

NATIONAL TREASURY ANNUAL REPORT 2019/20

BRIEFING TO THE STANDING COMMITTEE ON FINANCE

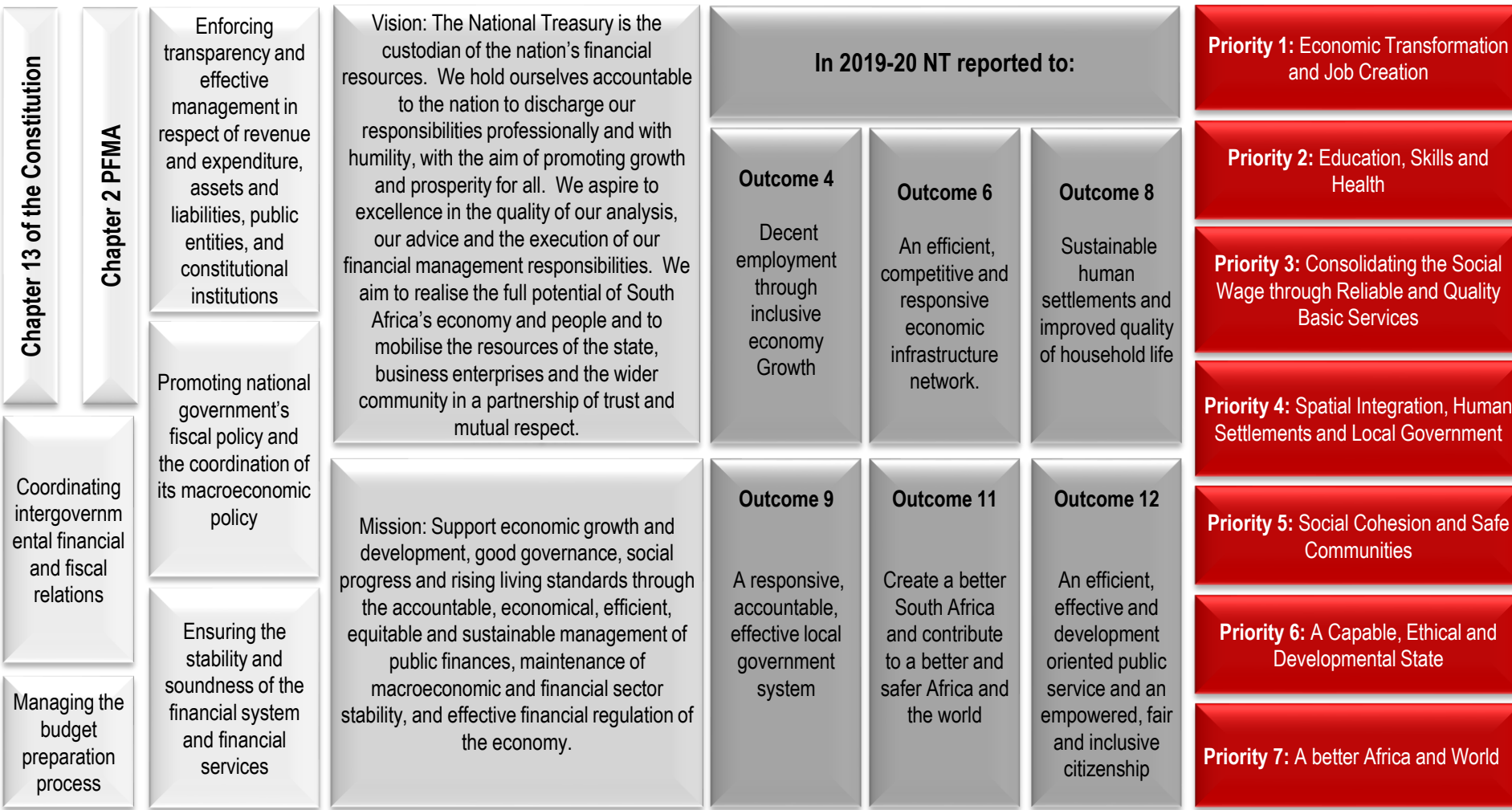
10 FEBRUARY 2021



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

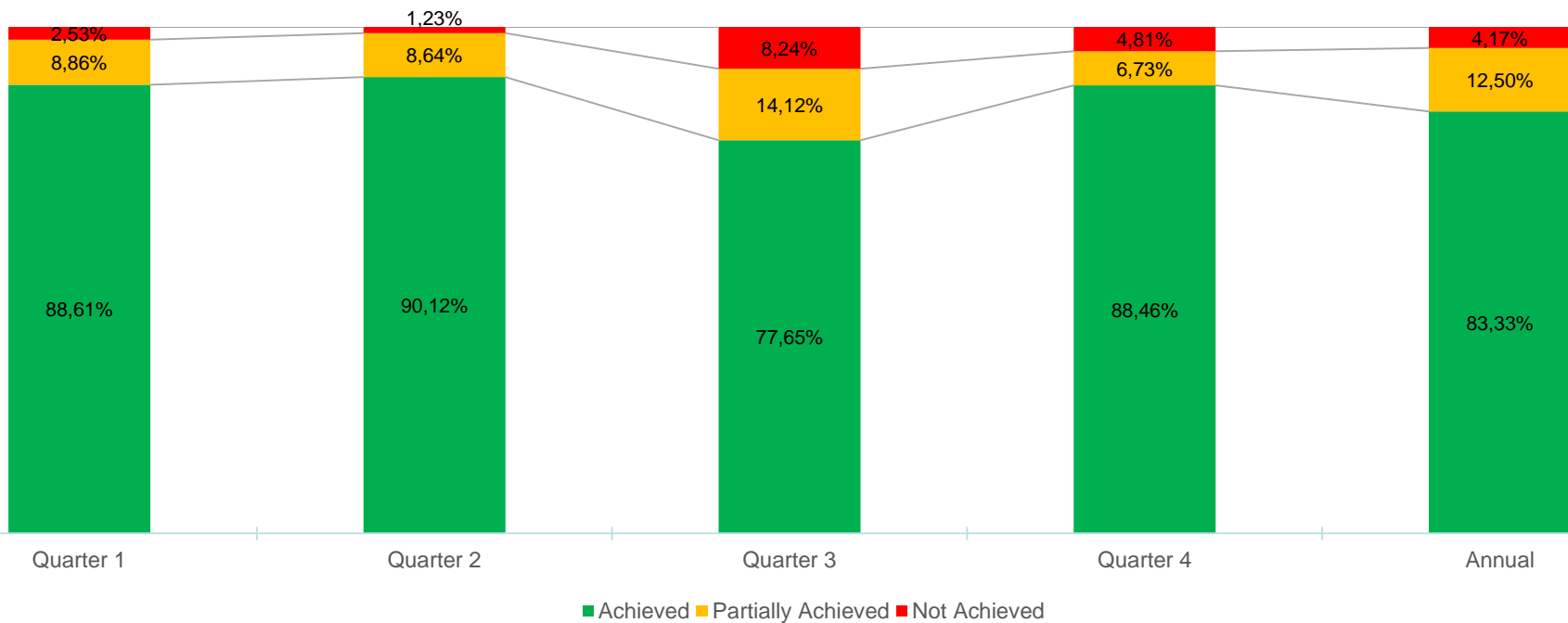
NATIONAL TREASURY (NT) MANDATE CONTRIBUTING TO OUTCOMES AND GOVERNMENT PRIORITIES



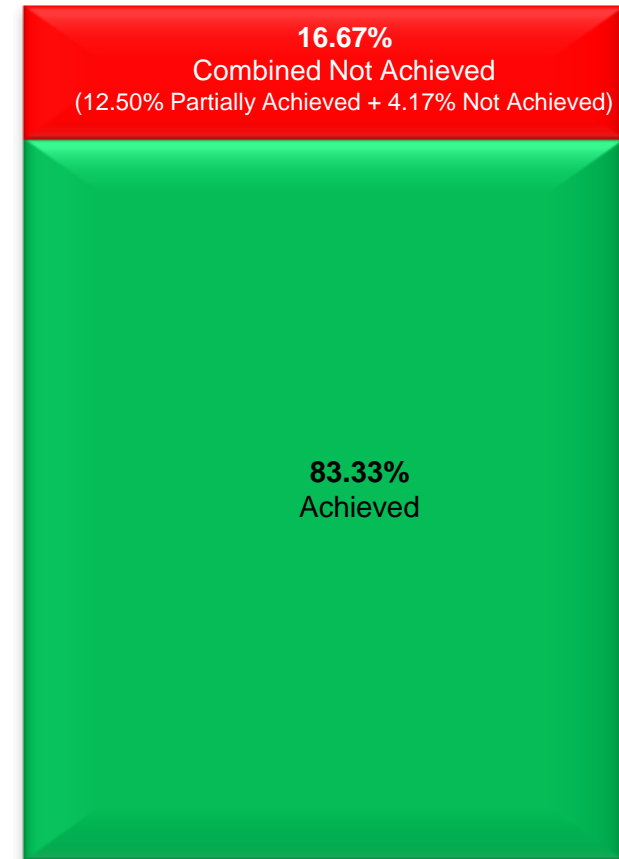
- Domestically, over the last decade, the South African economy has grown at a rate stubbornly below what is required to meaningfully address the persistent and debilitating challenges of large-scale poverty, inequality and unemployment.
- This trend persisted into the 2019/20 financial year with a mere 0.2 per cent growth rate compared to the previous year of 0.6 per cent.
- Compounding this weak economic outlook, business and consumer confidence declined compared to the previous financial year, with weak household consumption continuing to persist in 2019/20, growing at a modest 1.1 per cent.
- South African households continued to struggle with relatively high indebtedness, moderate wage increases and high levels of unemployment.
- Challenges arising from delays in effecting the economic reform agenda and the vulnerability of key SOCs remains a significant fiscal risk to the country's fiscal position.
- The national budget was prepared in a manner that ensured resource allocations met the priorities set by government while adhering to expenditure control.
- Fiscal relations between the national, provincial and local spheres of government were coordinated, encouraging sound budgetary planning at the provincial and local spheres of government; and capacity was built, towards good public finance management practices
- The National Treasury has redoubled its efforts to stabilise SOCs, exercising exacting oversight to better enable these institutions to contribute to government's developmental objectives in a financially and fiscally sustainable manner.
- The National Treasury amplified and reinforced our commitment to advancing ethical behaviour and leadership in public finance management through various monitoring mechanisms, investigative processes and capacity building initiatives across all spheres and entities in government, giving effect to the Public Finance Management Act (PFMA) and the Municipal Finance Management Act (MFMA).
- The contraction in public finances continues to exert pressure on government's ability to balance the need for public services with constraints in public resources. This required and will continue to demand prioritisation of public service delivery, strengthening of responsive public administration, reduction in the cost of the public service and value for money programme decision making.

DEPARTMENTAL PERFORMANCE - QUARTER ON QUARTER COMPARISON 2019-20

Quarter-on-Quarter Comparison



2019/20 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	4	0	1
Budget Office	12	12	0	0
Intergovernmental Relations	11	9	2	0
Public Finance	4	2	2	0
Assets and Liability Management	14	10	3	1
Office of the Accountant General	24	21	0	3
Office of the Chief Procurement Officer	8	6	2	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	18	14	4	0
Administration	6	4	2	0



AUDIT OF PREDETERMINED OBJECTIVES

Annual Report pages 255-256

Selected programmes and findings

Programme	Findings
Programme 4: Asset And Liability Management	AGSA did not identify any material findings on the usefulness and reliability of the reported performance information for this programme.

Adjustment of material misstatements

AGSA identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of Programme 4: Asset and Liability Management for 2 indicators. This is mainly as a result of a formula error included in the supporting schedules prepared by management to calculate the number of days required to perform these reviews

As management subsequently corrected the misstatements, AGSA did not raise any material findings on the usefulness and reliability of the reported performance information.

PROGRAMME 1: ADMINISTRATION

Annual Report pages 86-96. APR pages 94-96

ACHIEVED – 66.67%

10% of the Enterprise Architecture Programme implemented as planned

20% of corporate governance of ICT programme implemented as planned

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

4 quarterly risk implementation assessment reports produced

PARTIALLY ACHIEVED – 33.33%

97% completion of the approved risk based Internal Audit plan, less than the targeted 100%

A saving of 1.8% of the rand value budgeted for paper usage travel and strategic sourcing, less than the targeted 2%

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

Annual Report pages 97-104. APR pages 101-104

ACHIEVED – 91.67%

50 papers published through Southern Africa – Towards Inclusive Economic Development (SA-TIED) programme

Retirement reform policies developed

Tax and revenue proposals on 2019 Budget Published and revenue estimates for 2019 Medium-Term Budget Policy Statement (MTBPS) updated

Tax legislation submitted for tabling in Parliament

20 economic models maintained and 4 economic forecasts developed

4 economic forecasts developed

100% response to users requests for economic research and policy analysis, and assessments of government policy proposals

100% response to user requests for policy and scenario modelling

100% response to user requests for commentaries on economic data

NOT ACHIEVED – 8.33%

Comprehensive prudential and market conduct framework for new authorities not developed due to substantial revision of the Bill following the invitation of public comments

PROGRAMME 3: PUBLIC FINANCE AND BUDGET MANAGEMENT

Annual Report pages 105-129. APR pages 123-129

ACHIEVED – 85.19%

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

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

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

4 reports produced on public finance statistics according to function and economic classification

4 quarterly expenditure reports submitted to the Standing Committee on Appropriations

100% of Budget Facility on Infrastructure (BFI) projects evaluated

26 of provincial and municipal budgeting benchmarking exercises held to improve provincial and municipal budget credibility, composition and achievability

5 support initiatives implemented in provinces

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

PARTIALLY ACHIEVED – 14.81%

35 plans assessed to support infrastructure planning in provinces less than the planned 36

96% responses to departmental requests for PFMA and TR approvals, sectoral analysis and policy advice less than the planned 100%

99.6% of IYM feedback reports provided to departments less than the planned 100%

5 annual municipal routine reports published less than the planned 6

PROGRAMME 4: ASSET AND LIABILITY MANAGEMENT

Annual Report pages 130-138. APR pages 135-138

ACHIEVED – 71.43%

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 guarantee applications 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 – 21.43%

86% of complete PFMA Section 54(2), 52, 55 and 92 applications received from Schedule 2 and 3B public entities reviewed less than the planned 100% due to greater inter-departmental stakeholder consultations required on the applications received.

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

60% of complete remuneration review requests of executive and non-executive directors received from Schedule 2 and 3B public entities reporting to the Minister of Finance reviewed less than planned 100% due to consolidation for a comprehensive and comparable view

NOT ACHIEVED - 7.14%

22% of received MFMA submissions relating to tariff adjustments received from Schedule 2 and 3B public entities reviewed less than the planned 100% due to to greater inter-departmental stakeholder consultations required

PROGRAMME 5: FINANCIAL ACCOUNTING AND SUPPLY CHAIN MANAGEMENT SYSTEMS

Annual Report pages 139-158. APR pages 152-158

ACHIEVED – 84.38%

6 support plans developed for government entities struggling with financial management as identified in audit reports above the planned 5
4 monitoring reports on improvement of financial management in national and provincial institutions produced
4 guidelines to assist with the implementation of Treasury Regulations, policies and Treasury
34 training sessions provided to support PFMA institutions on the implementation of Treasury Regulations, Treasury Instructions and guidelines above the planned 8
50 forensic investigation reports produced above the planned 26
6 specialised audit reports produced above the planned 4
62 criminal investigation cases supported above the planned 30
4 engagements held with public officials to address compliance and implementation of regulations, instructions and guidelines in a coordinated and consistent manner
100% of financial management grant support plans reviewed for alignment with the grant framework for municipalities
100% of complete requests to draft financial recovery plans responded to within 90 days of receipt
5 municipalities assisted in addressing gaps as identified by FMCMM and financial indicator assessments
10 municipalities with the highest UIFW incurred annually monitored to rectify such expenditure in terms of the MFMA
12 monthly statement reports of actual revenue and actual expenditure for the National Revenue Fund (NRF) published
1 Modified Cash Standard published

PROGRAMME 5: FINANCIAL ACCOUNTING AND SUPPLY CHAIN MANAGEMENT SYSTEMS

Annual Report pages 139-158. APR pages 152-158

PARTIALLY ACHIEVED – 6.25%

99.5% of departments'/ entities' deviation/ expansion requests reviewed less than the planned 100%

98% of bids reviewed to ensure compliance with norms and standards less than the planned 100%

NOT ACHIEVED – 9.38%

No consolidated annual financial statements for national departments, public entities and Reconstruction and Development Programme (RDP) Fund tabled on 31 October less than the planned 2

333 municipal officials trained in financial management competencies less than the planned 1000

Functional and technical specifications of IFMS system not developed

PROGRAMME 6: INTERNATIONAL FINANCIAL RELATIONS

Annual Report pages 159-165. APR pages 164-165

ACHIEVED - 100%

100% obligations towards international agreements met monitored

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

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

1 intervention to increase South Africa's presence within institutions of particular strategic value

100% of interventions in Pursuit of Institutional reform implemented

1 initiative developed to expand relations with key strategic partners in Africa

100% of implemented identified plans to accelerate regional integration reviewed

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

Annual Report pages 166-169. APR pages 168-169

ACHIEVED - 100%

98.9% of benefits validated for payment paid within liable dates above the planned 96%

100% compliance with SLA between NT and GPAA specifically Programme 7 related indicators above the planned 97.5%

99.9% integrity of client data above the planned 85%

100% of customer service complaints responded to within seven days of receipt

PROGRAMME 8: TECHNICAL SUPPORT AND DEVELOPMENT

FINANCE PROGRAMME MANAGEMENT

Annual Report pages 170-181. APR pages 177-181

ACHIEVED - 77.78%

80 technical advisors placed at National Treasury, provincial treasuries and municipalities through the Municipal Finance Improvement Programme (MFIP) above the planned 60

2 investment plans completed

37 catalytic projects approved above the planned 20

153 Jobs Fund projects approved (cumulative across the term of the project) above the planned 150

R8 927m grant funding approved (cumulative across the term of project) above the planned R7 880m and R14 118m
matched funding committed (cumulative across the term of project) above the planned R7 880m

177 532 new jobs contracted (cumulative across the term of project) above the planned 150 000, 81 987 placements
contracted (cumulative across the term of project) above the planned 80 000 and 306 991 training opportunities
contracted (cumulative across term of project) above the planned 250 000

1 208 officials trained on the infrastructure delivery management system initiatives above the planned 500

532 graduates in training for professional registration above the planned 500

21 capacity improvement initiatives undertaken to support infrastructure delivery above the planned 18

PROGRAMME 8: TECHNICAL SUPPORT AND DEVELOPMENT

FINANCE PROGRAMME MANAGEMENT

Annual Report pages 170-181. APR pages 177-181

PARTIALLY ACHIEVED – 22.22%

11 programmes in Integration Zones identified for planning less than the planned 12

9 programmes in Integration Zones under implementation less than the planned 10

R5 037m grant funding disbursed (cumulative across the term of project) less than the planned R5 825m

57.9% response to procure approved Professional Service Providers to assist with institutionalising the IDMS less than the planned 100%

Vacancy Rate of 11.8% achieved

Total Staff Compliment of 1 045 of which 88% are black, 59% female and 0.76% of the NT total staff compliment are persons with disabilities

A total of 22 promotions were made

96% of SMS members entered into a performance agreement. Those who did not sign a performance agreement will not be eligible for any performance reward

38% of employees participated in skills development and leadership programmes

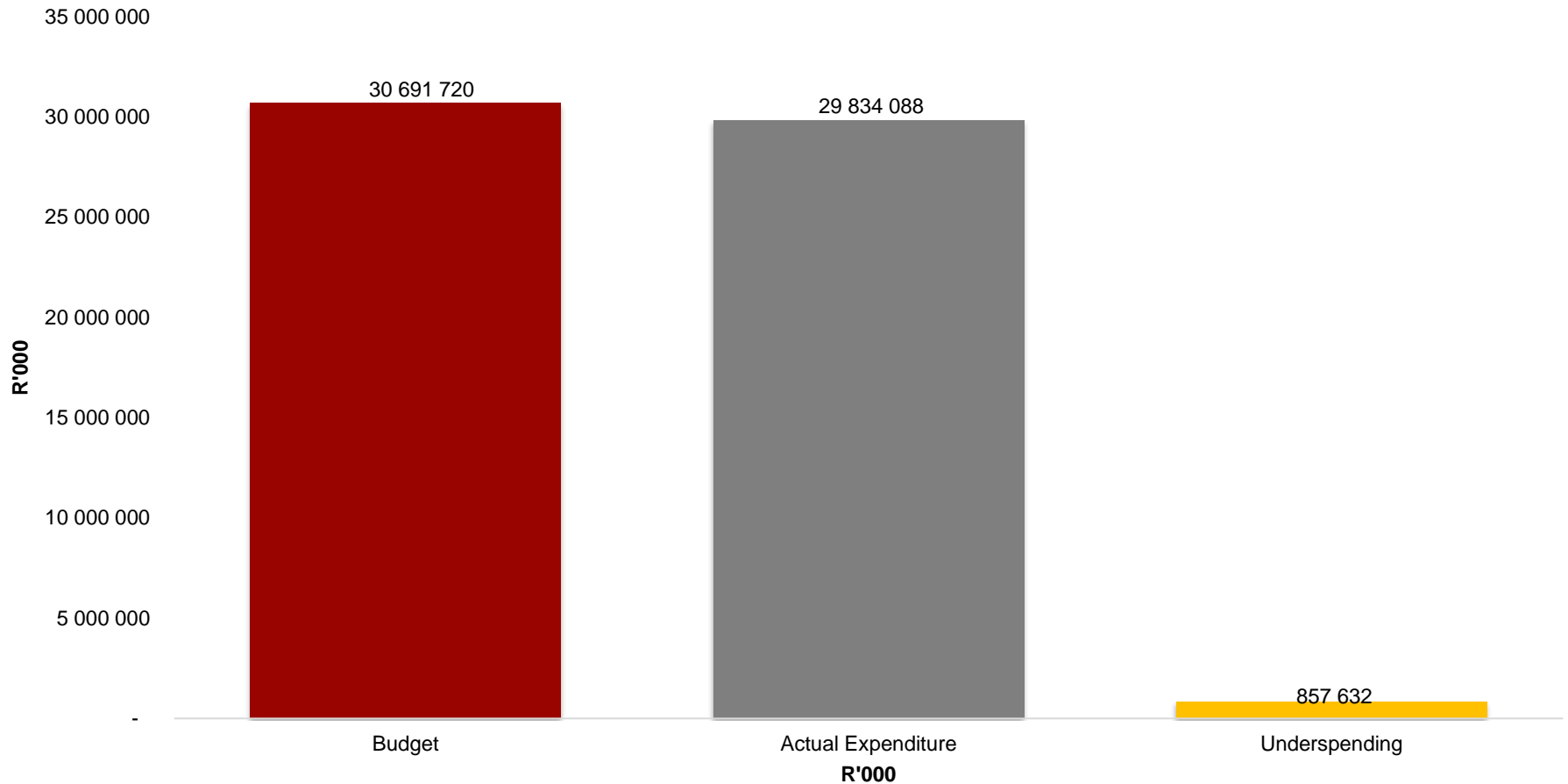
2019/20 ACTUAL OUTCOMES VS BUDGET PER CLASSIFICATION AND PROGRAMME

Economic Classification	Final Budget R'000	Actual Expenditure R'000	Variance R'000	% Spent
Compensation of Employees	847,205	804,818	42,387	95%
Goods and Services	1,478,601	1,209,575	269,026	82%
Transfers and Subsidies	23,576,130	23,532,332	43,798	100%
Payment of Financial Assets	4,746,916	4,273,817	473,099	90%
Payment of Capital Assets	42,868	13,546	29,322	32%
Total - Economic classification	30,691,720	29,834,088	857,632	97%

Programme	Final Budget R'000	Actual Expenditure R'000	Variance R'000	% Spent
1. Administration	511,370	453,634	57,736	89%
2. Eco Pol, Tax, Fin Reg & Res	138,125	124,881	13,244	90%
3. Public Finance & Budget Man	318,558	306,883	11,675	96%
4. Asset & Liability Management	102,929	96,718	6,211	94%
5. Financial Acc and SCM Systems	1,004,188	796,790	207,398	79%
6. International Financial Relations	5,948,131	5,458,763	489,368	92%
7. Civ & Mil Pen, Cont to Funds	5,524,503	5,487,100	37,403	99%
8. Tech Sup & Dev Finance	2,663,832	2,629,235	34,597	99%
9. Revenue Administration	9,529,031	9,529,031	-	100%
10. Fin Intel & State Security	4,951,053	4,951,053	-	100%
Total - Programme	30,691,720	29,834,088	857,632	97%

BUDGET GRAPHICAL OVERVIEW

ANALYSIS OF FINANCIAL PERFORMANCE



REASONS FOR VARIANCE 2019/20

OVERALL SPENDING

- The department spent **R29.8 billion** which equates to the **97%** of its appropriated budget of R 30.7 billion, including transfers to SARS (R9.5 billion); Secret Services (R4.7 billion) and NDB (R4.3 billion), amongst others.

DETAILED UNDER-SPENDING PER ECONOMIC CLASSIFICATION

- Net under-spending was R857.6 million. The main areas of underspending were on:
 - **Compensation of employees:** under-spending of **R42.4 million** was due to vacated positions as well as the suspension of the filling of non-critical positions pending the finalisation of the departmental organizational review;
 - **Goods and Services:** under-spending of **R269 million** was materially due to the underspend on the IFMS (R123.4 million) and Municipal Financial Recovery Service (R25.5 million) projects due to the delayed commencement of the common design project and procurement of professional services;
 - **Transfers and Subsidies:** under-spending of **R43.8 million** was primarily due to lower than anticipated claims received on Injury on Duty (R18.1 million) as well as withholding of R10 million of the Neighbourhood Development Programme Grant (NDPG) transfer by the Intergovernmental Relations Division as a result of non-compliance with the NDPG Framework and DoRA by certain municipalities;
 - **Payment of Financial Assets:** R473.1 million relating to unspent allocation for the International Bank of Reconstruction and Development (IBRD) and the African Development Bank (AfDB) General and Selective Capital Increases as the process to the recapitalisation of the aforementioned was not concluded as anticipated and
 - **Payment of Capital Assets:** under-spending by R29.3 million was mainly due to the delayed procurement for the Local Area Network (LAN), servers and additional storage for SITA Centurion and Pietermaritzburg.

AUDIT REPORT OUTCOME

ANNUAL FINANCIAL STATEMENTS

National Treasury has obtained and **Unqualified audit opinion** with material misstatements and emphasis of matters related to the following:

- Irregular expenditure of R249 million. The main contributor to the irregular expenditure was **R140 million** (56%) relating to Integrated Financial Management System (IFMS) while the balance of R82 million (44.6%) are from various business units as reported in the Financial Statements.
- Fruitless and Wasteful expenditure of **R66 million** attributed to the payment for technical support and maintenance relating to the IFMS. Disclosure was adjusted after a lengthy dispute process with AG; and
- Restatement of corresponding figures as a result of errors in the financial statements for the following Account Balances and Disclosure Notes:
 - **Advances and payables:-** understated by **R12.964 million** for Neighbourhood Development Partnership Grant was retained by GTAC since 2012/13 and R148.798 million unspent Jobs Fund was retained by GTAC prior the formalisation of the arrangement between Public Finance and GTAC.
 - **Transfer of Function R23 billion** relating to the transfer of South African Airways from National Treasury to Department of Public Enterprises. The transfer of function was made on 1 August 2018 and the department reported the transfer under the investment note in 2018/19. The management opted for transparency to report the same transaction as a secondary financial information in 2019/20 under the transfer of function disclosure note.
 - **Contingent liabilities** understated by **R54 million** claims against the department.
 - **Accrued department revenue** – understated by **R113 million** relating to revenue received in July 2020 and disclosed as non-adjusting event whereas the amount was due for receipt prior to 2019/20 FY.

AUDIT REPORT OUTCOME

PROGRESS IN REDUCING IRREGULAR EXENDITURE

The department reported R388,233 million of irregular expenditure in total, which includes R249,156 million of irregular expenditure for the 2019/20 financial year (thus R139,077 million of irregular expenditure comes from previous years).

R83.049 million of that irregular expenditure has since been condoned (R76.274 million relating to prior year and R6.775 million relating to current year).

The department is in the process of finalising condonation iro expenditure amounting to R241.70 million:

- R51.7 million for non-compliance with legislation by Facilities Management and Supply Chain Management;
- R49 million for Central Supplier Database (CSD); and
- R35 million for Credit Rating Agencies.

Irregular expenditure to the value of R21 million is being investigated and will be condoned in terms of the applicable framework (which requires proper investigations, corrective actions and consequence management, etc.)

REMEDIAL ACTION ON FINDINGS RAISED

- An Audit Action Plan has been developed to address all audit findings and the underlying internal control failures
- The dedicated committee (DG:CS, CFO, CIA, CD: SPM&E and the CRO) is operational to oversee the implementation and progress of the Audit Action Plan and report to MANCO
- DDGs are being held directly responsible for addressing audit findings and in addition, to specifically report on repeat findings. Reports are provided to the DG quarterly
- Quarterly progress reporting on the Audit Action Plan to the Audit Committee
- Non-compliance and deviations from SCM processes are being reported to the Director-General and Minister monthly
- Critical vacancies ie DDG Economic Policy, Asset Liability Management, Chief Director IFMS and Chief Financial Officer has been filled
- SCM capacity constraints are being addressed through the filling of key vacancies within the unit
- The contracts management process has been substantially revamped to address the accuracy of reporting in relation to contract management and performance
- Additional quality assurance processes have been introduced in the preparation of the quarterly and annual financial statements with a greater degree of review processes
- IFMS project documents have been approved, governance structures revamped and implementation fast tracked.

THANK YOU

BRIEFING TO THE STANDING COMMITTEE ON FINANCE
10 February 2021



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA