

# NATIONAL TREASURY ANNUAL REPORT 2018/19

BRIEFING TO THE STANDING COMMITTEE ON FINANCE

9 OCTOBER 2019



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

# NAVIGATING THE PRESENTATION



NT MANDATE AND PROGRAMMES CONTRIBUTING TO OUTCOMES AND GOVERNMENT PRIORITIES

REPORT OF THE ACCOUNTING OFFICER

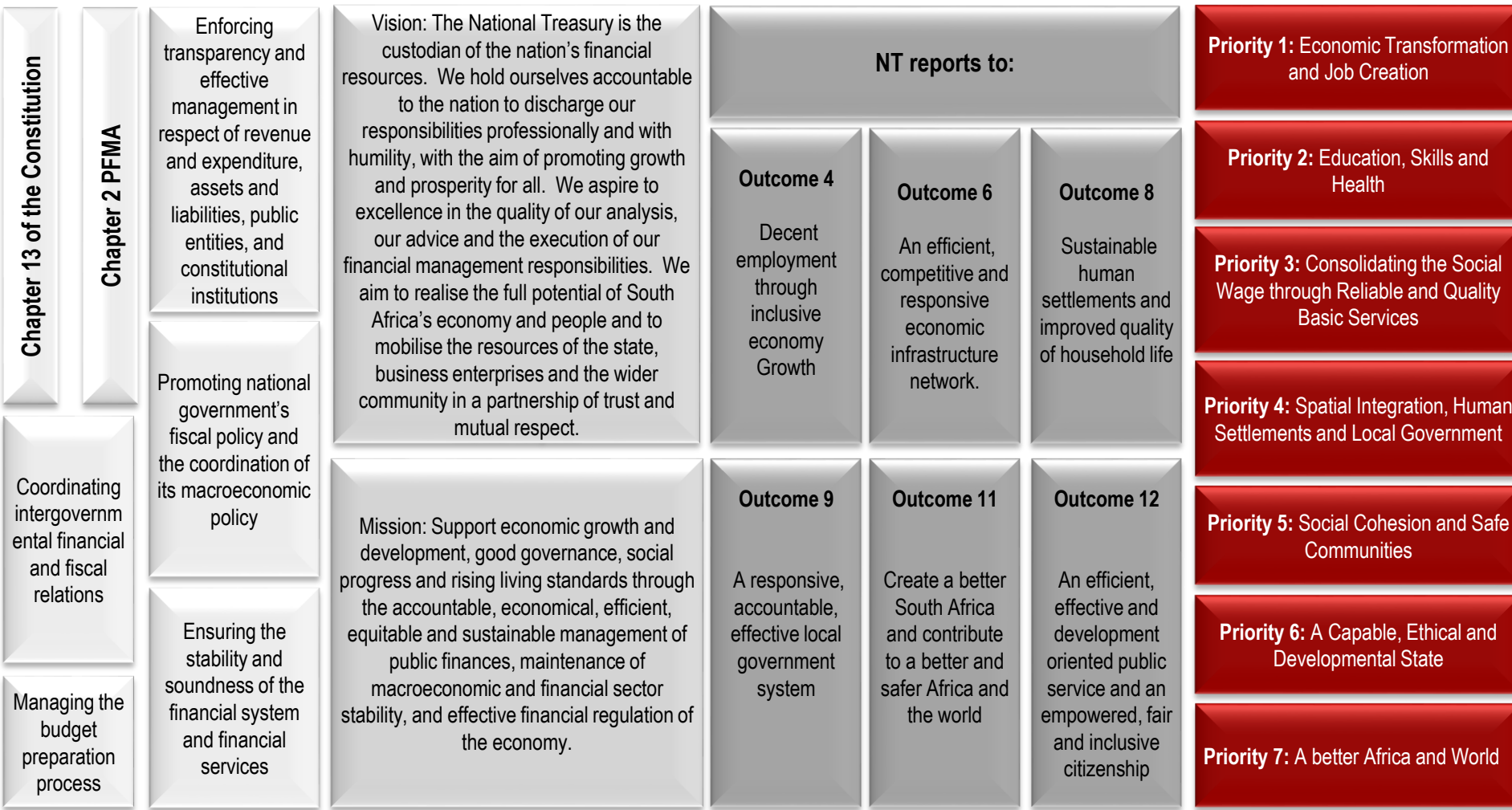
PERFORMANCE INFORMATION: NOTABLE HIGHLIGHTS AND UNDERPERFORMANCE BY PROGRAMME

HUMAN CAPITAL

EXPENDITURE

OUTCOME OF THE AG's AUDIT REPORT AND REMEDIAL ACTION TO BE TAKEN

# NATIONAL TREASURY (NT) MANDATE CONTRIBUTING TO OUTCOMES AND GOVERNMENT PRIORITIES



# REPORT OF THE ACCOUNTING OFFICER

Annual Report pages 15-26

- South African economic growth has stubbornly remained below what is needed, the full fiscal year GDP expanded by only 0.6% compared to fiscal year 2017/18.
- External Pressures: Economic slowdown in Euro-Area, escalating global tension, heightened geopolitics, higher oil import bills and financial tightening in larger advanced economies contributing to waning global growth momentum.
- Domestically pressure : poor performance of agriculture, slowdown in mining and quarrying, contractions in construction and low demand and productivity in manufacturing as a whole.
- In contrast consumption expenditure by government grew by 1.7 per cent. Struggling economy had adverse effect on SA's fiscal position. Budget deficient is 0.6% higher than forecast. The contraction in public finances requires prioritisation of spend.
- Government, with social partners, is responding to these challenges by applying measures to tackle structural constraints and stimulate growth, restore investor confidence and public trust, reduce policy uncertainty and lower the cost of doing business. While much remains to be done, progress is being made.
- As part of improving oversight, national departments' in-year monitoring reporting and public entities' quarterly reporting system were improved and an information dashboard rolled out.
- Fiscal relations between national, provincial and local spheres of government was coordinated in advancement of sound budgetary planning at provincial and local spheres of government, as well as building capacity that will enable efficient and effective management practices.
- Measures to build a transformed financial sector were further advanced with the development of the necessary Twin Peaks implementation regulations, as well as a comprehensive prudential and market conduct framework for new authorities.
- The National Treasury commissioned a forensic investigation into both the IFMS 1 and IFMS 2 contracting processes, and is currently taking the outcomes forward in respect of strengthening various components of organisational administration and currently taking consequence management action against SPs and Officials
- The National Treasury continues to work tirelessly to build partnerships and diligently maintain stakeholder relations to optimise and impact results in change agent programmes such as the Jobs Fund (employment creation facilitation programme), the Municipal Finance Improvement Programme (MFIP) and the Cities Support Programme (CSP).

# REPORT OF THE ACCOUNTING OFFICER – OTHER MATTERS

Annual Report page 25

Included in note 25 of the Annual Financial Statements are details of Irregular Expenditure of R588 million for the 2018/19 financial year. A comprehensive breakdown of Irregular Expenditure is set out in slide 23. Please note that R687 million of Irregular Expenditure in total was condoned in 2018/19, including R369 883 million which resulted from a 2014 memo signed by the Accounting Officer, which has since been found.

# AUDIT OF PREDETERMINED OBJECTIVES

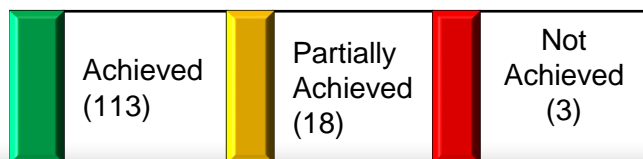
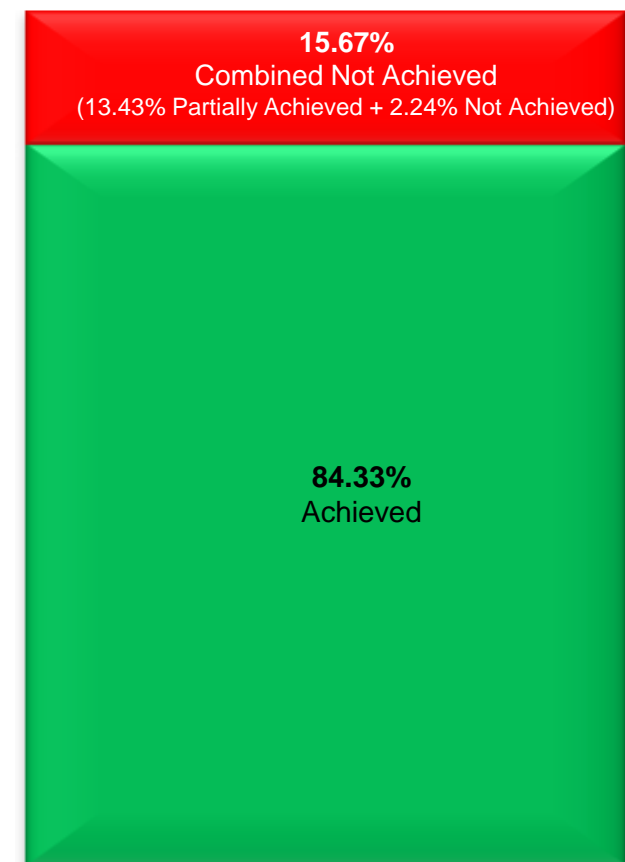
Annual Report pages 261-262

## Selected programmes and findings

Programme	Findings
<b>Programme 2:</b> Economic Policy, Tax, Financial Regulation and Research	Unable to obtain sufficient appropriate audit evidence due to limitations placed on the scope of work to substantiate the completeness of four indicators.
<b>Programme 8:</b> Technical and Management Support and Development Finance	Unable to obtain sufficient appropriate audit evidence for the reported achievement of 5 performance and expenditure review supported. This was due to limitations placed on the scope of work to substantiate the completeness of the reported achievement of the target.

Indicator	Planned target	Achievement
2.1.1 Number of papers published in association with academic research institutions	50	50
2.4.5 Percentage response to users' requests for economic research and policy analysis, and assessments of government policy proposals	100%	100%
2.4.6 Percentage response to user requests for policy and scenario modelling	100%	100%
2.4.7 Percentage response to user requests for commentaries on economic data	100%	100%
8.1.5 Number of performance and expenditure reviews supported	5	5

# 2018/19 PERFORMANCE ACHIEVED BY TOTAL NUMBER OF INDICATORS



Division	Total number of targets	Achieved	Partially Achieved	Not Achieved
Economic Policy	7	7	0	0
Tax and Financial Sector Policy	5	3	2	0
Budget Office	11	10	0	1
Intergovernmental Relations	11	10	1	0
Public Finance	4	2	2	0
Assets and Liability Management	14	13	1	0
Office of the Accountant General	32	28	2	2
Office of the Chief Procurement Officer	12	8	4	0
International Financial Relations	7	7	0	0
Civil Military Pensions, Contributions to Funds and Other Benefits	4	4	0	0
Technical Support and development finance programme management	22	17	5	0
Administration	5	4	1	0



# PROGRAMME 2: ECONOMIC POLICY, TAX, FINANCIAL REGULATION AND RESEARCH

Annual Report pages 82-92. APR tables pages 85-92

## ACHIEVED - 83.33%

50 papers published in association with academic research institutions

Tax and revenue proposals on 2018 Budget Published and revenue estimates for 2018 Medium-Term Budget Policy Statement (MTBPS) updated

Tax legislation in Parliament prepared, published, and tabled

20 economic models maintained and 4 economic forecasts developed

Annuity resolution implemented

## PARTIALLY ACHIEVED - 16.67%

Twin Peaks Implementation Regulations developed and two regulators established. However, the COFI Bill in consultation process and not yet supported through the parliamentary engagement process

Default regulations for retirement fund not fully implemented



# PROGRAMME 3: PUBLIC FINANCE AND BUDGET MANAGEMENT

Annual Report pages 93-118. APR tables pages 107-118

## ACHIEVED - 84.62%

100% response to requests for support on governance & financial management monitoring and compliance system in public entities provided

50 capacity building initiatives to facilitate improved planning, budgeting and financial management conducted

4 reports produced on review and implementation of the COLA costing model

36 plans assessed to support infrastructure planning in provinces

13 support initiatives implemented in provinces

26 provincial and municipal mid-year budget and expenditure performance assessment reports produced

## PARTIALLY ACHIEVED - 11.54%

Expenditure ceiling announced in main budget greater than expenditure ceiling

26 provincial and municipal budgeting benchmarking exercises held to improve provincial & municipal budget credibility, composition and achievability less than the planned 35

94.1% responses to departmental requests for PFMA & TR approvals sector analysis and policy advice less than the planned 100%

534 of the planned 540 monthly expenditure feedback reports to departments

## NOT ACHIEVED - 3.85%

The expenditure ceiling announced in the main budget greater than the expenditure ceiling

# PROGRAMME 4: ASSET AND LIABILITY MANAGEMENT

Annual Report pages 119-128. APR tables pages 124-128

## ACHIEVED - 92.86%

100% of complete corporate plans received from Schedule 2 and 3B public entities reviewed

100% of annual reports received from Schedule 2 and 3B public entities reviewed

100% of complete PFMA Section 54(2), 52, 55 and 92 applications received from Schedule 2 and 3B public entities reviewed

100% of complete guarantee applications received from Schedule 2 and 3B public entities reviewed

100% of received MFMA submissions relating to tariff adjustments received from Schedule 2 and 3B public entities reviewed

100% of complete review requests of borrowing limit applications relating to Schedule 2 and 3B public entities reviewed

100% of government's annual gross borrowing requirement met

100% of interest and redemptions met

100% of government's liquidity requirements met

## PARTIALLY ACHIEVED - 7.14%

7 interactions to manage and ensure effective relations with the credit rating agencies less than the planned 8

# PROGRAMME 5: FINANCIAL ACCOUNTING AND SUPPLY CHAIN MANAGEMENT SYSTEMS

Annual Report pages 129-152. APR tables pages 141-152

## ACHIEVED - 81.82%

10 institutions workshopped on IA and risk management guidelines

18 institutions Audit Committees have been provided with support

5 support plans developed for government entities struggling with financial management as identified in audit reports

26 training sessions held to support PFMA institutions with Treasury regulations and instructions implementation

48 forensic investigation reports produced

8 specialised audit reports produced

90 criminal investigation cases supported

100% requests to draft financial recovery plans responded to within 90 days from receiving the request

10 municipalities with the highest UIFW incurred annually monitored to rectify such expenditure in terms of the MFMA

8 training sessions conducted in the preparation of provincial consolidated financial statements, provincial revenue fund statements and implementation of generally recognised accounting practices (GRAP) standards

1185 municipal officials trained in financial management competencies

100% of procurement plans published on the e-tender portal

70 municipalities monitored for compliance with minimum competencies regulations for financial management and 30 municipalities that received disclaimers and adverse audit opinions supported

22 transversal term contracts implemented

15 departments and entities supported on supply chain compliance

# PROGRAMME 5: FINANCIAL ACCOUNTING AND SUPPLY CHAIN MANAGEMENT SYSTEMS

Annual Report pages 129-152. APR tables pages 141-152

## PARTIALLY ACHIEVED - 13.64%

3 training sessions conducted in risk management less than the planned 4

1 consolidated annual financial statements for national departments for public entities and Reconstruction and Development Programme Fund tabled on 31 October less than the planned 2

91% implementation of the strategic sourcing opportunities plan

114 business processes defined for SCM less than the planned 124

14 stakeholder engagements conducted less than the planned 16

4 instructions issued in line with policy interventions and proposed designated products or categories to enhance SCM policy less than the planned 6

## NOT ACHIEVED - 4.55%

No guidelines on risk management curriculum developed for institutions of higher learning

1 guideline to assist with the implementation of Treasury Regulations, policies and treasury instructions developed less than the planned 4

# PROGRAMME 6: INTERNATIONAL FINANCIAL RELATIONS

Annual Report pages 153-160. APR tables page 158-160

## ACHIEVED - 100%

100% obligations towards international agreements met monitored

100% response to customer request on mandatory briefing notes and analysis

100% response to customer request on ad-hoc briefing notes and analyses

100% of interventions in Pursuit of Institutional reform implemented

100% review of implemented identified projects and plans to accelerate regional integration

Intervention to increase South Africa's presence within institutions of particular strategic value conducted

Number of initiatives developed to expand relations with key strategic partners in Africa

# PROGRAMME 7: CIVIL MILITARY PENSIONS, CONTRIBUTION TO FUNDS AND OTHER BENEFITS

Annual Report pages 161-165. APR tables page 163-165

## ACHIEVED - 100%

99% of benefits validated for payment paid within liable dates above the planned 96%

99.4% compliance with SLA between NT and GPAA specifically Programme 7 related indicators above the planned 97.5%

100% integrity of client data above the planned 85%

100% of customer service complaints responded to within seven days

# PROGRAMME 8: TECHNICAL SUPPORT AND DEVELOPMENT FINANCE PROGRAMME MANAGEMENT

Annual Report pages 166-180. APR tables pages 174-180

**ACHIEVED - 77.27%**

80 of the planned 80 technical advisory projects supported

5 performance and expenditure reviews supported

26 transaction advisory projects registered

32 capital project appraisal reports completed

50 catalytic projects approved

10 integrated projects in Integration Zones under implementation

R9 473m matched funding committed (cumulative across the term of project) above the planned R7 880m

150 627 new jobs contracted (cumulative across the term of project) above the planned 150 000

249 615 training opportunities contracted (cumulative across the term of project) above the planned 240 000

716 officials trained on the infrastructure delivery management system initiatives above the planned 500

23 capacity improvement initiatives undertaken to support infrastructure delivery above the planned 7

# PROGRAMME 8: TECHNICAL SUPPORT AND DEVELOPMENT FINANCE PROGRAMME MANAGEMENT

Annual Report pages 166-180. APR tables pages 174-180

## PARTIALLY ACHIEVED – 22.73%

378 graduates in training for professional registration less than the planned 500

127 Jobs Fund projects approved (cumulative across the term of project) less than the planned 150

R6 684m grant funding approved (cumulative across the term of project) less than the planned R7 880m

75 718 placements contracted (cumulative across the term of project) less than the planned 105 000

R4 624m grant funding disbursed (cumulative across the term of project) less than the planned R5 015m



# PROGRAMME 1: ADMINISTRATION

Annual Report pages 72-81. APR tables page 77-81

## ACHIEVED - 80%

A saving of 2.4% of the rand value budgeted for paper usage travel and strategic sourcing, more than the targeted 1%

100% completion of planned business continuity strategy (70% of phase 3)

4 quarterly oversight reports produced on entities reporting to the Minister of Finance

4 quarterly risk implementation assessment reports produced

## NOT ACHIEVED - 20%

90.7% completion of the approved risk based Internal Audit plan, less than the targeted 100%

Vacancy Rate of 9.9% achieved

Total Staff Compliment of 1 048 of which 87% are black, 58% female and 0.98% of the NT total staff compliment are persons with disabilities

A total of 18 promotions were made

98% of SMS members entered into a performance agreement. Those who did not sign a performance agreement will not be eligible for any performance reward

75% of employees participated in skills development and leadership programmes

# 2018/19 BUDGET RELATED HIGHLIGHTS

## SPENDING

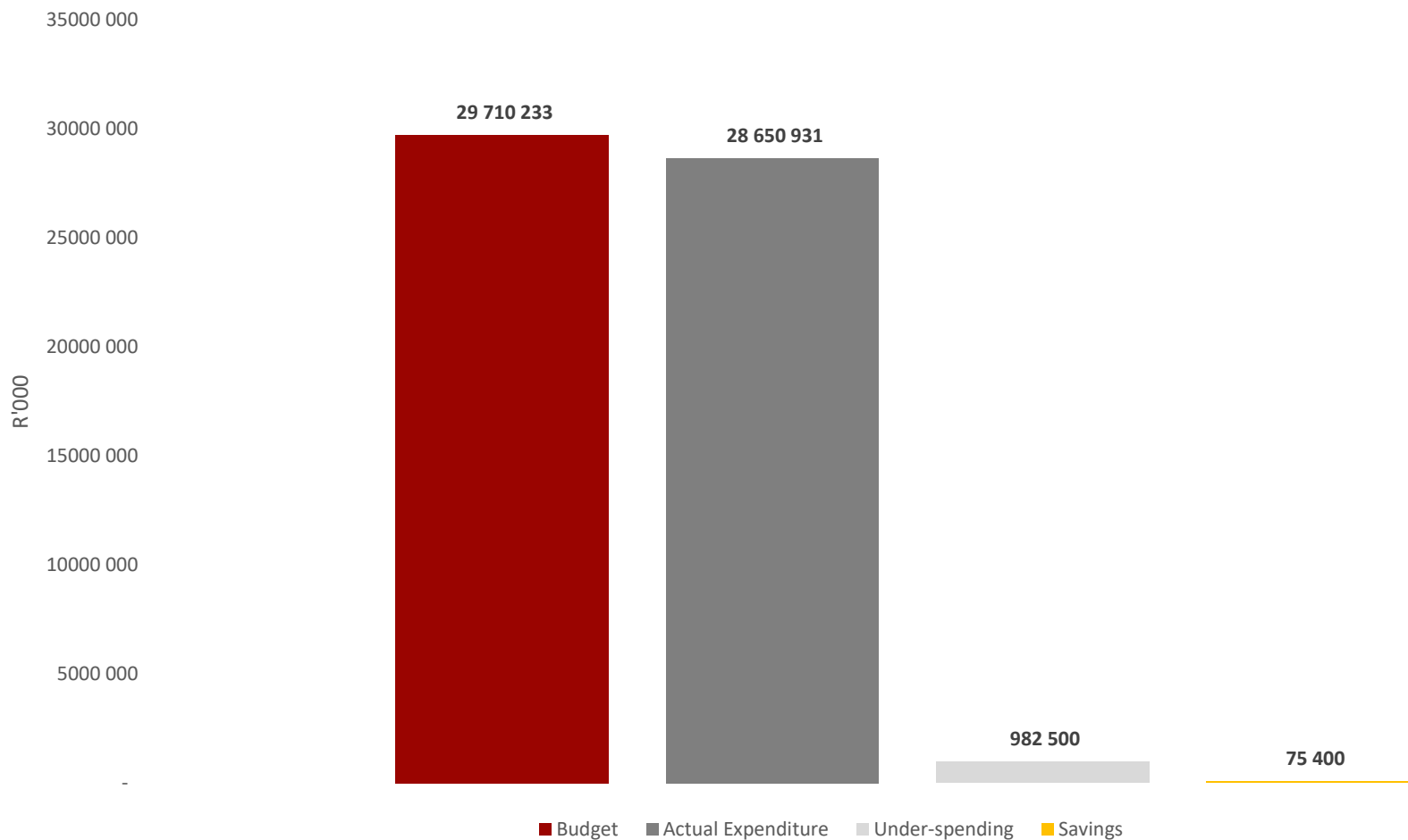
- The department spent R28.7 billion which equates to the 96.4% of its appropriated budget of R 29.7 billion, including transfers to SARS (R9 billion); Secret Services (R4.8 billion) and NDB (R4.3 billion), amongst others.

## UNDER-SPENDING

- Net under-spending was R1.1 billion, however this did not have a material impact on the pre-determined objectives. The main areas of underspending were:
  - **Compensation of employees:** under-spending of R17.4 million mainly due to the recruitment process which has a number of dependencies before vacancies can be filled;
  - **Goods and Services:** under-spending of R715.8 million mainly relating to the DBSA Infrastructure funds (R400m) which were not disbursed due to the outstanding MoU and Business Case, and delays in the implementation of the Integrated Financial Management System (R203.9m);
  - **Transfers and Subsidies:** under-spending of R252.3 million was mainly due R226 million lower than projected disbursement to the Jobs Fund Partners, and a saving of R16 million on the transfer to the Common Monetary Area;
  - **Payment of Financial Assets:** R55.3 million savings realised on payments to the African Development Bank (ADB) and New Development Bank (NDB) due to positive exchange rate differences; and
  - **Payment of Capital Assets:** under-spending of R18.5 million mainly due to delays in the procurement of ICT wireless infrastructure for NT buildings.

# BUDGET GRAPHICAL OVERVIEW

## ANALYSIS OF FINANCIAL PERFORMANCE



# 2018/19 ACTUAL OUTCOMES VS BUDGET PER CLASSIFICATION AND PROGRAMME

Economic Classification	Final Budget R'000	Actual Expenditure R'000	Variance R'000	% Spent
Compensation of Employees	807 760	790 344	17 416	98%
Goods and Services	1 947 432	1 231 646	715 786	63%
Transfers and Subsidies	22 261 909	22 009 617	252 292	99%
Payment of Financial Assets	4 650 007	4 594 743	55 264	99%
Payment of Capital Assets	43 125	24 581	18 544	57%
<b>Total - Economic classification</b>	<b>29 710 233</b>	<b>28 650 931</b>	<b>1 059 302</b>	<b>96%</b>

Programme	Final Budget R'000	Actual Expenditure R'000	Variance R'000	% Spent
1. Administration	453 819	424 274	29 545	93%
2. Eco Pol, Tax, Fin Reg & Res	152 770	138 756	14 014	91%
3. Public Finance & Budget Man	298 047	295 370	2 677	99%
4. Asset & Liability Management	101 585	89 824	11 761	88%
5. Financial Acc and SCM Systems	1 102 085	869 104	232 981	79%
6. International Financial Relations	5 883 121	5 807 686	75 435	99%
7. Civ & Mil Pen, Cont to Funds	5 021 277	5 020 100	1 177	100%
8. Tech Sup & Dev Finance	2 926 779	2 235 067	691 712	76%
9. Revenue Administration	9 007 217	9 007 217	-	100%
10. Fin Intel & State Security	4 763 533	4 763 533	-	100%
<b>Total - Programme</b>	<b>29 710 233</b>	<b>28 650 931</b>	<b>1 059 302</b>	<b>96%</b>

# AUDIT REPORT OUTCOME

## ANNUAL FINANCIAL STATEMENTS

Unqualified audit opinion with emphasis of matters related to:

- Irregular expenditure of R466 million;
- Fruitless and Wasteful expenditure of R66 million attributed to the payment for technical support and maintenance relating to the IFMS; and
- Restatement of corresponding figures as a result of errors in the financial statements:
  - Related party in-kind services provided to CBDA (R4.3 million)
  - Advances paid to MFIP (R69.1 million) for consulting services and Jobs Fund (R42 million)
  - Principal-agent arrangement with GTAC for administration fee (R360 000)

# AUDIT REPORT OUTCOME

The department reported R588 million of irregular expenditure in total, which includes R466 million of irregular expenditure for the 2018/19 financial year (thus R122 million of irregular expenditure comes from previous years)

Total irregular expenditure reported in 2017/18 was R 809 million. R687 million of that irregular expenditure was condoned in the 2018/19 financial year pursuant to the necessary investigations and remedial steps having being concluded (this confirms that R122 million of the not-yet condoned irregular expenditure is included in the R588 million shown above)

Of the R466 million irregular expenditure for 2018/19:

- R404 million was incurred in the 2018/19 period;
- R62 million was incurred in the prior year but discovered in 2018/19; and
- R0.273 million was discovered and condoned in the 2018/19 financial year.

Of the R466 million irregular expenditure reported in 2018/19:

- R390.8 million (84%) was incurred directly by the department
- R75.2 million (16%) was incurred by GTAC as the implementing agent of the department, based on its spending of the funds transferred to it by the department

GTAC has concluded its investigations and has applied to the OCPO for condonement of the abovementioned irregular expenditure

All irregular expenditure incurred by the department are being investigated and will be disposed of in terms of the applicable framework (which requires proper investigations, corrective actions and consequence management, etc.)

# AUDIT REPORT OUTCOME

## ANNUAL PERFORMANCE INFORMATION

Material findings in respect of completeness of reported achievements for Programmes 2 and 8 (as explained in slide 6).

## COMPLIANCE WITH LEGISLATION

Material findings relating to compliance with legislation:

- Material misstatements in the Annual Financial Statements
- Procurement and contract management
  - goods and services with a transaction value above R500 000 were procured without inviting competitive bids (treasury regulations {TR} 16A6.1 and 16A6.4);
  - competitive bids were adjudicated by a bid adjudicated committee that was not composed in accordance with the policies of the department (TR 16A6.2 (a), (b) and (c);



# AUDIT REPORT OUTCOME

- contracts were awarded to bidders based on preference points that were not allocated and/or calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations;
  - contracts were awarded to bidders based on pre-qualification criteria that are in contravention of preferential procurement regulation 4(1) and 4(2) of 2017;
  - contracts above R30 million did not include a condition for mandatory subcontracting to advance designated groups; and
  - contracts were extended or modified without the approval of a properly delegated official.
- Expenditure management
    - irregular expenditure; and
    - fruitless and wasteful expenditure.

# REMEDIAL ACTION ON FINDINGS RAISED

- An Audit Action Plan has been developed to address all audit findings and the underlying internal control failures
- A dedicated committee (CFO, CIA, CD: SPM&E and the CRO) to oversee the implementation progress of the Audit Action Plan and report to MANCO
- Non-compliance and deviations are being reported to the Director-General and Minister monthly
- Quarterly progress reporting on the Audit Action Plan to the Audit Committee
- Critical vacancies in the Supply Chain Management Unit are now filled
- The contracts management process has been substantially revamped to address the accuracy of reporting on contract commitments
- A comprehensive review of the SCM environment is near completion (work on addressing the critical gaps have also commenced while the review is still in progress, e.g. the contracts management process mentioned above)
- Additional quality assurance processes have been introduced in the preparation of the quarterly and annual financial statements
- DDGs are being held responsible for addressing audit findings and in addition, to specifically report on repeat findings.

# THANK YOU

**BRIEFING TO THE STANDING COMMITTEE ON FINANCE  
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