



FINANCIAL  
AND FISCAL  
COMMISSION

For an Equitable Sharing  
of National Revenue

# ANNUAL REPORT

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# 2018/19

## **Financial and Fiscal Commission**

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# Chairperson's Foreword



It is with great honour and privilege that I hereby submit the Financial and Fiscal Commission's Annual Report for 2018/19. The Commission continued with its important constitutional mandate of furnishing high quality expert and independent advice on financial and fiscal matters regarding the equitable sharing of nationally raised revenue, particularly in building capacity among legislators.

The recommendations submitted by the Commission on financial and fiscal matters as mandated by law have been strengthened to be more relevant, practical and specific, using empirical, evidence-based research for impact. The extent to which the recommendations were endorsed by Parliament, as the oversight mechanism, was monitored to ensure that the influence of the Commission is upheld as required by the Constitution and the legislative prescripts.

It is with new-found direction and determination that the Commission has provided objective and impactful consultative advice on fiscal and financial matters through tabling its submissions on government's budget documents; specifically, the Division of Revenue Bill, the Appropriation Bill and the Medium-Term Budget Policy Statement.

During the period under review the Commission tabled its annual submission for the 2019/20 Division of Revenue. The theme was *"Re-engineering the intergovernmental fiscal relations system for national development in a fiscally constrained environment"*. The core position of the submission related to maintaining economic growth and development through the intergovernmental fiscal relations machinery, while taking due cognisance of the fiscal constraints brought about by the persistently low economic growth experienced in the country. This submission argued that government must seek alternative solutions to re-engineer intergovernmental fiscal relations instruments and incentives:

- with an emphasis on social equality and without compromising public finances by directly addressing economic challenges;
- by establishing a balanced fiscal position that can be sustained over the long-term; and
- by sharpening the efficiency of all government activity so that people receive the best possible value for money from the taxes they pay.

I am pleased to report that the Commission maintained the principles of good governance in all its activities. This was further strengthened by various Commission Committees, each with their own terms of reference that are reviewed regularly in line with legislation. The Secretariat, led by the CEO Dr Kay Brown, continued to operationalise the strategic decisions of the Commission.

The audit and risk committee has ensured its independence in accordance with the relevant legislative prescripts. The Commission, with the assistance of the audit and risk committee, needs to ensure that an effective, efficient and transparent system of internal control is implemented and maintained so that the Commission can meet its

strategic objectives and goals. The approval of the internal audit plan, audit strategy, annual financial statements, and assistance with the review of finance policies and risk management were some of the tasks undertaken by the committee during the period under review.

The human capital management and remuneration committee provides strategic and specialised advice to the Commission on human capital management, remuneration and related issues. The committee has reviewed and recommended policies on remuneration, performance management, leave, grievance, and the disciplinary code and procedure. During the period under review the committee provided advice on human resources management and reviewed and monitored human resources policies, considered the annual report, and the performance measures that govern the determination of remuneration and bonuses or other incentives.

In terms of asserting our influence as a constitutional body, despite the resource challenges and capacity shortages, the Commission continued to display resilience in executing its mandate as prescribed in Section 214 of the Constitution. I am pleased to report that exemplary levels of competence were displayed during key moments in the legislative process with the Standing and Select Committees of Finance and Appropriations in the National Parliament as well as provincial Standing Committees on Finance and South African Local Government Association engagements. Notwithstanding the numerous strategic commitments and invitations, extensive work has also been done to forge linkages internationally to build a congruent platform of research and knowledge sharing on financial and fiscal matters. During the period under review the Commission hosted delegations from India, Myanmar and Kenya.

I am indeed thankful to the Deputy Chairperson, Commissioners, Chief Executive Officer and staff of the Secretariat for ensuring that the Commission has fulfilled its constitutional mandate for 2018/19.



**Prof Daniel Platjies (PhD)**

**Chairperson**

**Date: 31 July 2019**

# Chief Executive Officer's Overview



It is a pleasure to note that the Secretariat is able to demonstrate the values of accountability, honesty and transparency in its day-to-day activities undertaken in the attainment of the Commission's objectives. Primary among these is to renew the organisation by decisively addressing past challenges, building on existing potential and creating future opportunities.

In presenting the progress of 2018/19 against the Secretariat's work plans, I am pleased to report that the Commission has focussed on compliance with corporate governance requirements and relevant laws. Audit report assurances regarding the authenticity of actual outputs reported quarterly against predetermined objectives were favourable for the year.

In the finance arena, the audit improvement plan was drawn up and managed, both within this division and also across divisions, this in an endeavour to improve internal controls. There is still some way to go, however this has been a learning process across the organisation that is hopefully to find more traction. The internal budget committee monitored budget activities and made necessary operational

adjustments to planned spending in light of adapted delivery plans in changing circumstances.

Non-compliance with supply chain management rules and regulations were strictly monitored and I am delighted to report that there were no transgressions in the 2018/19 financial year.

The Commission met its planned 2018/19 delivery targets and its constitutional mandate and obligations. Targets relating to stakeholder engagements were exceeded, including engagements with government departments and visiting delegations from India, Kenya and Myanmar. Some targets which appear not to have been achieved are simply explained in terms of the variability of invitations from Parliament to make presentations at hearings.

The targets relating to the research programme's activities in respect of the FFC's annual submission for the 2019/20 Division of Revenue were all met, and the submission was disseminated to National Parliament and all provincial legislatures and other stakeholders. Consultations with National Treasury on the submission were held and government's response was received.

In the human capital management and remuneration area, the new internal capacity has become established, enabling some long-outstanding matters to be finalised. A new performance management system was introduced in 2018/19. The improved transparency and upfront expectations management of this system has made the final annual appraisal a more constructive and smooth process for subordinates and managers and has aided organisational learning.

In 2018/19 the procurement for the refurbishment of the newly contracted Cape Town office space commenced, as did staff consultations in respect of the upcoming Gauteng office move. Related to

this, developments are underway to rejuvenate the ICT domain. In 2018/19 preparations were made for the commissioning of an ICT strategy, which will set the framework for an enhanced efficient ICT platform. Some identified ICT risk areas have already been addressed.

In summary, substantial efforts have been made regarding compliance with legislation and with the rebuilding of work flow systems to regularise and streamline them. The most immediate intervention is the filling of strategic vacancies to harness the FFC's human resources capacity. Outstanding challenges relate to identified reforms necessary to reposition the FFC in terms of the future vision of the Commissioners.

I thank the Chairperson, Deputy Chairperson, Commissioners, and the Executive Management team and the helpful staff for their untiring support, enabling the fulfilment of our 2018/19 responsibilities in the face of challenges on many fronts. We are well placed for success, given the Commission's strategic coherence and our plans for consistency in our approach. It is achievable and, will be operationalised through our 2019/20 planned organisation-wide change management process.



**Dr Kay Brown**

**Chief Executive Officer**

**Date: 31 July 2019**

# Statement of Responsibility and Confirmation of Accuracy of the Annual Report

To the best of my knowledge and belief, I confirm the following:

All information and amounts disclosed in the annual report are consistent with the annual financial statements audited by the Auditor-General. The annual report is complete, accurate and free from any omissions. The annual report has been prepared in accordance with the annual report guidelines issued by the National Treasury.

The annual financial statements included in this annual report were prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP). The Commissioners are responsible for the fiduciary governance of the Commission.

The Accounting Officer is responsible for establishing and implementing a system of internal control that has been designed to provide reasonable assurance as to the integrity and reliability of the performance information, the human resource information and the annual financial statements.

The annual report fairly reflects the operations, the performance information, the human resource information and financial affairs of the Financial and Fiscal Commission for the financial year ended 31 March 2019.



**Dr Kay Brown**  
**Accounting Officer**  
**Date: 31 July 2019**





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# Part A

General  
Information



# Part A: General Information

## 1 CONSTITUTIONAL AND LEGISLATIVE MANDATE

The Commission derives its mandate from Chapter 13, Section 220 of the Constitution of the Republic of South Africa Act, 1996 (Act No. 108 of 1996) (the Constitution) (as amended). In addition the Commission's functions are also encompassed in sections 214(2), 221, 222, 228(2)(b), 229(5), 230(2), and 230A(2) of the Constitution which provides, among others, that the FFC is an independent and impartial advisory state institution, that government has to consult on 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.

Its mandate is further enabled through the Financial and Fiscal Commission Act, 1997 (Act No. 99 of 1997) (as amended), Intergovernmental Fiscal Relations Act, 1997 (Act No. 97 of 1997), Money Bills Amendment Procedure and Related Matters Amendment Act, 2018 (Act No. 13 of 2018), Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (as amended), Provincial Tax Regulation Process Act, 2001 (Act No. 53 of 2001), Intergovernmental Relations Framework Act, 2005 (Act No. 13 of 2005) and the Municipal Fiscal Powers and Functions Act, 2007 (Act No. 12 of 2007).

## 2 VISION AND MISSION

### 2.1 Vision

To provide influential advice for an equitable, efficient and sustainable intergovernmental fiscal relations (IGFR) system.

### 2.2 Mission

To provide proactive, expert and independent advice on promoting a sustainable and equitable IGFR system, through evidence-based policy analysis to ensure the realisation of our Constitutional values.

### 3 VALUES

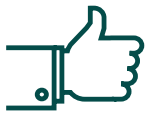
To enable the Commission to deliver on its mandate, it subscribes to the following values:



- **Professionalism**, which implies fairness and equal treatment, the free sharing of information, striving for quality, and time management



- **Respect** for each other as colleagues and for the diversity of the workforce



- **Empowerment** in employing policies to increase rather than stifle delegation, the tolerance of different views and ideas, and making resources available when required



- **Trust** which requires openness and transparency, humility, integrity, and honesty in all undertakings



- **Teamwork**, which encourages cross-functional integration, voluntary mentorship and coaching, taking responsibility, and flexibility



- **Innovation**, which allows intellectual space, provides systems to support innovation, and tolerates mistakes as opportunities for learning.

## 4 STRATEGIC OUTCOME-ORIENTED GOALS

The following strategic outcomes-oriented goals identify the areas of institutional performance that are critical to the achievement of the Commission's mandate.

Strategic outcome-oriented goals		
1	<b>Goal 1</b>	A stable and innovative IGFR system
	<b>Goal statement</b>	The system of intergovernmental fiscal relations (IGFR) is progressive, sustainable and equitable
2	<b>Goal 2</b>	Strategic foresight
	<b>Goal statement</b>	No surprises and future-oriented
3	<b>Goal 3</b>	Influential and informed policy advice
	<b>Goal statement</b>	Effective policies that are evidence-based, and are the result of comprehensive and value-added engagement
4	<b>Goal 4</b>	Knowledge management
	<b>Goal statement</b>	Relevant knowledge that enhances developmental impact is created and mobilised through the balance of internal and external specialist talent commensurate with the needs of the Commission
5	<b>Goal 5</b>	Success culture
	<b>Goal statement</b>	A dynamic, productive organisational culture is created and nurtured
6	<b>Goal 6</b>	Balance
	<b>Goal statement</b>	The balancing of present and future demands, leading to effective performance within the constraints of available resources

## 5 COMPOSITION AND ORGANISATIONAL STRUCTURE

### 5.1 Commission

The Commission comprises nine persons appointed by the President of the Republic of South Africa:

1. Chairperson and Deputy Chairperson
2. Three persons appointed after consultation with the Premiers, from a list compiled in accordance with a process prescribed by the Financial and Fiscal Commission Act, 1997
3. Two persons appointed after consultation with organised local government, from a list compiled in accordance with a process prescribed by the Financial and Fiscal Commission Act, 1997, and the Organised Local Government Act, 1997
4. Two other persons.

Commissioners are appointed in terms of section 221 of the Constitution, 1996 and section 5 of the Financial and Fiscal Commission Act, 1997. A member of the Commission must have appropriate experience. The Chairperson is a full-time employee of the Commission while the rest of the Commissioners, including the

Deputy Chairperson, are part-time. Commissioners are appointed for a term not exceeding five years, which is renewable for a further term.

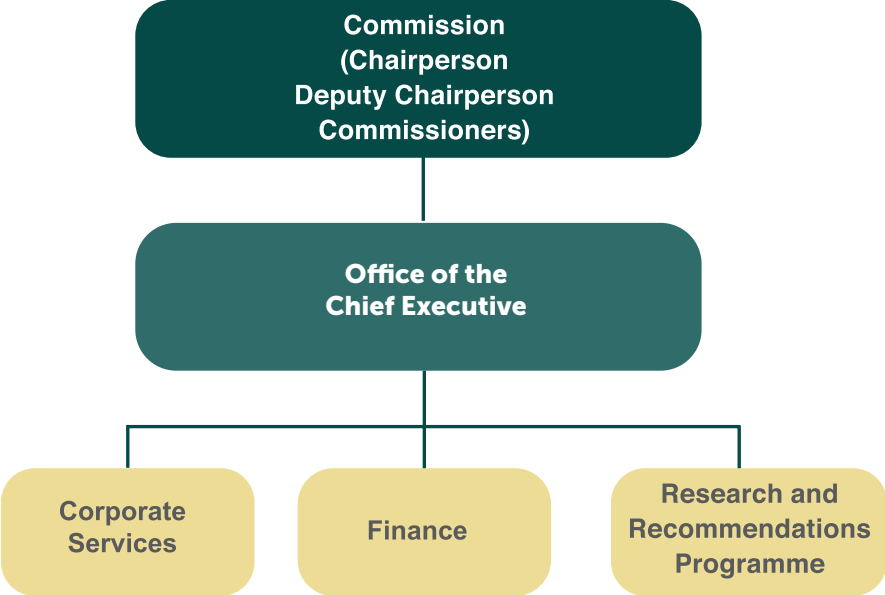
Commissioners are entitled to remuneration, allowances and other benefits, as determined by the President from time to time, by notice in the Government Gazette, taking into consideration the recommendations of the Independent Commission for the Remuneration of Public Office Bearers and approved by the National Assembly.

**5.2 Secretariat**

The Commission Secretariat has four divisions: Office of the Chief Executive Officer and Commission Secretary, Finance, Corporate Services and the Research and Recommendations programme. The Executive Management Team (EMT) is chaired by the Chief Executive Officer. The EMT is committed to principles of transparency, accountability, efficiency and effectiveness, and the practical application of these principles to enable delivery of our constitutional mandate.

**5.3 Structure of the FFC**

The diagram below shows the structure of the Commission







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# Part B

## Performance Information



# Part B: Performance Information

## 1 ACHIEVEMENTS

In line with the FFC's constitutional obligations to provide recommendations on financial and fiscal matters and in terms of its mandate according to the annual performance plan, the following table details the Commission's achievements during 2018/19.

Subject	Parliament	Provincial Legislatures	Local Government	Other organs of state and stakeholders
2019/20 Submission for the Division of Revenue	Formal tabling and presentations	Formal tabling and presentations	Formal tabling and presentations	Presentations
2018 Appropriation Bill	Formal presentation and document submission			
2018 Medium Term Budget Policy Statement	Formal presentation and document submission			
2019 Division of Revenue Bill	Formal presentation and document submission			
Commission 2017/18 Annual Report	Tabling			
Commission 2016/17 Annual Report	Formal presentation			
Portfolio Committee on Health – Analysis of the national department, provincial departments and its entities: annual performance plans and budget	Formal presentation			
South African Local Government Association (SALGA) – Financial sustainability, powers and functions of district municipalities			Formal presentation	
Select Committee on Appropriations workshop – Back to Basics programme and support to municipalities	Formal presentation			



Subject	Parliament	Provincial Legislatures	Local Government	Other organs of state and stakeholders
SALGA conference – Municipal innovation infrastructure financing			Engagement	
Department of Basic Education heads of education department: sub-committee on finance meeting				Two engagements
Forum of Federations – support to Nepal’s Natural Resource and Fiscal Commission				Training provided
Kenyan Commission on Revenue Allocation – hosting of study tour				Training provided
SALGA – Gauteng provincial members assembly			Engagement	
Portfolio Committee on Basic Education	Formal presentation			
Portfolio Committee on Health	Formal presentation			
Connecting Indian Public Finance Work Internationally – better South-South cooperation in research and policy and advocacy				Formal presentations
Western Cape Municipal CFO Forum – Lekgotla			Engagement	
SALGA – National Members Assembly			Engagement	
Mpumalanga Provincial Legislature – Progress on the Back to Basics programme		Engagement		
Myanmar visiting delegation				Formal presentation
SALGA – Second Research Colloquium			Engagement	

## 2 COMMISSION SUBMISSION FOR THE 2019/20 DIVISION OF REVENUE

Every year the Commission makes recommendations to Parliament on the division of revenue among the three levels of government by means of an annual submission to Parliament. The annual submission is made in terms of Section 214(1) of the Constitution, 1996, Section 9 of the Intergovernmental Fiscal Relations Act, 1997 (Act No. 97 of 1997) and Section 4(4c) of the Money Bills Amendment Procedure and Related Matters Act, 2018, (Act No.13 of 2018). The Commission’s annual submission for the 2019/20 Division of Revenue was tabled in Parliament in May 2018 with the title: *Re-engineering the intergovernmental fiscal relations system for national development in a fiscally constrained environment*. From a fiscal policy standpoint, the submission highlighted

how government's ability to protect crucial frontline service delivery and successfully implement the measures set by the National Development Plan (NDP), aimed at eliminating poverty and reducing inequality by 2030, have been impacted by persistently low and fragile economic growth. The Commission's view is that "business as usual" policies and interventions will fail. Several policy recommendations were made to bring about the change needed to achieve the NDP's measures:

- **Administrative and fiscal, or financial, recentralisation towards the national sphere:** The Commission found that national government is not necessarily better than subnational government in delivering subnational services. The Commission recommended that government rather focus on supporting subnational programme implementers and on monitoring and evaluation. It further recommends that when recentralising a function is necessary, a differentiated approach is followed.
- **Budget adjustments in provincial health care provision:** The Commission found that institutional arrangements largely prevent provinces from making discretionary fiscal adjustments. Fiscal strain is not simply due to incidents of fiscal imprudence and operational mismanagement. In the context of fiscal constraint, national and provincial treasuries must develop clear, measurable financial and non-financial frameworks to assist provinces in tackling issues related to serious financial strain, given the quantum of demand-induced expenditure pressures, especially from the poor.
- **Impact on municipalities of reduced intergovernmental transfers from national government:** The Commission found that reduced dependency on transfers is the main driver of expenditure and revenue activities in municipalities in the metropolitan areas and secondary cities. For smaller and rural municipalities, however, reductions in transfers reduce financing of capital and operating budgets. The Commission recommended a balance between enhancing fiscal autonomy through reduced transfers and increasing conditional grants in fiscally vulnerable municipalities. More flexibility must be built into the grants for vulnerable municipalities. Grants should also incentivise municipalities to increase their revenue.
- **Infrastructure conditional grants frameworks during periods of austerity:** While infrastructure grants are cut, as a result of underspending and the relative ease of expenditure rescheduling, the Commission argued that the cuts may not necessarily decrease infrastructure delivery and hence called for strengthened oversight over consultants and contractors. The Commission recommended that a clear, measurable evaluation framework be added to the conditional grants frameworks in the Division of Revenue Bill. Holding the implementing agent accountable for funds spent will better align expenditure to sector department objectives.
- **Quality of water services provision:** The Commission found that while water supply infrastructure reaches 95 percent of the population, its reliability is declining. While fiscal constraints may be aggravating this, the performance of inter-governmental financial instruments can nevertheless be enhanced. Measures to monitor and control operations and maintenance budgets for water services are necessary, as is a review of affordable service delivery standards and whether related conditional grant transfers meet their purpose.

Dissemination proceeded well, in line with the strategic objectives and thrust of the submission. The annual submission was presented to Parliament (to both the Standing Committee on Appropriations and Select Committee on Appropriations) and to all provincial legislatures, the South African Local Government Association, and the metropolitan municipalities of Johannesburg and Tshwane.

### **3 STATEMENT OF RESPONSIBILITY FOR PERFORMANCE INFORMATION FOR THE YEAR ENDED 31 MARCH 2019**

The Chief Executive Officer is responsible for the preparation of the Commission's performance information and for judgments made on this information. This involves establishing and implementing a system of internal control designed to provide reasonable assurance as to the integrity and reliability of performance information.

The Auditor-General currently performs the necessary audit procedures on the performance information to provide assurance on audit conclusions. The audit conclusion on the performance against pre-determined objectives is included in the report to management. In my opinion, and as corroborated by the Auditor-General, the performance information fairly reflects the operations of the Commission for the financial year ended 31 March 2019.



**Dr Kay Brown**  
**Accounting Officer**  
**Date: 31 July 2019**

## 4 MEASURABLE STRATEGIC OBJECTIVES

The measurable strategic objectives outlined in the Commission's strategic plan against which achievements of the Commission are assessed, are:

1. To profile the Commission with a special focus on the Commission's mandate, vision, mission and role, the Commission's short- and long-term strategy, the Commission's position on specific issues, the Commission's challenges and achievements **(objective 5.1.1)**
2. To ensure that the Commission research is converted to policy advice and recommendations written in a language that policymakers can understand **(objective 5.1.2)**
3. To ensure the generation of quality, innovative, pioneering research that informs key IGFR strategic debates and choices **(objective 5.1.3)**
4. To ensure the progressive and innovative management of human resources that attracts, develops and retains key talent, and leverages external expertise **(objective 5.2.1)**
5. To ensure the coordinated, coherent, high quality, innovative and cost-effective approach to ICT that meets the needs of the Commission, the Commission Secretariat and stakeholders **(objective 5.2.2)**
6. To ensure the coordinated, cost effective and innovative management of Commission assets in support of delivery on the Commission's mandate **(objective 5.2.3).**
7. To ensure compliance with legislation and adherence to relevant corporate governance best practice **(objective 5.2.4).**
8. To ensure superior performance **(objective 5.2.5).**
9. To ensure the creation of new knowledge, the institutionalisation of such knowledge and its transfer to other role players within the intergovernmental fiscal relations system **(objective 5.3.1).**
10. To ensure prudent and transparent management of the financial resources of the Commission **(objective 5.4.1).**
11. To ensure access to alternative sources of funding **(objective 5.4.2).**

The detailed performance information provided below indicates that the Commission has made significant progress in relation to its medium-term goals.

## 5 PERFORMANCE AGAINST PREDETERMINED OBJECTIVES

Project/ activities (input)	Output (deliverable)	Key performance measure/indicator	2018/19 Annual target	2018/19 Annual actual achieved	Variance/ explanation
<b>Measure strategic objective 5.1.1: Profile the Commission with a special focus on the Commission's mandate, vision, mission and role; the Commission's short- and long-term strategy; the Commission's position on specific issues; and the Commission's challenges and achievements</b>					
<b>Legislature and government plan</b>	Dissemination of Commission proffering, engagement with stakeholders and issues management	Number of briefings on 2019/20 Submission for the division of revenue	2 Parliament	2	
			9 Provincial legislatures	9	
			1 SALGA	1	
		Number of briefings on the 2018 Medium Term Budget Policy Statement	2 Parliament	2	
		Number of briefings on Commission submission on the 2019 Division of Revenue Bill	1 Parliament	2	FFC presented its Submission on the 2019 DoR to a joint sitting of the Standing and Select Committees of Parliament, 08 March 2019.
		Number of briefings on fiscal frameworks and revenue proposals	1 Parliament	0	FFC presentations to parliamentary committees are invitation-based. No invitation was received in respect of the fiscal frameworks and revenue proposals
			1 Parliament	1	The Commission's submission on the 2019 Appropriation Bill took place after the May elections when the new Parliament processed the Appropriations Bill
	Dissemination of Commission profferings and engagement with stakeholders	Number of presentations on request by stakeholders	10	21	The variance is due to a higher number of requests from stakeholders than was anticipated.

Project/ activities (input)	Output (deliverable)	Key performance measure/indicator	2018/19 Annual target	2018/19 Annual actual achieved	Variance/ explanation
<b>Measurable strategic objective 5.1.2: To ensure that Commission research is converted to policy advice and recommendations written in language that policymakers can understand</b>					
<b>Technical and policy briefs</b>	Accessible Commission profferings	Technical and policy briefs approved	1	1	One technical report comprising six chapters and five policy briefs have been published
<b>Measurable strategic objective 5.1.3: To ensure the generation of quality, innovative, pioneering research that informs the key IGFR strategic debates and choices</b>					
<b>Research and recommendations programme</b>	Better stewardship of public funds/ value for money	2019/20 annual submission for Division of Revenue	1	1	
		2018 Medium Term Budget Policy Statement submission	1	1	
		2019 Division of Revenue Bill submission	1	1	
		2019 Fiscal frameworks and tax proposals submission	1	0	Presentations to parliamentary committees are invitation-based. No invitation was received in respect of the Fiscal Frameworks and Revenue Proposals
		2019 Appropriation Bill submission	1	0	The submission on the 2019 Appropriation Bill will take place post the May elections when the new Parliament will process the Appropriation Bill.

Project/ activities (input)	Output (deliverable)	Key performance measure/indicator	2018/19 Annual target	2018/19 Annual actual achieved	Variance/ explanation
<b>Measurable strategic objective 5.2.1: To ensure the progressive and innovative management of human resources that attracts, develops and retains key talent, and leverages external expertise</b>					
<b>Human resource management</b>	People organised effectively for performance	Human resource strategy reviewed by Q4	1	1	
<b>Measurable strategic objective 5.2.2: To ensure the coordinated, coherent, high-quality, innovative and cost-effective approach to ICT that meets the needs of the Commission, the Commission Secretariat and stakeholders</b>					
<b>ICT management</b>	ICT organised effectively for performance	ICT strategy reviewed by Q4	1	0	Pursuant to the process of the ICT strategy to be reviewed, key strategic pillars have been identified in line with COBIT 5
<b>Measurable strategic objective 5.2.3: To ensure the coordinated, cost-effective and innovative management of Commission assets in support of delivery on the Commission's mandate</b>					
<b>Facilities management</b>	Space, infrastructure, people and organisation effectively coordinated for performance	Facilities management strategy reviewed	1	1	

Project/ activities (input)	Output (deliverable)	Key performance measure/indicator	2018/19 Annual target	2018/19 Annual actual achieved	Variance/ explanation
<b>Measurable strategic objective 5.2.4: To ensure compliance with legislation and adherence to relevant corporate governance best practice</b>					
<b>Compliance</b>	Commitment to legal and ethical standards, and doing the right thing	Strategic plan to the National Treasury by due date	Final strategic plan to the National Treasury	Not submitted	The Commission's submission timeline for the final strategic plan was guided after the May elections by the new Parliament's directives
		Strategic plan to Parliament by due date	Final strategic plan to Parliament	Not submitted	The Commission's submission timeline for the final strategic plan was guided after the May elections by the new Parliament's directives
		Submission of 2018/19 Quarterly Financial and non-Financial Performance Information to National Treasury by due date	Tabling of submission by May 2018	Submitted	
			Q4 2017/2018 Reports to National Treasury by 30 April 2018	Submitted	
			Q1 2018/2019 Reports to National Treasury by 31 July 2018	Submitted	



Project/ activities (input)	Output (deliverable)	Key performance measure/indicator	2018/19 Annual target	2018/19 Annual actual achieved	Variance/ explanation	
<b>Compliance</b> <i>cont...</i>			Q2 2018/2019 Reports to National Treasury by 31 October 2018	Submitted		
			Q3 2018/2019 Reports to National Treasury by 31 January 2019	Submitted		
			Submission of 2017/2018 Financial and non-Financial Performance Information to Auditor- General by due date	Unaudited 2017/2018 annual financial statements and Performance Information to Auditor- General by 31 May 2018	Submitted	
			2019 MTEF Submission to National Treasury by due date	Submission to NT	Submitted	
			Submission and tabling of 2017/2018 Annual Report before Parliament, Provincial Legislatures, Organised Local Government, National Treasury and Auditor-General by due date	Submission of Draft 2017/2018 Annual Report to AG in Q2	Submitted	
			Local Government, National Treasury and Auditor-General by due date	Submission 2017/2018 Annual Report to NT by 31 August 2018	Submitted	
				Tabling of 2017/2018 Annual Report by 31 August 2018	Submitted	
	2018/2019 Budget Adjustment Estimates Submission to National Treasury by due date	Budget Adjustment Estimates to NT in Q2	Not submitted	FFC did not require a budget adjustment with the financial year		
	Estimates of National Expenditure (ENE) Submission to National Treasury by due date	ENE Submission to NT in Q3	Submitted			

Project/ activities (input)	Output (deliverable)	Key performance measure/indicator	2018/19 Annual target	2018/19 Annual actual achieved	Variance/ explanation
<b>Measurable Strategic Objective 5.2.4: To ensure superior performance</b>					
<b>Performance Management</b>	Consistent attainment of organisational goals	Performance Management Policy reviewed	1	1	
<b>Measurable strategic objective 5.3.1: To ensure the creation of new knowledge, the institutionalization of such knowledge and its transfer to other role players within the intergovernmental fiscal relations system</b>					
<b>Information Management, Enterprise Content Management, and</b>	Advancement of IGFR Knowledge	Number of peer-reviewed publications in accredited journals as per Research Policy	4	0	Publication is based on acceptance of an article by a journal. The process of acceptance and, ultimately, publication is a lengthy process.
		Number of recognised book chapters or working papers or Technical Reports published as per Research Policy	8	7	Annually the FFC publishes the technical reports underpinning its division of revenue submission. This year the submission comprised six chapters, hence the deviation. In addition to the technical reports, one book chapter was published.
<b>Measurable strategic objective 5.4.1: To ensure prudent and transparent management of the financial resources of the Commission</b>					
Financial Management	Organisational agility through the allocation of scarce resources amongst competing interests and opportunities	Supply Chain Management Policy reviewed	Supply Chain Management Policy reviewed	Reviewed	
<b>Measurable strategic objective 5.4.2: To ensure access to alternative sources of funding</b>					
Collaboration and Partnerships	Cooperating to create and/or acquire knowledge	Number of partnerships, sponsorships, collaboration agreements	1	1	



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## Part C

### Corporate Governance



# Part C: Corporate Governance

## 1 INTRODUCTION

The Commission is responsible for determining and overseeing its strategic direction and operational policy, and the effective implementation of its functions. The Commission is committed to ensuring that its values are adhered to in all its strategic activities. As part of this commitment and fundamental to its constitutional mandate, Commissioners support the highest standards of corporate governance and the development of best practice. The Commission adheres to current standards of good governance involving the establishment of structures and processes with appropriate checks and balances. The Commission and its committees will continue to consider and give attention to governance practices and processes to ensure that its operations are conducted ethically and within prudent risk parameters. Good corporate governance involves:

- Effective and ethical leadership.
- Establishing an ethical culture in the organisation.
- Control of the organisation through appropriate risk management.
- Being driven by results with a focus on holding executives accountable for performance against strategic goals.
- Ensuring transparent reporting and disclosure of outcomes, value creation and impact on all types of capital employed in the entity (financial, intellectual, human, social, economy, environment).

The Chief Executive Officer is the Accounting Officer and the Secretary of the Commission. The Chief Executive Officer is appointed by the Commission and is responsible for managing and directing the activities of the Secretariat, supervising staff and general administration, and performing any functions assigned in terms of the Financial and Fiscal Commission Act, 1999 (Act No. 97 of 1999), Public Finance Management Act, 1999 (Act No. 1 of 1999) and relevant legislative prescripts.

## 2 COMMISSION

### 2.1 Full-time Chairperson

#### **Professor Daniel Plaatjies (1 July 2017 - 30 June 2022)**



Professor Plaatjies is the chairperson of the Commission since July 2017. He has a PhD in the study of Governance, Public Policy and Public Finance from the University of the Witwatersrand, MPhil in Policy, Planning and Management from University of Western Cape and a BSocSc (Hons) from University of Cape Town in Policy, Planning, Administration and Management. Professor Plaatjies is former head and director of the University of Witwatersrand School of Governance, former executive director at the Human Sciences Research Council and is a Visiting Professor at the University of Free State School of Business. Among the publications he has authored are "Future Inheritance - Building State Capacity in Democratic South Africa" (Jacana, 2011);

"Protecting the Inheritance - Governance and Public Accountability in Democratic South Africa" (Jacana, 2013). He was lead editor of Human Sciences Research Council Press's "State of Nation 2016: Who is in Charge? Mandates, accountability and contestation in South Africa". Professor Plaatjies also authored a number of government publications and articles thereby contributing to the public discourse on government, governance, public finance, public policies and public leadership, administration and management.

He is a former special advisor in the ministries of public enterprises, and public service and administration. He has served in various senior and executive management positions in national and provincial government.



## **2.2 Part-time Deputy Chairperson**

### **Professor Sibongile Muthwa (1 July 2017 - 30 June 2022)**

Professor Muthwa obtained her BA (SW) from the University of Fort Hare, BA (SW) Hons from the University of the Witwatersrand (Wits), MSc (SPPDC), and a PhD from the University of London. She has international work experience in the non-government, development, and public sectors, as well as in academia. From 2004 to 2010 she served as Director-General for the Eastern Cape government. Between 2010 and 2017, she was Deputy Vice-Chancellor: institutional support at the Nelson Mandela University. In January 2018, she was appointed as Vice-Chancellor of Nelson Mandela University.



## **2.3 Part-Time Commissioners**

### **2.3.1 Mr Kenneth Fihla (1 September 2013 - 31 August 2018)**

Mr Fihla is the Chief Executive of Standard Bank's Corporate and Investment Banking (CIB). A respected leader with extensive investment banking experience, he joined Standard Bank as head of investor services in September 2006. In March 2007, he was appointed to the executive committee of Standard Bank's Corporate and Investment Bank. In April 2008, he became head of transactional products and services South Africa. Mr Fihla managed client coverage and was also head of CIB in South Africa before being appointed Deputy Chief Executive of CIB in November 2016. Mr Fihla studied mechanical engineering at the Harare Polytechnic. He has an MSc in financial economics from the University of London and an MBA from the University of the Witwatersrand.



### **2.3.2 Mr Siphso Lubisi (28 July 2014 – 27 July 2019)**

Mr Lubisi commenced work at TSB Sugar Holdings in 1981, where he served as a shop steward of the Food and Allied Workers Union (FAWU). He was elected chairperson of the (FAWU) Nelspruit branch from 1986 to 1988, and at the same period he served as the chairperson of the Congress of South African Trade Unions (COSATU) for the Nelspruit region. He served as FAWU Transvaal regional treasurer from 1988 to 1990. In 1990 to 1993 was the national treasurer of FAWU. He was elected as the chairperson of the COSATU Eastern Transvaal region from 1989 to 1993 and also served as a member of central executive committee of COSATU. Mr Lubisi served as a member of the African National Congress (ANC) provincial executive committee from 1992 to 2008. He was elected as the ANC provincial deputy chairperson in 2002 and served until 2005. From 2002 to 2007 he was a member of the South African Communist Party (SACP) central committee. He is currently serving as a member of the executive committee of the SACP in Mpumalanga. Mr Lubisi was elected as a senator in the then Senate of the Republic of South Africa from 1994 to 1996 and served as the permanent delegate in the National Council of Provinces (NCOP) from 1996 to 1998. He joined the Mpumalanga Provincial Legislature and was elected as the Speaker of the Legislature from 1998 to 2004. He served as a member of the executive council (MEC) of the Mpumalanga Department of Health and Social Development in 2004 and 2005 and was a MEC for Economic Development and Planning from 2005 to 2007. In 2007 and 2008 he was reappointed as an MEC for Health and Social Development. From 2008 to 2009 Mr Lubisi served as a member of the Mpumalanga Provincial Legislature and served as chairperson of the Portfolio Committee on Agriculture and Land Administration, and Economic Development and Planning. He served as a member of various committees such as the Select Committee of Chairpersons of Committees and on the Select Committee on Public Accounts (SCOPA) Mr Lubisi served as the Speaker of the Mpumalanga

Legislature from 2009 to 2014. He is on record the longest serving Speaker, having completed ten years at the helm of the Mpumalanga Provincial Legislature on different occasions.

In 2010 to 2011, Mr Lubisi was elected as the president of the Commonwealth Parliamentary Association (CPA), Africa Region. He served also as a trustee of various organisations and a patron of various schools. He was appointed as a Commissioner of the Financial and Fiscal Commission (FFC) by the President on the 28 July 2014. He has served as the Chairperson of the Mpumalanga Tourism and Parks Agency Board of Directors from August 2014 to February 2016. He is serving as a Trustee of the Jane Goodall Institute South Africa. He also served as a trustee of the Nelspruit Development Trust. He also served as a Director of the Board of the Mpumalanga Liquor Authority and as well as a Director of the Mpumalanga Economic Growth Agency.

Mr Lubisi has received extensive training and attended various courses in Economics, Management, Leadership, Communication, Public Speaking and Politics both in the country and internationally. He has a qualification in Personnel Management from the Rand Afrikaans University (University of Johannesburg) and a Post Graduate Diploma from the Wits University.



### **2.3.3 Professor Gilingwe Mayende (28 July 2014 - 27 July 2019)**

Professor Mayende originally qualified with a PhD in Development Sociology, which he obtained from the University of Hull in the United Kingdom. He subsequently did a number of short courses in management, including a Diploma in Executive Leadership (Senior Executive Programme) from Harvard University. After completing his PhD in 1990, he was selected as Visiting Fellow and Senior Associate Member of St Antony's College at Oxford University in the United Kingdom, where he conducted research on the land question in South Africa. Between 1995 and 2005, Professor Mayende served as a senior public servant in the democratic South African government - a career which included appointment as the Director-General of the Department of Land Affairs from 2000 to 2005. He also served as the Deputy Director-General of the Eastern Cape provincial government between January 1999 and April 2000. From March 1995 to December 1998 he was the regional land claims commissioner for the Eastern Cape and Free State. He is currently a Deputy Vice Chancellor: institutional support at the University of Fort Hare.



### **2.3.4 Professor Aubrey Mokadi (1 April 2018 - 31 March 2023)**

Prof Mokadi studied at various Institutions of Higher Learning: Fort Hare University, University of the Witwatersrand, University of South Africa, Stanford University (U.S.A), University of Oxford (United Kingdom). He Lectured in the English Departments of various Universities and published widely in several accredited journals nationally and internationally in various fields and topics ranging from English Literature, Governance to Leadership. Prof Mokadi is a recipient of National and International awards of academic excellence. He is the author of several books endorsed through Forewords by eminent South African by, among others, Emeritus Archbishop Desmond Tutu, Nobel Peace Laureate; the late Nadine Gordimer, Nobel Laureate for Literature; the late Professor Es'kia Mphahlele, renowned author, academic, scholar and social critic.

Prof Mokadi is a former Chairperson of Vaal Triangle Technikon, First Black Rector and Vice Chancellor of Vaal University of Technology, Former Director of Dorbyl Steel and Engineering Company, Former Director of ABSA Bank Pty Ltd, First Black Manager of ISCOR (currently known as Acelor Mittal) , Former Chair of (CTP) Committee

of Technikon Principals, Former Joint Chair of (SAUVCA / CTP) , Founder-Member of Higher Education South Africa (HESA), currently known as Universities of South Africa (USA), Former Executive Committee Member of SERTEC (Certification and Quality Assurance Statutory Body of Universities of Technology), Former Trustee of National Tertiary Retirement Fund (NTRF) (Pension Fund Body) and the Recipient of several Awards of Merit and Leadership.

Prof Mokadi was a Former President of Vaal Civic Association, currently known as SANCO, Chair and Trustee of Vaal Career College (A Skills-based Vocational Education Institution), Chair of Vaal Broad Forum (Comprising All Community and Political Structures), Chair of (VETF) Vaal Education and Training Forum and Recipient of various Community Recognition Awards. Prof Mokadi has been the Special Advisor to the Premier of the Free State Province. As part of the Advisory Services to the Premier, he has now been asked to establish the Free State Digital Skills Academy and Incubation Hub in order to support the President's 4<sup>th</sup> Industrial Revolution Initiative. He is Director of The South Africa Institute of Leadership (SAIL), a skills based company offering SAQA Accredited Qualifications & Leadership Programmes; Director of Jubilee Management Services, Chairperson of Leadership Enterprise Development Organisation (LEDO), an NPO; Prof Mokadi is currently a member of the Board of Directors of the O R School of Leadership, an ANC NEC initiative to train and develop all its members from MP's to MPL's, Councillors, right down to rank 'n file, on critical aspects of leadership and cadreship.

### **2.3.5 Mr Mandla Nkomfe (1 April 2018-31 March 2023)**

Mr Nkomfe is currently working as special advisor to the Minister of Public Enterprises. He has acted in this capacity since 2014, firstly in the Department of Cooperative Governance and Traditional Affairs (COGTA), the Department of Finance and lately public enterprises. Mr Nkomfe has a Bachelor of Arts (BA) degree, Postgraduate Diploma in Public and Development and Master of Management in Public and Development, all obtained from the University of Witwatersrand. He also has obtained a diploma in International and Central Banking from the University of South Africa. He was a Member of the Executive Council (MEC) for Economic Affairs and Finance in 2008 and MEC for Finance up to 2014. Mr Nkomfe is a member of the board of trustees of the Ahmed Kathrada Foundation.

### **2.3.6 Professor Nicolaas Steytler (1 September 2013 – 31 August 2018)**



Professor Nico Steytler holds a BA LLB from the University of Stellenbosch, LLM from the University of London, and a PhD from the University of Natal. He also holds a Doctor *honoris causa* of the University of Fribourg, Switzerland, and is a professor of public law and the South African research chair in multilevel government, law and policy at the Dullah Omar Institute of Constitutional Law, Governance and Human Rights of the University of the Western Cape. Formerly he was the director of the Community Law Centre, a research and advocacy institute that works on governance and human rights. His main field of research is multilevel government, including local government. He has written

extensively on the subject, including co-authoring the publication, "Local government law of South Africa" (LexisNexis, updated annually). He has advised governments at all levels on constitutional and statutory design and the implementation of multilevel governance. He was a member of the Municipal Demarcation Board from 2004 to 2014. He also works on multilevel government in other countries in Africa, and, with Professor Yash Pal Ghai, edited the publication "Kenya-South Africa dialogue on devolution" (Juta 2015). He is a past president of the International Association of Centres for Federal Studies (2010-2016).

### 3 COMMISSION MEETINGS AND ATTENDANCE

Commissioner meetings are the highest decision-making structure of the Commission. The meetings are chaired by the Chairperson; and are held four times annually. The table below indicates the frequency of Commission meetings and attendance during 2018/19.

Name of member	Position	Commission Meeting attendance and dates			
		20/4/2018	26/7/2018	22/11/2018	18/2/2019
Prof Daniel Plaatjies	Chairperson	√	√	√	√
Dr Sibongile Muthwa	Deputy Chairperson	A	√	√	√
Mr Kenneth Fihla	Commissioner	√	A	#	#
Mr Siphso Lubisi	Commissioner	√	√	√	√
Prof Gilingwe Mayende	Commissioner	A	√	√	√
Prof Aubrey Mokadi	Commissioner	√	√	√	A
Mr Mandla Nkomfe	Commissioner	A	√	A	√
Prof Nico Steytler	Commissioner	√	A	#	#

Key: √ = Attended; A = Apologies; # = Term expired

### 4 COMMITTEES

The Commission may appoint one or more committees to assist in the performance of any of its functions or the exercise of any of its powers. The establishment of committees strengthens the overall governance of the Commission. The audit and risk committee is a mandatory committee that is established in terms of the PFMA. The Commission has further established the human capital management and remuneration committee, and research committee to ensure effective implementation of its objectives. Each committee has its own terms of reference that are regularly reviewed.

#### 4.1 Audit and Risk Committee

The audit and risk committee has its independence ensured in accordance with the PFMA and the legislative prescripts. The Chairperson is an independent member appointed by CEO. All members comply with statutory required competencies and have no conflict of interest. The Commission, with the assistance of the audit and risk committee, needs to ensure that an effective, efficient and transparent system of internal control is implemented and maintained so that the Commission can meet its strategic objectives and goals. The audit and risk committee primarily assists the Commission in overseeing the quality and integrity of the financial statements, its public disclosures, the scope and effectiveness of the external audit function, and the effectiveness of the Commission's internal controls and internal audit function. The audit and risk committee operates under an approved charter. The committee met six times during the financial year under review. In these meetings, the Accounting Officer and executive management were always represented. The Auditor-General and internal auditors are always invited, thus ensuring that such meetings are as effective and transparent as possible. The assertions and assurance provided by internal and external audit are relied on to determine to the effectiveness of the internal control systems.



## 4.2 Research Committee

The research committee assists the Commission to oversee the research and recommendations work of the Commission. The committee provides strategic support for the Commission's Research and Recommendations programme. Meetings are held four times a year, or more frequently if needed. Activities involve monitoring research plans, outputs and external expertise utilised in reviewing research proposals, and ultimately providing strategic direction and guidance during the research process. Equally critical is the research committee's role in managing the policy impact of the Commission's recommendations.

The table below indicates the composition of the research committee, frequency of meetings and attendance during 2018/19.

Name of member	Position	Research Committee Meeting attendance and dates			
		5/6/2018	31/8/2018	6/12/2018	29/1/2019
Prof. Nico Steytler	Commissioner, Chairperson of committee	√	√	#	#
Prof. Daniel Plaatjies	Chairperson of FFC	√	√	√	√
Prof. Gilingwe Mayende	Commissioner, Member	A	A	A	√
Prof. Aubrey Mokadi	Commissioner, Member	\$	√	√	√
Mr. Mandla Nkomfe	Commissioner, Member	√	A	A	√
Mr. Siphon Lubisi	Commissioner (ex officio)	√	√	√	√

Key: √ = Attended; A = Apologies; # = Term expired; \$ = not yet appointed as a member of the committee

## 4.3 Human Capital Management and Remuneration Committee

The role of the human capital management and remuneration committee is to provide guidance and make recommendations to the Commission on human capital management and remuneration matters. The table below indicates the composition, frequency of meetings and attendance during 2018/19.

Name of member	Position	Human Capital and Remuneration Committee Meeting attendance and dates			
		19/6/2018	11/7/2018	30/11/2018	25/3/2019
Mr Siphon Lubisi	Chairperson, Commissioner	√	√	√	√
Dr Sibongile Muthwa	Deputy Chairperson, Member	√	A	√	A
Professor Purshottama Sivanarain Reddy	Independent Member	√	√	√	√
Mr Romeo Adams	Independent Member	A	A	√	√
Ms Kokodi Morobe	Independent Member	√	√	√	√
Professor Aubrey Mokadi	Commissioner, Member	√	√	√	√
Professor Daniel Plaatjies	Chairperson of FFC, ex officio	√	√	√	√

Key: √ = Attended; A = Apologies

## **5 COMPLIANCE WITH LEGISLATION**

As the Executive Authority, the Chairperson is responsible for overall strategic and governance oversight. As the Accounting Officer, the Chief Executive Officer has the ultimate responsibility to monitor and ensure institutional and financial compliance. The function of ensuring regulatory compliance within the operational divisions is the responsibility of the Executive Managers.

## **6 RISK MANAGEMENT**

Risk management forms an integral part of the Commission's plan to deliver effectively and efficiently on its mandate. The Commission identifies and manages strategic risks associated with the objectives in its strategic plan, as well as operational risks in line with its mandate. The Commission maintains a risk register, which is reviewed to ensure that risk is managed and to identify new and emerging risks. Risk reports are tabled at meetings of the audit and risk committee. The risk register is also used by the internal auditors to plan their risk-based audits. The audit and risk committee monitors the implementation of risk management in a systematic and regular manner. Risk management underpins the Commission's strategic and operational management and is integrated into its activities at all levels, from planning, execution and oversight to control.

The Commission follows a structured approach to identifying, evaluating and managing opportunities, threats and uncertainty that may affect the achievement of its objectives.

## **7 FRAUD AND CORRUPTION PREVENTION**

All staff members have a duty to report knowledge or suspicion of fraud and corruption. The implementation and monitoring is done through the monthly management and executive committee meetings and is also part of the quarterly Commission committee meetings. The Commission has intensified the focus on fraud awareness and prevention, including reviewing and strengthening of internal controls as a result of the forensic investigation underway. The Commission also has a fraud prevention plan in place.

## **8 HEALTH, SAFETY AND ENVIRONMENTAL ISSUES**

The Commission cares for its employees and their work environment and seeks to ensure, as far as is reasonably possible, the health and safety of all employees in the workplace and of all other persons conducting business on its premises. The Commission is committed to the fulfilment of the requirements stipulated in the Occupational Health and Safety Act, 1993 (Act No. 85 of 1993). No material health, safety or environmental issues were raised during the year.

## **9 HIV/AIDS AND HEALTH PROGRAMME**

The Commission's HIV/AIDS policy was developed and implemented in 2002. The policy makes a clear statement against discrimination and ensures protection of employees who are HIV-positive or perceived to be HIV-positive.

The human resources support includes staff HIV/AIDS awareness and health promotion programmes. The human resources support also includes the implementation of an employee assistance programme to address broader issues related to employee health and wellness matters.

## **10 INTERNAL CONTROLS**

The Chief Executive Officer is responsible for the formation and development of an efficient administration including the organisation, control, management and discipline of staff. The Chief Executive Officer is responsible for implementing the decisions of the Commission. Besides the office of the CEO, the Secretariat has three divisions:

### **10.1 Research and Recommendations programme**

The Research and Recommendations programme translates and implements the Commission's strategic direction for research and recommendations, ensuring that key messages are consistent and maintain and build the reputation of the Commission. To this end, quality research is a critical core business enabler of evidence-based recommendations. However, excellence in research is unlikely to be impactful unless policy analysis is packaged in a way that is understood by stakeholders and adds value to their processes. Accordingly, effective dissemination of research insights and recommendations and effective stakeholder management is key to the programme's work. This includes follow-up on recommendation implementation and innovations in how the Commission engages.

### **10.2 Finance**

The responsibility of the finance function is to support and assist the Commissioners and the Accounting Officer in the effective, efficient and transparent financial management of the resources of the Commission, including sound budgeting and budgetary control practices, ongoing implementation of internal controls, and timely production of financial reports.

Supply chain management falls under the responsibility of the finance function. The internal controls are reviewed on a continuous basis to ensure that they are efficient, effective and adequate.

### **10.3 Corporate services**

Corporate services translates and implements the strategic direction of the Commission for HR management, ICT and facilities management. The HR focus is on support to FFC employees, the primary asset of the Commission. In the ICT arena focus is on the establishment of coordinated, coherent, high quality, innovative and cost-effective systems and processes that meet the needs of the Commission. The facilities management unit supported a secure and conducive working environment.

## **11 SECRETARIAT MEETINGS**

### **11.1 Executive management team (EMT)**

The EMT is chaired by the CEO and is comprised of the CFO, Head of Research and other Executive Managers. The EMT assists in fulfilling the Commission's legal and strategic obligations and provides guidance and recommendations on operations, personnel, the budget, technology and governance. In pursuit of its mandate the EMT meets at least monthly.

The EMT is committed to the principles of transparency, accountability, efficiency and effectiveness and the daily practical application of these principles.

## **12 SUSTAINABILITY**

The funds of the Commission consist almost entirely of money appropriated by Parliament for the purposes of the Commission, and also interest earned on bank account balances, and money otherwise becoming available to the Commission.





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## Part D

### Human Capital Management



# Part D: Human Capital Management

## 1 INTRODUCTION

The 2018/19 financial year commenced with five reviewed human capital policies: Remuneration Policy, Performance Management Policy, Leave Policy, Grievance Policy and Disciplinary Code and Procedure.

The implementation of these policies aided the Commission with alignment of its remuneration philosophy and practices with the public sector, in order to promote internal and external equity. The Commission introduced performance management processes geared towards upfront articulation of clear objectives, supporting an ethos of fairness as well as specific, measurable, attainable, relevant and time bound (SMART) principles. Aligned to the new performance management system, performance agreements were redesigned in the drive towards a high-performance culture.

Further processes introduced and implemented in the performance management cycle prior to the payment of the performance incentives to qualifying employees, included the performance moderation process and the performance outcomes Internal Audit verification process.

Further, organisational development processes to define the most apt FFC culture as well as to drive organisational-wide change management were identified. The purpose of the organisational-wide intervention is to ensure the integration of current FFC organisational values into systems and processes, in a way that steers the evolution of the FFC to realise a world-class financial and fiscal research organisation.

In pursuit of a structured and value-adding human resources function, strategic priorities that will inform future interventions were outlined. Top priorities are to ensure a fully capacitated organisation and employee capability enhancing plans.

A two-year annual leave discrepancy was addressed through a leave reconciliation process. Planned improvements in the leave system are part of the continuous process of improvement in the human capital systems and processes in order to fix the problems in this area.

The human resources management priorities also include compliance to the legislative prescripts, evidenced through the submission of the 2018 Employment Equity Report to the Department of Labour, and the commencement of the process to produce the Commission's Employment Equity Plan for the outer years. This is in view of the Commission's commitment to the broader aspirations of fair, equitable, non-racial and non-sexist employment practices, including the implementation of affirmative action measures.

Action plans were put in place to ensure that the processes to mitigate risks identified in human capital management are undertaken. Whilst some improvement in the controls, systems and processes implementation are evidenced in compliance with human resources policies, more strategic and operational interventions are still required in the quest to institutionalise world-class practices in the Commission.

## Employment statistics, trends and analysis

The Chairperson of the Commission is appointed by the President in a full-time capacity and is not included as an employee in the statistics presented.

### 1.1 Workforce

This table narrates the workforce profile of the total number of people on the staff establishment, as well as fixed-term contract employees and vacant positions as at 31 March 2019. Plans are in progress to fill the critical vacant positions.

### 1.2 Employment and vacancies by salary band

Salary band	Total staff establishment 31 March 2018	Total staff establishment 31 March 2019	Vacant positions 31 March 2019
Salary levels 1–2	1	1	0
Salary levels 3–5	2	2	0
Salary levels 6–8	3	3	0
Salary levels 9–12	15	12	3
Senior management (13)	8	5	5
Salary levels 14–15 (executive management)	4	5	1
<b>Total</b>	<b>33</b>	<b>28</b>	<b>9</b>

## 2 PERSONNEL EXPENDITURE

The personnel expenditure table gives an overview of the Commission's personnel costs by salary level, excluding the full time Chairperson, for the year ending 31 March 2019.

### 2.1 Personnel costs by salary band

Salary Levels	Personnel expenditure (R)	% of total personnel cost	Average personnel cost per employee (R)
Salary levels 1–2	169 214	0.62	169 214
Salary levels 3–5	998 957	3.63	499 479
Salary levels 6–8	1 515 441	5.51	505 147
Salary levels 9–12	9 986 095	36.31	665 740
Senior Management (13)	7 826 163	28.45	978 270
Salary levels 14–15 (Executive Management)	7 009 847	25.49	1 752 461
<b>Total</b>	<b>27 505 718</b>	<b>100.00</b>	<b>833 506</b>

### 3 EMPLOYMENT CHANGES

#### 3.1 Appointment and terminations

The Commission records that three employees were employed during the financial year under review. Two were employed on a permanent basis and one, whose contract ended on 31 March 2019, on a fixed-term contract. Nine employees left the Commission through termination and/or transfer.

Salary levels	Appointments	Terminations	Total staff establishment 31 March 2019
Salary levels 1–2	0	0	1
Salary levels 3–5	0	0	2
Salary levels 6–8	0	0	3
Salary levels 9–12	0	3	12
Senior management (13)	2	5	5
Salary levels 14–15 (executive management)	2	1	5
<b>Total</b>	<b>4</b>	<b>9</b>	<b>28</b>

A further breakdown is provided in section 3.2.

#### 3.2 Reasons for staff terminations

In terms of the staff categories the Commission reports nine terminations. During the 2018/19 financial year, there were six voluntary resignations, two fixed-term contracts expired and one dismissal following the internal disciplinary processes.

Termination type	Number
Resignation	6
Contract expiry	2
Dismissal	1
<b>Total</b>	<b>9</b>



## 4 TOTAL NUMBER OF EMPLOYEES PER OCCUPATIONAL LEVEL AS AT 31 MARCH 2019

### 4.1 Headcount

The table below shows the Commission's headcount classification per occupational level as at 31 March 2019. Analysis shows that in terms of gender, females account for 57% and males for 43% of the total Commission's headcount. The distribution of race is African 71%, Coloured 14%, Indian 4% and White 11%.

Occupational bands	Male				Female				Total
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Top management	1	0	0	0	0	0	0	1	2
Senior management	5	1	0	0	0	1	1	0	8
Professionally qualified and experienced specialists and mid-management	3	1	0	0	3	0	0	0	7
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	0	0	0	0	5	1	0	2	8
Semi-skilled and discretionary decision making	1	0	0	0	1	0	0	0	2
Unskilled and defined decision making	0	0	0	0	1	0	0	0	1
<b>Total permanent</b>	<b>10</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>10</b>	<b>2</b>	<b>1</b>	<b>3</b>	<b>28</b>
Persons with disabilities	0	0	0	0	0	0	0	0	0

## 5 TRAINING AND DEVELOPMENT PHILOSOPHY

The Commission is committed to developing a workforce that is capable of realising its current and future vision. It will achieve this by providing employees, at all organisational levels, with appropriate learning and development opportunities. All new employees, both fixed-term and permanent contract employees were orientated regarding the Commission's philosophy, organisational values and mandate, within their first months of employment. A blended approach to learning and development is adopted which recognises both formal and on-the-job training.

## 6 PERFORMANCE REWARDS

The table below illustrates the breakdown of the performance reward distribution for non-management services, middle management services, senior management and executive management respectively. The total cost of the performance reward to all employees for the financial year ended 31 March 2018 is R849 870 and was paid in 2018/2019.

### Performance reward by salary band

Salary levels	Number of employees	Number of beneficiaries	% of total in group	Total bonus cost/ payment (R)	Average bonus payment per employee (R)
Salary levels 1–2	1	0	0	0	0
Salary levels 3–5	2	1	50	25 977	25 977
Salary levels 6–8	3	3	100	65 865	21 955
Salary levels 9–12	12	11	92	336 996	30 636
Salary level 13 (senior management)	5	5	100	339 143	67 828
Salary level 14-15 (executive management)	5	1	20	81 887	81 887
<b>Total</b>	<b>28</b>	<b>21</b>	<b>75</b>	<b>849 870</b>	<b>40 470</b>

## 7 LEAVE UTILISATION

### 7.1 Annual and sick leave

The leave utilisation table below shows the annual leave and sick leave trends in the Commission.

Salary levels	Number of employees	Total days annual leave taken	Average annual leave days per employee	Total days sick leave taken	Average annual sick leave days per employee
Salary levels 1–2	1	16	16	8	8
Salary levels 3–5	2	37	19	3	1.5
Salary levels 6–8	3	49	16	42	14
Salary levels 9–12	12	193	16	60	5
Salary level 13	5	76	15.2	28	6
Salary levels 14–15 (executive management)	5	53	10.6	1	0
<b>Total</b>	<b>28</b>	<b>424</b>	<b>15.1</b>	<b>142</b>	<b>5</b>

## 7.2 Disability leave (temporary and permanent)

The table below demonstrates the trends in disability leave during 2018/19. Only one employee was on temporary disability leave for 102 days, whereas two employees were granted *ex gratia* leave in total amounting to eight days in terms of the Commission's leave policy.

Disability leave type	Number of employees	Number of days
Temporary	1	102
Permanent	0	0
<i>Ex gratia</i>	2	8
<b>Total</b>	<b>3</b>	<b>110</b>

## 7.3 Table - leave pay out

The Commission recorded leave pay out to eight employees whose employment contracts with the organisation ended as per table below.

Leave pay out on Termination of Service	Total amount (R)	Number of employees	Average payment per employee (R)
<b>Total</b>	<b>311 824</b>	<b>8</b>	<b>38 978</b>

# 8 LABOUR RELATIONS TRENDS

## 8.1 Grievances lodged

During 2018/19, one formal grievance was lodged.

## 8.2 Precautionary suspensions and special leave

The table below indicates that during the period under review one employee was placed on suspension and one on special leave in terms of Commission policy pending the outcome of the disciplinary hearing.

Leave type	Number
Precautionary suspension	1
Special leave	1
<b>Total</b>	<b>2</b>

# 9 INJURY ON DUTY

During 2018/19, no injury on duty cases were reported. This is due to preventative precautionary measures consistently taken by the Commission in an effort to create a safe and conducive working environment, as well as in compliance with the Health and Safety Act and Regulations.





FINANCIAL  
AND FISCAL  
COMMISSION

For an Equitable Sharing  
of National Revenue

## Part E

### Financial Information



# Part E: Financial Information

## 1 STATEMENT OF RESPONSIBILITY AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

The Accounting Officer is responsible for the preparation of financial statements that fairly present the financial position, performance and cash flows for the period and for the related information contained in the annual report. In order for the Accounting Officer to discharge these responsibilities in terms of PFMA and other applicable legislation, the Commission has developed and maintains a system of internal controls.

The Commission maintained adequate accounting records and an effective system of internal controls and risk management and complied in all material respects with applicable laws and regulations, except as reported by the Auditor-General. While operating risk cannot be fully eliminated, the Commission endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints. Monitoring of these controls includes regular review of the Commission's operations by the Accounting Officer and independent oversight by the audit and risk committee.

The Commission has prepared the annual financial statements presented on pages 62 to 89 using Standards of Generally Recognised Accounting Practice (GRAP). Appropriate accounting policies, supported by reasonable and prudent judgements and estimates, have been used consistently.

The external auditors are responsible for reporting on whether the financial statements are fairly presented. Their report is presented on page 56.

The Commission is financially dependent on a transfer payment from the nationally appropriated funds. On the basis that the transfer payment has been listed in the Estimates of National Expenditure, the Commission believes that it will continue to be a going concern in the year ahead. For this reason, the Commission prepared the annual financial statements on a going concern basis.

As the Accounting Officer, I have approved the annual financial statements for the year ended 31 March 2019 which were signed.



**Dr Kay Brown**  
**Accounting Officer**  
**31 July 2019**

## 2 REPORT OF THE AUDIT AND RISK COMMITTEE FOR THE YEAR ENDED 31 MARCH 2019

### Introduction

We are pleased to present our report for the financial year ended 31 March 2019 in terms of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) section 38(1)(a), (4)d and 77, and Treasury regulations 3.1.11.

### Audit and risk committee members and attendance:

The audit and risk committee consisted of the members listed below and met as indicated during the period under review.

Name of Member	Position	Audit and Risk Committee Meeting attendance and dates					
		24/5/2018	12/7/2018	23/8/2018 (Special Meeting)	5/11/2018	26/2/2019	27/3/2019 (Special Meeting)
Mr Duncan Ntuli	Independent Chairperson	√	√	√	√	√	√
Professor Daniel Plaatjies	Chairperson, ex-officio			A			
Ms Karen Muthen	Independent Member	√	√	A	√	√	√
Ms Mandisa Ramuedzisi	Independent Member	√	√	√	√	√	√
Mr Sipho Lubisi	Commissioner, Member	√	√	√	√	√	√
Mr Kenny Fihla	Commissioner, Member	A	A	A	#	#	#
Mr Mandla Nkomfe	Commissioner, Member	\$	A	A	A	A	A

Key: √= Attended; A=Apologies; \$=Not yet a member of the Committee; #= Term expired

### Committee responsibility

The committee complied with its responsibilities arising from section 38(1)(a) of the PFMA and Treasury regulations 3.1.13.

The committee adopted the audit committee charter, has regulated its affairs in compliance therewith, and has discharged all its responsibilities as contained therein.

The committee also familiarised itself with the strategic plan and annual performance plan of the Commission in order to improve its understanding of the objectives and the deliverables of the organisation.

### Effectiveness of internal control

The system of controls is designed to provide cost effective assurance that assets are safeguarded and that liabilities and working capital are efficiently managed. In line with the requirements of the PFMA, Internal Audit provides the committee and management with assurance that the internal controls are appropriate and effective, and that risks are being effectively managed.

This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to controls and process. During the financial year, the Audit Committee encouraged management to implement and report quarterly on the tracking and resolution of internal and external audit findings.

In the financial year under review, the Commission appointed two acting chief financial officers at different time periods due to the ongoing suspension and disciplinary process against the CFO.

The instability in the financial leadership position impacted the internal control environment and the resolution of audit findings to a certain degree. The Committee has recommended that management expedite its disciplinary process, with the aim of restoring accountability in the financial department as a matter of priority.

Despite the above, the system of internal controls is effective as outlined in the various reports of the Internal Auditors, the auditor's report on the annual financial statements, and management letter of the Auditor-General, however in some instances it was not operating as intended for the year under review, as compliance with certain prescribed policies and procedures was lacking.

Accordingly, we can report that the system of internal controls for the period under review was partially effective and efficient.

### **Risk management**

The committee has an oversight responsibility over the Commission's internal risk management processes. In the year under review the committee monitored the implementation of risk management and reviewed progress quarterly.

Reviews and assessments of the Commission's strategic risk will continue to be done on a quarterly basis by the committee and management.

### **Evaluation of financial statements**

The committee has:

- Reviewed and discussed the audited annual financial statements to be included in the annual report with the Auditor-General and the Accounting Officer.
- Reviewed the Auditor-General's management letter and the management's response to it.
- Reviewed changes in accounting policies and practices, where applicable.
- Reviewed the information on predetermined objectives as reported in the annual report.

The committee concurs and accepts the Auditor-General's conclusions on the annual financial statements and is of the opinion that the audited annual financial statements be accepted and read together with the report of the Auditor-General.

### **Internal audit**

The internal audit function of the Commission is outsourced. The committee approved the internal audit plan which was based on the risk register as prepared by management and confirmed with the committee.

The internal audit function completed all the planned audits for 2018/19, with the exception of the corporate governance audit which was completed in the new financial year, a postponement that was approved by the committee.



The committee is satisfied that the internal audit function is operating effectively and that its internal audit procedures have addressed the risks pertinent to the Commission.

**External audit**

The committee has met the Auditor-General to ensure that there are no unresolved matters.

**Going concern**

The annual financial statements of the Commission were prepared on a going concern basis and the Accounting Officer is satisfied that the Commission is financially sound and has adequate resources to continue operating for the foreseeable future.

**On behalf of the Audit and Risk Management Committee**



**Duncan Thulani Ntuli**

**Chairperson of the Audit and Risk Committee**

**Date: 31 July 2019**

### **3 STATEMENT OF RESPONSIBILITY OF THE ACCOUNTING OFFICER FOR THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019**

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

As the Accounting Officer, I acknowledge that I am ultimately responsible for the system of internal financial control established by the Commission which places considerable importance on maintaining a strong control environment. To enable meeting these responsibilities, the Commission sets standards for internal control aimed at reducing the risk of error or deficit in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk.

These controls are monitored throughout the Commission and all employees are required to maintain the highest ethical standards in ensuring the Commission's business is conducted in a manner that, in all reasonable circumstances, is above reproach. The focus of risk management is on identifying, assessing, managing and monitoring all known forms of risk across the Commission. While operating risk cannot be fully eliminated, the Commission endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

As the Accounting Officer, I am of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

I have reviewed the Commission's cash flow forecast for the year to 31 March 2020 and, in the light of this review and the current financial position, am satisfied that the Commission has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements are prepared on the basis that the Commission is a going concern and that the government has neither the intention nor the need to liquidate or curtail materially the scale of the Commission.

The Commissioners are accountable for the fiduciary governance and management of the Commission. The CEO as the Accounting Officer of the Commission is responsible for its financial affairs.

The annual financial statements set out on pages 62 to 89, which have been prepared on the going concern basis, were approved and signed by myself as the Accounting Officer:



**Dr Kay Brown**  
**Accounting Officer**  
**Date: 31 July 2019**

## **4 REPORT BY THE ACCOUNTING OFFICER TO THE EXECUTIVE AUTHORITY AND PARLIAMENT OF THE REPUBLIC OF SOUTH AFRICA**

### **1. REVIEW OF ACTIVITIES**

Stability was introduced into the Commission with the filling of the vacancies of the full-time Chairperson and the Chief Executive Officer, which ended the conflation of the roles of the Executive Authority and the Accounting Officer. Staff have been re-assigned according to the respective functions and are employed solely within each of the offices.

The scene is set for good governance and compliance. Capacity constraints and some structural challenges of uneven work distribution and performance in the support structures of the Secretariat remain to be resolved. The Commission is well placed to deal with this as the human resources function has been insourced and is now becoming established. The majority of the executive management team only joined the Commission in 2018/19 and have brought new experience and ideas for the development of a new service delivery model.

Legacy challenges such as business continuity, ICT architecture and systems maintenance remain and need to be addressed. Investment in specialist knowledge of the fiscal system and data research technologies are critical for the work of the Commission. The FFC will continue to strive to attract research talent in the highly competitive market for expert public policy researchers.

During the 2017/18 financial year, a forensic investigation was undertaken which produced a report in April 2018 which recommended, among other things, that the control environment at the Commission be reorganised to improve staff morale and change and improve processes, policies, procedures and the system of internal financial controls. The Commission has instituted many changes to give effect to this.

### **2. ANALYSIS OF FINANCIAL STATEMENTS**

#### **2.1 Revenue**

The Commission received its funding from non-exchange and exchange transactions.

##### **Revenue received from exchange transactions**

The Commission received interest of R924 127 on the positive bank balance.

##### **Revenue received from non-exchange transactions**

The total appropriation from National Treasury for the Commission for the year ending 31 March 2019 was R51 782 000 (2018: R50 647 000). This represented a 2.2% increase, which was below inflation. The Commission received budget cuts as with most government organisations. The funding from the national fiscus was primarily used for the operations of the Commission.

The Commission also reported an amount of R2 050 190 for services-in-kind income. This relates to office rental, which was paid for by the Department of Public Works. The decrease from R2 922 381 in the previous year was as a result of the exclusion of CFO secondment services from the National Treasury which were not received in 2018/19.

## 2.2 Expenses

Operating expenditure increased from R47 532 537 to R50 364 027 which represented an increase of 5.9% during the year. This was mainly due to inflationary increases to employee costs, legal and audit fees and other operating expenditure and building costs, as explained below.

- Employee costs increased from R31 541 364 to R32 192 017. The 2018 costs include those in respect of the Chairperson reallocated in the current year to Operating Costs which increases by 8,3%. The cost to employer remuneration increased by 6%. Additional appointments include the establishment of the Human Resources function and a seconded person from National Treasury which relate to the higher increase. The leave provision charge increased with R387 745, due to a change of policy in the long service award, where 5 additional annual leave days were awarded after ten years of service partly in lieu of cash awards.
- Professional services have increased during the year by 32,6%. Included in this is legal fees of R726 931 (2018: R198 800) and an increase in legal costs due to disciplinary cases during the year. The external audit fees increase to R1 619 499 (2018: R1 149 907) due to increased audit time arising from forensic investigation findings, and internal audit fees of R822 003 (2018: R308 323) due to increased focus on specific risk areas. The Commission did not spend on human resource consulting during the year, which was in an effort to reduce reliance on external capacity.
- Operating expenditure increased by 10% from R12 794 419 to R14 091 966, inclusive of expenditure relating to the fulltime chairperson which is now reflected under operating expenses. General savings were achieved in printing and publications, communication costs and travel expenses. This was due to efforts by the Commission to minimise spending in these areas for cost containment purposes. Other operation expenditure increased mostly due to recruitment fees from R57 232 to R159 476 and water and electricity costs from R320 378 to R533 302 owing to incorrect municipal billing which was rectified later.

## 2.3 Assets

The procurement of computer equipment and furniture assets during the year was minimal. Additions amounted to R125 527, which was to replace obsolete laptops and a scanner for asset verification. Software for the development of a data warehouse amounted to R1 058 000.

Current assets have decreased from R15 million to R10 million. The decrease was due to the surrender of cash reserves of R8 million to the National Treasury which requested the Commission to pay this to the Department of Public Works for the use of the current premises in Midrand. The unused cash surplus during the year was retained in the savings portion of the Commission's bank account. Recovery of outstanding debt will be done following the financial year in terms of the Commission's policies. Also included in the receivables from exchange transactions is prepayment in respect of office rental.

## 2.4 Liabilities

Liabilities include provisions for leave pay of R1 147 879 (2018: R760 135) and for performance bonuses of R553 362 (2018: R1 118 345). Payables from exchange transactions include suppliers outstanding at year end. This has decreased due to extra measures to pay suppliers on time.

### **3. MAJOR EVENT EXPENDITURE**

The Commission did not incur any expenditure in respect of any major non-mandate event during the period under review.

### **4. CONSTRAINTS**

In a knowledge intensive domain, the Commission remains critically aware of the importance of its staff. The Commission will prioritise its research programme to strengthen its ability to generate influential policy advice based on credible research and to increase its empirical data capacity. Suitable research expertise is difficult to retain, however the specialist technical skills required mean there is not a large pool from which to recruit talent. The attraction of talent and management and retention of staff remains a key imperative.

### **5. CORPORATE GOVERNANCE ARRANGEMENTS**

#### **5.1 Internal audit function**

The internal audit function (IAF) of the Commission is outsourced to Morar Inc. The IAF is an integral part of the Commission's system of governance.

The IAF provides objective and independent assurance to management and the audit and risk committee on the adequacy and effectiveness of internal controls, risk management and governance processes within the Commission. In pursuing this activity, the IAF is guided by its own terms of reference and the internal audit charter, which was approved by the Audit and Risk Committee.

The head of the IAF has full access and a direct reporting line to the audit and risk committee and reports at each committee meeting on control weaknesses and other internal audit activities.

Through comprehensive engagement with internal stakeholders, the IAF formulated a three-year rolling plan, incorporating the plan to address the matters raised in the Auditor-General's management report. The plan was approved by the audit and risk committee. The annual plan, forming part of the internal audit plan, was executed during the year under review – and all but one of the reviews was completed.

#### **5.2 Audit and risk committee**

The audit and risk committee continues to operate within its terms of reference, which are reviewed and approved annually. The audit and risk committee met six times during the year. In these meetings, the Accounting Officer and executive management were represented.

The auditors of the Auditor-General of South Africa are always invited to attend, thus ensuring that such meetings are as effective as possible.

#### **5.3 Risk management**

Because of its size, the Commission does not have a separate enterprise risk management (ERM) unit. The discharge of this responsibility devolves to all members of executive management and is coordinated by the Chief Financial Officer.

Management had reviewed the Commission's risk management strategy, which informed the continuous integration of risk management into the daily activities of the Commission.

Management has created awareness and instituted risk management processes and procedures in alignment with the Public Sector Risk Management Framework in the form of an independently-facilitated risk review process. The Commission updated its risk profile, which is monitored on an ongoing basis by internal governance structures, including the EMT and the audit and risk committee.

During the course of developing its risk profile, the Commission paid special attention to identifying and assessing the strategic risks and fraud and corruption risks.

## **6. NEW ACTIVITIES**

Except for requests received from stakeholders in terms of Section 3 of the Financial and Fiscal Commission Act, 1997, there were no other new activities during the course of the reporting period.

## **7. ASSET MANAGEMENT**

In terms of section 38(1)(b) of the PFMA, the Accounting Officer of the Commission is responsible for the effective, efficient, economical and transparent use of the resources.

In addition to the normal daily administration and management of the Commission's asset register, appropriate activities were undertaken to improve on the overall asset management environment of the Commission. The Commission ensured that its assets are properly tagged, verified and accounted for and that any lost or redundant assets were identified and removed from the asset register on a timely basis. An asset verification process was also conducted in order to ensure that Commission assets are accounted for and accurately reported in the annual financial statements.

## **8. PERFORMANCE INFORMATION**

Divisional heads have reported to the Accounting Officer on a regular basis on the progress made with regard to functional delivery and measurable objectives, as contained in the Commission's strategic plan.

## **9. STANDING COMMITTEE ON PUBLIC ACCOUNTS**

There were no SCOPA resolutions in 2018/19 relating to the Commission.

## **10. SURPLUS AND RESERVES**

The Commission received approval at the beginning of the year to use its accumulated surplus towards operations. Savings in the current year owing to better management of funds will be included as a request to retain part of the surplus for use in the upcoming year. An amount of R918 745 previously classified as capital contribution in previous year was transferred to accumulated surplus this year which has also increased surplus.

## **11. BUDGET**

The Commission's budget was submitted to the National Treasury in terms of the PFMA. There was no surplus/deficit in the budget.

## 12. EXECUTIVE AUTHORITY

The executive authority of the Commission is the Chairperson of the Commission in terms of the Treasury regulations to the Public Finance Management Act, 1999.

Name	Position	Period served during the 2018/19 financial year
Professor D Plaatjies	Chairperson	April 2018 – March 2019

### Approval

The annual financial statements set out on pages 62 to 89 have been approved by me as the Accounting Officer.



**Dr Kay Brown**  
**Accounting Officer**  
**Date: 31 July 2019**

## 5 REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL AND FISCAL COMMISSION

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### Opinion

1. I have audited the financial statements of the Financial and Fiscal Commission (the commission) set out on pages 62 to 89, which comprise the statement of financial position as at 31 March 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Financial and Fiscal Commission as at 31 March 2019, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA).

#### Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
4. I am independent of the commission in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code), parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### Responsibilities of the accounting officer for the financial statements

6. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the PFMA, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
7. In preparing the financial statements, the accounting officer is responsible for assessing the commission's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting officer either intends to liquidate the commission or to cease operations, or has no realistic alternative but to do so.



**Auditor-general’s responsibilities for the audit of the financial statements**

- 8. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
  
- 9. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor’s report.

**REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT**

**Introduction and scope**

- 10. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected strategic objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
  
- 11. My procedures address the reported performance information, which must be based on the commission’s approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
  
- 12. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected strategic objectives presented in the annual performance report of the commission for the year ended 31 March 2019:

Strategic objectives	Pages in the annual performance report
Strategic objective 5.1.1: profile the commission with a special focus on the commission’s mandate, vision, mission and role, the commission’s short and long-term strategy, the commission’s position on specific issues, and the commission’s challenges and achievements.	21
Strategic objective 5.1.2: to ensure that commission research is converted to policy advice and recommendations written in language that policymakers can understand.	22

Strategic objectives	Pages in the annual performance report
Strategic objective 5.1.3: to ensure the generation of quality, innovative, pioneering research that informs the key intergovernmental fiscal relations system (IGFR) strategic debates and choices.	22
Strategic objective 5.3.1: to ensure the creation of new knowledge, the institutionalization of such knowledge and its transfer to other role players within the intergovernmental fiscal relations system.	26

**13.** I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

**14.** I did not identify any material findings on the usefulness and reliability of the reported performance information for the following strategic objectives:

- Strategic objective 5.1.1: profile the commission with a special focus on the commission’s mandate, vision, mission and role, the commission’s short and long-term strategy, the commission’s position on specific issues, and the commission’s challenges and achievements.
- Strategic objective 5.1.2: to ensure that commission research is converted to policy advice and recommendations written in language that policymakers can understand.
- Strategic objective 5.1.3: to ensure the generation of quality, innovative, pioneering research that informs the key IGFR strategic debates and choices.
- Strategic objective 5.3.1: to ensure the creation of new knowledge, the institutionalization of such knowledge and its transfer to other role players within the intergovernmental fiscal relations system.

**Other matters**

**15.** I draw attention to the matters below.

**Achievement of planned targets**

**16.** Refer to the annual performance report on pages 21 to 26 for information on the achievement of planned targets for the year and explanations provided for the overachievement of a number of targets.

**Adjustment of material misstatements**

**17.** I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of the commission. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

## **REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION**

### **Introduction and scope**

- 18.** In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the commission with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
- 19.** The material findings on compliance with specific matters in key legislation are as follows:

### **Financial statements, performance report and annual report**

- 20.** The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and as required by section 40(1)(a) and (b) of the PFMA. Material misstatements of non-current assets, current assets, liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records provided, resulting in the financial statements receiving an unqualified opinion.

### **Expenditure management**

- 21.** Payments were not made within 30 days or an agreed period after receipt of an invoice, as required by treasury regulation 8.2.3.

### **OTHER INFORMATION**

- 22.** The commission's accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected strategic objectives presented in the annual performance report that have been specifically reported in the auditor's report.
- 23.** My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
- 24.** In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected strategic objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact.
- 25.** I have nothing to report in this regard.

### **INTERNAL CONTROL DEFICIENCIES**

- 26.** I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in my opinion and the findings on compliance with legislation included in this report.

**27.** There was no adequate oversight to ensure that the commission adhered to relevant legislation, as transgressions were identified relating to the PFMA and Treasury Regulations. There were inadequate day-to-day, weekly and monthly controls to ensure the accurate and timeous processing, reconciliation and review of transactions. This led to the financial and performance information submitted for auditing containing errors, omissions and misstatements which were subsequently corrected by management. Processes and procedures to monitor payments to service providers and suppliers within 30 days were also not sufficient.

*Auditor General*

Pretoria

31 July 2019



**A U D I T O R - G E N E R A L**  
**S O U T H A F R I C A**

*Auditing to build public confidence*

## Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the commission’s compliance with respect to the selected subject matters.

### Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the commission’s internal control
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
  - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the commission’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause the commission to cease continuing as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

### Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

## Statement of Financial Position as at 31 March 2019

Figures in Rand	Note (s)	2019	2018
<b>Assets</b>			
Receivables from exchange transactions	3	243 252	76 293
Cash and cash equivalents	4	10 204 834	15 436 962
		<b>10 448 086</b>	<b>15 513 255</b>
<b>Non-current assets</b>			
Plant and equipment	6	1 521 092	1 591 663
Intangible assets	7	1 110 218	62 112
Deposits	5	280 654	143 862
		<b>2 911 964</b>	<b>1 797 637</b>
<b>Total assets</b>		<b>13 360 050</b>	<b>17 310 892</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Payables from exchange transactions	8	1 676 918	1 847 089
Provisions	9	1 701 241	1 878 480
		<b>3 378 159</b>	<b>3 725 569</b>
<b>Non-current liabilities</b>			
Operating lease liability	10	69 418	-
<b>Total liabilities</b>		<b>3 447 577</b>	<b>3 725 569</b>
Accumulated surplus		9 912 473	13 585 323
<b>Total net assets</b>		<b>9 912 473</b>	<b>13 585 323</b>
<b>Total net assets and liabilities</b>		<b>13 360 050</b>	<b>17 310 892</b>

## Statement of Financial Performance

Figures in Rand	Note (s)	2019	2018
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Interest received		924 127	844 974
<b>Revenue from non-exchange transactions</b>			
<b>Transfer revenue</b>			
Government grants	12	51 782 000	50 647 000
Services-in-kind	27	2 050 190	2 922 381
<b>Total revenue from non-exchange transactions</b>		<b>53 832 190</b>	<b>53 569 381</b>
<b>Total revenue</b>		<b>54 756 317</b>	<b>54 414 355</b>
<b>Expenditure</b>			
Employee costs	13	32 192 017	31 541 363
Depreciation and amortisation		205 983	219 922
Loss of disposal of assets and liabilities		60	56 195
Professional services	16	3 874 052	2 920 636
Operating expenses	17	14 091 966	12 794 419
<b>Total expenditure</b>		<b>50 364 027</b>	<b>47 532 536</b>
<b>Surplus for the year</b>		<b>4 392 290</b>	<b>6 881 819</b>

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
<b>Balance at 1 April 2017</b>	<b>6 703 504</b>	<b>6 703 504</b>
Changes in net assets		
Surplus for the year	6 881 819	6 881 819
<b>Total changes</b>	<b>6 881 819</b>	<b>6 881 819</b>
<b>Balance at 1 April 2018</b>	<b>13 585 322</b>	<b>13 585 322</b>
Changes in net assets		
Surplus for the year	4 392 290	4 392 290
Accumulated surplus surrendered	(8 065 139)	(8 065 139)
Total changes	<b>(3 672 849)</b>	<b>(3 672 849)</b>
<b>Balance at 31 March 2019</b>	<b>9 912 473</b>	<b>9 912 473</b>



## Cash Flow Statement

Figures in Rand	Note (s)	2019	2018
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Government grants		51 782 000	50 647 000
Interest received		924 127	844 974
		<b>52 706 127</b>	<b>51 491 974</b>
<b>Payment</b>			
Employee costs		(32 269 466)	(30 855 930)
Suppliers		(16 420 123)	(13 281 011)
		(48 489 589)	(44 136 941)
<b>Net cash flows from operating activities</b>	18	<b>4 016 538</b>	<b>7 355 033</b>
<b>Cash flows from investing activities</b>			
Purchase of plant and equipment	6	(125 527)	(321 984)
Purchase of intangible assets	7	(1 058 000)	-
<b>Net cash flows from investing activities</b>		<b>(1 183 527)</b>	<b>(321 984)</b>
<b>Cash flows from financing activities</b>			
Accumulated surplus surrendered	26	(8 065 139)	-
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(5 232 128)</b>	<b>7 033 049</b>
Cash and cash equivalents at the beginning of the year		15 436 962	8 403 913
<b>Cash and cash equivalents at the end of the year</b>	4	<b>10 204 834</b>	<b>15 436 962</b>

## Statement of Comparison of Budget and Actual Amounts

### Budget on cash basis

Figures in Rand	Approved budget on cash basis	Actual amounts on accrual basis	Adjustment of actual amounts from accrual to cash basis	Actual amounts on cash basis	Difference between budget and adjusted actual amount	Note
Statement of Financial Performance						
Receipts						
Revenue from exchange transactions						
Interest received	887 223	924 127	-	924 127	36 904	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants	51 782 000	51 782 000	-	51 782 000	-	
Services in kind	-	2 050 190	<b>(2 050 190)</b>	-	-	
Total revenue from non-exchange transactions	51 782 000	53 832 190	<b>(2 050 190)</b>	51 782 000	-	
Total receipts	52 669 223	54 756 317	<b>(2 050 190)</b>	52 706 127	36 904	
Payments						
Employee costs	(34 963 326)	(32 192 017)	<b>(177 239)</b>	(32 369 256)	2 594 070	
Depreciation and amortisation	-	(205 932)	<b>205 932</b>	-	-	
Building costs	(1 700 623)	(3 604 940)	<b>1 982 815</b>	(1 622 125)	78 498	
Loss of disposal of assets	-	(60)	<b>60</b>	-	-	
Professional services	(3 682 899)	(3 874 052)	-	(3 874 052)	(191 153)	
Operating expenditure	(11 768 819)	(10 487 026)	<b>(342 895)</b>	(10 829 921)	938 898	
Fixed assets	(553 556)	-	<b>(1 183 528)</b>	(1 183 528)	(629 972)	
Total expenditure	(52 669 223)	(50 364 027)	<b>485 145</b>	(49 878 882)	2 790 341	
Actual amount on comparable basis as presented in the budget and actual comparative statement	-	4 392 290	<b>(1 565 045)</b>	2 827 245	2 827 245	Refer to note 29

## Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

### 1. Basis of preparation

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

#### 1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the FFC.

#### 1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the FFC will continue to operate as a going concern for at least the next 12 months.

#### 1.3 Plant and equipment

Plant and equipment are tangible non-current assets that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the FFC; and
- the cost of the item can be measured reliably. Plant and equipment is initially measured at cost.

The cost of an item of plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Plant and equipment is carried at cost less accumulated depreciation and any impairment losses. Plant and equipment are depreciated on the diminishing balance method over their expected useful lives to their estimated residual value.

## Accounting Policies

### 1.3 Plant and equipment (continued)

The useful lives of items of plant and equipment have been assessed as follows:

Item		Average useful life
Furniture and fixtures	Diminishing balance	25 years
Motor vehicles	Diminishing balance	10 years
Computer equipment	Diminishing balance	10 years
Leasehold improvements	Diminishing balance	Amortised over the period of the lease

Each part of an item of plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the FFC. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The FFC assesses at each reporting date whether there is any indication that the FFC's expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the FFC revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

### 1.4 Intangible assets

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the FFC; and
- the cost or fair value of the asset can be measured reliably.

The FFC assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

## Accounting Policies

### 1.4 Intangible assets (continued)

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result, the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a diminishing balance basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software	Diminishing balance	10 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible asset is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

### 1.5 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

## Accounting Policies

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

### Recognition

The FFC recognises a financial asset or a financial liability in its statement of financial position when the FFC becomes a party to the contractual provisions of the instrument.

### Measurement

The FFC measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

### Financial assets

Trade and other receivables

Receivables from exchange transactions are categorised as loans and receivables and consist of prepaid expenses and rental deposits. These are initially measured at fair value, and subsequently measure at amortised costing being the initially recognised amount, plus any interest accrued, less any repayments, less any impairments.

### Financial liabilities

Trade and other payables.

Trade and other payables are subsequently measured at amortised cost. The FFC's trade and other payables relate to amounts owed to suppliers.

### 1.6 Tax

No provision for taxation has been made as the FFC is exempt from income tax in terms of the Section 10 of the Income Tax Act (Act No 58 of 1962).

## Accounting Policies

### 1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### 1.8 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon. A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. Useful life is either:

- the period of time over which an asset is expected to be used by the entity; or
- the number of production or similar units expected to be obtained from the asset by the entity.

### 1.9 Employee benefits

The cost of short-term employee benefits, which are those payable within 12 months after the service is rendered, such as annual leave, sick leave and bonuses, are recognised in the period in which the service is rendered and are not discounted.

The expected cost of bonus payments is recognised as an expense when there is a practice of making such payments as a result of past performance.

## Accounting Policies

### 1.9 Employee benefits (continued)

Termination benefits are employee benefits payable as a result of either:

- an FFC's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

### 1.10 Provisions

Provisions are recognised when:

- the FFC has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 25.

### 1.11 Commitments

Items are classified as commitments when the FFC has committed itself to future transactions that will normally result in the outflow of cash.

The FFC has included disclosures in respect of unrecognised contractual commitments.

### 1.12 Revenue recognition

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets.

An exchange transaction is one in which the FFC receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Non-exchange transactions are those transactions where an entity either receives value from another entity without directly giving approximately equal value in exchange or gives value to another entity without directly receiving approximately equal value in exchange.



## Accounting Policies

### 1.12 Revenue recognition (continued)

Revenue is recognised when it is probable that future economic benefits or service potential will flow to the FFC and these benefits can be measured reliably. Revenue comprises of government grants, other income, gains on disposals and interest received.

Government grants are the FFC's main source of revenue and are treated with reference to the guidance provided by GRAP 23: Revenue from Non-exchange Transactions. The FFC has developed an appropriate accounting policy for this basis, namely that revenue from non-exchange sources is only recognised to the extent that a corresponding asset satisfies the recognition criteria but limited to the amount of any outstanding obligation in the form of conditions attached to the grant.

### Rendering of services

Other Income is recognised in the reporting period in which the services are rendered, by reference to the stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

The gain arising from the derecognition of an item of plant and equipment is included in revenue when the item is derecognised. The gain arising from the derecognition of an item of plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Interest is recognised on a time proportion basis, taking into account the principal amount outstanding or invested and the effective rate over the period to maturity when it is determined that such income will accrue to the FFC.

### Interest

Revenue arising from the use by others of entity assets yielding interest or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the entity, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

### 1.13 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an entity, which represents an increase in net assets.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arises when the entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

## Accounting Policies

### 1.13 Revenue from non-exchange transactions (continued)

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

### Services in-kind

Except for financial guarantee contracts, the FFC recognises services in-kind that are significant to its operations and/or service delivery objectives as assets and recognises the related revenue when it is probable that the future economic benefits or service potential will flow to the FFC and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the FFC's operations or service delivery objectives and do not satisfy the criteria for recognition, the FFC discloses the nature and type of services in-kind received during the reporting period.

### 1.14 Comparative figures

Where necessary, comparative figures have been restated or reclassified to achieve fair presentation and to conform to changes in presentation that arise due to changes in accounting policies, errors, reporting standards and legislation.

### 1.15 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.16 Irregular expenditure

The PFMA defines irregular expenditure as expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the financial year and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

## Accounting Policies

### 1.16 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/ expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

### 1.17 Budget information

The FFC is typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect to through authorising legislation, appropriation or similar.

General purpose financial reporting shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The annual financial statements and the budget are not on the same basis of accounting therefore a reconciliation between the statement of financial performance and the budget has been included in the annual financial statements. Refer to note 28.

### 1.18 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

The FFC is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the FFC to have adopted if dealing with that individual entity or person in the same circumstances and the terms and conditions are within the normal operating parameters established by the legal mandate.

## Accounting Policies

### 1.18 Related parties (continued)

Where the FFC is exempt from the disclosures in accordance with the above, the FFC discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

### 1.19 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The FFC will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event has occurred.

The FFC will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

### 1.20 Use of estimates

The preparation of financial statements require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statement. Estimates are based on current conditions and on other assumptions that are believed to be reasonable under the circumstances. Significant items subject to judgement and such estimates include estimated useful lives and the recoverability of the carrying value of assets.

## Notes to the Annual Financial Statements

### 2. New standards and interpretations

#### 2.1 Standards and interpretations issued, but not yet effective

The Commission has not applied the following standards and interpretations, which have been published for the accounting periods beginning on or after 01 April 2019 or later periods:

GRAP 104 (revised) Financial Instruments	01 April 2019	The impact on the financial results and disclosure is considered to be minimal when the Standard is adopted as it has been used to inform current disclosures.
GRAP 108: Statutory Receivables	01 April 2019	The impact on the financial results and disclosure is considered to be minimal when the Standard is adopted as it has been used to inform current disclosures.

### 3. Receivables from exchange transactions

Prepayments  
Other receivables

	2019	2018
	70 529	75 040
	172 723	1 253
	<b>243 252</b>	<b>76 293</b>

### 4. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand  
Bank balances

	6 213	16 682
	10 198 621	15 420 280
	<b>10 204 834</b>	<b>15 436 962</b>

### 5. Deposits

Rental deposit

Deposits relate to rental deposits on the premises in Cape Town occupied by the FFC.

	<b>280 654</b>	<b>143 862</b>
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## Notes to the Annual Financial Statements

### 6. Plant and equipment

	2019			2018		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Furniture and fixtures	2 443 920	(2 087 098)	356 822	2 491 392	(2 133 149)	358 243
Motor vehicles	236 829	(220 814)	16 015	236 829	(219 944)	16 885
Computer equipment	2 012 099	(926 486)	1 085 613	1 933 475	(793 575)	1 139 900
Leasehold improvements	109 610	(85 774)	23 836	461 054	(423 225)	37 829
Artwork	38 806	-	38 806	38 806	-	38 806
<b>Total</b>	<b>4 841 264</b>	<b>(3 320 172)</b>	<b>1 521 092</b>	<b>5 161 556</b>	<b>(3 569 893)</b>	<b>1 591 663</b>

### Reconciliation of plant and equipment – 2019

	Opening balance	Additions	Disposals	Depreciation / change in accounting estimate	Total
Furniture and fixtures	358 243	25 851	(42)	(27 230)	356 822
Motor vehicles	16 885	-	-	(870)	16 015
Computer equipment	1 139 900	99 676	(18)	(153 945)	1 085 613
Leasehold improvements	37 829	-	-	(13 993)	23 836
Artwork	38 806	-	-	-	38 806
<b>Total</b>	<b>1 591 663</b>	<b>125 527</b>	<b>(60)</b>	<b>(196 038)</b>	<b>1 521 092</b>

### Reconciliation of plant and equipment - 2018

	Opening balance	Additions	Disposals	Depreciation / change in accounting estimate	Total
Furniture and fixtures	289 820	95 069	(2 903)	(23 743)	358 243
Motor vehicles	28 563	-	-	(11 678)	16 885
Computer equipment	1 116 920	226 915	(53 292)	(150 643)	1 139 900
Leasehold improvements	59 751	-	-	(21 922)	37 829
Artwork	38 803	-	-	-	38 806
<b>Total</b>	<b>1 533 860</b>	<b>321 984</b>	<b>(56 195)</b>	<b>(207 986)</b>	<b>1 591 663</b>

## Notes to the Annual Financial Statements

### 7. Intangible assets

	2019			2018		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Computer software	1 256 065	(145 847)	1 110 218	244 310	(182 198)	62 112

### Reconciliation of intangible assets – 2019

	Opening balance	Additions	Depreciation / change in accounting estimate	Total
Computer software	62 112	1 058 000	(9 894)	1 110 218

### Reconciliation of intangible assets – 2018

	Opening balance	Additions	Depreciation / change in accounting estimate	Total
Computer software	74 048	-	(11 936)	62 112

### 8. Payables from exchange transactions

Trade payables  
Accrued expense

	2019	2018
Trade payables	867 368	452 093
Accrued expense	809 550	1 394 996
	<b>1 676 918</b>	<b>1 847 089</b>

## Notes to the Annual Financial Statements

### 9. Provisions

#### Reconciliation of provisions - 2019

	Opening balance	Additions	Utilised during the year	Total
Performance bonus	1 118 345	553 362	(1 118 345)	553 362
Leave benefits	760 135	699 569	(1 430 170)	1 701 241
	<b>1 878 480</b>	<b>1 252 931</b>	<b>(1 430 170)</b>	<b>1 701 241</b>

#### Reconciliation of provisions – 2018

	Opening balance	Additions	Utilised during the year	Total
Performance bonus	732 701	849 870	(464 226)	1 118 345
Leave benefits	713 519	160 878	(114 262)	760 135
	<b>1 446 220</b>	<b>1 010 748</b>	<b>(578 488)</b>	<b>1 878 480</b>

In terms of the FFC's leave policy, employees are entitled to accumulated vested leave pay benefits not taken within a leave cycle, provided that any leave pay benefits not taken within a period of six months after the end of a leave cycle are forfeited.

The performance bonus provision of R553 362 recognised is in accordance with the FFC's performance management policy. The performance bonus paid during the year is related to outstanding payment for the 2016/2017 financial year.

### 10. Operating lease liability

Accrual in respect of operating lease on the straight line method

	2019	2018
	69 418	-

### 11. Contributed capital

In the previous year an amount of R918 754 was disclosed as Contributed Capital. This relates to assets that were acquired in the 1995/1996 financial year from National Treasury and should have been disclosed in accumulated surplus. This has now been correctly classified in the financial statements, refer to note 24.

### 12. Government grants

#### Operating grants

Government grant

	2019	2018
	51 782 000	50 647 000



## Notes to the Annual Financial Statements

### 13. Employee costs

	2019	2018
Basic	30 546 199	29 713 964
Performance bonus	553 362	849 870
Leave pay provision charge	387 745	46 615
UIF	59 963	57 990
Long-service awards	53 753	197 380
Other personnel costs	590 995	675 545
<b>Total</b>	<b>32 192 017</b>	<b>31 541 364</b>

### 14. Related parties

All national departments of government and national state-controlled entities are regarded as related parties in accordance with IPSAS 20. The Financial and Fiscal Commission is a constitutional institution reporting to Parliament. Grants in the current and prior years are received via the National Treasury's budget vote. Transactions with related parties that are on the same terms as those generally available in the sector and related to transactions in the ordinary course of business are not disclosable in terms of IPSAS 20. Refer to note 15 for the disclosure of Commissioners and Key Management remuneration.

### 15. Commissioners and key management remuneration

#### Key management

#### 31 March 2019

	Salary	Performance bonus	Leave pay	Total
Dr K Brown, Chief Executive Officer	1 524 700	-	-	1 524 700
V Mbethe, Executive Special projects	1 446 377	-	-	1 446 377
Gift Petlele, Acting Head: Corporate Services (from May 2018)	1 088 121	-	-	1 088 121
M Vokwana, Chief Financial Officer	1 320 433	-	-	1 320 433
Dr R Mabugu, Research Director (resigned 30 June 2018)	390 751	139 483	69 807	600 041
	<b>5 770 382</b>	<b>139 483</b>	<b>69 807</b>	<b>5 979 672</b>

#### 31 March 2018

	Salary	Performance bonus	Other	Total
V Mbethe, Acting Chief Executive Officer	1 370 974	-	1 530	1 372 504
Dr R Mabugu, Research Director	1 560 313	94 394	6 791	1 661 498
A Maharaj Dowra, Commission Secretary	1 203 262	36 334	1 360	1 240 956
M Vokwana, Chief Financial Officer	1 273 729	-	-	1 273 729
	<b>5 408 278</b>	<b>130 728</b>	<b>9 681</b>	<b>5 548 687</b>

## Notes to the Annual Financial Statements

### 15. Commissioners and key management remuneration (continued)

#### Commissioners

	2019	2018
Prof D Plaatjies (appointed full time Chairman 1 July 2017)	1 927 497	1 811 339
Dr S Muthwa	12 832	81 082
S Lubisi	190 077	160 521
Prof G Mayende	47 088	17 790
Prof N Steytler (term ended 31 August 2018)	30 370	24 612
K Kumar (term ended 28 February 2018)	-	27 425
Prof A Mokadi (appointed 1 April 2018)	78 144	-
	<b>2 286 008</b>	<b>2 122 769</b>

### 16. Professional services

	2019	2018
Legal fees	726 931	198 800
External audit fees	1 619 499	1 149 907
Financial consulting	390 000	363 675
Internal audit fees	822 003	308 323
Commissioned research	315 619	259 755
Human resource consultant	-	640 176
	<b>3 874 052</b>	<b>2 920 636</b>

### 17. Operating expenditure

Software licences	711 950	525 921
Internet connection	465 146	490 607
IT support	565 839	605 955
Workshops and meetings	61 128	123 744
Printing and publications	770 303	1 185 546
Communications and cellphones	1 026 544	1 247 628
Commission and committee costs	3 075 750	458 740
Office rent	2 772 487	2 438 183
Travel expenses	2 677 321	3 936 244
Other operating expenditure	1 965 498	1 781 851
	<b>14 091 966</b>	<b>12 794 419</b>

In the current financial year, the FFC has amended the classification of Commission and Committee costs from professional fees to other operating expenditure for better presentation in the financial statements. The amount of the classification is R3 075 750 (2018: R458 740).

## Notes to the Annual Financial Statements

	2019	2018
<b>18. Cash generated from operations</b>		
Surplus	4 392 290	6 881 819
<b>Adjustments for:</b>		
Depreciation and amortisation	205 932	219 922
Loss on sale of assets and liabilities	60	56 195
Movements in operating lease assets	69 418	(77 838)
Movements in provisions	(177 239)	432 260
<b>Changes in working capital:</b>		
Receivables from exchange transactions	(166 959)	22 418
Deposits	(136 792)	-
Payables from exchange transactions	(170 172)	(179 740)
	<b>4 016 538</b>	<b>7 355 033</b>

### 19. Commitments

#### Authorised capital expenditure

#### Already contracted for but not provide for

- Intangible assets

**1 157 000**

#### Total capital commitments

Already contracted for but not provided for

**1 157 000**

This committed expenditure relates to an agreement entered into by the FFC and Tirisán for the purchase of the Data Warehouse and will be financed by retained surpluses and existing cash resources.

#### Commitments

The FFC has entered into a lease agreement for office premises in Cape Town. Commitments regarding the lease are as follows.

#### Operating leases - as lessee (expense)

Minimum lease payments due		
- Within one year	833 133	226 316
- In second to fifth year inclusive	3 465 971	-
	<b>4 299 104</b>	<b>266 316</b>

Operating lease payments represent rentals payable by the Commission for its office premises. Leases are negotiated for an average term of five years and have an 8% escalation clause. No contingent rent is payable

## Notes to the Annual Financial Statements

### 20. Going concern

We draw attention to the fact that at 31 March 2019, the FFC's total assets exceed its liabilities by R9 912 473, representing accumulated surplus.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the FFC to continue as a going concern depends largely on the continued support of government through means of annual appropriation. The Commission will make a submission and request approval from the National Treasury to retain part of the total accumulated surplus of R9 912 473.

### 21. Irregular expenditure

	2019	2018
Opening balance	2 137 662	638 822
Add: Irregular expenditure – current year	551 650	1 527 400
Less: Amounts condoned	-	(28 560)
	<b>3 079 839</b>	<b>2 137 662</b>
<b>Analysis of expenditure awaiting condonation per age classification</b>		
Current year	942 177	1 498 840
Prior years	2 137 662	638 822
	<b>3 079 839</b>	<b>2 137 662</b>

## Notes to the Annual Financial Statements

### 21. Irregular expenditure (continued)

		2019	2018
<b>Details of irregular expenditure</b>			
Insurance services	Non-competitive bidding	30 949	-
Remuneration	Irregular expenditure under investigation	911 228	-
		<b>942 177</b>	<b>-</b>

The irregular expenditure identified above relates to Commissioners remuneration, with reference to Section 9 of the FFC Act, 1997; and non-compliance with procurement procedures. Based on a forensic report issued in 2018, the FFC is in the process of instituting disciplinary processes against the implicated personnel regarding irregular expenses. Irregular expenditure where the FFC has received value, will be sent to the relevant authority for condonation. Additional controls have been put in place to avoid such irregular expenditure in future.

### 22. Fruitless and wasteful expenditure

Cancellation of travel visa costs	<b>3 771</b>	-
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The Commission has incurred remuneration costs whilst the Disciplinary process for the Chief Financial Officer is ongoing.

The FFC has not recovered debt arising in the previous year which were identified during the forensic investigation as the disciplinary processes are ongoing. The debt amounts to R3 771.

## Notes to the Annual Financial Statements

### 23. Financial risk management

The FFC's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk.

#### Liquidity risk

The FFC's risk to liquidity is a result of needing funds available to cover future commitments. Considering the FFC's current funding structures and availability of cash resources, the FFC regards this risk to be low.

Financial liabilities which potentially subject the FFC to concentrations of liquidity risk are trade and other payables. The FFC's risk to liquidity is a short fall in funds available to pay its payables. The payables are all due within the short term. The FFC manages its liquidity risk by holding sufficient cash in the bank account.

At 31 March 2019	Less than 1 year
Trade and other payables	1 676 918
At 31 March 2018	Less than 1 year
Trade and other payables	1 847 089

#### Credit risk

Financial assets which potentially subject the FFC to concentrations of credit risk are principally receivables. Loans and receivables are of a sundry nature and the credit risk is therefore limited, the credit risk is managed through periodic reviews of the level of bad debts. Accordingly the FFC has no significant concentration of credit risk.

	2019	2018
Trade and other receivables	243 252	76 293

## Notes to the Annual Financial Statements

### 23. Financial risk management (continued)

#### Market risk

##### - Interest rate risk

The FFC has cash and cash equivalents placed with financial institutions and is therefore exposed to interest rate fluctuations and such changes in market interest rates affect the fair value of cash. The interest rate risk embodies not only the potential for loss but also the potential for gain and is managed through the cash management policy.

##### - Fair values

At 31 March 2019 the carrying amounts of accounts payable and accounts receivable approximated their fair value due to the short term maturities of these assets and liabilities. Since the FFC does not undertake any significant investment there is no significant sensitivity to fair value fluctuations of financial instruments.

##### - Foreign currency risk

The FFC does not hedge foreign exchange fluctuations.

The FFC transacts with foreign persons from time-to-time. The FFC is relatively insensitive to subsequent fluctuations in currency since most transactions are settled in advance, resulting in there being few monetary items that would again require translation at reporting date. The FFC's management will continue to assess the frequency and nature of these transactions to determine whether further foreign currency risk management strategies are required but at this stage the risk is limited.

### 24. Prior period errors

A prior period error adjustment was made to correct the classification of assets acquired from National Treasury in the amount of R918 754, from Contributed Capital to Accumulated Surplus. The adjustment has no effect on total net assets.

The correction of the error results in adjustments as follows:

Statement of financial position	2019	2018
Accumulated surplus	-	918 754
Contributed capital	-	(918 754)

### 25. Contingencies

The accumulated surplus of R9 912 473 in the current year has been classified as a contingent liability as at 31 March 2019 as there is no approval received to retain the surplus as yet. In terms of National Treasury Instruction note 6 of 2017/18 all constitutional institutions must declare and surrender all surpluses realised to the National Revenue fund.

The FFC is awaiting approval of a request to increase Commissioner's remuneration by 35%, as it has not been adjusted since 2012. Should the President approve the request the FFC is estimating that R125 479 will be paid in retrospective remuneration.

## Notes to the Annual Financial Statements

### 26. Accumulated surplus surrendered

Accumulated surplus surrendered

	2019	2018
Accumulated surplus surrendered	8 065 139	-

In terms of the PFMA constitutional institutions must request from National Treasury to retain accumulated surpluses. In terms of the instruction received from National Treasury, the FFC surrendered the above amount by means of a transfer to the Department of Public Works in respect of office rental recovery, which was recognised as a service-in-kind for the previous years.

### 27. Services in kind

Office rental

Office rental	2 050 190	1 926 410
Staff secondment	-	995 971
	<b>2 050 190</b>	<b>2 922 381</b>

Staff secondment

The FFC has recognised services-in-kind related to the office accommodation in Midrand. The Department of Public Works has traditionally entered into contractual agreements and paid for the rental on behalf of the FFC. In the prior year the FFC also received technical assistance in the form of staff secondment from National Treasury.

### 28. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus with the surplus in the statement of financial performance as explained in note 29:

Net surplus per the statement of financial performance		4 392 290	6 881 818
Adjusted for:			
Actual amounts not on cash basis		(1 565 045)	(473 214)
Increase in sundry income	1	(36 904)	(383 631)
Under expenditure in employee costs	2	(2 594 070)	(2 453 432)
Under expenditure in professional services	3	191 153	(2 098 724)
Under expenditure in building costs	4	(78 498)	(955 954)
Under expenditure in operating expenditure	5	(938 898)	(741 595)
Increase in spending on fixed assets	6	629 972	224 732
Net surplus per approved budget		-	-



## Notes to the Annual Financial Statements

### 29. Budget differences

Differences between budget and actual amounts basis of preparation and presentation

#### Variance explanation

1. Variance in revenue is due to interest received on a favourable bank balance during the year	36 904
2. Employee costs are below budget owing to the seven vacant positions. Unspent funds in training and development amounting to R265 213 during the year.	2 594 070
3. Professional fees exceed budget because of unplanned legal costs during the year.	(191 153)
4. Building costs include savings in respect of a plants hire contract	78 498
5. Operating expenses include reduced spending on printing and publications, communication, workshops and meetings and travel costs.	938 898
6. Capital expenditure has not been utilised for the refurbishment of the Cape Town office procurement, due to the delay in the finalisation of the procurement process. An amount of R1 058 000 was utilised from accumulated reserves for the purchase of ICT intangible assets	(629 972)

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**2 827 245**

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# Appendix A

## 2018/19 publications and their dissemination

- 1 Written submissions to Parliament
  - 1.1 South Africa. 2018. *Submission for the Division of Revenue, 2019/20*. Midrand: Financial and Fiscal Commission.
  - 1.2 South Africa. 2018. *Submission on the 2018 Appropriation Bill*. Midrand: Financial and Fiscal Commission.
  - 1.3 South Africa. 2018. *Submission on the 2018 Medium Term Budget Policy Statement*. Midrand: Financial and Fiscal Commission.
  - 1.4 South Africa. 2019. *Submission on the 2019 Division of Revenue Bill*. Midrand: Financial and Fiscal Commission.
- 2 Working papers, technical reports and policy briefs published
  - 2.1 South Africa. 2018. Technical Reports: *Submission for the Division of Revenue, 2019/20*. Midrand: Financial and Fiscal Commission.
  - 2.2 Five policy briefs published.
- 3 Op-eds and newspaper articles
  - 3.1 Mtantato, S. and Ngozo, T. 2018. Basic Education is Failing the Economy. *Mail and Guardian*. 23 November 2018. Available at: <https://mg.co.za/article/2018-11-23-00-basic-education-is-failing-the-economy>
  - 3.2 Mtantato, S. and Ngozo, T. 2018. Funding Focus should be Lower-Cost Urban Housing. *Mail and Guardian*. 25 May 2018. Available at: <https://mg.co.za/article/2018-05-25-00-funding-focus-should-be-lower-cost-urban-housing/>
  - 3.3 Mtantato, S. and Ngozo, T. 2018. Investment Barriers are Problem No. 1. *Mail and Guardian*. 7 September 2018. Available at: <https://mg.co.za/article/2018-09-07-00-investment-barriers-are-problem-no-1/>
  - 3.4 Mtantato, S. and Ngozo, T. 2018. Saving is Key to a Health Economy. *Mail and Guardian*. 22 June 2018. Available at: <https://mg.co.za/article/2018-06-22-00-saving-is-key-to-a-healthy-economy/>

- 3.5 Mtantato, S. and Ngozo, T. 2018. SA's Welfare State is in Trouble. *Mail and Guardian*. 28 September 2018. Available at: <https://mg.co.za/article/2018-09-28-00-sas-welfare-state-is-in-trouble/>
- 3.6 Mtantato, S. and Ngozo, T. 2018. The Drivers behind Fuel Price Hikes. *Mail and Guardian*. 6 July 2018. Available at: <https://mg.co.za/article/2018-07-06-00-the-drivers-behind-fuel-price-hikes/>
- 3.7 Mtantato, S. and Ngozo, T. 2018. Smart Thinking for Fiscal Balance. *Mail and Guardian*. 25 May 2018. Available at: <https://mg.co.za/article/2018-05-25-00-smart-thinking-for-fiscal-balance/>
- 4 Conference presentations
- 4.1 Dr Mkhululi Ncube presented a paper at the SALGA Research Colloquium in Durban, 10 – 12 March 2019.

## Acronyms

APP	Annual performance plan
BCP	Business continuity plan
CEO	Chief Executive Officer
COSATU	Congress of South African Trade Unions
CRO	Chief Risk Officer
DoRA	Division of Revenue Act
DoRB	Division of Revenue Bill
EMT	Executive Management Team
ENE	Estimates of National Expenditure
ERM	Enterprise Risk Management
FFC	Financial and Fiscal Commission (also referred to as the Commission)
GRAP	Generally Recognised Accounting Practice
HR	Human Resources
IAF	Internal Audit Function
IESBA	International Ethics Standards Board for Accountants
IGFR	Intergovernmental Fiscal Relations
ISA	International Standards on Auditing
MEC	Member of the Executive Council
MTBPS	Medium Term Budget Policy Statement
NCOP	National Council of Provinces
NDP	National Development Plan
PFMA	Public Finance Management Act
SACP	South African Communist Party
SALGA	South African Local Government Association