

5. The 2014 Budgetary Review and Recommendations Report of the Standing Committee on Finance on the National Treasury, dated 05 November 2014

The Standing Committee on Finance, having assessed the performance of the National Treasury for the 2013/14 financial year, and the first half of the 2014/15 financial year reports as follows:

1. CORE FUNCTIONS AND POLICY PRIORITIES OF NATIONAL TREASURY

The legislative mandate of the National Treasury includes developing and prescribing measures to ensure equitable resource allocation and proper expenditure control in each sphere of government, as well as to ensure that this function is executed in a transparent manner. The Treasury's role in this regard is to ensure that appropriated funds are transferred to departments for implementation of government priorities, and that government expenditure is continuously monitored. The primary function of the National Treasury is to support economic growth and development, promote good governance and social progress through fostering accountable, economical, efficient, equitable and sustainable management of public finances.

2. FINANCIAL PERFORMANCE – 2013/14

2.1 2013/14 Budget

Table 1: Budget Allocations

Programme	Budget				Nominal Rand change	Nominal % change	Real % change
	2012/13	2013/14	2014/15	2015/16	2013/14-2014/15	2013/14-2014/15	
R million							
Administration	296.7	356.4	343.1	360.5	-13.3	-3.74%	-8.93%
Economic Policy, Tax, Financial Regulation and Research	111.2	133.9	138.9	146.3	5.0	3.72%	-1.87%
Public Finance and Budget Management	232.8	231.3	262.8	276.7	31.5	13.63%	7.50%
Asset and Liability Management	278.2	2 994.0	3 342.1	3 117.9	348.1	11.63%	5.61%
Financial Systems and Accounting	639.3	734.7	761.6	790.5	26.9	3.66%	-1.93%
International Financial Relations	1 003.1	1 092.0	1 179.8	1 235.2	87.8	8.04%	2.22%
Civil and Military Pensions, Contributions to Funds	3 343.6	3 497.0	3 717.8	3 962.9	220.8	6.31%	0.58%
Technical Support and Development Finance	1 982.6	2 484.0	3 712.2	3 206.9	1 228.3	49.45%	41.39%
Revenue Administration	9 149.4	9 534.4	9 440.3	9 898.7 1	-94.1	-0.99%	-6.33%
Financial Intelligence and State Security	3 982.1	4 174.6	4 336.3	4 524.8	161.8	3.87%	-1.73%
TOTAL	21 019.0	25 232.3	27 234.9	17 621.7	2 002.7	7.94%	2.12%

(Source: National Treasury 2014 – Vote 10: National Treasury)

National Treasury received a budget of R474.3 billion in 2013/14, of which R449 billion, or 94.7 per cent, was allocated to direct charge payments for the Provincial Equitable Share, State Debt Costs, and General Fuel Levy sharing with Municipalities. Transfers and subsidies accounted for R20.7 billion of the budget and of this amount the department had transferred 99.8 %, mainly to departmental agencies and accounts at the end of the 2013/14 financial year. A total of R2.9 billion of the budget was for payments for financial assets, which the department spent in its entirety, thereby leaving an available budget of R1.6 billion for operations. Of this, the department had spent R1.5 billion, or 94.6 % at the end of the 2013/14

financial year, most of which had been used on goods and services and compensation of employees.

The largest element of operational expenditure in 2013/14 was R623.1 million spent under the Financial Systems and Accounting programme mainly on goods and services and payments for capital assets.

67.5 % of the transfer budget was for Departmental Agencies and Accounts; 16.8 per cent was transferred to Households; 5.6 per cent was for Provinces and Municipalities; 5.1 per cent was for Foreign Governments and International Organisations; and 5 per cent was for Public Corporations and Private Enterprises. Transfers to provinces and municipalities at the end of the financial year were R1.1 billion, most of which was for the Neighbourhood Development Partnership Grant, and Local Government Financial Management Grant transfers.

2.2 Quarterly Expenditure – 2013/14

Table 2: Programme Expenditure - 2013/14

Programme	Summary of Expenditure in 2013/14
Programme 1: Administration	A total of 20.4 per cent of operational expenditure, representing R315.8 million, was mainly for goods and services and compensation of employees.
Programme 2: Economic Policy, Tax, Financial Regulation and Research	Expenditure was R97.6 million, mostly on compensation of employees and goods and services in respect of specialist work carried out for economic modelling and policy formulation.
Programme 3: Public Finance and Budget Management	Expenditure was R171.4 million, mainly on compensation of employees for coordination of the national budget process and monitoring of public expenditure.
Programme 4: Asset and Liability Management	Expenditure was R85.8 million, mainly on compensation of employees; computer services; as well as goods and services.
Programme 5: Financial Systems and Accounting	Expenditure was R623.1 million, mainly on goods and services (for computer services for maintenance of financial systems of national government and the related development costs of the Integrated Financial Management System (IFMS)) and compensation of employees.
Programme 6: International Financial Relations	Expenditure was R42.8 million. Apart from transfer payments, the cost drivers for the programme were mainly travelling costs and compensation of employees towards representing the department in various regional and international financial fora.
Programme 7: Civil And Military Pensions, Contributions to Funds and Other Benefits	Expenditure was R57.5 million, which was mainly spent on goods and services for business and advisory consultancy services to the Government Pensions Administration Agency (GPAA) for administration work carried out in the management of various pensions and benefits for the public sector.
Programme 8: Technical Support and Development Finance	Expenditure was R151.7 million, the majority of which was spent on goods and services (mainly for business and advisory consultancy services in respect of technical advisory services to support infrastructure development in government) and compensation of employees.

2.3 Adjustments in 2013/14

Note:

Virements: 8.2 per cent and 8.3 per cent were moved in the Economic Policy, Tax, Financial Regulation and Research and Public Finance and Budget Management programmes respectively, which was higher than the threshold allowed as per section 43 of the Public Finance Management Act, No. 1 of 1999 as amended. In addition, all shifts and virements in programmes 6 and 8 evened out, leading to a zero balance.

Savings: R20.544 million to the common monetary area compensation due to the lower circulation of the Rand and the impact of lower interest rates and exchange rates in Programme 6.

Under-expenditure: R303.150 million for transfers to the Employment Creation Facilitation Fund due to significant delays in finalising contracts with successful applicants and difficulties experienced by funded projects in proving results and achieving contracted outcomes.

Table 3: Summary of Adjustments 2013/14

Programme R'000	Main Appropriation	Virements and Shifts	Savings	Adjusted appropriation
Administration	341 691	14 738		356 429
Economic Policy, Tax, Financial Regulation and Research	145 859	-11 935		133 924
Public Finance and Budget Management	252 312	-21 028		231 284
Asset and Liability Management	2 995 196	-1 202		2 993 994
Financial Systems and Accounting	724 589	10 134		734 723
International Financial Relations	1 112 529		-20 544	1 091 985
Civil and Military Pensions, Contributions to Funds and Other Benefits	3 497 031			3 497 031
Technical Support and Development Finance	2 777 806	9 293	-303 150	954 874
Revenue Administration	9 534 393			9 534 393
Financial Intelligence and State Security	4 174 554			4 174 554
Total	25 555 960	0	305 205	23 703 191

3 FINANCIAL PERFORMANCE – 2014/15

3.1 2014/15 Committee Budget Report

During the Committee's budget vote deliberations, National Treasury stressed the need to cut wasteful expenditure and drive efficiencies in all national departments to enforce the set debt ceilings; and said that fiscal consolidation was well underway and that it would be conducting regular spending reviews to examine programme performance and value-for-money. In addition, the introduction of regulations will strengthen the National Treasury's oversight of public entities by requiring stronger compliance with reporting requirements for expenditure, revenue, borrowing and performance.

The Committee indicated that it was keen to see greater synergy between the NDP, Strategic Plans and the allocation of budgets to departments, and felt that National Treasury had a crucial role to play in this regard. In addition, the Committee had noted the vacancy rates in the Department, and also expressed concerns regarding the pressure placed on the national budget by the constant re-capitalisation of State-owned enterprises and their inability to meet the goals they set in terms of their financial stability and their capacity to deliver. While recognising the important role of SOEs, the Committee had recommended that National Treasury needs to be more stringent in its engagement with SOEs, even if they fall within the responsibility of other departments.

The Committee had noted that the budget of the Financial and Fiscal Commission (FFC) had been decreased, and also expressed concern regarding the fact that the FFC CEO had been acting since 2010 and that this matter needs to be finalised soon. The fact that the CEO is also the Chairperson of the Commission means that one person is overburdened with the pressures of two highly demanding positions, and this has led to serious capacity and performance challenges. The Committee further indicated that there may be a need to re-consider the role of the FFC taking into account the experiences since its establishment and developments since then. Government, Parliament, the FFC, civil society, academics, experts and others need to review the role of the FFC over time.

3.2 Quarterly Expenditure Performance – 2014/15

National Treasury received a budget of R514.8 billion in 2014/15, of which R487.6 billion, or 94.7 %, was allocated to direct charge payments for the Provincial Equitable Share, State Debt

Costs, and General Fuel Levy sharing with Municipalities. The largest element of operational expenditure at the end of the first quarter was R75.9 million spent under the Financial Accounting and Supply Chain Management Systems programme mainly on goods and services and compensation of employees.

Transfers and Subsidies account for R21.9 billion of the 2014/15 budget and of this amount the department had transferred R4.6 billion, or 21.1% by the end of the first quarter, mainly to departmental agencies and accounts. In addition, R3.6 billion of the budget is for payments for financial assets, of which the department had spent R1.3 million by the end of the first quarter. Transfers to Departmental Agencies and Accounts at the end of the first quarter were R3.5 billion; while transfers to Foreign Governments and International Organisations amounted to R6.4 million, most of which was for the African Regional Technical Assistance Centre for Southern Africa, and United Kingdom Tax: Tax on Pensions of Staff That Had Worked in the United Kingdom transfers.

3.3 Adjustments–2014/15

National Treasury’s main appropriation of R487.6 billion was adjusted downwards by R104.6 million to R487.5 billion during the adjustments budget process. With regard to Direct Charges against the National Revenue Fund, the following adjustments were effected:

- State debt costs projections have been decreased to by R415.5 million from R114.9 billion to R114.5 billion based on macroeconomic forecasts; and
- National revenue fund payments have been increased by R310.9 million for the settling of losses accrued from the revaluation of the South African Reserve Bank’s gold holdings for government, foreign currency exchange transactions, the depreciation of the value of foreign assets and the appreciation of the value of foreign liabilities managed by the Bank.

The main appropriation of R27.3 billion for programmes is adjusted downwards by R561.1 million to R26.7 billion due to a declared saving in Programme 8: Technical Support and Development Finance. In this regard, National Treasury underspent by R561.087 million in terms of Employment Creation Facilitation due to delays in contracting applicants for the third round of funding.

Table 4: Virements/shifts, declared savings and other adjustments

Programme R'000	Main Appropriation	Virements and shifts	Declared savings	Adjusted appropriation
1. Administration	343 135	29 247		372 382
2. Economic Policy,Tax,Financial regulation and Research	138 920	(4 562)		134 358
3. Public Finance and Budget Management	262 825	(2 948)		259 877
4. Asset and Liability Management	3 342 100	1 272		3 343 372
5. Financial System and Accounting	761 632	8 403		770 035
6. International Financial Relations	1 179 807	19 910		1 199 717
7. Civil and Military Pensions,Contributions to Funds and Other Benefits	3 717 838			3 717 838
8. Technical Support and Development Finance	3 712 182	(51 322)	(561 087)	3 099 773
9. Revenue Administration	9 440 321			9 440 321
10. Financial Intelligence and State Security	4 366 250			4 366 250
Total	27 265 010	-	(561 087)	26 703 923

Source: National Treasury (2014)

programme	First Quarter Expenditure – 2014/15	Virements and Shifts– 2014/15
Administration	23.9 per cent of operational expenditure was on Administration, representing R57.4 million, mainly for compensation of employees and goods and services.	<ul style="list-style-type: none"> R150 000 was shifted from Compensation of employees due to vacant posts and staff attrition to Households for leave gratuities.
Economic Policy, Tax, Financial Regulation And Research	Operational expenditure was R18.7 million, the majority of which was spent on compensation of employees to provide for the Economic Policy, the Tax and Financial Policy divisions and economic research for the department which comprise mainly of compensation of employees, consultants spend for research and modelling and travel expenditure for attendance of national and international meetings.	<ul style="list-style-type: none"> A total of R3.513 million was shifted, of which: <ul style="list-style-type: none"> -R119 000 was shifted to Machinery and equipment for the replacement of obsolete equipment; -R35 000 was shifted to Households for leave gratuities; and -R3.359 million was shifted for the communication campaign announced by Cabinet to inform the public on retirement reforms. A total of R4.562 million was defrayed to Programme 1 from Compensation of employees as follows: <ul style="list-style-type: none"> -R472 000 for performance bonuses and related notch increments; -R81 000 was allocated to Households for leave gratuities; -R2.164 million was allocated to Machinery and equipment; and -R1.845 million was allocated to Departmental agencies and accounts for transfer payments to the Financial Sector Education and Training Authority and Public Services Education and Training Authority.
Public Finance And Budget Management	Operational expenditure was R44.3 million, the majority of which was spent on compensation of employees. The operational expenditure for the programme provides for Public Finance, Budget Office and Intergovernmental Relations divisions' staff costs, publishing of budget documents, travelling and consultancy expenditure for various short term assignments like editing of budget and expenditure publications.	<ul style="list-style-type: none"> A total of R5.768 million was shifted within Programme 3, of which: <ul style="list-style-type: none"> -R135 000 was shifted for the replacement of obsolete equipment; and -R5.633 million was shifted from Compensation of employees, of which: R87 000 was allocated to Households for leave gratuities, R435 000 to Goods and services for payment of consultants, R109 000 to Machinery and equipment for the replacement of obsolete equipment, and R5.0 million for transfer payments to the FFC for its 20th anniversary conference. A total of R2.948 million was defrayed to Programme 1 from Compensation of employees to Machinery and equipment for scanners for access control.
Asset And Liability Management	Operational expenditure was R18.9 million, the majority of which was spent on compensation of employees to provide mainly for the compensation of employees, travelling and development and maintenance of the Treasury Management System.	<ul style="list-style-type: none"> R155 000 was shifted from Compensation of employees to Households for leave gratuities.
Financial Accounting And Supply Chain Management Systems	Operational expenditure was R75.9 million. The majority of the operational expenditure in the programme provides for compensation of employees in the Office of the Accountant-General and the Office of the Chief Procurement Officer, computer services for maintenance of transversal systems and the development of the Integrated Financial Management System (IFMS).	<ul style="list-style-type: none"> The following shifting of funds took place: <ul style="list-style-type: none"> -R182 000 was shifted to Households for leave gratuities; and -R6.950 million was shifted as follows: R4.960 million for computer services and R1.990 million for the replacement of obsolete equipment. A total of R21.597 million was defrayed to Programme 1, as follows: <ul style="list-style-type: none"> -R18.542 million to Goods and services for accommodation and municipal fees, ICT hardware infrastructure, annual software fees, data lines and internet service; -R5 000 for performance bonuses and related notch increments; and -R3.050 million as follows: R1.853 million was allocated to Goods and Services for accommodation and municipal fees; and consultants for the strategic and annual performance

programme	First Quarter Expenditure – 2014/15	Virements and Shifts– 2014/15
		<p>plan. The balance of R1.197 million was allocated to Machinery and equipment for the procurement of motor vehicles.</p>
<p>International Financial Relations</p>	<p>Operational expenditure was R8.1 million, the majority of which was spent on compensation of employees and goods and services (mainly for travel and subsistence).</p>	<ul style="list-style-type: none"> • A total of R69.193 million was shifted, as follows: <ul style="list-style-type: none"> -R50 000 for the replacement of obsolete equipment; -R59.143 million to Payments for financial assets for the subscription of shares for the African Development Bank; and -R4.938 million and R5.062 million for the World Bank and African Development Bank, respectively.
<p>Civil And Military Pensions, Contributions To Funds And Other Benefits</p>	<p>Expenditure was R8.4 million, the majority of which was spent on goods and services (mainly for business and advisory consultancy services). The sole cost driver for operational expenditure in the programme is fees paid to the Government Pensions Administration Agency (GPAA) for administration of the pensions and medical benefits of the public sector.</p>	<p>R309.696 million was shifted within the Households component for payments to the Government Employees Pension Fund as part of a revised dispensation that allows former non-statutory forces members to apply for recognition of former service as pensionable service.</p>
<p>Technical Support And Development Finance</p>	<p>Operational expenditure was R8.8 million, the majority of which was spent on compensation of employees. The majority of the programme’s operational expenditure provides for consultancy services for the Infrastructure Delivery Improvement Programme and Technical Assistance Unit and Public Private Partnership units, which are part of the Government Technical Advisory Centre.</p>	<ul style="list-style-type: none"> • The following shifting of funds took place: <ul style="list-style-type: none"> -R109.836 million was shifted from different functions for the shifting of functions to the Government Technical Advisory Centre (GTAC); • A total of R51.322 million was defrayed to other Programmes, of which: <ul style="list-style-type: none"> -R140 00 was defrayed to Programme 1 for performance bonuses and related notch increments; -A total of R1. 272 million was defrayed to Programme 4. Amounts of R440 000 and R150 000 for performance bonuses and computer services, respectively. In addition, R682 000 was for the Compensation of employees component of Programme 4; -R30.0 million was defrayed to Programme 5 for the rollout of a financial management capability maturity model assessment programme in all municipalities; -A total of R19.910 million was defrayed to Programme 6 of which: R17.992 million was defrayed to foreign governments and international organisations; and R1.918 million for performance bonuses to the Compensation of employees component of Programme 6.
<p>Financial Intelligence and State Security</p>		<ul style="list-style-type: none"> • R21.192 million was shifted within the Departmental agencies and accounts component for the importation of equipment for Secret Services as influenced by the depreciation of the Rand.

Mid-year Performance Status – Selected Targets

National Treasury appears to be on track to achieving most of its planned targets for 2014/15, as follows:

- Net loan debt as a percentage of GDP¹ amounted to 41.0 per cent (or R1.522 billion) by mid-year compared to the target of 41.9 per cent (or R1.589 billion) for 2014/15;
- 12 (or 30.0 per cent) Neighbourhood Development Partnership Grant projects had been granted permission to proceed to the construction phase by mid-year compared to the planned target of 40 for 2014/15;
- R260 million (or 52.0 per cent) had been leveraged from the private sector with regard to the Neighbourhood Development Partnership Grant projects by mid-year compared to the planned target of R500 million for 2014/15;
- 91 (or 75.8 per cent) projects in terms of Employment Creation Facilitation had been approved since inception compared to the planned target of 120 projects;
- No new jobs had been contracted against the planned target of 30 000 for 2014/15.

Note

In terms of expenditure performance, programme expenditure as at 30th September 2014 amounted to R11.4 billion or 41.8% of the main appropriation. The expenditure rate of 42.7 % with regard to the adjusted budget amount of R26.7 billion is slightly higher as a result of the downward adjustment. Programme expenditure declined by 11.2 per cent year-on-year compared to the R12.8 billion spent in the first six months of 2013/14.

4. OVERVIEW AND ASSESSMENT OF SERVICE DELIVERY PERFORMANCE – 2013/14

4.1 Overall Performance of National Treasury

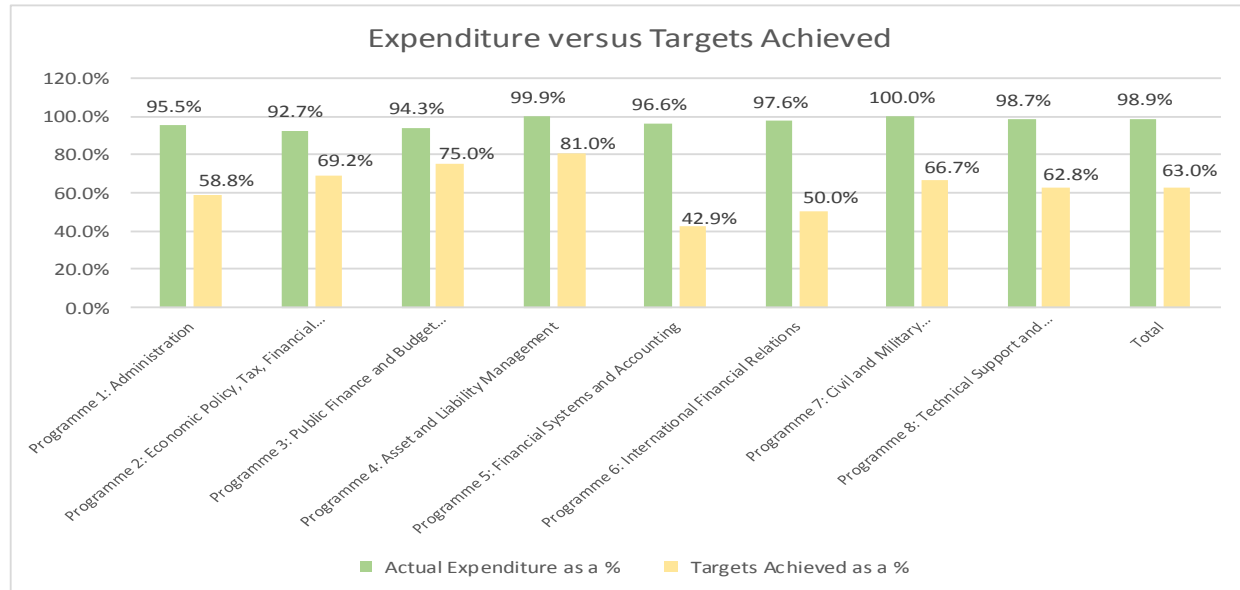
Table 6: Overall Performance - 2013/14

Programmes	Final Appropriation (R'000)	Actual Expenditure (R'000)	Variance	% of Expenditure	Number of Targets	Achieved	Partly Achieved	Not Achieved	Not measurable/not reported	Contributes to the achievement of NDP Outcome
Programme 1: Administration	334 769	319 596	15 173	95.5%	17	10 (58.8 %)	4 (23.5 %)	1 (5.9 %)	2 (11.8 %)	
Programme 2: Economic Policy, Tax, Financial Regulation and Research	133 924	124 097	9 827	92.7%	13	9 (69.2 %)	2 (15.4 %)	2 (15.4 %)		Outcome 4: Decent employment through inclusive growth
Programme 3: Public Finance and Budget Management	225 634	212 719	12 915	94.3%	68	51 (75.0 %)	7 (10.2 %)	5 (7.4 %)	5 (7.4 %)	Outcome 9: A responsive, accountable, effective and efficient local government system and Outcome 12: An efficient, effective and development-oriented public service.
Programme 4: Asset and Liability Management	2 993 994	2 990 922	3 072	99.9%	42	34 (81.0 %)	5 (11.9 %)		3 (7.1 %)	
Programme 5: Financial Systems and Accounting	732 923	707 772	25 151	96.6%	63	27 (42.9 %)	19 (30.1 %)	9 (14.3 %)	8 (12.7 %)	Outcome 12: An efficient, effective and development-oriented public service.
Programme 6: International Financial Relations	1 093 836	1 067 739	26 097	97.6%	30	15 (50.0 %)	4 (13.3 %)	5 (16.7 %)	6 (20.0 %)	
Programme 7: Civil and Military Pensions, Contributions to Funds and Other Benefits	3 523 564	3 523 098	466	100.0%	27	18 (66.7 %)	2 (7.4 %)	3 (11.1 %)	4 (14.8 %)	
Programme 8: Technical Support and Development Finance	2 484 675	2 452 166	32 509	98.7%	43	27 (62.8 %)	11 (25.6 %)		5 (11.6 %)	
Total	11 523 319	11 398 109	125 210	98.9%	303	191 (63.0 %)	54 (17.8 %)	25 (8.3 %)	33 (10.9 %)	

Source: National Treasury (2014)

National Treasury spent R11.4 billion or 98.9% of its final appropriation of R11.5 billion for the 2013/14 financial year and achieved 191 or 63 per cent of the 303 targets planned for 2013/14. Figure 1 compares actual expenditure and the achievement of targets per programme for the 2013/14 financial year.

Figure 1: Actual expenditure versus Targets achieved



Source: National Treasury (2014 and 2013b)

4.2 Key Achievements and Challenges

Table 7: Selected Key Achievements and challenges per programme – 2013/14

Programme	Key Achievements	Challenges
Administration	<ul style="list-style-type: none"> - The enterprise risk management strategy for 2013/14 was reviewed and approved, and the risk management plan was fully implemented; and - 51 internal audits were completed and an additional 9 ad hoc audits were also conducted at the request of management¹. 	<ul style="list-style-type: none"> - The Security Management Directorate targeted to vet 60² per cent of the department's employees by the end of 2013/14 financial year, but only vetted 20 per cent by year-end. The under-achievement has been attributed to a lack of sufficient human resources in both the Security Management Directorate and the State Security Agency.
Programme 2: Economic Policy, Tax, Financial Regulation and Research	<ul style="list-style-type: none"> - Academic and research institutions published a total of 83 papers compared to the planned target of 40; and - Tax deductible contributions to defined benefit retirement savings schemes were amended and refined. In addition, the carbon tax offset paper and a paper reviewing the taxation of alcoholic beverages were published for public comment. 	
Programme 3: Public Finance and Budget Management	<ul style="list-style-type: none"> - An Infrastructure Delivery Management System (IDMS) was developed, tested and implemented across all nine provinces; and - Provincial performance monitoring was strengthened in 2013/14 with the publication of non-financial information for the agriculture, health and social development sectors. 	<ul style="list-style-type: none"> - The review of municipal own revenue sources still has to be concluded due to the requirement for extensive consultations with stakeholders; and. - Budget assessments and in-year monitoring workshops were conducted in all provinces, except for Gauteng Province.
Programme 4: Asset and Liability Management	<ul style="list-style-type: none"> - The Government Debt Management sub-programme successfully financed the gross borrowing requirement of R208 billion, through the issuance of domestic short-term loans (R23 billion), domestic long-term loans (R171 billion) and foreign loans (R19.6 billion); and - The Financial Operations sub-programme managed cash flows amounting to R4.7 trillion in 2013/14. 	<ul style="list-style-type: none"> - The annual report to Cabinet on the status of government's contingent liabilities was drafted but not tabled as required; and - Switch auctions did not yield the target amount of R11.6 billion and only R10.6 billion was switched out from the R201 bond maturing on the 21 December 2014, due to lesser demand during switch auctions.
Programme 5: Financial Accounting and Reporting	<ul style="list-style-type: none"> - 22 forensic investigations and performance audits in 10 departments and public entities was completed in 2013/14; and - Forensic investigation reports by the Specialised Audit unit resulted in the National Prosecuting Authority's Asset Forfeiture unit issuing restraint orders on approximately R1 billion of assets possessed by implicated parties in incidents of fraud and corruption. 	<ul style="list-style-type: none"> - The assessment of approved departmental preferential procurement plans and the issuance of instruction notes regarding preferential procurement regulations for five sectors were delayed as a result of a delay in the appointment of legal expertise; and - The central supplier database for government was not completed as a result of insufficient human resources.

¹ The APP list the planned target as 64 audits while the Annual Report list the planned target as 51.

² The APP list the planned vetting target as 100 per cent of all identified employees.

Programme	Key Achievements	Challenges
Programme 6: International Financial Relations	<ul style="list-style-type: none"> - The AEI unit increased South Africa's shareholding of the African Development Bank to 4.8 per cent through the acquisition of 3 560 new shares; and - The World Bank Country Partnership Strategy for 2013/16 was completed. 	<ul style="list-style-type: none"> - Finalisation of the SACU revenue formula and the establishment of a common revenue pool as a stand-alone account with the South African Reserve Bank will require further consultation between the relevant SACU Ministers (in 2015).
Programme 7: Civil and Military Pensions, Contributions to Funds and Other Benefits	<ul style="list-style-type: none"> - The Government Pensions Administration Agency (GPAA) paid out pensions and benefits to the value of R3.2 billion to approximately 113 800 beneficiaries ; and - Benefits were paid accurately in 100 per cent of cases compared to the planned target of 80 per cent and benefits were paid on time in 94 per cent of cases compared to the planned target of 78 per cent. 	<ul style="list-style-type: none"> - A challenge, specific to the Military Pensions and Other Benefits sub-programme, was the SOMA project that required GPAA to refer a certain number of prospective applicants per year for injury assessment and verification to the SOMA Risk Management Assessment Company. The referral can be problematic when insufficient number of applicants apply or application information is incomplete.
Programme 8: Technical Support and Development Finance	<ul style="list-style-type: none"> - Neighbourhood Development Partnership (NDP) sub-programme – 18 urban networks were identified compared to the planned target of 5; 83 projects are under construction compared to the planned target of 40; and R1.868 million was leveraged in terms of third party investments compared to the planned target of R2.0 million; - Employment Creation Facilitation sub-programme – 93 job fund projects were approved compared to a planned target of 90. 	

Source: National Treasury (2014)

5. Report of The Auditor General and Annual Financial Statements

National Treasury received an unqualified audit opinion with findings for the 2013/14 financial year. The findings related to predetermined objectives, non-compliance with legislation and internal control.

- **Predetermined objectives**

The Auditor-General selected programmes 2, 3, 5, 7 and 8 to assess the usefulness and reliability of reported performance information. In terms of usefulness of the reported performance information, the Auditor-General found that no reasons were given for variances between planned and actual targets reported as per the requirements of the *National Treasury Guide for the preparation of the annual report*. Between 74 and 100% of targets not achieved within the selected programmes did not provide reasons for variances. The Auditor-General concluded that this was due to a lack of review of the presentation of the annual performance report by management.

In addition, the measurability of planned targets and indicators could not be assessed due to a lack of technical indicator descriptions and documented system descriptions. For example, planned targets were reported back without time-frames provided, which made it difficult to

measure and assess actual performance as some of the targets are not SMART. With regard to reliability, the Auditor-General was unable to obtain sufficient evidence in support of reported performance information as National Treasury was not in a position to provide the relevant evidence in support of this.

A total of 10.9% of targets were either not measured or could not be reported on, while 17.8% were partially achieved. This is concerning as it is not possible to ascertain the extent to which the partially achieved targets had been implemented. The Auditor-General also raised a specific issue with regard to Programme 7 due to the fact that even though the targets had not been met, the budget had been spent. This however, was a general concern in the National Treasury across its divisions and in some of its entities.

- **Non-compliance with legislation**

The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of Section 40(1) of the Public Finance Management Act. Furthermore, the financial statements submitted contained material misstatements in respect of various disclosure notes, which management subsequently corrected.

- **Internal Control**

Internal control deficiencies included:

- Oversight responsibility – the oversight process implemented by management in respect of the annual financial statements and performance information were inadequate; and
- Action plans to address internal control deficiencies – management failed to timeously monitor adherence to the plan developed by the department to address internal and external audit findings.

The Auditor-General also reported that there were a number of investigations underway and these are:

- The Public Service Commission (PSC) conducted an investigation based on an allegation of the irregular appointment of service providers by National Treasury. The PSC presented a draft investigation report to the Deputy Minister of Finance, and National Treasury is still awaiting the final report. The National Treasury indicated that the person concerned is not with the Department anymore.
- Alleged irregularities in supply chain management processes at the Government Pensions Administration Agency were referred to the department's Specialised Audit Services unit for further investigation; and
- Allegations of receiving kickbacks, bribes and entertainment were referred to the department's Specialised Audit Services unit for further investigation. This related to procurement measures and the National Treasury assured the Committee that the necessary procedures will be followed and proper disciplinary measures instituted.

6. ENTITIES

6.1 South African Revenue Service (SARS)

The mandate of SARS is to ensure optimal compliance with tax and customs legislation, which entails ensuring maximum compliance to all the laws that SARS administers in order to ensure

a sustainable revenue stream for government, and a controlled and safe flow of goods across the country's borders. SARS established four core outcomes that serve as the foundation of all organisational activities: increasing customs compliance; increasing tax compliance; increasing the ease and fairness of doing business with SARS; and increasing the cost effectiveness, internal efficiency and institutional respectability of its operations. For the 2014/15 financial year, SARS received an allocation of R9.7 billion. Almost two-thirds of SARS spending is on compensation of employees, specifically on skills such as audit, Information Technology (IT), and tax administration specialists which are critical for SARS to deliver on its mandate.

In the 2013/14 Annual Report, the Auditor-General highlighted performance information as an additional matter, even though there was no emphasis on predetermined objectives due to discrepancies in reporting and performance information and measures between the Strategic Plan, Annual Performance Plan and Annual Report. SARS however, indicated that the Minister of Finance had approved amendments to the Strategic Plan and Annual Performance Plan on 13 December 2013. The Auditor-General pointed out that performance reporting information was a problem at SARS.

In terms of Human Resources Management, SARS has an attrition rate of 6.48 per cent, which is above the recruitment rate of 2.56 per cent, leaving a net turnover percentage of 3.92. Of the 934 employees leaving the institution, 723 were resignations and 72 were employee relations terminations. SARS indicated that most of the resignations were of people who had either been through a disciplinary process and been dismissed or those that resign while disciplinary procedures were still in progress. The entity therefore is not worried about the individuals who are leaving because it is managing to keep those that it cannot afford to lose. SARS has stated that it prioritises employment equity in its Annual Report, but does not provide its equity targets to be measured against the current workforce employment equity profile across its various occupational levels.

6.2 Financial and Fiscal Commission

The Financial and Fiscal Commission was established as an independent and impartial advisory institution that the Government has to consult with regard to the division of revenue among the three spheres of government and in the enactment of legislation pertaining to provincial taxes, municipal fiscal powers and functions, and provincial and municipal loans. The following key achievements and challenges were reported:

Key Achievements	Challenges
The Commission was able to strengthen its research component; and made all legally required submissions including its annual Submission on the Division of Revenue, Medium Term Budget Policy Statement (MTBPS); etc.	The position of the Chairperson for the Commission has been vacant since 2010. The Commission has also reported shortage or limited resources to discharge its broad mandate, as a result the Commission's research team is operating below its capacity.
Strong relations were established with Parliamentary researchers, including in two legislatures (i.e. Eastern Cape and Gauteng) through workshops; while two municipal councils were trained in council oversight.	The Commission struggles to attract female candidates to fill critical positions at a higher level; which impacts on its ability to reach gender equity targets as well as targets in relation to employment of people with disabilities.
The Commission concluded Memoranda of Understanding (MOU) with various stakeholders including the Human Sciences Research Council (HSRC), the Municipal Demarcation Board (MDB); and other similar institutions.	In the 2013/14 financial year, the revenue of the Commission only grew by 4 per cent compared to the previous financial year and is expected to decline over the medium term.

The table below indicates that while the commission spent 98.3% of its budget, only 75% of its measurable targets were fully achieved.

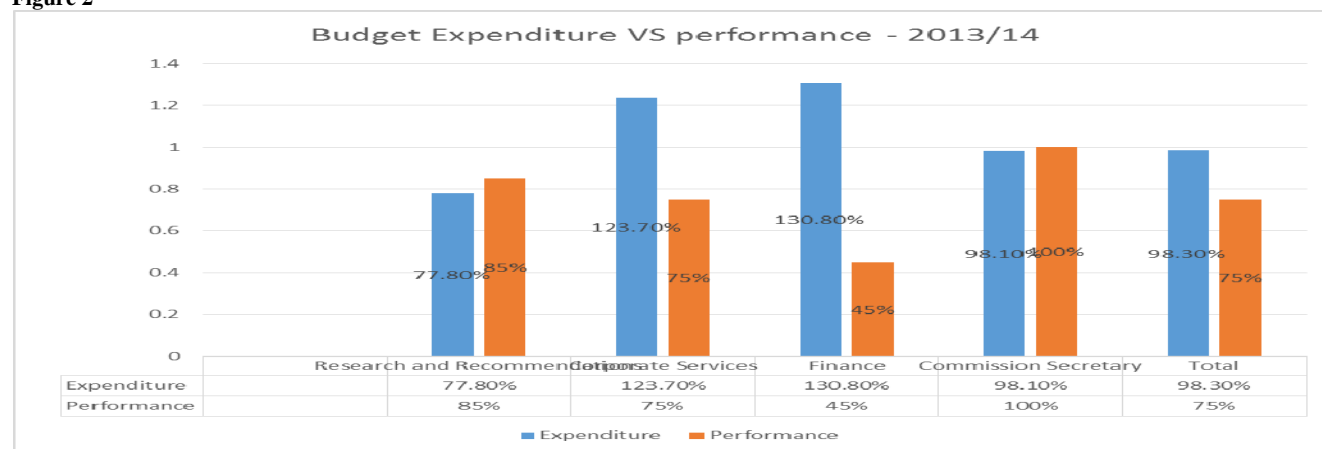
Table 10: Performance versus Expenditure

Programmes/ Divisions	Final Appropriation (R'000)	Actual Expenditure (R'000)	Variance	% of Expenditure	Number of Targets	Achieved	Partly Achieved	Not Achieved	Not measurable/ not reported	Reasons for not achieving
1. Research and Recommendations Programme	17 330 476	13 487 452	3 843 024	77.8%	33	28	1	4		*Deferred to 5th Parliament
2. Corporate Services	8 221 583	10 169 958	-1 948 375	123.7%	56	42	3	2	9	Funding constraints
3. Finance	4 613 569	6 034 974	-1 421 405	130.8%	11	5	2	1	3	Lack of resources
4. Commission Secretary	9 401 372	9 220 531	180 841	98.1%	1	1				
Total	39 567 000	38 912 915	654 085	98.3%	101	76	6	7	12	

Source Financial and Fiscal Commission 2013/14 Annual Report

The Commission received an appropriation of R38.767 million, which was adjusted upwards by R800 000 to assist in preparation for its 20th Anniversary IGFR Conference. This resulted in a final allocation of R39.567 million. At the end of the 2013/14 financial year, the FFC had spent R38.912 million or 98.3% of its allocation; thereby under-spending by R654 085 or 1.7%. Most of the targets were met in the 2013/14 financial year, and those that were not met were mostly due to funding constraints. The Commission also highlighted that some of its activities were deferred to the 5th Parliament and would therefore be achieved later.

Figure 2



The Commission received an unqualified Audit Opinion after material misstatements of fixed assets, provisions and receivables were corrected by the auditors. The following findings were highlighted:

- Irregular expenditure amounting to R1.29 million is still awaiting condonation, of which R800 000 was incurred in the 2013/14 financial year. The irregular expenditure in 2013/14

relates to goods and services that were procured without inviting competitive bids. An investigation has been instituted to determine liability and a recommendation will be made to the Accounting Officer.

- The Auditor-General highlighted the achievement of planned targets for the year as an additional matter of concern.
- The annual financial statements submitted by the Commission were not prepared in accordance with the prescribed financial reporting framework as required by section 40(1) (b) of the Public Finance Management Act. Furthermore, insufficient reviews were performed to ensure that the financial statements were prepared in accordance with the prescribed financial reporting framework.
- In terms of the internal controls, the Auditor-General raised a concern regarding the issue of leadership. In this regard, the Accounting Officer did not ensure that adequate oversight monitoring mechanisms were in place as controls are not functioning as intended.

In terms of the human resource report, the Commission's vacancy rate was at 6.25% or 2 vacancies at the end of March 2014. There were 3 disciplinary actions for the period under-review.

6.3 SOUTH AFRICAN RESERVE BANK

The Primary objective of the reserve bank is to achieve and maintain price stability in the interests of balanced and sustainable economic growth in South Africa. The SARB has identified six primary strategic objectives against which its performance should be assessed. These are:

- i. Manage the expansion of the bank's mandate of price stability to more explicitly include financial stability;
- ii. Implement the twin peaks regulatory model in order to streamline the financial regulatory architecture in South Africa;
- iii. Contribute to sound global central banking;
- iv. Enhance the Bank's reputation as a respected partner and institution in the domestic economic environment;
- v. Enhance organisational effectiveness and efficiency through investment in people; and
- vi. Incorporate, and more closely align, the subsidiaries in a comprehensive group structure

The group operating income, earned by the bank's subsidiaries, grew by 128% since the end of the 2012/13 financial year. The sharp increase in income is the result of a 90% and 122% increase in consolidated revenue from SABN and the SA Mint respectively. The increase in the revenue from SABN is the result of an increase in productive capacity whilst SA Mint's increase stems from the inclusion of revenue from its subsidiary, Prestige Bullion.

The bank recorded an increase in costs associated with the introduction of the new currency in 2012 which was carried over into the 2013/14 financial year. In addition, compensation of the bank's employees increased due to an average annual salary increase of 12% for the year, as well as additional appointments. Overall, the group recorded an increased loss from R1 250 to R1 317 as a result of the fall in the bank's interest income. The group returned to a positive net cash position in 2013/14 after incurring a R6 740 million outflow in 2012/13. The turn-around stems from the increase in cash generated from operating activities and a reduction in the cash spent on acquiring investments.

The group's debt-to-equity ratio has increased substantially since the end of the 2011/12 financial year. Whilst debt owed by the group has increased over that period, the rise in the ratio is predominantly the result of a reduction in equity. The reduction in equity stems from a decline in the contingency reserve from R7 641 million in 2011/12 to R4 700 million at the end of 2013/14.

In terms of Human Resources, the employment equity targets for 2013/14 were approximately achieved for most categories (African, Indian and Coloured, females, and African, Indian and Coloured females), however the hiring of people with disabilities remains a challenge. Staff turnover is relatively low compared with the average public sector institution at 4.3% (4.2% in 2012/13). Of the departing staff in 2013/14, 38% were due to retirement whilst 31% were the result of better prospects and remuneration. Approximately 4.2% of employees leaving the bank were dismissed. The bank's turnover rate may be linked to its remuneration policy which positions the bank in the upper quartile in terms of total cost of employment. The bank also employs the use of non-financial recognition, employee development and a positive work environment to attract and retain employees.

7. RECOMMENDATIONS

The Standing Committee on Finance recommends the following:

7.1 Internal Controls

The Committee noted that even though the National Treasury and the FFC received unqualified audit opinions, their financial statements had material misstatements that had to be corrected by the Auditor-General. National Treasury indicated that the material misstatements related to pensions for veterans, which were difficult to administer; while the FFC indicated that there were staffing problems in its finance department. The National Treasury also indicated that the material misstatements were not as serious as they sounded and related to only one programme, however the Committee still felt that National Treasury should resolve these problems as soon as possible because other departments and entities look up to it in terms of financial management and regulation.

The Committee recommends that National Treasury and the FFC should develop action-plans to ensure that the quality of their financial statements continuously improve. The action plans should clearly outline how National Treasury and the FFC will ensure that the gaps in internal controls, management weaknesses, inadequate staff and the material errors that were corrected by the Auditor-General would not recur. The National Treasury and FFC indicated that they have already put measures in place to address some of these issues. However, the Committee

will monitor progress and requests National Treasury to provide periodic performance reports. It is important to note that this recommendation is directly linked to a recommendation from the 2013 BRRR, in which the Committee requested National Treasury to provide the House with a detailed report on interventions to rectify errors highlighted by the Auditor-General by 15 February 2015.

7.2 Irregular Expenditure

National Treasury: National Treasury incurred R9 million in irregular expenditure during the financial year. Even though this was condoned, the Committee felt that National Treasury should be exemplary to other departments in terms of their financial management practices, and so this is not acceptable. Investigations had been carried out and the accounting officer had ascertained that these were not fraudulent cases of individuals trying to enrich themselves. The committee expects the National Treasury and its entities, including the FFC, should be exemplary in their supply chain management, performance reporting, and other financial management practices as they develop most of the financial frameworks and legislative and regulatory requirements and also provide training in these areas.

FFC: Regarding irregular expenditure incurred due to non-compliance with supply chain management processes, the FFC indicated that its supply chain management department is not staffed by the right qualified people as it cannot afford to recruit qualified people with the right skills due to budgetary constraints and this poses a challenge for the FFC. The irregular expenditure has been resolved within the Commission following the internal audit process, but has not yet been resolved with the National Treasury. The Committee indicated that it is inappropriate especially for a financial institution such as the FFC to incur irregular expenditure due to the fact that its financial staff is unqualified. The FFC indicated that internal controls have been strengthened in terms of irregular expenditure, and that investigations have been completed and there are no disciplinary cases arising. The FFC nevertheless pointed out that more controls should be put in place within the Commission and more finance people are required, especially in relation to procurement issues. However, the FFC also indicated that it has now developed a policy of zero tolerance to non-compliance with laws and regulations, and that serious consequences will be imposed on perpetrators.

The National Treasury pointed out that some of its entities did not have the necessary skills, especially in terms of management oversight. The National Treasury should ensure that it monitors all its entities constantly, and this performance information should be provided to the committee quarterly.

7.3 Performance Information

National Treasury and its entities need to improve the technical quality of their performance reports and ensure that all programmes have measurable objectives and targets that are SMART, as well as more clearly defined expected outcomes. Furthermore, while recognising that expenditure cannot be mechanically and crudely correlated with targets achieved in exact terms, the Committee believes that there is a disjuncture between actual expenditure and the achievement of targets across the majority of programmes within National Treasury and its entities, which points to a need to review the performance and take corrective action to ensure that non-financial performance is commensurate to

expenditure and that government gets value for money from National Treasury and all its entities.

A concern regarding SARS was that it had amended its Annual Performance Plan (APP), which was signed off in December, without any engagement with the legislature. The Committee recommended that the role of Parliament in relation to amendments of strategic plans and APPs should be looked at as the performance information in the Annual Report is different to what was tabled in the strategic plan APP that had been adopted the committee and that were still being used as base documents.

SARS should provide the Committee with their Appropriation Statement that indicates how they are spending on the allocations they receive from National Treasury and how they manage the budget throughout the financial year. The Committee recommends that SARS appears with National Treasury when it presents its quarterly expenditure and performance reports to the Committee. With respect to the FFC, the performance of the Commission, especially in the finance and research departments (the quality of which is indicated to be deteriorating due to lack of capacity and budgetary constraints) should be addressed immediately.

7.4 Vacancy Rates

In the 2013 BRRR, the Committee requested the National Treasury to provide the House with a report containing proposals to strengthen its human resource system within 90 days of the adoption of the BRRR report by the House. Amongst other things, the report was to specifically address the department's plan to remedy the vacancies prevalent in the highly skilled supervision and senior management salary bands, as well as its plan to retain skilled employees. The Committee had observed that the vacancies had a negative impact on the department's ability to deliver on its performance targets. The National Treasury has subsequently indicated that its vacancy rate had increased, due to, amongst other things, the establishment of the office of the Chief Procurement Officer that resulted in 62 posts being created. In addition, the filling of vacancies is delayed due to internal processes. National Treasury needs to decide which vacancies need to be filled, taking into account the commitments made in the 2014 MTBPS on filling of vacancies, and present a recruitment plan to the Committee by 1 February 2015.

With regard to SARS, the high attrition rate is a concern and the reasons for the high number of disciplinary actions needs to be addressed. A comprehensive report on all completed and ongoing cases should be submitted to the Committee within 14 days of tabling of this report.

7.5 Job Creation and the Jobs Fund

It is noted that no new jobs had been contracted by mid-year even though the Treasury had planned to contract 30 000 jobs. This is of concern given the level of unemployment, and National Treasury should provide the Committee with a plan/strategy on how it will speed up performance on this target. In terms of the Jobs Fund, National Treasury indicated that R5 billion has already been allocated, and that the Private sector has brought its own financial injections into it. The Treasury indicated that 150 000 jobs had been created already. The Committee will arrange for a briefing on the number and quality of jobs being created through the Jobs Fund.

7.6 Employment Equity

While recognising the challenges that the SARS struggles with, the Committee feels that it needs to increase its efforts to be more demographically representative. SARS explained that it had a graduate scheme with about 300 people annually and some of these graduates were placed within the organisation. SARS, however, acknowledged that employment equity was a problem and that the equity statistics of the organisation should be rectified after two senior management resignations. This was a concern that the organisation is working at rectifying. The Committee supported this commitment. With regard to the FFC, the Commission should recruit more female employees in order to reach its equity targets as well as capacitating itself to carry out its mandate more efficiently.

The employment equity plans of SARS and the FFC should be submitted to the Committee within two weeks of tabling of this report. (by 1 December 2014).

7.7 FFC Operational and Leadership Issues

The vacant position of the Chairperson and the conflation of the roles of Chairperson and Chief Financial Officer in the same person undermines corporate governance principles and poses many problems. The FFC indicated that this is beyond their control, but that processes are underway to correct this situation and the Minister of Finance has committed to addressing it as soon as possible. The Committee wants to see effective progress on this and will engage with the Minister on this.

The FFC funding model in terms of conditional grants has been a problem for a while. The FFC indicated that this was due to the capacity and leadership constraints that it has been experiencing for the last few years. The Committee should be briefed on issues of budget/fiscal consolidation in order to engage with the submissions of the FFC fully.

7.8 South African Reserve Bank

The South African Reserve Bank indicated that credit extension of households/companies was worth looking into and that although the primary mandate of price stability is important, the financial stability mandate is in some senses more challenging.

In terms of the challenges within the banking sector, the South African Reserve Bank indicated that the committee should look at the Bank Supervision Report when it comes out in January, especially in respect of credit market extension (both supply and demand side) and areas that have required the intervention of the Bank Supervision Department. It is especially important to oversee banks considering the recent issues with the African Bank, and looking back at the SAAMBOU case. The Committee wants to be briefed on the report on the African Bank when it is finalised.

8. Auditor-General's Fees

8.1 The Committee believes that the Auditor General's fees are relatively high for the smaller entities falling within the National Treasury's portfolio and will engage further and develop its views on this matter.

The committee further reports that the Democratic Alliance (DA) and the Economic Freedom Fighters (EFF) reserve their position on the report.

Report to be considered.