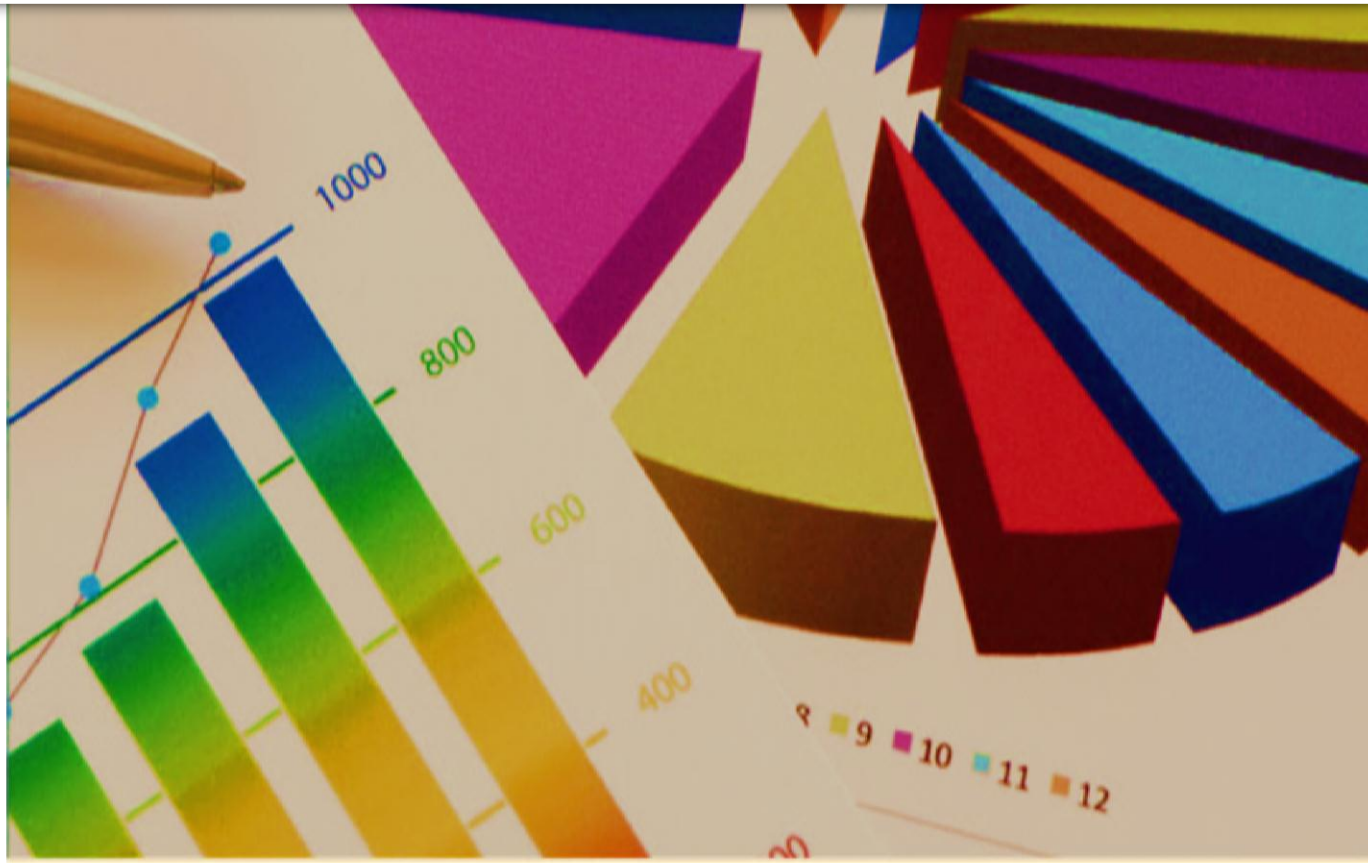
2014

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

PROGRESS REPORT ON THE IMPROVEMENT OF FINANCIAL MANAGEMENT



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1. Background

The Public Finance Management Act (PFMA), 1999 (Act No. 1 of 1999) and its subordinate Regulations provide the foundation for an effective, efficient and transparent financial management system. Pursuant to the Act and its Regulations taking effect 14 years ago, the National Treasury has issued several Treasury Instructions, Treasury Practice Notes, Frameworks and Guidelines to assist accounting officers of departments and constitutional institutions with implementation of the Act.

Deficient financial management practices and corrupt activities hinder government's efforts to eradicate poverty, improve the lives of South African citizens and place the economy on a sound financial footing. Such practices also undermine and hinder the effective and efficient implementation of the National Development Plan (NDP). This situation is further compounded by the current economic crisis which requires both fiscal prudence. The failure to turn the tide on poor financial management and corruption would further strain an already overstretched fiscus.

In light of the aforementioned problem statement, the National Treasury has developed measures to ensure partnerships with institutions to build their confidence, trust and thus improve their financial management. These partnership pacts have produced a sense of ownership and stewardship towards improving financial management.

This Report follows on the one provided to the Standing Committee on Public Accounts (SCOPA) and to the Standing Committee on Finance (SCoF) in November 2013. The National Treasury has provided similar reports to SCOPA since 2001 and the objective of these reports is to provide SCOPA and the SCoF with an annual update of the state of financial management in departments. The Report is also intended to communicate how the National Treasury is responding to, or plans to respond to, the key trends identified. This Report provides a trend analysis of departmental audit outcomes over the last five financial years (2009/2010 to 2013/2014) and initiatives that are being undertaken to address the audit findings and to improve general financial management within national and provincial departments.

The National Treasury continues to review and refine its support interventions to PFMA compliant institutions that are experiencing difficulties with their financial management system

2. Analysis of Audit Outcomes

2.1 Description of the Various Audit Opinions

Audit outcomes have long been used as a benchmark to measure the financial health, governance and compliance of institutions. A positive audit outcome (i.e. a financially unqualified opinion) suggests that

an institution has effective leadership, sound governance practices and effective financial and performance management processes. It also indicates that an accounting officer is able to effectively manage the resources availed to his or her department or constitutional institution. All institutions must aim to obtain this audit opinion.

Audit outcomes also provide an independent and transparent assessment of financial management. Whilst a favourable audit outcome is not an end in itself, it does however provide stakeholders with some reasonable indication of the institution's ability to manage and utilise resources in a responsible manner. In a sound control environment where these principles and cultures are entrenched, a good audit opinion is not-negotiable.

Table 1 – Description of Audit Opinions

Audit Opinion	Severity of Opinion	Explanation
Adverse	Most severe opinion	The misstatements in the financial statements are, individually or in aggregate, material and pervasive. This opinion normally illustrates that information contained in the financial statements, as a whole, is incorrect, unreliable and inaccurate for assessing the financial position of an institution and results of its operations.
Disclaimer	More severe opinion	The possible effects of the inability to obtain sufficient appropriate audit evidence could be both material and pervasive. This opinion normally indicates that there is (a) a significant limitation to the audit scope; (b) a material conflict of interest between the auditor and the institution or (c) significant uncertainty over the "going concern" of the institution.
Qualified	Severe opinion	The misstatements in the financial statements are, individually or in aggregate, material but not pervasive. This opinion signifies that the financial statements contain material misstatements in specific amounts or there is insufficient evidence to conclude that specific amounts are not materially misstated.
Financially Unqualified with Other Matters	Least severe opinion	The financial statements fairly present, in all material respects, the financial position of the institution but drawing attention to the users of other matters. This opinion normally signifies that the financial statements contain no material misstatements except for findings on reporting of predetermined objectives or non-compliance with legislation.

Financially Unqualified with No Other Matters	Good opinion (No issues affecting AFS – 'clean audit')	The financial statements fairly present, in all material respects, the financial position of the institution and are in accordance with the financial reporting framework used for the preparation and presentation of the financial statements. This opinion indicates that there are no material findings on reporting of predetermined objectives or non-compliance with legislation.

2.2 Summary of Audit Outcomes

There has been a gradual improvement in the audit outcomes of institutions as reflected in the percentage of unqualified audit opinions. Table 2 below provides a summary of the 2013/2014 audit outcomes of all national and provincial PFMA compliant institutions that have 31 March as their financial year end.

Table 2 – Summary of Audit Outcomes of PFMA Complaint Institutions

Audit Opinion	Financial Year End 2012/2013	Financial Year End 2013/2014	Movement	Improvement/ Regression/ Stagnation
Unqualified with no Findings	**104**	**120**	**21%**	
Unqualified with Findings	**232**	**222**	**-4%**	
Qualified	**62**	**60**	**-3%**	
Adverse	**0**	**1**	**1%**	
Disclaimer	**13**	**7**	**-46%**	
Audit not Finalised	**8**	**7**	**-11%**	
TOTAL	**419**	**417**		

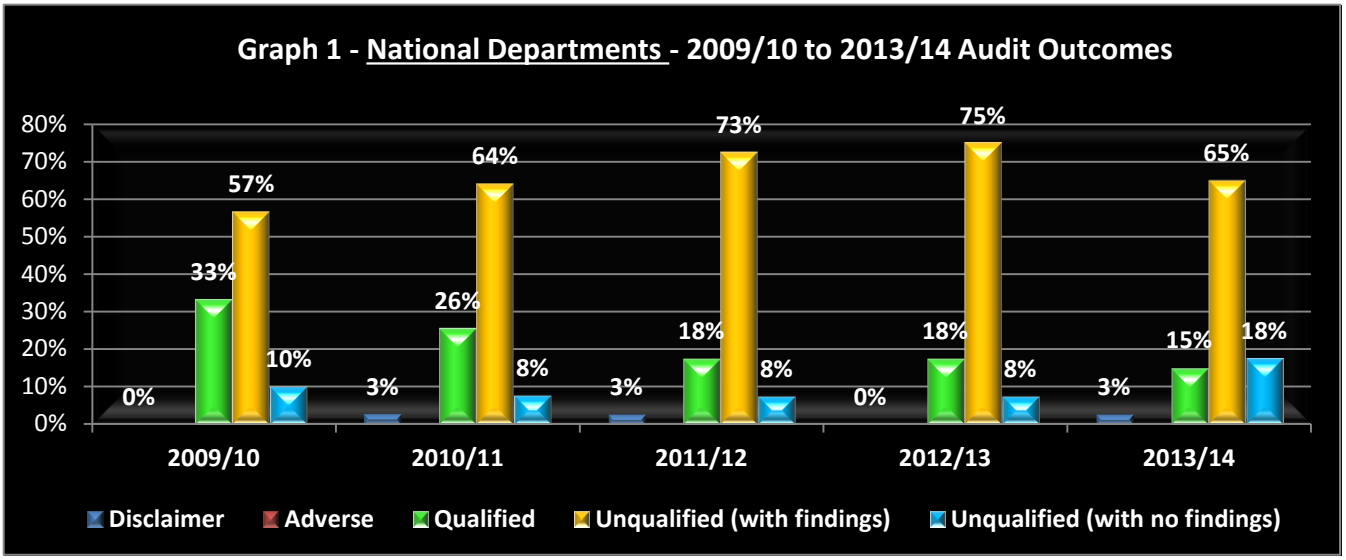
A year-on-year comparison indicates a moderate improvement in audit outcomes for the 2013/2014 financial year.

When comparing the audit outcomes of the 2012/2013 financial year with that of the 2013/2014 financial year, it is clear that there is a 21% improvement in the number of institutions that received audit opinions of financially unqualified with no findings. The number of institutions that received financially unqualified opinions **with** findings decreased from 232 in 2012/2013 to 222 in 2013/2014 representing a

4% decrease. This decrease is largely the result of an increase in the number of institutions that received audit opinions of financial unqualified with no findings. It is also encouraging to note a marginal decrease in the number of institutions that received qualified audit opinions from 62 in the previous financial year to 60 in the year under review. Only one (1) institution received an adverse opinion in the 2013/2014 financial year whilst seven (7) institutions received disclaimer opinions when compared to 13 institutions that received such opinions in the 2012/2013 financial year.

2.3 Comparative Analysis of Audit Outcomes - National Departments

Graph 1 below provides a comparative analysis of audit outcomes of all national departments over a period of five financial years from 2009/2010 to 2013/2014.

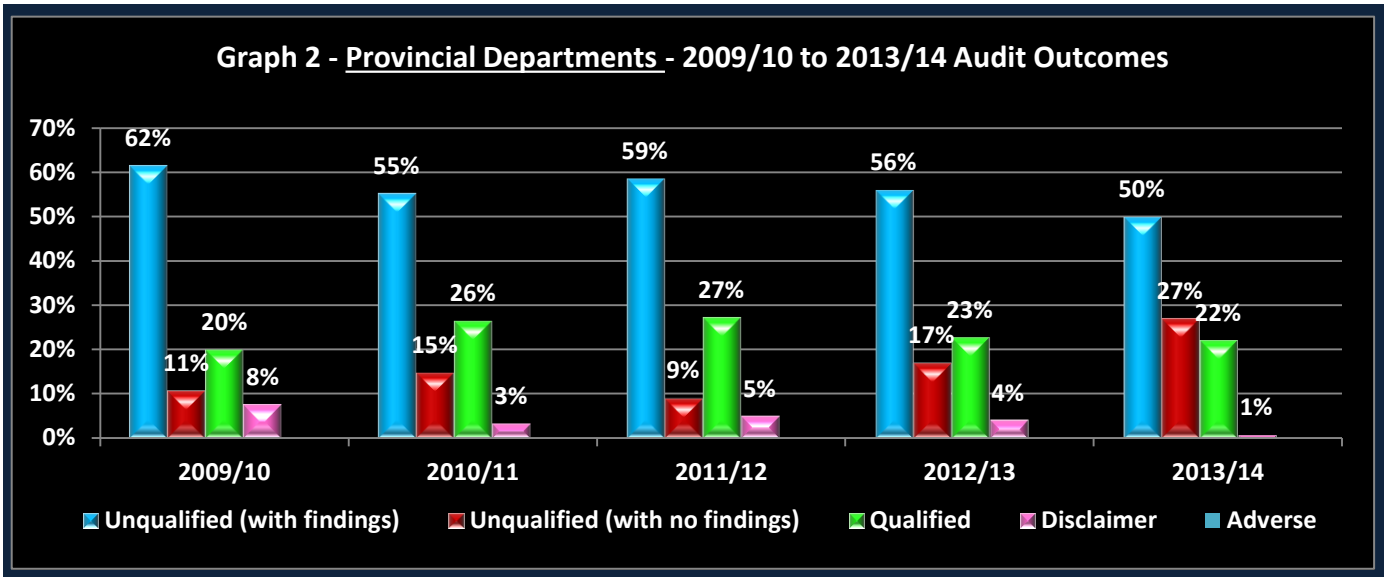


The above Graph shows that over the past five (5) financial years, there has been a sustained improvement in the audit outcomes of national departments. It is important to note that these outcomes were recorded in an environment where several financial management requirements were progressively increased each year.

From Graph 1 above, it is evident that the percentage of departments that obtained financially unqualified opinions with no findings increased from 10% in 2009/2010 to 18% in 2013/2014. It has also been observed that the percentage of departments that received qualified opinions decreased from 33% in 2009/2010 to 15% in 2013/2014. Over the five (5) year period, the percentage of disclaimer opinions has not exceeded three per cent (3%).

2.4 Comparative Analysis of Audit Outcomes – Provincial Departments

Graph 2 below provides a comparative analysis of the audit outcomes of provincial departments for the last five (5) financial years, from 2009/2010 to 2013/2014.



In the last five (5) years, there has been an improvement in the audit outcomes of provincial departments, as reflected in the percentage of financially unqualified opinions.

From Graph 2 above, it is evident that the percentage of provincial departments that obtained financially unqualified (with findings) opinions decreased from 62% in 2009/2010 to 50% in 2013/2014. Similar to national departments, this decrease is largely the result of an increase in the percentage of financial unqualified opinions (with no findings) increasing from 11% in 2009/2010 to 27% in 2013/2014. There is also a notable decrease in the number of disclaimer opinions from 8% in 2009/2010 to 1% in 2013/2014. The percentage of provincial departments that received qualified opinions, however, increased slightly from 20% in 2009/2010 to 22% in 2013/2014.

Good audit outcomes are indicative of institutions implementing sound financial management practices whilst poor audit outcomes imply that financial management in institutions is not being administered in accordance with the legal prescripts, that internal controls are weak and that institutions must take corrective steps towards its improvement.

3. Financial Management Capability Maturity Model (FMCMM) for PFMA Complaint Institutions

The National Treasury advised the Standing Committee on Finance (SCoF) in November 2012 that significant changes were being made to the scope and architecture of the FMCMM. The FMCMM was initially developed in 2008 as a web based tool which was subsequently converted to an MS Excel based tool which only assessed departments up to the Control Level (i.e. Level 3). The National Treasury considers it prudent to update the Model to ensure its continued relevance. The revision was undertaken to ensure alignment with local and international financial management best practices, including the King III Report on Corporate Governance (King III), 2009, as well as with financial management frameworks issued by the National Treasury.

When fully revised, the FMCMM will enable National Treasury to significantly improve the content of future reports to SCOPA and to the SCoF for their oversight purposes. The revised Model will also be

extended to assess the financial health of constitutional institutions and public entities listed in Schedules 3A and 3C to the PFMA.

Given the revision of the Model, the National Treasury wishes to inform SCOPA and SCoF that no FMCMM assessments were conducted in the 2013/14 financial years, hence no assessment results will be submitted to the Committees for the above mentioned financial year.

From the previous assessment results, it has become apparent that most departments are close to reaching maturity level 3, which implies that their controls and processes were close to being compliant with the prescripts and practices which the Model used as benchmarks. The most important aspect of the revision is that the Model will now also assess institutions on the effectiveness, efficiency and economical use of their resources, represented by the Information Level (Level 4), the Managed Level (Level 5) and the Optimisation Level (Level 6).The FMCMM questions have also been revised to conduct assessment in relation to the following areas:

a) Governance;
b) Performance Management;
c) Financial Management; and
d) Reporting.

The scope and coverage of the revised Model will be broken down into five modules as listed below, with each module broken down further into specific focus areas, as indicated below:

MODULE 1 GOVERNANCE	MODULE 2 PERFORMANCE MANAGEMENT	MODULE 3 FINANCIAL MANAGEMENT	MODULE 4 SUPPLY CHAIN MANAGEMENT	MODULE 5 REPORTING
Leadership	Planning	Expenditure Management	Ethics	Performance Reporting
Control Environment	Budgeting	Transfer Payments and Grants		
Assurance Committees		Asset Management	Bid Committees	Financial Statements

Delegations	Budgeting	Inventory Management		
Internal audit		Compensation of Employees	Contact Management	
Risk Management		Revenue Management		
Capacity Building		Bank, Cash & Investment Management	SCM System	Financial Misconduct
IT- Governance		Liability Management		
Anti-Corruption				

The revised web-based FMCMM will be piloted in selected institutions to ensure that it functions as intended. The roll-out of the new FMCMM will take place during the 2015/2016 financial year.

4. Analysis of Irregular Expenditure as at 31 March 2014

Irregular expenditure is defined in section 1 of the PFMA as expenditure, other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including (a) the PFMA; (b) the State Tender Board Act, 1968 and any regulations issued in terms of that Act; and (c) any provincial legislation providing for procurement procedures in that provincial government.

On perusing the General Report of the Auditor-General, it is clear that the amount of irregular expenditure is growing exponentially year on year. It was therefore considered prudent to conduct an analysis of irregular expenditure that has been incurred.

The aforementioned analysis was conducted for the period 2010/2011 to 2013/2014 to reflect, amongst others, the:

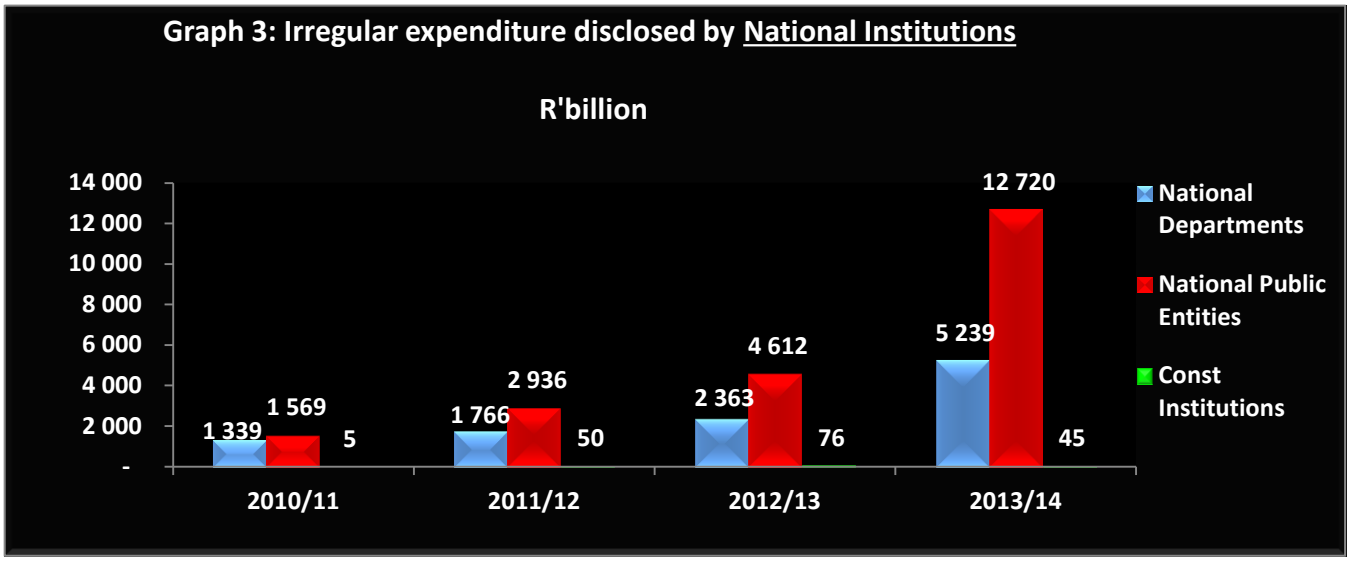
(a) value of irregular expenditure of PFMA compliant institutions at national and provincial level;

(b) root causes of irregular expenditure; and

(c) Improvements or regression in irregular expenditure.

Graph 3[1] below shows the value of irregular expenditure that was disclosed by national institutions from the period of 2010/2011 to the period of 2013/2014.

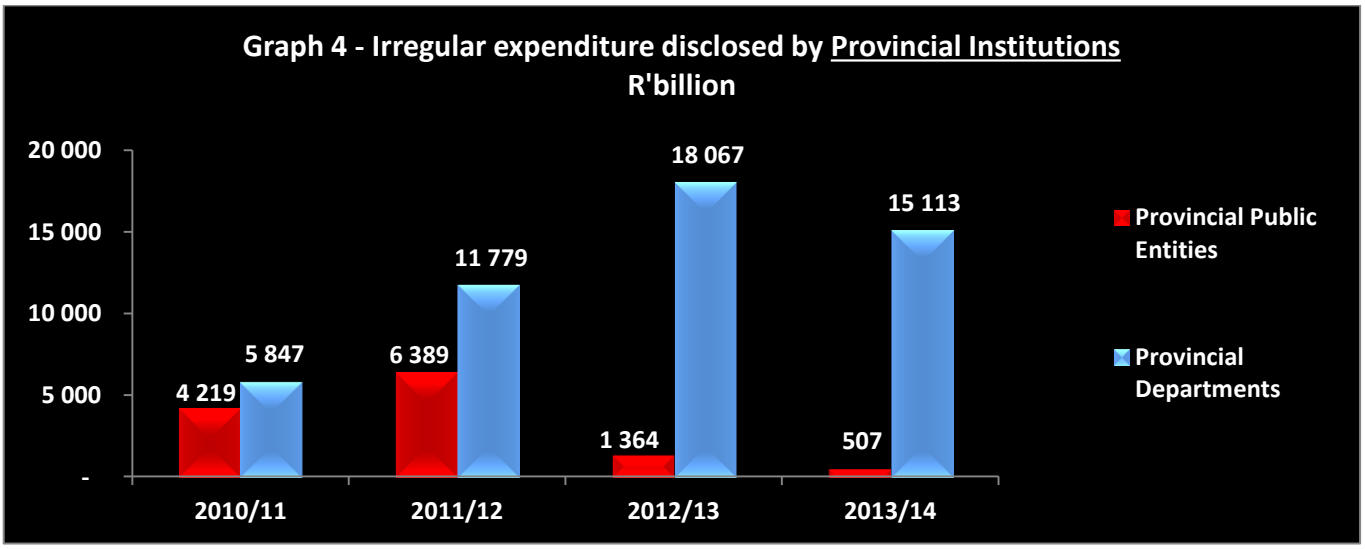
[1] Irregular expenditure collated from the Auditor-General reveals that the total value of irregular expenditure disclosed by all institutions as at 31 March 2014 is R68, 8 billion. In this R68,8 billion is a historical amount of R30,8 billion which was disclosed by the Property Management Trading Entity (PMTE) based on review of irregular expenditure conducted from the financial year 2001. The review was performed by the Department of Public Works to address the understated irregular expenditure reported in previous years. Graph 3 above indicates the total irregular expenditure reported as disclosed in each financial period for the past four (4) years.



Graph 3 above shows that national departments incurred more irregular expenditure (R2, 363 bn) in 2012/2013 when compared to the R5, 239 bn incurred in 2013/2014. The analysis of national public entities also shows an increase in the incurrence of irregular expenditure from R4, 612 bn in 2012/2013 to R12,720 bn in 2013/2014. The aforementioned analysis shows a significant regression in the incurrence of irregular expenditure in all PFMA compliant institutions. It is, however, worthy of mention that constitutional institutions showed a reduction of irregular expenditure when comparing the amount incurred in 2012/2013 (R76 million) to that of the amount incurred in 2013/2014 (R45 million).

Graph 4 below shows the value of irregular expenditure disclosed by provincial institutions from the period 2010/2011 to the period 2013/2014.

The graph below illustrates that provincial departments show a 16% improvement when comparing the amount disclosed for the period 2012/2013 (R18,067 bn) to the period 2013/2014 (R15, 113 bn). In the provincial sphere of government, provincial departments have incurred the most irregular expenditure. Provincial public entities have shown an improvement of 63% when comparing the amount of irregular expenditure (R1, 364 bn) incurred in 2012/2013 with that of the R0, 5 bn incurred in 2013/2014.



The Auditor-General categorises irregular expenditure in terms of the following key elements of financial management:

Elements of financial management transgressions	
(a)	Supply chain management (SCM)
(b)	Compensation of employees
(c)	Other related financial management elements

Over the past five (5) years, non-compliance with laws and regulations appear to be the most significant reason for the incurrence of irregular expenditure. The main areas of non-compliance relate to transgressions of the supply chain management prescripts as they relate to the following:

Categories of irregular expenditure	
(a)	Procurement without following competitive bidding processes;
(b)	Procurement without obtaining quotations ;
(c)	Non-compliance with procurement processes ;
(d)	Non-compliance with legislation on contract management

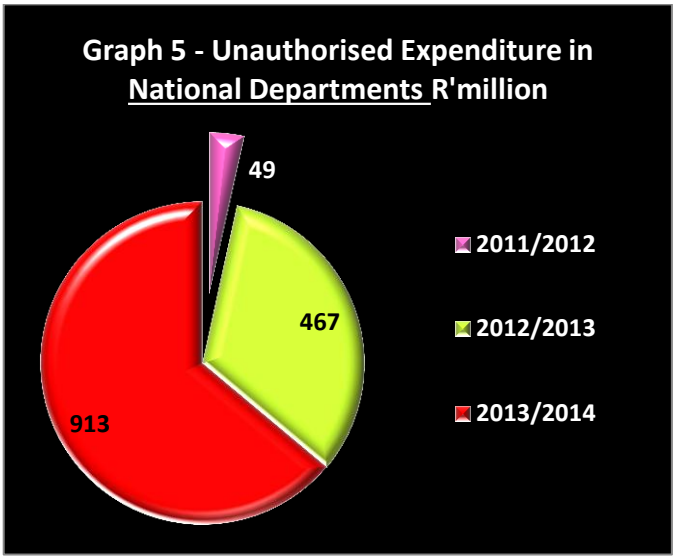
5. Analysis of Unauthorised and Fruitless and Wasteful Expenditure as at 31 March 2014

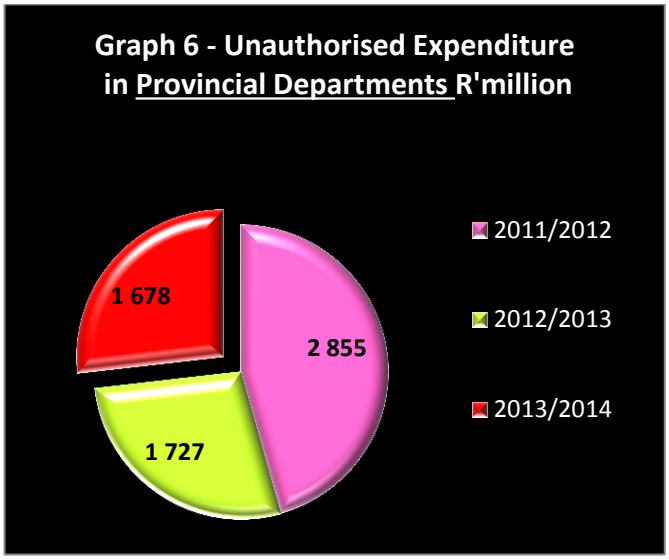
Based on information received from the Auditor-General, an analysis was also conducted on the incurrence of unauthorised expenditure and fruitless and wasteful expenditure incurred by PFMA compliant institutions. This analysis focuses on the:

(a) value of unauthorised expenditure incurred by national and provincial departments;
(b) value of fruitless and wasteful expenditure incurred by all departments and public entities;
(c) root causes of the expenditure referred to in (a) and (b) above; and
(d) improvements or regression thereof.

Unauthorised expenditure was analysed from information collated from the Auditor-General for three financial years commencing 2011/2012 to 2013/2014. Graph 5 and Graph 6 below reveal the total value of unauthorised expenditure disclosed by national and provincial departments as at 31 March 2014. Graph 5 shows that national departments have regressed significantly in their performance related to the incurrence of unauthorised expenditure. In 2011/2012, national departments incurred R49 million worth of unauthorised expenditure which increased substantially to R467 million in 2012/2013. In the year under review, R913 million worth of expenditure was declared unauthorised giving a clear indication that the ever increasing amounts of unauthorised expenditure is of serious concern. Conversely, provincial departments have shown substantial improvements in the amount of

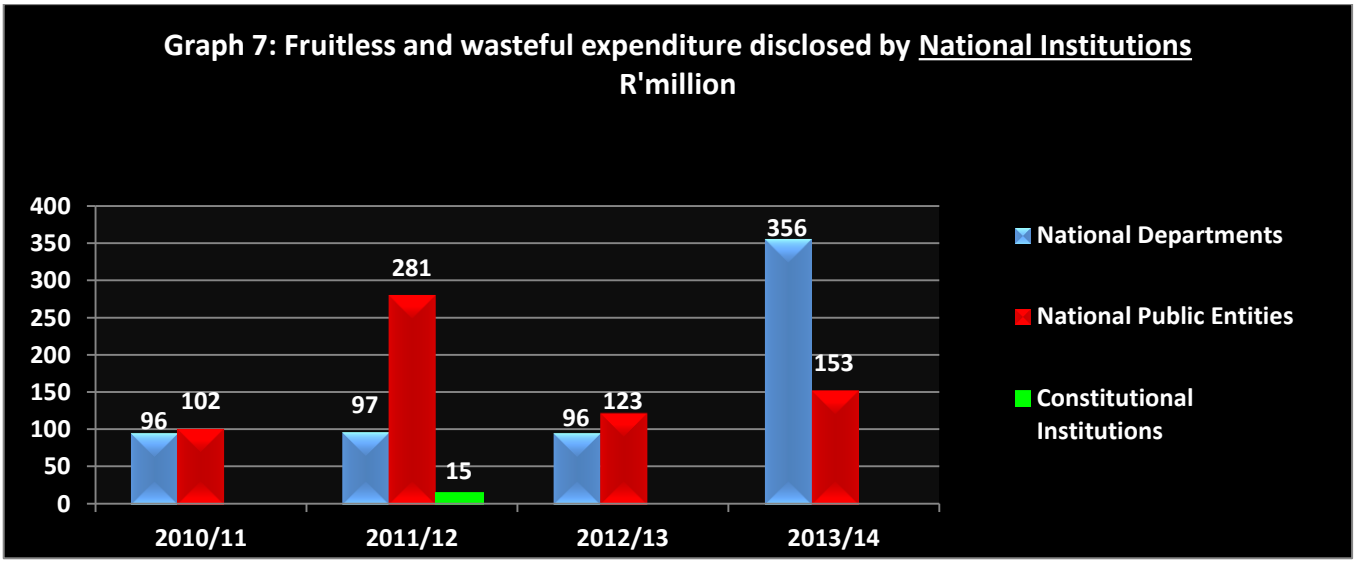
unauthorised expenditure incurred. In 2011/2012, provincial departments incurred unauthorized expenditure to the amount of R2, 855 million which decreased significantly to R1, 7272 in 2012/2013. An amount of R1, 678 million was incurred as unauthorised expenditure in 2013/2014 which shows a marginal improvement of 3% when compared to the previous financial year.





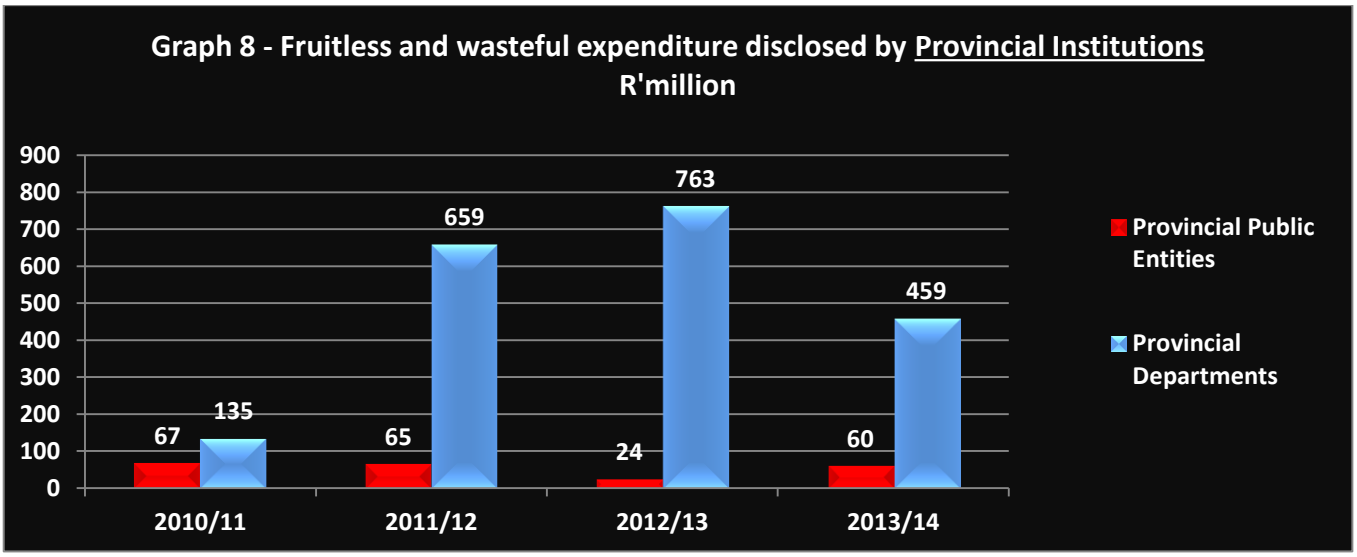
Graph 7 below shows the total value of fruitless and wasteful expenditure that was disclosed by PFMA compliant institutions at the national sphere of government from the 2010/2011 financial year to that of the 2013/2014 financial year. From 2010/2011 to 2012/2013, an average of R96 million was incurred as fruitless and wasteful expenditure by national departments. This amount, however, increased substantially to R356 million in 2013/2014 representing an increase of 271% with number of cases reported increasing from 203 in 2012/2013 to 467 in 2013/2014.

The incurrence of fruitless and wasteful expenditure also appears to be problematic in national public entities. In 2010/2011, national public entities incurred fruitless and wasteful expenditure in an amount of R102 million which increased substantially to R281 million in 2011/2012, representing an increase of 175%. A reduction to R123 million was recorded in 2012/2013 whilst fruitless and wasteful expenditure increased by R30 million to R153 million in 2013/2014.



Graph 8 below shows the total value of fruitless and wasteful expenditure disclosed by provincial institutions from 2010/2011 to 2013/2014. In 2010/2011, provincial departments incurred R135 million worth of fruitless and wasteful expenditure. This amount increased substantially to R659 million in 2011/2012, representing an increase of 388%. In 2012/2013, fruitless and wasteful expenditure increased to R763 million representing a further increase of 16% before decreasing to R459 million in 2013/2014.

The following Graph 8 also depicts an average of R54 million that has been incurred by provincial public entities from 2010/2011 to 2013/2014.



6. Summary of compliance with laws and regulations

Non-compliance with laws and regulations is a significant finding in the audit reports of PFMA compliant institutions. Within the category of non-compliance with laws and regulations, the three types of unwanted expenditure (i.e. unauthorised, irregular and fruitless and wasteful expenditure) appear to be recurring in public sector institutions and is therefore of significant concern.

Accounting officers must be urged to act on the recommendations of the Auditor-General to ensure that corrective controls are developed and implemented immediately to avoid a recurrence of such reported cases. In order to significantly reduce the recurring audit findings on non-compliance with laws and regulations, accounting officers are encouraged to institute preventative measures to control the number of cases reported in the control environment of their institutions.

An analysis of the 2013/2014 audit outcomes reveals that 32 national departments (80%) continue to experience problems around compliance with laws and regulations. The Departments of Performance Monitoring and Evaluation and Social Development are the only departments that did not receive findings related to non-compliance with laws and regulations.

A total of 26 national departments (65%) received non-compliance findings relating to material misstatements in financial statements that they submitted for audit at the end of May 2014. Sixteen (16) national departments (40%) received non-compliance findings relating to unauthorised, irregular and/or

fruitless and wasteful expenditure. The majority of these findings are, however, linked to irregular expenditure related to the maintenance of poor internal control systems. Sixteen (16) national departments (40%) received non-compliance findings relating to Human Resource Management practices whilst 17 departments (43%) received non-compliance findings relating to procurement management.

Non-compliance by departments with the requirement to pay invoices within 30 days from receipt of an invoice is severely affecting the cash flow positions of companies doing business with the State, especially the Small Medium and Micro Enterprises (SMME'S), resulting in many of such businesses closing down due to financial difficulties. Others are resorting to drastic measures to keep afloat, including the retrenchment of employees and over extending their credit lines. These measures are counterproductive to, amongst others, the ethos of the New Growth Path and the National Development Plan, especially as it relates to the improvement of the economy and the creation of decent jobs.

7. National Treasury Initiatives to Address Key Findings

The following initiatives have been undertaken by the National Treasury in its quest to improve financial management and to assist departments to address those key weaknesses that have been identified in their audit reports. It is through these measures that the accounting officers can be capacitated to carry out their functions effectively, efficiently and transparently and to ensure that sound controls are set and implemented fully as intended.

7.1 Revision of the Treasury Regulations

The Treasury Regulations that are currently in place was published in 2005 and only provisions related to strategic planning and the use of credit cards were amended during 2007 and 2012 respectively, The National Treasury therefore considered it prudent to revise the Treasury Regulations to ensure its relevance by taking cognisance of financial management best practices, both locally and internationally, for inclusion in the Treasury Regulations. It was also considered reasonable to include the regulatory provisions that were contained in practice and instructions notes and to repeal all such notes. In light of the aforegoing, draft Treasury Regulations were drafted and published for public comment in Government Gazette No. 35939 dated 30 November 2012, as required in terms of section 78 of the PFMA.

Interested parties were allowed until 8 February 2013 to provide the National Treasury with their comments. Extensive consultations were held with internal and external stakeholders on the contents of the draft Regulations to ensure that the regulations were appropriate, practicable and implementable. The draft Treasury Regulations have been finalised and are currently undergoing a legal review to ensure that its provisions are consistent with the spirit and ethos of the Constitution and with other relevant legislation. It is the National Treasury's intention to publish the final Treasury Regulations in the Government Gazette to take effect from 1 April 2015 and to adopt a phased approach to its

implementation. This will enable institutions to prepare adequately for the full roll out of the revised Treasury Regulations. .

7.2 Financial Management Improvement Programme (FMIP III)

In an effort to provide direct support to government's efforts of promoting economic growth and alleviating poverty by improving the efficiency and transparency of public finances, the National Treasury established the third iteration of the Financial Management Improvement Programme (FMIP III) which is funded by the European Union and is managed within the National Treasury. The FMIP III Programme has been in existence since 2012 and ends in 2016.

7.3 Training Programme Initiatives:

7.3.1 The Chartered Accountants Academy (CAA)

In 2008, the National Treasury established the Chartered Accountants Academy (CAA). Since its inception, 67 trainees were recruited, 4 trainees cancelled, 6 trainees did not qualify and 26 trainees are still in the programme. To date, this Academy has produced 21 chartered accountants at a pass rate that is the envy of the accounting fraternity. Many of the graduates have taken up positions in the public sector. The CAA has also been extended to various government institutions.

On 1 February 2013, a Public Sector Forum (PSF) was launched to strengthen the training programmes for chartered accountants and to ensure that they are able to adequately deal with challenges facing the public sector. The Forum is constituted with executives from mature public institutions comprising the Auditor-General, ESKOM, the Industrial Development Corporation, the Public Investment Corporation, the South African Reserve Bank, the South African Revenue Services and Transnet.

7.3.2 Development of a PFMA e-Learning

In terms of section 6(2) (d) of the PFMA, the National Treasury may assist departments and constitutional institutions in building their capacity for efficient, effective and transparent financial management. In addition, section 6(2) (g) of the Act empowers the National Treasury to do anything further that is necessary to fulfil its responsibilities effectively.

The National Treasury regularly receives enquiries on a range of financial management matters from employees of PFMA compliant institutions, from students studying Public Administration or Public Financial Management and from persons who have a general interest in public financial management. A significant portion of these enquiries relate to the interpretation and application of concepts or provisions contained in the PFMA. The enquiries are often received in the form of telephonic, e-mail or formal written enquiries. An assessment of the enquiries received suggests that it is imperative for the National Treasury to take additional steps to improve the understanding of the legislation amongst role-players.

The National Treasury considers it appropriate to develop a web based PFMA e-Learning Module to assist financial and non-financial practitioners to improve their understanding of the PFMA. This project will commence after the Treasury Regulations are finalised and will be implemented during the 2015/2016 financial year.

7.3.3 Induction packs

The year 2014 was election year which resulted in new Members of the Executive Council for Finance being appointed in the various provinces. In some instances there have also been changes to Heads of Departments and the Head Official of the Provincial Treasury. The National Treasury therefore considered it necessary to revise the induction packs that were developed for new incumbents of the aforementioned positions. The following contains a synopsis of what is contained in the respective induction packs:

7.3.3.1 Members of the Executive Council for Finance

This manual has been developed to help Members of the Executive Council (MEC) for Finance to fulfil their duties especially since they play and important strategic and oversight role in provincial government. It is therefore imperative that they must therefore be familiar with duties and responsibilities attached to position.

This manual provides MECs for Finance with an overview of their key responsibilities and the most relevant aspects of South Africa's legal and fiscal systems as well as highlighting some of the challenges that they may face. Given its complexity, the subject matter is presented as concisely as possible. At the end of each section there are recommendations for background reading.

The manual provides information on important issues and challenges, the allocation of functions and funds, the public management system, specific tasks, the intergovernmental fiscal system, the budget process and the medium-term expenditure framework (MTEF), borrowing by provinces, provincial tax, oversight functions, public-private partnerships, supply chain management, and the integrated financial management system.

7.3.3.2 Head Officials of Provincial Treasuries

This manual provides head officials of provincial treasuries with an overview of their key responsibilities and the most relevant aspects of South Africa's legal and fiscal systems as it relates to this position. This manual also highlights some of the challenges that they may face.

The National Treasury is of the view that the content of the manual is important to enable the Head Official to perform his or her duties more effectively. The subject matter is presented as concisely as possible given its complexity and similar to the manual for MECs; the end of each section contains recommendations for background reading.

The manual provides information on important issues and challenges, the allocation of functions and funds, the public management system, specific tasks, the intergovernmental fiscal system, the budget

process and the medium-term expenditure framework (MTEF), borrowing by provinces, provincial tax, oversight functions, public-private partnerships, supply chain management, and the integrated financial management system.

7.4 Internal Audit Quality Reviews

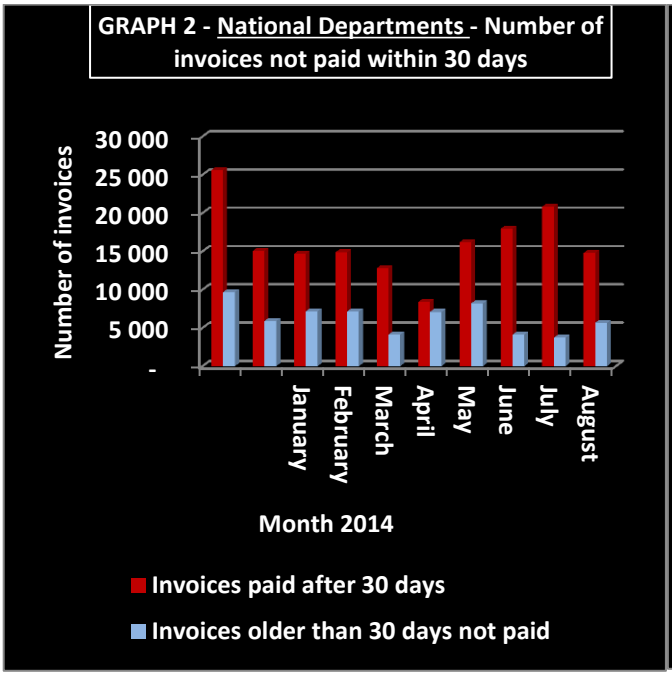
The National Treasury regularly conducts reviews on the state of internal audit and its readiness for external quality assurance. These reviews also provide accounting officers, chief audit executives and audit committee members with recommendations for improvement. The National Treasury also partners with provincial treasuries to conduct such reviews in provinces which results in knowledge-transfers to provincial employees. In addition, the National Treasury has partnered with the Institute of Internal Auditors South Africa.

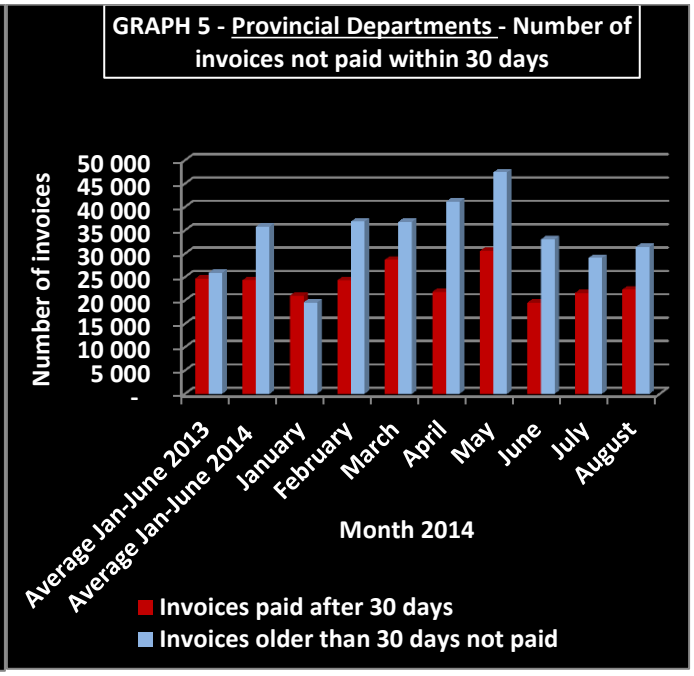
7.5 Payment of Suppliers within Thirty (30) Days

7.5.1 Issue of Instruction Note 34

In terms of section 38(1)(f) of PFMA, accounting officers are required to settle all contractual obligations and pay all money owing, including intergovernmental claims, within the prescribed or agreed period. Such a period is prescribed in Treasury Regulation 8.2.3 which requires accounting officers to ensure that their respective departments pay creditors within thirty (30) days from receipt of an invoice. There has been continuous non-compliance with the 30 day payment rule which prompted the Forum of South African Directors-General (FOSAD) to request the National Treasury to provide the Forum with regular information on departmental compliance with these requirements. On 30 November 2011, the National Treasury issued Instruction Note No.34 which requires departments to submit monthly information to their respective treasuries on the status of their compliance with Treasury Regulation 8.2.3. This Instruction Note further requires departments to implement mechanisms that will enable them to trace the progress of invoices as they are received up until they are actually paid.

From information collated, it is clear that departments are showing an improvement in the level of compliance with the requirement to submit monthly information to the relevant treasuries. In addition, there is also evidence of improvements in their payment patterns, as indicated in the graphs below.





7.5.2 Bi-Monthly FOSAD Reports

Based on monthly information received from departments and provincial treasuries as required in terms of Instruction Note No. 34, the National Treasury reports bi-monthly to the Forum of South African Directors-General (FOSAD) on the level of departmental compliance with the “thirty day payment rule”. During February 2014, the National Treasury provided FOSAD with a consolidated annual report on the timeous payment of suppliers for the 2013 calendar year.

During the year under review, the National Treasury visited selected departments to review their processes and to address challenges that they had been experiencing with the timeous payment of suppliers. These visits included the brainstorming of various interventions that could assist to minimise the impact of non-compliance. Interventions that are currently being explored include (a) the development of an online portal to submit monthly information to the relevant treasuries, as required in Instruction Note No. 34; (b) enhancing departmental compliance with Instruction Note No. 34; (c) development of an Invoice Tracking System (ITS); and (d) designing a Business Process Flow (BPF) to enhance compliance with Treasury Regulation 8.2.3.

7.5.3 Invoice Tracking System (ITS)

The National Treasury, in collaboration with Statistics South Africa, is at an advanced stage with the development of an Invoice Tracking System (ITS).

The main objective for developing such a system is to help departments to improve their compliance with the legislative prescripts that require payments to be made within 30 days from receipt of an invoice. The system will be able to track the progress and status of valid invoices from the date of its receipt up until the date on which payment is processed. This system will also assist departments to maintain adequate records related to creditor age analyses for disclosure and compliance purposes.

It is the intention that the system will be developed such that it has the capability to register internal and external users thus enabling the department and its suppliers to track the status of invoices as they are processed. The National Treasury will also have access to the system to verify information as submitted by departments. The ITS will also have the capability to produce reports on accruals. The system will be able to interface with other systems already being used in government such as BAS, LOGIS and Safety Web. The ITS will be piloted in the next financial year before its full roll out to all departments.

7.6 Development of Internal Control Framework

Section 38(1)(a)(i) and Section 51(1)(a)(i) of the PFMA requires accounting officers and accounting authorities to ensure that their institutions have and maintain effective, efficient and transparent systems of internal control. Since implementation of the PFMA, the Auditor-General has found significant deficiencies in the control environments of departments, constitutional institutions and public entities. Such deficiencies have contributed significantly towards poor audit outcomes and ever increasing unwanted expenditure (unauthorised expenditure, irregular expenditure and fruitless/wasteful expenditure).

The National Treasury therefore considers it prudent to develop an Internal Control Framework based on the PFMA to assist PFMA compliant institutions to improve their internal controls. This Framework will focus on specific control types, namely, management, administrative and accounting controls and where the actual controls will be classified as either preventative, detective and corrective.

7.7 Development of a Compliance Framework

In terms of sections 38(1)(n) and 51(1)(h) of the PFMA, accounting officers and accounting authorities are required to comply and ensure compliance with the provisions of the Act. From previous results of the Financial Management Capability Maturity Model (FMCMM), through the National Treasury's interactions with PFMA compliant institutions and from reports of the Auditor-General, it is abundantly clear that compliance with the PFMA remains problematic. This is evidenced by, amongst others:

(a) the ever increasing non-compliance with supply chain management regulations;

(b) the late and/or non-payment of suppliers within the prescribed timeframe of 30 days from receipt of an invoice; thereby resulting in cash flow difficulties being experienced by small, medium and micro enterprises (SMMEs) which, in many instances, are resulting in the closure of their businesses or the retrenchment of their employees in order to ensure their continued existence; and

(c) the ever increasing amounts of unwanted expenditure (unauthorised, irregular and fruitless), increasing exponentially year on year

In order to mitigate against poor compliance, the revised Treasury Regulations make it incumbent on accounting officers and accounting authorities to dedicate capacity to improve compliance with the PFMA within their respective institutions. The National Treasury therefore considers it essential to develop a PFMA Compliance Framework to assist accounting officers and accounting authorities to

improve their institutions' levels of compliance with the legislative framework. This framework will take cognisance of the Generally Accepted Compliance Practice Framework developed by the Compliance Institution of South Africa.

7.8 PFMA Guidelines

The PFMA has been in existence for 14 years during which several financial management reforms were introduced. The National Treasury therefore considered it essential to revise existing guides and develop new guides, where found necessary.

7.8.1 Accounting Officers Guide to the PFMA

Soon after promulgation of the PFMA, the National Treasury developed an Accounting Officers Guide to the PFMA to assist accounting officers of departments and constitutions with implementation of the Act. The Guide focused on providing guidance to accounting officers on concepts that were relatively new to the public finance environment as well as preparing them to implement the PFMA in their respective institutions. The Guide also focused on clearing up audit queries, establishing internal controls, improving expenditure management, timeous completion of financial statements and developing delegations of authority.

Since the PFMA took effect 14 years ago, the National Treasury introduced several financial management reforms. It was therefore considered necessary to revise the Accounting Officers Guide to the PFMA to take cognisance of these reforms as well as areas of concern that the Auditor-General has regularly raised over the years.

During November 2014, work commenced on the development of a revised Accounting Officers Guide to the PFMA. The Guide, which is expected to be finalised by March 2015, will be developed in a modular format so that it could henceforth be easily updated when new reforms are introduced.

7.8.2 Accounting Authority's Guide to the PFMA

Whilst several guidelines were developed to assist public entities with implementation of the PFMA, a specific PFMA Guide for Accounting Authorities was not previously developed. It was therefore considered appropriate to develop a guideline for public entities that is similar to that of accounting officers, In this regard, this guideline is also under development and is expected to be finalised by March 2015.

7.8.3 Executive Authority's Guide to the PFMA

Chapter 11 of the PFMA prescribes financial responsibilities for executive authorities. In performing their duties, executive authorities are required, amongst others, to consider monthly reports that are submitted to them by their departments and to ensure that public entities under their ownership control comply with the PFMA and any financial policies of that executive authority.

Taking cognisance of the above, it was considered important to develop a guideline to assist executive authorities to comply with the PFMA. A guideline in this regard is currently under development and is also expected to be finalised by March 2015,

7.9 Cost containment

On 23 October 2013, Cabinet resolved that all departments, constitutional institutions and public entities listed in Schedule 2 and 3 to the Public Finance Management Act (PFMA), (Act 1 of 1999) must implement measures to contain operational costs and eliminate all non-essential expenditure. In its quest to limit non-essential expenditure, Cabinet requested the Minister to introduce cost saving measures to PFMA compliant institutions. This led to the National Treasury amending the Treasury Regulations dealing with cash, banking and investment to introduce limitations on the use of debit and credit cards. In addition, the National Treasury published a National Treasury Instruction 01 of 2013/2014 to introduce cost containment measures in all PFMA compliant institutions.

Since its implementation from 1 January 2014, the National Treasury received several enquiries related to provisions contained in the Cost Containment Treasury Instruction. In an attempt to improve the understanding of the Treasury Instruction, the National Treasury developed a Guideline on Cost Containment. This Guideline, which was finalised in August 2014, includes frequently asked questions and assistance on how to conduct a gap analysis for the appointment of consultants. Detailed presentations were also conducted on the Guideline at the Provincial Accountants-General Forum and at the CFO fora held for national departments and public entities.

7.10 PFMA Queries Portal

Since introduction of the PFMA, the National Treasury has embarked on several initiatives to assist accounting officers of departments and constitutional institutions, accounting authorities of public entities and financial management practitioners of their respective institutions with implementation of the Act. The National Treasury has also provided institutions with clarity on matters related to financial management through formal correspondence, telephonic advice and through face to face interactions at meetings, workshops, fora etc. The National Treasury also developed a dedicated PFMA webpage which included a ‘hot line’ for enquiries where a commitment was made to respond to queries within 72 hours.

In its quest to keep abreast with technological advancements, the National Treasury is considering the automation of some of its PFMA support interventions. An example of this is the development of a Public Finance Management Knowledge Queries Portal which was implemented with effect from 1 December 2014. This portal will enable institutions to submit their PFMA related queries on-line to the Office of the Accountant-General within the National Treasury. At this stage, the portal is being piloted by the Office of the Accountant-General before it is rolled out by other divisions in the National Treasury.

The Queries Portal will enable employees at PFMA compliant institutions to perform the following:

(a) register and create a client profile;

(b) submit formal (written) enquiries to the Office of the Accountant-General;

(c) correspond with the Office of the Accountant-General through an email configuration (that is linked to the Queries Portal); and

(d) consult the Frequently Asked Questions (FAQ`s) for possible solutions.

The National Treasury developed a User Manual to guide users with functionalities of the Queries Portal.

8 Conclusion

It is abundantly clear that the National Treasury has embarked on several initiatives to assist departments to effectively implement the PFMA, including initiatives to rectify concerns raised by the Auditor-General in his General Report for the 2013/2014 financial year. The aforementioned initiatives are consistent with National Treasury's responsibility in terms of section 6(2)(d) of the PFMA to assist departments and constitutional institutions in building their capacity for effective, efficient and transparent financial management.

In addition to the initiatives contained in this report, the National Treasury is committed to exercising its enforcement and oversight responsibilities and doing anything further that is necessary to fulfil its responsibilities effectively, as prescribed by the PFMA.

The responsibility to improve government financial management should be the goal of all that are charged with governance in departments, from the accounting officer, the chief financial officer, programme managers and everyone down to operational officials in a department. Management must set the right tone at the top and take appropriate steps against officials who transgress the law or do not perform at the expected level. It is also imperative that executive authorities acquaint themselves with administrative challenges facing their departments and to hold their accounting officers responsible for financial management in the institutions that they lead.