2%
Department of Education	14,284,994.0	14,356,024.0	14,188,552.5	167,471.5	167,471.5	1.2%
Department of Public Works, Roads and Transport	3,527,481.0	3,523,082.0	3,503,666.1	19,415.9	19,415.9	0.6%
Community Safety, Security and Liaison	854,981.0	844,849.0	849,208.8	-4,359.8	4,359.8	0.5%
Department of Health	7,649,290.0	7,501,291.0	7,597,647.8	-96,356.8	96,356.8	1.3%
Department of Culture, Sport and Recreation	357,044.0	332,544.0	354,633.5	-22,089.5	22,089.5	6.2%
Department of Social Development	924,261.0	918,116.0	918,021.1	94.9	94.9	0.0%

Department of Human Settlements	1,179,744.0	1,146,820.0	1,171,779.3	-24,959.3	24,959.3	2.1%
21 (= sum of rest)			0.0	0.0	0.0	
allocated expenditure	31,553,299.0	31340275	31,340,275.0	0.0	378,487.1	
contingency		15136				
total expenditure	31,553,299.00	31355411				
overall (PI-1) variance						0.6%
composition (PI-2) variance						1.2%
contingency share of budget						0.0%

**Table 4**

**Data for year = 2013/2014**

administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Office of the Premier	208,427.0	277,643.0	205,626.6	72,016.4	72,016.4	35.0%
Mpumalanga Provincial Legislature	251,405.0	250,877.0	248,027.2	2,849.8	2,849.8	1.1%
Department of Finance	265,005.0	251,727.0	261,444.4	-9,717.4	9,717.4	3.7%
Cooperative Governance and Traditional Affairs	445,709.0	399,359.0	439,720.5	-40,361.5	40,361.5	9.2%
Agriculture, Rural Development and Land Administration	996,005.0	928,295.0	982,622.8	-54,327.8	54,327.8	5.5%
Economic Development, Environment and Tourism	812,109.0	831,040.0	801,197.6	29,842.4	29,842.4	3.7%
Department of Education	15,102,897.0	14,932,790	14,899,976.2	32,813.8	32,813.8	0.2%
Department of Public Works, Roads and Transport	3,953,210.0	3,947,153.0	3,900,095.1	47,057.9	47,057.9	1.2%
Community Safety, Security and Liaison	1,104,548.0	1,099,184.0	1,089,707.4	9,476.6	9,476.6	0.9%

Department of Health	8,121,974.0	8,065,397	8,012,848.1	52,548.9	52,548.9	0.7%
Department of Culture, Sport and Recreation	379,507.0	373,622.0	374,408.0	-786.0	786.0	0.2%
Department of Social Development	1,179,633.0	1,132,962.0	1,163,783.6	-30,821.6	30,821.6	2.6%
Department of Human Settlements	1,347,694.0	1,218,995.0	1,329,586.5	-110,591.5	110,591.5	8.3%

	21 (= sum of rest)		0.0	0.0	0.0	0
allocated expenditure	34,168,123.0	33,709,044.0	33,709,044.0	0.0	493,211.7	
contingency		70000				
total expenditure	34168123	33779044				
overall (PI-1) variance						1.1%
composition (PI-2) variance						1.5%
contingency share of budget						0.2%

**Table 5 - Results Matrix**

year	for PI-1	for PI-2 (i)
	total exp. deviation	composition variance
2011/2012	0.8%	2.5%
2012/2013	0.6%	1.2%
2013/2014	1.1%	1.5%

**Score for indicator PI-1:** A

**Score for indicator PI-2 (i)** A

**Score for indicator PI-2 (ii)** A

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

## Annex C

### List of Interviewees

Name	Position	Contact number	Email address
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GC Looek	Salaries	013-766-3551	<a href="mailto:glynishl@dsdmpu.gov.za">glynishl@dsdmpu.gov.za</a>
CS Chiloane	Financial Reporting	013-766-3055	<a href="mailto:clementc@dsdmpu.gov.za">clementc@dsdmpu.gov.za</a>
FS Shingange	Debtors & Revenue	013-766-3400	<a href="mailto:fortunes@dsdmpu.gov.za">fortunes@dsdmpu.gov.za</a>
TE Mahlangu	Supply Chain Management	013-766-3742	<a href="mailto:thulanem@dsd.mpu.gov.za">thulanem@dsd.mpu.gov.za</a>
TP Sibiya	Internal Audit	013-766-3603	<a href="mailto:patiences@dsdmpu.gov.za">patiences@dsdmpu.gov.za</a>
PC Mdluli	Internal Audit	013-766-3614	<a href="mailto:precious@dsdmpu.gov.za">precious@dsdmpu.gov.za</a>
TC Shabangu	Human Resources	013-766-3232	<a href="mailto:thembis@dsdmpu.gov.za">thembis@dsdmpu.gov.za</a>
<b>Mpumalanga Provincial Legislature</b>			
PM Kola	Manager Portfolio Committee on Finance	013-766-1055	<a href="mailto:prudence@mpuleg.gov.za">prudence@mpuleg.gov.za</a>
R Davis	National Council of Provinces Coordinator	013-766-1378	<a href="mailto:rietted@mpuleg.gov.za">rietted@mpuleg.gov.za</a>
HK Moselakgono	Coordinator-SCOPA	013-766-1150	<a href="mailto:hezekielm@mpuleg.gov.za">hezekielm@mpuleg.gov.za</a>
G Sibiya	Manager-SCOPA	013-766-1205	<a href="mailto:scopa@mpuleg.gov.za">scopa@mpuleg.gov.za</a>
N Msibi	Coordinator-SCOPA	013-766-1124	<a href="mailto:mpumim@mpuleg.gov.za">mpumim@mpuleg.gov.za</a>

P Makhubela	Coordinator-SCOPA	013-766-1175	<a href="mailto:promise@mpuleg.gov.za">promise@mpuleg.gov.za</a>
<b>Mpumalanga Gambling Board</b>			
L Maseko	Chief Financial Officer	013-750-8000	<a href="mailto:lucasm@mgb.org.za">lucasm@mgb.org.za</a>
Andre Otto	Manager Investigations and Licensing	013-750-8000	<a href="mailto:andreo@mgb.org.za">andreo@mgb.org.za</a>
Y Sihlobo	Manager Gambling Audit	013-750-8000	<a href="mailto:yondelas@mgb.org.za">yondelas@mgb.org.za</a>
M Juchniewis	Manager Gambling Audit	013-750-8000	<a href="mailto:mikej@mgb.org.za">mikej@mgb.org.za</a>
<b>Auditor General of South Africa</b>			
B Bhobho	Deputy Business Executive	013-756-0800	<a href="mailto:bbhobho@agsa.co.za">bbhobho@agsa.co.za</a>

## Annex D

### Documents used

Indicator	Documents	Website
PI-1	<ul style="list-style-type: none"> <li>Estimate of Provincial Revenue and Expenditure (EPRE) 2014</li> <li>In year monitoring report 1<sup>st</sup> quarter 2015</li> </ul>	<a href="http://finance.mpu.gov.za/">http://finance.mpu.gov.za/</a> <a href="http://www.treasury.gov.za">www.treasury.gov.za</a>
PI-2	<ul style="list-style-type: none"> <li>Estimate of Provincial Revenue and Expenditure (EPRE) 2014</li> <li>In year monitoring report 1<sup>st</sup> quarter 2015</li> </ul>	<a href="http://finance.mpu.gov.za/">http://finance.mpu.gov.za</a> <a href="http://www.treasury.gov.za">www.treasury.gov.za</a>
PI-3	Annual Consolidated financial statements 2014	<a href="http://finance.mpu.gov.za">http://finance.mpu.gov.za</a>
PI-4	Annual reports 2013/2014 financial year (All departments)	<a href="http://finance.mpu.gov.za/">http://finance.mpu.gov.za/</a> <a href="http://www.treasury.gov.za">www.treasury.gov.za</a>
PI-5	Estimate of Provincial Revenue and Expenditure (EPRE) 2014	<a href="http://finance.mpu.gov.za">http://finance.mpu.gov.za</a>
PI-6	Estimate of Provincial Revenue and Expenditure (EPRE) 2014	<a href="http://finance.mpu.gov.za">http://finance.mpu.gov.za</a>
PI-7	<ul style="list-style-type: none"> <li>Annual reports of the public entities and supervising departments.</li> </ul>	<a href="http://finance.mpu.gov.za/">http://finance.mpu.gov.za/</a> <a href="http://www.treasury.gov.za">www.treasury.gov.za</a>
PI-8	<ul style="list-style-type: none"> <li>Provincial Gazette No.2154 and 2165</li> <li>Estimate of Provincial Revenue and Expenditure (EPRE) 2014</li> </ul>	<a href="http://finance.mpu.gov.za/">http://finance.mpu.gov.za/</a> <a href="http://www.treasury.gov.za">www.treasury.gov.za</a>
PI-9	<ul style="list-style-type: none"> <li>In year monitoring reports 2013/2014</li> <li>Public Finance Management Act of 1999, revised in 2013</li> </ul>	<a href="http://finance.mpu.gov.za/">http://finance.mpu.gov.za/</a> <a href="http://www.treasury.gov.za">www.treasury.gov.za</a>
PI-10	<ul style="list-style-type: none"> <li>Annual Reports all departments 2013/2014</li> <li>Budget speech document 2013/2014</li> <li>In year monitoring reports 2013/2014</li> </ul>	<a href="http://finance.mpu.gov.za/">http://finance.mpu.gov.za/</a> <a href="http://www.treasury.gov.za">www.treasury.gov.za</a>
PI-11	Medium Term Expenditure Framework 2013/2014	
PI-12	<ul style="list-style-type: none"> <li>Annual Performance Plans (All departments)</li> <li>Medium Term Expenditure Framework 2013/2014</li> </ul>	<a href="http://finance.mpu.gov.za/">http://finance.mpu.gov.za/</a> <a href="http://www.treasury.gov.za">www.treasury.gov.za</a>
PI-13	<ul style="list-style-type: none"> <li>The National Road Traffic Act, 1996 (NRTA)</li> <li>Gambling Levies Act and</li> </ul>	<a href="http://www.treasury.gov.za">www.treasury.gov.za</a>

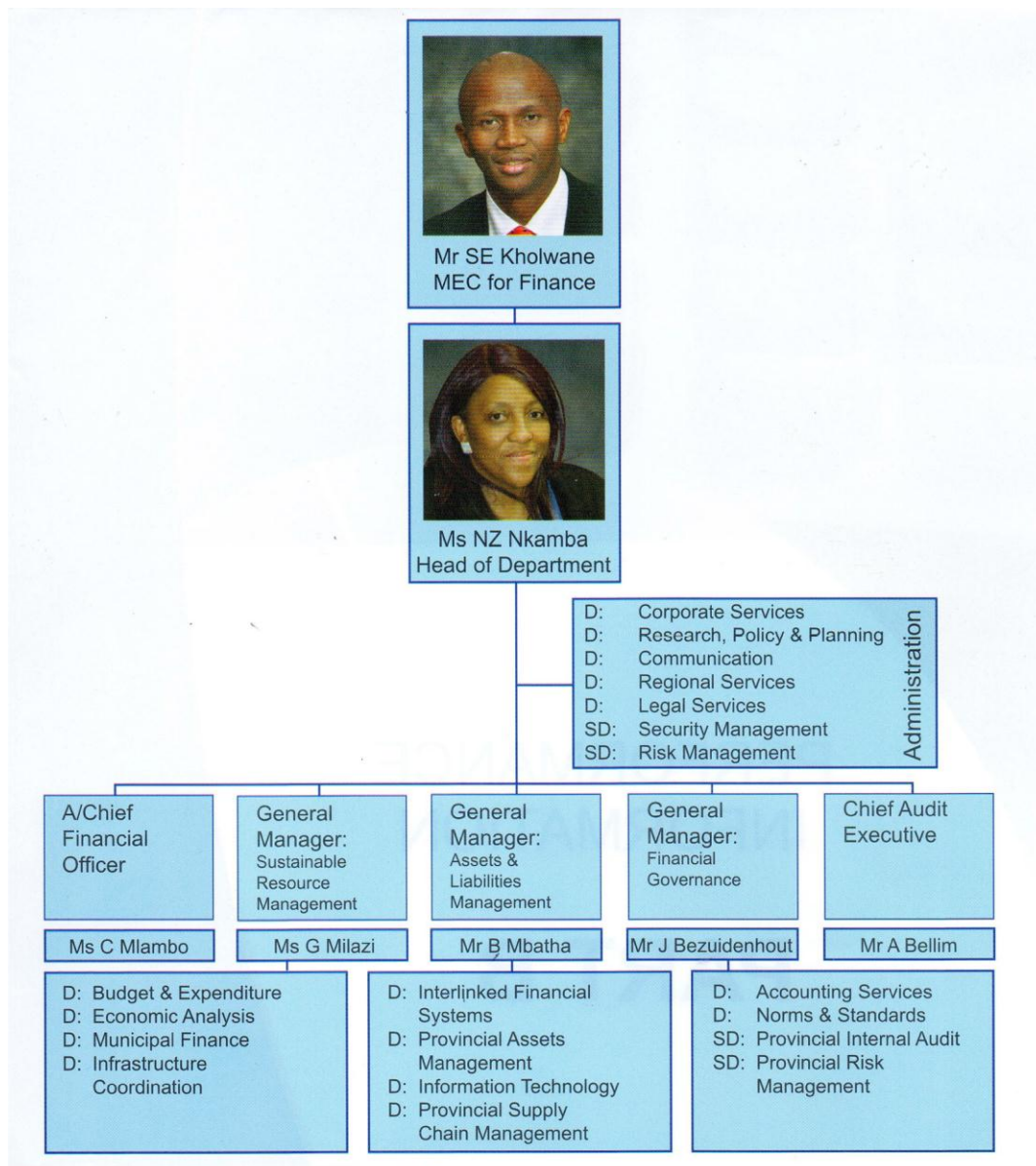
	Mpumalanga Gambling Act of 1995	
PI-14	Annual Reports (Relevant departments)	<a href="http://finance.mpu.gov.za/">http://finance.mpu.gov.za/</a> www.treasury.gov.za
PI-15	<ul style="list-style-type: none"> <li>• Annual Reports (Relevant departments)</li> <li>• Medium Term Expenditure Framework 2013/2014</li> </ul>	<a href="http://finance.mpu.gov.za/">http://finance.mpu.gov.za/</a> www.treasury.gov.za
PI-16	Division of Revenue Act (DORA) 2013/2014	<a href="http://finance.mpu.gov.za/">http://finance.mpu.gov.za/</a> www.treasury.gov.za
PI-17	Public Finance Management Act of 1999, revised in 2013	<a href="http://finance.mpu.gov.za/">http://finance.mpu.gov.za/</a> www.treasury.gov.za
PI-18	Public Service Act and Public Service Regulations	<a href="http://finance.mpu.gov.za/">http://finance.mpu.gov.za/</a> www.treasury.gov.za
PI-19	<ul style="list-style-type: none"> <li>• SCM Regulations (8 June 2011)</li> <li>• Preferential Procurement Policy Framework Act (PPPFA)</li> <li>• Competition Act of South Africa</li> <li>• Promotion of Access to Information Act 2000</li> </ul>	<a href="http://finance.mpu.gov.za/">http://finance.mpu.gov.za/</a> www.treasury.gov.za
PI-20	Annual Reports for departments 2013/2014	<a href="http://finance.mpu.gov.za/">http://finance.mpu.gov.za/</a> www.treasury.gov.za
PI-21	<ul style="list-style-type: none"> <li>• Quarterly internal audit reports</li> <li>• National Treasury internal audit guide</li> <li>• Internal audit plan</li> </ul>	<a href="http://finance.mpu.gov.za/">http://finance.mpu.gov.za/</a> www.treasury.gov.za
PI-22	Suspense accounts clearing reports from all departments for 2013/2014	
PI-23	<ul style="list-style-type: none"> <li>• Vulindlela reports for Departments of Health and Education</li> <li>• Annual Reports 2013/2014 , Departments of Health and Education</li> </ul>	<a href="http://finance.mpu.gov.za/">http://finance.mpu.gov.za/</a> www.treasury.gov.za
PI-24	In year budget monitoring reports 2013/2014	<a href="http://finance.mpu.gov.za/">http://finance.mpu.gov.za/</a> www.treasury.gov.za
PI-25	<ul style="list-style-type: none"> <li>• Public Finance Management Act of 1999, revised in 2013</li> <li>• Auditor General's report on departments submissions</li> </ul>	<a href="http://finance.mpu.gov.za/">http://finance.mpu.gov.za/</a> <a href="http://www.treasury.gov.za">www.treasury.gov.za</a> www.agsa.gov.za
PI-26	<ul style="list-style-type: none"> <li>• Provincial report by the Auditor General 2013/2014</li> <li>• Annual reports 2013/2014 , including the resolutions taken by the departments</li> </ul>	<a href="http://finance.mpu.gov.za/">http://finance.mpu.gov.za/</a> <a href="http://www.treasury.gov.za">www.treasury.gov.za</a> www.agsa.gov.za

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	<ul style="list-style-type: none"><li>• Dashboard reports with commitments by departments</li></ul>	
PI-27	Portfolio committee reports	
PI-28	SCOPA Reports 2013/2014	

# Annex E

## Organisational Structure of Department of Finance





## Annex F

### PEFA Secretariat Comments and Team Responses

General Comments		Responses by Assessment Team
Justifications in scoring box not consistent, sometimes repeat Framework minimum requirement		Justifications made more complete, minimum requirements deleted.
No overview table with short explanation for each score		Overview table added at Annex A.
No information on funding of assessment and governance arrangements		To be completed by ACE, with reference to other provincial assessments done and how they are being harmonised
No evidence obtained from private sector or civil society		Several attempts were made to meet private sector and civil society representatives without success. However the team is confident that their evidence would not materially affect the scoring of indicators on tax administration, procurement, or access to fiscal information
Inconsistency between 1.1 and 1.3 on coverage of the public entities		Section 1.3 corrected to remove inconsistency
Not eligible for PEFA CHECK endorsement, as TOR were not reviewed by PEFA Secretariat		The draft report has had multiple QA reviews.
No link between key economic data and fiscal data in section 2		Economic and fiscal analysis is not required in a PEFA assessment
No information on how the Executive Council is formed		Text added in section 1.3
No clear story line in the Summary assessment		Paragraph added to section on PFM reforms to make the story more clear
Implications of weaknesses not brought out in the Summary Assessment		The Summary assessment follows the Framework requirements, first a detailing of weaknesses in each of the six dimensions of PFM, then an assessment of the implications of the weaknesses on each of the three budgetary goals. No change.
Indicator/ dimension	Comments on evidence and rating	Responses by Assessment Team
HLG-1 (i)	Appears correctly rated A on the basis of adequate evidence provided.	
(ii)	Appears correctly rated A on the basis of adequate evidence provided.	
(iii)	Rated A but uncertain.  The report explains page 17 that " <i>the 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</i> ". There is no information about when DORA is passed. Please clarify.	DORA for 2013/14 was passed 10 June 2013. Narrative added.
Overall	Correctly combined to A but now uncertain.	
PI-1	Appears correctly rated A on the basis of adequate evidence provided.	
PI-2 (i)	Appears correctly rated A on the basis of evidence provided.	
(ii)	Marked NA but should be rated A based on the adequate evidence provided (as 0% is less than 3%)	Score changed to A.
Overall	Correctly combined to A in any case.	
PI-3	Appears correctly rated A on the basis of adequate evidence provided.	
PI-4 (i)	Rated A but uncertain.  The narrative is confusing. It refers to the general definition of arrears but the evidence appears to cover only expenditure made through purchase orders (goods and services) and not other expenditure (salaries, employer social contributions, debt service, rents, utilities...).	No arrears on these categories. Text added. However, arrears were 2.3% of total expenditure at the critical date, so rating should be B.
(ii)	Rated A but uncertain.  The comment under dim (i) applies to dim (ii) as well. In addition, the narrative explains that " <i>there is</i>	Rating changed to B, as arrears (>30 days old) are not aged.

	<i>however no clear distinction or age analysis details on what is due over 30 days". A requires that an age profile is included.</i>	
	Please clarify.	
Overall	Correctly combined to A but now uncertain.	Overall rating changed to B
PI-5	Appears correctly rated A on the basis of adequate evidence provided.	
PI-6	Appears correctly rated A on the basis of evidence provided.  Note: both elements 2 and 3 could be given 'yes' as a balanced budget has a deficit of zero with no financing needs (will not change rating). Moreover, in the text and for elements 6, 7 and 8 it would be helpful to use more precise terms as regards the year for which the budget is presented, the current year and each prior year.	Elements 2 and 3 do not apply, and are removed from the assessment. No change.  Explanatory text added to definition of PEFA terms.
PI-7 (i)	Appears correctly rated A on the basis of adequate evidence provided.  Note: The unreported part of the AGA expenditure adds up to 0.37% (not " <i>less than 0.1%</i> " as stated, very likely a typo).	Typo (0.1%) corrected to 1%.
(ii)	Appears correctly rated A on the basis of adequate evidence provided.	
Overall	Correctly combined to A.	
PI-8 (i)	Rated B but uncertain.  Most of the evidence refers to property rates and taxes which can hardly be considered grants and are presumably also paid by private property owners (the guidance for the indicator is focused on transfers in terms of grants).  Please clarify.	MPG DPWRT makes grants to municipalities out of their collections of property taxes (shared revenue). No change.
(ii)	Rated B but uncertain.  Comment under dim (i) applies as well to dim (ii). In addition, it is unclear when the information is provided to municipalities. The actual date would enable to verify the score. Please clarify.	The municipalities submit invoices for this grant, so they know the amounts independently of MPG. The dimension does not apply.
(iii)	Rated A but uncertain.  The evidence refers to ex-post fiscal data only (i.e. accounts) and omits ex-ante data (budgets). Moreover, further requirements for an A are not evidenced namely that municipal data be consolidated with MPG data – which would in any case be difficult when they have different FYs and different accounting standards (ref. PI-5).  Please clarify.	Budget data is consolidated as part of the budget process in March (this is in the text). The requirement is only for consolidation of the municipalities, not for further consolidation of municipalities with the province. (A general government consolidation is being tried at national level). No change.
Overall	Correctly combined to B+ but now uncertain.	
PI-9 (i)	Appears correctly rated C on the basis of adequate evidence provided.	
(ii)	Rated C but uncertain.  The narrative explains that " <i>local governments cannot generate fiscal liabilities for central government</i> " and " <i>neither Provincial Treasury nor national Treasury is liable to honour the debt of a municipality should the municipality default</i> ". The score would justify A.  Please consider revising.	The lack of a consolidated overview of fiscal risk prevents a score of A or B (as in many other governments and SNGs). The narrative refers to the legal position, not the actual practice nor the implicit contingent liability of HLG for a municipality that cannot pay its debts.
Overall	Correctly combined to C but now uncertain.	
PI-10	Rated A but uncertain.  Evidence for element 3 is inadequate : The narrative refers to " <i>on request</i> " which does not	Throughout SA and its provinces, there is a high standard of transparency, usually by posting on a website, often supplemented through other channels as described. All the required information elements are available to any member

	<p>count as “public access” and the summary table refers to “copies are provided free of charge at the PT office” which has not been confirmed by non-state actors. Please note that notifications of license charges and traffic fines to individuals do not count as publicly available information. It is the standard charges/rates/fines that should be available.</p> <p>In addition, according to the PEFA methodology (see Guidelines for the application of the PEFA Framework to Sub-National Governments), 2 additional elements could be considered in the case of a SN assessment:  -An element of information covering fees, charges and taxes (if any) that belong legally to the SN entity (collected locally or by the Central Tax office);  -Because a SN entity is generally closer to users than at the Central Government, an element of public information should refer to services provided to the community such as potable water, sewage, illumination etc.</p> <p>The narrative under PI-10 does not refer to any of those elements and does not explain why they are not retained in the specific case of the Mpumalanga Province. Please clarify.</p>	<p>of the public.</p> <p>We were unable to meet any non-state actors, but members of the team obtained Bid Bulletins and other hard copy documents by application at the relevant outlet.</p> <p>On item 7, text has been amended to make it clear that it is the standard fees and fines that are publicly available, not the individual fines, etc.  Of the 2 additional items in the SNG Guidelines the first (fees and charges) is covered (item 7), and the second (services provided to the community) is covered in the annual reports of MPG, which are also publicly accessible.  Text added.</p> <p>An A is fully justified.</p>
PI-11 (i)	Appears correctly rated A on the basis of adequate evidence provided.	
(ii)	Rated A but uncertain.  Do the budget circular issued in June reflect ceilings “approved by the Cabinet” as required for an A (and a B)? Please clarify.	Yes, ceilings are approved by the Executive Council. Text added.
(iii)	Appears correctly rated D on the basis of adequate evidence provided.	
Overall	Correctly combined to B but now uncertain.	
PI-12 (i)	Rated A but uncertain.  The narrative describes the requirements at the national and provincial levels but do not say anything about what has been actually done by the provincial government during the last 2 completed years (i.e. 2012-2013 and 2013-2014). Please clarify.	The narrative clearly sets out the procedure by which MPG prepares its three-year MT Strategic Framework (fiscal aggregates) and updates it annually (including the last two completed years). The comment is not understood.
(ii)	NA appears correct on the basis of adequate evidence.	
(iii)	Rated B but uncertain.  The narrative refers to “expected to” and “required to” instead to explaining what actually happens and when it did. The B rating indicates that not all departments did what they were supposed to do but there is no explanation of which did or did not do it.  No evidence is provided to justify the score. Please clarify.	Text changed.  Lack of full information on sector strategies did not allow an A rating.
(iv)	Rated B but uncertain. No evidence is provided to justify the score. Please clarify.	Paragraph describes how investment decisions are made.
Overall	Correctly combined to B+ but now uncertain.	
PI-13 (i)	Rated A but uncertain.  It would be helpful to explain what discretionary powers the departments have (in respect of motor vehicle and gambling taxes) so that the reader may understand their limitations (one such power is mentioned under PI-14(ii) 3 <sup>rd</sup> paragraph).  Please clarify.	No other discretionary powers are known. They are strictly limited, justifying an A score.
(ii)	Rated B but uncertain.  The narrative says that “information is	Three out of four taxes are governed by comprehensive

	<p><i>comprehensive and clear on the gambling taxes, but not on motor vehicle licenses</i>". As they represent the bulk of tax, the situation described corresponds to a C, but the evidence contains no explanation of what is missing or unclear about the motor vehicle licenses.</p> <p>Please consider revising.</p>	and clear legislation and procedures, justifying a B rating.
(iii)	<p>Rated C but is uncertain.</p> <p>The evidence is thin concerning what the internal appeals procedure consist. Why is it not transparent? Why does it need to be redesigned?</p> <p>Please consider revising.</p>	The dimension is marked down to C as the procedure is not independent. This would be a substantial redesign, but appeals are rare and the amounts involved are small, so it would probably not be cost-effective.
Overall	Correctly combined to B but now uncertain.	
PI-14 (i)	Appears correctly rated A on the basis of adequate evidence provided.	
(ii)	<p>Rated A but uncertain.</p> <p>Evidence is provided for the vehicle licenses but needs to be strengthened for gambling taxes. On the latter, practically all the evidence concerns late payment which is not the subject of the indicator. What penalties are there for e.g. conducting gambling operations without having obtained a license at all? Moreover there is no evidence on whether the penalties are effective. Who enforces the legislation and how often do they find non-compliance?</p> <p>Please clarify.</p>	On gambling taxes, the scoring is based on the effectiveness of penalties for non-compliance (mainly late payments), which is the subject of the dimension. The industry is tightly regulated and rules are enforced by the Gambling Board, as stated. The amounts involved do not justify further enquiry.
(iii)	<p>Rated A but uncertain.</p> <p>The narrative explains that departments do not conduct audits on vehicles taxes. As far as gambling licenses are concerned, "<i>the Gambling Board itself audits the controls around the revenue from gambling activities including its accuracy</i>". But in both cases, the narrative does not mention any risk assessment.</p> <p>Please consider revising.</p>	The text explains who conducts audits on tax collections (Internal Audit Units) and that their rolling audit plans are based on clear risk assessment criteria.
Overall	Correctly combined to A but now uncertain.	
PI-15 (i)	<p>Rated D but uncertain.</p> <p>The critical period under review is the last 2 completed fiscal years, i.e. 2013-2014 and 2012-2013. Arrears are significant for both years, but the collection rate has not been provided for the dominant tax (vehicles licenses) and only for one year as regards gambling taxes. An assumption is not evidence.</p> <p>Please clarify.</p>	The assessment was made on the two taxes jointly. The evidence shows that arrears of R 186.6m at 31 March 2013 grew to 240.4m by 31 March 2014. Total revenue collection was 491.9m that year. The collection ratio must be below 60% on any reasonable assumption on the split of collections between opening arrears and current year assessments.
(ii)	Appears correctly rated C on the basis of adequate evidence provided.	
(iii)	<p>Rated C but the evidence suggests it should be D.</p> <p>The narrative says page 42 that "<i>there is no overall statement showing opening arrears, assessments, collections and closing arrears</i>". There is no mention of reconciliation with transfers. This description corresponds to a D.</p> <p>Please consider revising.</p>	<p>Dimension downgraded to D.</p> <p>Text says transfers are reconciled monthly.</p>
Overall	Correctly combined to D+ but now uncertain.	
PI-16 (i)	<p>Rated A but uncertain.</p> <p>The narrative under PI-16 refers to the rules applicable to National Treasury and Provincial Treasury but does not explain what is actually</p>	Departments make monthly cash requests to PT, based on their re-forecast requirements. Past outflows may be more or less than forecast, or earlier or later than forecast, and

	done. In addition, it is unclear when and how outflows are taken into account to update monthly cash flow forecast.  Please clarify.	thus affect future expected outflows.
(ii)	Rated A but uncertain.  There is no evidence provided on the horizon and ceilings under which each department can make commitments (though evidence for PI-20(i) suggests it is simply the annual budget allocation. If so, it should be clearly stated here). The narrative page 44 refers to the payment schedule set in the DORA of each year. Uncertainty raised under PI-8 (ii) reflects on this dimension as well.  Please clarify.	It is clearly stated that departments can plan and commit expenditure for the whole year in advance. This is mainly due to the high reliability of the disbursement schedule from HLG.  The uncertainty raised under PI-8 (ii) applies only to the timing of intimation of municipal allocations, not NT allocations to provinces.
(iii)	Rated A but uncertain.  The narrative page 44 does not explain to what extent in-year adjustments are done in a transparent and predictable way. What powers does the PT have to adjust budgets, if any?  Please clarify.	The in-year adjustment each October goes through the same transparent process as the original budget.  Text added on the powers of departmental Accounting Officers and the PT with regard to virement transfers.
Overall	Correctly combined to A but now uncertain.	
PI-17 (i)	NA appears correct on the basis of adequate evidence.	
(ii)	Rated A but uncertain.  The narrative page 46 refers to the fact that <i>"the CMD has access to the PMG accounts, and monitors them daily"</i> . What does <i>"monitoring"</i> covers? Are PMG accounts consolidated daily? It should also be explicitly stated that there are no accounts held by the MPG outside the PMG and Treasury accounts  Please clarify.	As stated in the text, CMD monitors through continuous access to departmental bank accounts and checks that they reflect the expected cash flows. Any surplus balances can be recalled. Text added that all bank accounts are PMG accounts or Treasury accounts (no donor accounts).
(iii)	NA appears correct on the basis of adequate evidence.	
Overall	Correctly combined to A but now uncertain.	
PI-18 (i)	Appears correctly rated A on the basis of adequate evidence provided.	
(ii)	Rated B but uncertain.  The narrative page 48 refers to the <i>"delay in the timely processing of changes for the larger departments such as health and education"</i> , while it is rare for the payroll changes to extend beyond two pay periods for smaller departments. What is the specific amount of time needed for health and education? How was the <i>"up to three month delay"</i> computed between smaller and larger departments? Additional information would be useful to support the score.  Please clarify.	Delays in health and education arise because information on changes in the school and clinic personnel has to pass through a number of offices. There is no specific period of delay, as each case is different. The evidence relies on the judgement of experienced officers in sample departments.
(iii)	Appears correctly rated B on the basis of adequate evidence provided.  Note: The segregation of functions as described page 47, controls and procedures as well as audit trails built in the HR and payroll systems are requirements that correspond to an A. Nevertheless, they are not enforced as <i>"audit trails [...] may be undermined by the sharing of passwords"</i> .	Agreed
(iv)	Appears correctly rated A on the basis of adequate evidence provided.	
Overall	Correctly combined to B+ but now uncertain.	
PI-19 (i)	Rated C but uncertain. Element (i) is 'met' in the table, but the	Hierarchy and precedence are not clear: element (i) has

	narrative says “ <i>multiple laws and regulations complicate the function</i> ”. It should be explained how hierarchy and precedence is established among the many laws. Element (ii) is ‘met’ in the table but nothing is said about how the public has free and easy access to all laws and regulations. The access to information act may provide access but probably not “easily”. Element (iii) is ‘no’ in the table, but footnote says that the competition law provides for a competition appeals court. The court may not have been established – ref. dim (iv) – but it is sufficient for dim (i) if it is provided in the law.	been changed to ‘Not met’.  Laws and regulations are easily accessible on Treasury websites (added to text)  Changed to ‘Yes’ as Competition Act of 1998 provides for a Competition Appeal Court, even though it was not established.  Total is still 3 out of 6. No change to C score.
(ii)	Appears correctly rated D on the basis of adequate evidence provided.	
(iii)	Appears correctly rated D on the basis of adequate evidence provided.	
(iv)	Appears correctly rated D on the basis of adequate evidence provided, assuming that the competition appeals court mentioned in footnote 36 has not been established (should be stated).	Now stated.
Overall	Correctly combined to D but now uncertain.	
PI-20 (i)	Appears correctly rated A on the basis of adequate evidence provided (but needs to be cross-referenced to PI-16(ii)).	PI-20 (i) and PI-16 (ii) are not related.
(ii)	Rated A but uncertain. Additional information is needed to support the score.  Please clarify.	No further information available.
(iii)	Rated A but uncertain. It requires that information is provided concerning the extent of use of simplified and emergency procedures against which the identified non-compliance can be measured.  Please clarify.	No quantitative data available on the extent of simplified and emergency procedures. This dimension is scored on professional judgement.
Overall	Correctly combined to A but now uncertain.	
PI-21 (i)	Appears correctly rated A on the basis of adequate evidence provided.	
(ii)	Rated A but uncertain.  A requires that the report should be distributed to the audited entity, which is not explicitly described as part of the evidence. Moreover, the distribution to the Auditor General (scoring box) appears as an afterthought as it is not mentioned in the narrative. How and when does it reach the Auditor General?  Please clarify.	Internal audit reports are sent to the Audit Committee of each audited entity (stated in the text). The Auditor General has access at any time to all internal audit reports, and uses them as he thinks fit. This is counted as distribution.
(iii)	Appears correctly rated C on the basis of adequate evidence provided.	
Overall	Correctly combined to C+ but now uncertain.	
PI-22 (i)	Rated A but uncertain.  The departments are “ <i>required to</i> ” reconcile the PMG accounts monthly but there is no evidence provided that this actually happens.	Text changed.
(ii)	Rated B but uncertain.  The narrative describes the process for suspense accounts but does not say anything about advance accounts. If there is no advance account, the report should say so. It should also be explained why a B rating is more appropriate than C, given the widespread non-clearance of debit balances.  Please clarify.	Advance accounts are also suspense accounts. In SA, the same term is applied whether they are debit or credit balances. Explanation added.
Overall	Correctly combined to B+ but now uncertain.	

PI-23	Rated A but uncertain.  There is no evidence that resources reaching the frontline service delivery units can be separated from any general and administrative expenditure under each program (the core requirement of the indicator).  Please clarify.	The chart of accounts that applies across all levels of government and all service delivery units provides data on resources received by them.
PI-24 (i)	Appears correctly rated C on the basis of adequate evidence provided.  Note: the statement " <i>commitments ..... cannot be captured on the BAS</i> " contradicts and undermines evidence for PI-20(i) 2 <sup>nd</sup> bullet.  Please clarify.	The BAS captures commitments, but they are not reported. Correction made.
(ii)	Appears correctly rated A on the basis of adequate evidence provided.	
(iii)	Rated A but uncertain.  The 3 <sup>rd</sup> paragraph highlights a risk of inaccuracy, whereas the meaning of the less than 1% difference in the last paragraph is not clear. If the latter is a difference on the aggregate, it may not be very useful as there could be larger inaccuracies at the more detailed level. Please clarify.	Sentence on 1% difference deleted. There is no material concern on data accuracy.
Overall	Correctly combined to C+.	
PI-25 (i)	Appears correctly rated A on the basis of evidence provided, but it would be useful to explain specifically what assets and liabilities are reported and how under modified cash accounting.	All assets and liabilities are reported under the modified cash basis, in accordance with the South African standard (GRAP), with temporary exemption from the requirement to consolidate the statements of departments and of public entities (AGAs) that use the accrual basis. Assets include inventories, biological assets, and property, plant and equipment.
(ii)	A rating may be correct but the actual date when the last annual financial statement has been submitted for external audit should be provided to support the score.  Please clarify.	The consolidated financial statements for the year to 31 March 2014 were issued on 29 September 2014. Text added.
(iii)	Appears correctly rated A on the basis of adequate evidence provided.	
Overall	Correctly combined to A but now uncertain.	
PI-26 (i)	Appears correctly rated A on the basis of adequate evidence provided.	
(ii)	Rated B but evidence is inadequate.  The actual date when the last annual audit report has been submitted to the legislature should be provided to support the score. As the date of submission of the financial statements to the Auditor General is also not provided (ref. PI-25) it becomes impossible to get a clear idea of the time taken by the AG to audit the AFS.  Please clarify.	The audit report on the consolidated financial statements for 2013/14 was issued on 30 September 2014, in accordance with the statutory requirement. Text added.
(iii)	Appears correctly rated A on the basis of adequate evidence provided.	
Overall	Correctly combined to B+ but now uncertain.	
PI-27 (i)	Rated A but uncertain. The scoring box refers to legislative review of the MTEF and policy priorities but nothing in the narrative supports this assertion or provides details e.g. of the procedures and timing (which should be prior to issue of the MTEF guidelines).  Note: the summary of scores page 67 could refer to details of expenditure and revenue, as they are comprised under the description made in the narrative.	In MPG, the MTEF, issued in June (12 months before the start of year), provides the fiscal framework (resource pool), as well as the allocation of resources and the setting of ceilings. There is continuous engagement of departments, portfolio committees and the PT in budget preparation.
(ii)	Appears correctly rated A on the basis of adequate evidence provided.	

(iii)	Appears correctly rated A on the basis of adequate evidence provided.	
(iv)	Rated A but uncertain.  There is no explanation of what amendments require legislative approval and which ones may be undertaken by the executive (Ref. also P-16(iii)).  Please clarify.	Any increases in allocations to main divisions of a vote require legislative approval. Text added.
Overall	Correctly combined to A but now uncertain.	
PI-28 (i)	Appears correctly rated D on the basis of adequate evidence provided.	
(ii)	Appears correctly rated A on the basis of adequate evidence provided.	
(iii)	Rated A but uncertain.  The narrative page 69 says that " <i>an overview on whether the Provincial Departments are following up with prior year issues that might already been included in the Legislative resolutions</i> ". There is no clear evidence that the legislature issued recommendations as required for A, B and C nor what degree of implementation takes place.  Please clarify.	SCOPA issues recommendations. Text added.
Overall	Correctly combined to D+. Changes to dim (iii) would not affect the combination.	
D-1 (i)	NA appears correct based on adequate evidence.	
(ii)	NA appears correct based on adequate evidence.	
Overall	NA is correct.	
D-2 (i)	NA appears correct based on adequate evidence.	
(ii)	NA appears correct based on adequate evidence.	
Overall	NA is correct.	
D-3	NA appears correct based on adequate evidence.	