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FINANCIAL AND FISCAL COMMISSION ANNUAL REPORT 2013/14 ANALYSIS

12 October 2014

1. INTRODUCTION

The Financial and Fiscal Commission plays a critical role in intergovernmental fiscal relations in South Africa, and was established as an independent and impartial advisory institution that the Government has to consult with regard to the division of revenue among the three spheres of government and in the enactment of legislation pertaining to provincial taxes, municipal fiscal powers and functions, and provincial and municipal loans. The mandate of the Commission is derived from the Constitution as well as legislation such as the Intergovernmental Fiscal Relations Act No. 97 of 1997 as amended, the Financial and Fiscal Commission Act No. 99 of 1997 as amended, the Money Bills Amendment Procedures and Related Matters Act No. 9 of 2009, the Municipal Systems Act No. 32 of 2000 as amended, the Provincial Tax Regulation Process Act No. 53 of 2001 as amended, the Municipal Finance Management Act No. 56 of 2003 as amended, the Intergovernmental Relations Framework Act No. 13 of 2005 as amended, and the Municipal Fiscal Powers and Functions Act No. 12 of 2007 as amended.

2. OVERALL PRERFORMANCE AND ACHIEVEMENTS for 2013/14

The FFC reported the following achievements for the 2013/14 financial year:

- The Commission was able to strengthen its research component; and made all legally required submissions including its annual Submission on the Division of Revenue, Medium Term Budget Policy Statement (MTBPS); Fiscal Framework; Division of Revenue Bill and Appropriations Bill.
- Strong relations were established with Parliamentary researchers (as part of the stakeholder outreach programme), including in two legislatures (i.e. Eastern Cape and Gauteng) through workshops on intergovernmental fiscal relations; while two municipal councils were trained in council oversight.
- The Commission concluded Memoranda of Understanding (MOU) with various stakeholders including the Human Sciences Research Council (HSRC), the Municipal Demarcation Board (MDB); Public Service Commission (PSC) and the Food Agriculture and Natural Resources Policy Analysis Network (FANRPAN).

Challenges

- The position of the Chairperson for the Commission has been vacant since 2010; the Commission has had an Acting Chairperson for almost four years. The Commission has also reported shortage or limited resources to discharge its broad mandate, as a result the Commission's research team is operating below its capacity.
- The Commission struggles to attract female candidates to fill critical positions at a higher level; which impacts on the Commission's ability to reach gender equity targets as well as

targets in relation to employment of people with disabilities as it is difficult to attract people with disabilities who possess the necessary specialised skills.
- In the 2013/14 financial year, the revenue of the Commission only grew by 4 per cent compared to the previous financial year and is expected to decline over the medium term.

Issues of Consideration

- What has the Commission done to solve the challenges highlighted relating to skills shortages and limited resources; as well as vacancies in critical positions, especially the chairperson of the Commission?
- Regarding placement of personnel; the Commission should indicate to the Committee the number of critical positions that were filled during the period under review. What has the commission done to ensure that it attracts females and people with disabilities with the requisite skills?
- The Commission has indicated lack of funding as one of the challenges experienced in the 2013/14 financial year. This constraint is expected to continue over the medium term. Has the Commission engaged National Treasury on this matter? What is the level of under-funding currently experienced by the Commission and how does this impact on the commission's ability to carry out its mandate?

3. PROGRAMME PERFORMANCE

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

Table 1

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

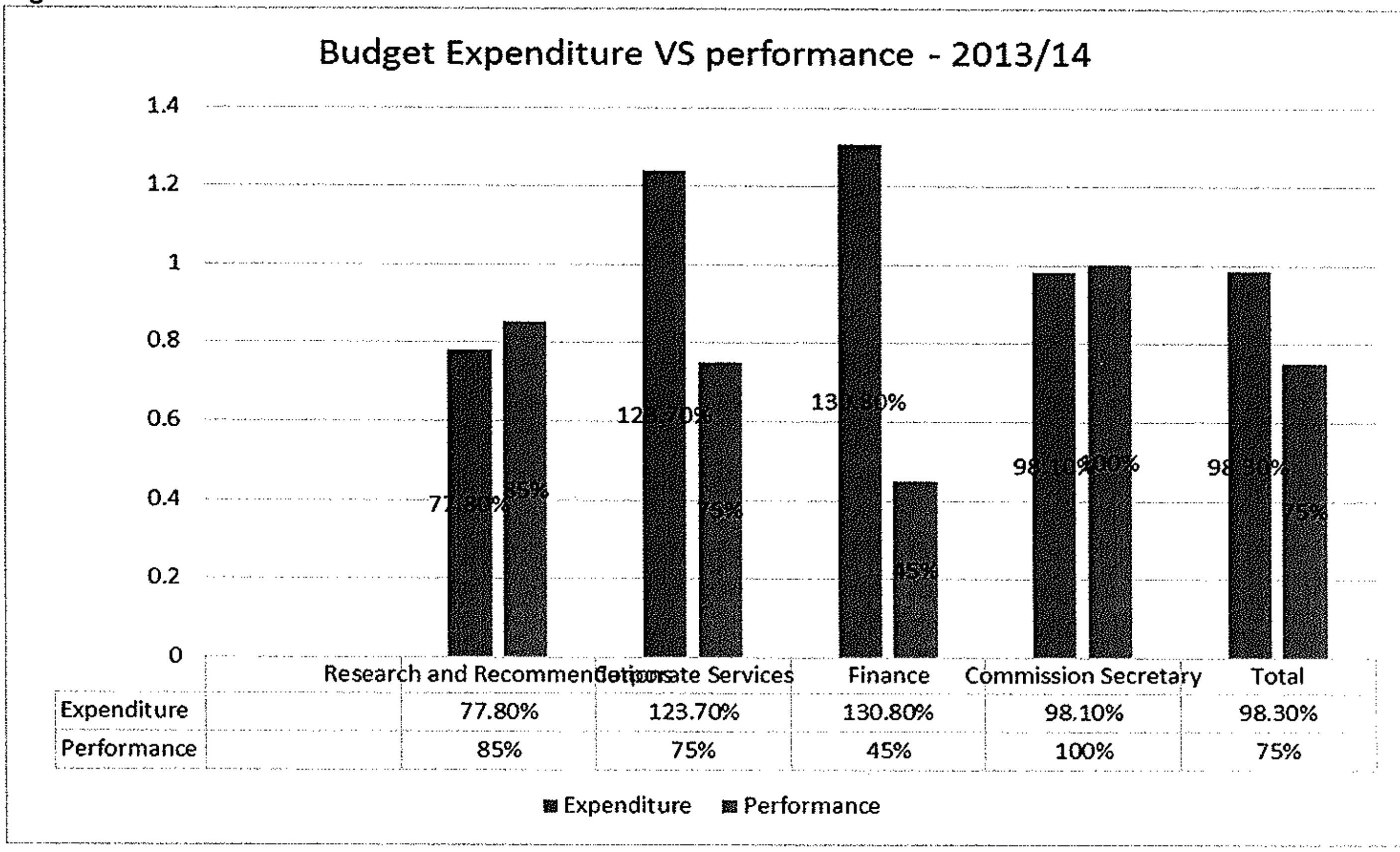
Source Financial and Fiscal Commission 2013/14 Annual Report

The Commission received a total appropriation of R38.767 million, which was adjusted upwards by R800 000 to assist in preparation for the Commission's 20th Anniversary IGFR Conference. This resulted in a final allocation of R39.567 million.

At the end of the 2013/14 financial year the FFC had spent R38.912 million or 98.3 per cent of its allocation; thereby under-spending by R654 085 or 1.7 per cent. Under-expenditure was evident mainly in Programme 1: Research and Recommendations with a variance of R3.843 million and Commission Secretary at R180 841. This under-expenditure was however partly off-set by significant over-spending on the other two programmes; Corporate Services spent 123.7 per cent and Finance Division spent 130.8 per cent.

The Commission's annual report and strategic plan indicate that there are four strategic objectives from which its annual targets are derived. Most of the targets were met in the 2013/14 financial year, and those that were not met were mostly due to funding constraints. The Commission also highlighted that some of its activities were deferred to the 5th Parliament and would therefore be achieved later.

Figure 1



	Research and Recommendations	Corporate Services	Finance	Commission Secretary	Total
Expenditure	77.80%	123.70%	130.80%	98.10%	98.30%
Performance	85%	75%	45%	100%	75%

Issues for consideration

- The Commission has consistently raised the lack of financial resources to perform its broad mandate as a challenge; and yet at the end of the financial year the commission had under-spent its allocated budget.
- There seems to be an imbalance between spending and performance to varying degrees within different divisions as reflected in the table above. For example, the two divisions that performed the lowest overspent even though they did not achieve some of their targets due to funding and capacity constraints. On the other hand, two Divisions under-spent but contributed significantly to meeting the performance targets of the institution.
- Regarding the targets that could not be achieved; what were the specific challenges that led to these targets not being met and what are the lessons learnt by the Commission to ensure acceleration of performance?

3. REPORT OF THE AUDITOR-GENERAL

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

- Irregular expenditure amounting to R1.29 million is still awaiting condonation, of which R800 000 was incurred in the 2013/14 financial year. The irregular expenditure in 2013/14 relates to goods and services that were procured without inviting competitive bids. An investigation has been instituted to determine liability and a recommendation will be made to the Accounting Officer.
- The Auditor-General did not raise any issues regarding the usefulness and reliability of reported information, but highlighted the achievement of planned targets for the year as an additional matter (of concern).
- The annual financial statements submitted by the Commission were not prepared in accordance with the prescribed financial reporting framework as required by section 40(1) (b) of the Public Finance Management Act. Furthermore, insufficient reviews were performed to ensure that the financial statements were prepared in accordance with the prescribed financial reporting framework.
- In terms of the internal controls, the Auditor-General raised a concern regarding the issue of leadership. In this regard, the accounting officer did not ensure that adequate oversight monitoring mechanisms were in place as controls are not functioning as intended.

These issues point to a gap in the Commission's Internal Control systems, and should be explained to the Committee by the Commission and necessary steps taken to ensure that these findings are addressed.

Issues for consideration

- The commission must explain why R490 200 irregular expenditure incurred in the previous financial year (as well as R800 000 in the current financial year) has not been condoned by National Treasury.
- What are the factors that contributed to the Accounting Officer not ensuring that adequate oversight mechanisms are in place for controls to be functioning effectively?
- How is the structure and functioning of the finance unit of the Commission and what has contributed to the Commission not adhering to the prescribed financial reporting framework and the Unit performing worst in the institution?

4. ANNUAL FINANCIAL STATEMENTS

The following can be observed from the financial statements:

- There is significant increase in Accounts Receivables from the last financial year, from R75 733 in 2012/13 to R306 544 in 2013/14.
- According to the Statement of Financial Performance, the Commission had surplus cash of R1.4 million in 2013/14 financial year, which is a decline from the previous financial year's amount of R2.1 million.
- Rent deposits have increased from R79 939 in 2012/13 to R143 862 in the period under review.
- The Commission had an approved budget of R19.210 million for employee costs. However it spent R20.444 million on this budget component (over-expenditure).

Issues for consideration

- Noting that some items have over-spent on their allocated budget; the Commission should explain the reason for this over-expenditure and the strategy to contain spending in such items, which include employee costs.

5. HUMAN RESOURCES MANAGEMENT

The Human Resource statement indicates that the Commission's vacancy rate was at 6.25 per cent or 2 vacancies at the end of March 2014. Furthermore, only 2 staff members resigned from the Commission. There were 3 disciplinary actions for the period under-review. The Commission did not experience any strike action from its employees.

6. GENERAL CONCERNS ARISING FROM THE ANALYSIS

- One of the major concerns raised by the Commission in the annual report is the issue of under-funding. The Committee should engage the Commission on this matter; particularly in relation to the issue of value-for-money and ways in which the Commission can ensure efficient and effective allocation and spending of allocated funds.
- Programmes that are not performing within the Commission, especially those that result in non-achieved targets should be evaluated and new strategy developed to realise improvement in the new financial year.
- The Commission should provide the Committee with details regarding the three disciplinary actions that were conducted during the period under review.

REFERENCES

Financial and Fiscal Commission, Annual report, 2013/14

Financial and Fiscal Commission, Strategic plan, 2013/14

Financial and Fiscal Commission Act No 99 of 1997

The Constitution of the Republic of South Africa, Act 108 of 1996