The Legacy Report of the Standing Committee on Finance for the Sixth Parliament: July 2019 – March 2024, dated 27 March 2024.

1. INTRODUCTION

Overview

1.1. This report reflects on the work of the Standing Committee on Finance (SCOF/ the Committee) during the Sixth Parliament from July 2019 to March 2024. It emphasizes the Committee's extensive engagement with its legislative and oversight mandate on the fiscal framework and revenue proposals, revised and proposed fiscal framework orMedium-Term Budget Policy Statement (MTBPS), National Treasury's Budget Votes, Budget Review Recommendation Reports (BRRRs) and various tax and general Bills processed during the parliamentary session. This report serves as a guideline or foundation for the incoming Committee to plan its programs and agendas for the Seventh Parliament.

Mandate and Functions

1.2. SCOF is mandated to consider and report on the national macroeconomic and fiscal policy, fiscal framework (National Budget), revised and proposed fiscal framework (MTBPS), revenue proposals, and money Bills. Established by section 4(1) of the Money Bills Amendment Procedure and Related Matters Act, Act No. 9 of 2009 (Money Bills Act), SCOF derives its mandate from various sources, including the Constitution, legislation, standing rules, and resolutions of the National Assembly. Its broad powers and functions are designed to comprehensively address key aspects of the country's financial governance and oversight.

1.3. The Committee plays a crucial role in reviewing and assessing the national macro-economic and fiscal policy, ensuring alignment with the government's broader economic goals and priorities. SCOF provides insightful observations and recommendations regarding proposals to the fiscal framework, revised and proposed fiscal framework, and revenue proposals.

1.4. Additionally, the mandate includes the thorough examination and consideration of money Bills in adherence to the Money Bills Act. These Bills are referred to the Committee, where a comprehensive review takes place to ensure alignment with approved fiscal framework and the Division of Revenue Bill.

1.5. In the process of legislatingmoney Bills and proposals, the Committee upholds key principles, including equity, efficiency, certainty, and ease of administration. It considers the impact of proposed changes on the composition of tax revenue, regional and international tax trends, and potential effects on development, investment, employment, and economic growth.

1.6. The standing rules governing the Committee empower it to conduct public hearings on its legislative and oversight activities, promoting transparency and public participation. The Committee also engages in consultations with other relevant committees, ensuring a holistic evaluation of proposed legislation and the fiscal policies. Subsequently, it reports its findings to the National Assembly (the House) in adherence to established procedures.

1.7. To maintain procedural fairness, the Minister of Finance is granted a minimum of 14 days to respond to any proposed amendments to money Bills. This timeframe allows for meaningful engagement, ensuring that the executive perspective is considered in the decision-making process. The report submitted to the House incorporates comments from the Minister, providing a comprehensive overview of the considerations and justifications underpinning the proposed legislative changes.

1.8. Besides functioning as a Standing Committee, SCOF also operates as a Portfolio Committee on Finance, fulfilling constitutional functions outlined in the National Assembly Rules and the Constitution. Its responsibilities include monitoring the financial and non-financial performance of the National Treasury (or NT) and entities falling under the finance portfolio, processing general finance legislation, facilitating public participation, and maintaining oversight of the Executive and entities within the finance portfolio.

2. DEPARTMENT AND ENTITIES REPORTING TO THE COMMITTEE

2.1. SCOF oversees a diverse range of entitiesfalling under the finance portfolio which are: National Treasury, South African Revenue Service (SARS), South African Reserve Bank (SARB), Prudential Authority (PA), Corporation for Deposit Insurance (CODI), Financial Intelligence Centre (FIC), Public Investment Corporation (PIC), Government Employees Pension Fund (GEPF), Development Bank of Southern Africa (DBSA), Financial and Fiscal Commission (FFC), Land Bank, Accounting Standards Board (ASB), Independent Regulatory Board of Auditors (IRBA), South African Special Risk Insurance Association (SASRIA), Financial Sector Conduct Authority (FSCA), Government Technical Advisory Centre (GTAC), Government Pension and Administration Agency (GPAA), Cooperative Banks Development Agency (CBDA), Pension Fund Adjudicator (PFA), Tax Ombuds, and Financial Advisory and Intermediary Services (FAIS) Ombuds. These are not exhaustive, as some of these entities have subsidiaries, such as the Land Bank and SARB.

Mandate of Key Entities

National Treasury

2.2. The National Treasury, governed by Chapter 2 of the Public Finance Management Act (PFMA) and Chapter 13 of the Constitution, among others, plays a pivotal role in coordinating macroeconomic policy, managing the budget preparation process, and facilitating the equitable distribution of revenue across national, provincial, and local government spheres. National Treasury is also responsible for creating a regulatory environment for the financial sector, ensuring the integrity of the financial system, and efficiently managing revenue.

South African Revenue Service

2.3. SARS, mandated by the South African Revenue Service Act, Act No. 34 of 1997, is tasked with collecting all revenue due to the fiscus. It focuses on ensuring maximum compliance with revenue laws, providing customs services for revenue collection, border protection, and trade facilitation.

South African Reserve Bank

2.4. SARB operates with a dual mandate, primarily focused on achieving price stability and implementing monetary policy. As the central bank of South Africa, SARB plays a crucial role in maintaining a stable economic environment through its monetary policy measures.

Prudential Authority

2.5. In addition to its core functions, SARB further exercises its regulatory role through the Prudential Authority. The Prudential Authority, operating within the framework of SARB, has a multifaceted mission. It is tasked with promoting and enhancing the safety and prudential soundness of financial institutions, ensuring their stability and resilience. The Prudential Authority extends its oversight to market infrastructure, seeking to maintain a secure and robust financial system. By implementing measures to protect financial customers against the risks associated with institutional failures, the Prudential Authority contributes significantly to overall financial stability in South Africa.

Corporation for Deposit Insurance

2.6. CODI serves as South Africa's deposit insurance scheme, operating as the newest subsidiary under the SARB. Tasked with managing the country's Deposit Insurance Fund (DIF), CODI enables bank depositors to access a stipulated limit of their deposits in the event of their banking institution's failure, liquidation, or resolution. Established on 24 March 2023, in accordance with the Financial Sector Laws Amendment Act 23 of 2021 (FSLAA), CODI aligns with SARB’s mandate to maintain price stability and protect financial stability. The Deposit Insurance Scheme (DIS) implemented by CODI ensures a planned, orderly, and efficient provision of protection to depositors, providing clarity on when depositors can access their funds in the event of a bank failure, thereby promoting a transparent and secure financial landscape.

Financial Intelligence Centre

2.7. The FIC, governed by the Financial Intelligence Centre Act, Act 38 of 2001, is responsible for receiving, analyzing, and disseminating financial intelligence to law enforcement agencies and SARS. It plays a crucial role in combating crime, money laundering, and terrorism financing, safeguarding the integrity of South Africa’s financial system.

Public Investment Corporation

2.8. As the asset manager for the Government Employees Pension Fund (GEPF) and other government funds, PIC's primary role is to invest on behalf of these funds. Its investments contribute to the overall financial well-being of government employees and other stakeholders.

Government Employees Pension Fund

2.9. GEPF is a pension fund that manages pension and related benefits on behalf of government employees. Its mandate is to ensure the financial security of government employees during retirement.

Development Bank of Southern Africa

2.10. Governed by the Development Bank of Southern Africa Act, Act 13 of 1997, DBSA is a development finance institution owned by the government. It is tasked with providing development finance and supporting economic growth through investments in economic infrastructure.

Financial and Fiscal Commission

2.11. The Financial and Fiscal Commission derives its mandate from Chapter 13 of the Constitution. As an independent advisory institution, it provides recommendations to the government on fiscal policy and the equitable division of revenue among the three spheres of government.

Land Bank

2.12. A specialist agricultural bank guided by a government mandate, the Land Bank provides financial services to the commercial sector and agri-business. It focuses on facilitating transformation and access to finance for new entrants into the agricultural sector.

Accounting Standards Board

2.13. Tasked with developing and maintaining financial reporting standards, ASB facilitates good corporate governance in the public sector, including national, provincial, and local government entities.

Independent Regulatory Board of Auditors

2.14. IRBA develops and maintains ethical auditing standards for auditors, regulating audits performed by registered auditors and firms. It ensures the implementation of standards of competence and ethics in the auditing profession.

South African Special Risk Insurance Association

2.15. SASRIA, a state-owned short-term insurance company, was formed to provide insurance cover for special risks such as political and non-political perils. Its mandate includes coverage for events like riots, terrorism, strikes, and labor disturbances.

Financial Sector Conduct Authority

2.16. Established through the Financial Sector Regulations Act of 2017, FSCA regulates market conduct practices in the financial sector. Taking over operations from the Financial Services Board, FSCA ensures fair and transparent practices in the financial industry.

Government Technical Advisory Centre

2.17. GTAC, an agency of NT, provides professional advisory services, program and project management, and transaction support on public finance management. It aims to build public sector capacity through partnerships with academic institutions, civil society, and business organizations.

Government Pension and Administration Agency

2.18. GPAA administers pensions on behalf of GEPF, ensuring the efficient management and distribution of pension benefits to government employees.

Pensions Funds Adjudicator

2.19. PFA's mandate is to resolve complaints and disputes, upholding the integrity of the pension fund industry and protecting the interests of pension fund members.

Office of the Tax Ombuds

2.20. OTO provides taxpayers with a platform to resolve complaints or disputes with SARS when internal SARS mechanisms have been exhausted. It operates independently from SARS, ensuring a fair resolution process.

Financial Advisory and Intermediary Services (FAIS) Ombuds

2.21. FAIS Ombuds investigates and resolves complaints under the FAIS Act, Act 37 of 2002, focusing on consumer complaints against financial services providers violating the FAIS Act or treating customers unfairly.

Cooperative Banks Development Agency

2.22. CBDA serves as a regulatory and supervisory body for the registration and regulation of cooperative banks and financial institutions, contributing to the stability and integrity of the cooperative banking sector.

3. MANAGEMENT AND EXECUTION OF COMMITTEE ACTIVITIES

FOCUS AREAS

3.1. In the 6th Parliament, the Committee carried out its mandate through two distinct roles: as a Standing Committee and as a Portfolio Committee on Finance.

3.2. As a Standing Committee, the Committee focused on matters related to national macroeconomic and fiscal policy. It reviewed and assessed these policies to ensure alignment with the government's broader economic goals and priorities. This involved providing evaluations and recommendations regarding proposals concerning the fiscal framework, revised fiscal framework, revenue proposals, and related Bills.

3.3. Additionally, the Committee conducted thorough examinations and considerations of money Bills in adherence to the Money Bills Act. The Committee upheld key principles such as equity, efficiency, and ease of administration during the legislative process. It also conducted public hearings on its legislative and oversight activities to promote transparency and public participation.

3.4. In its capacity as a portfolio committee on finance, the Committee monitored the financial and non-financial performance of the National Treasury and entities reporting to the Minister of Finance. This included processing general finance legislation, facilitating public participation, and maintaining oversight of the Executive and entities within the finance portfolio. As part of its responsibilities, the Committee engaged in regular reviews of the performance of the National Treasury and its associated entities. Additionally, the Committee played a crucial role in processing general finance legislation, ensuring that it aligned with national economic objectives and priorities. Through these functions, the Committee endeavoured to ensure effective governance and accountability within the finance sector of government.

Table 1: Statistics of Committee Activities

Activity	2019	2020	2021	2022	2023	2024	Total
Meetings held	27	47	39	59	49	14	235
Legislation finalised	3	5	6	9	8	2	33
Oversight trips undertaken	1	0	1	1	0	0	3
Study tours undertaken	0	0	0	0	0	0	
International agreements processed	0	0	6	0	0	0	6
Statutory appointments made	1	0	0	0	0	0	1
Number of Reports Tabled	6	12	11	16	22	4	71

COMMITTEE PLANNING

3.5. Committee planning was structured around the development of quarterly programmes, aligning with the Committee's core activities related to the fiscal framework, revenue proposals, budget votes, budgetary review and recommendations reports, medium-term budget policy statement, tax bills, and other legislative activities and oversight functions. The Chairperson and the Secretariat collaborated in crafting quarterly programmes, which were subsequently presented to the Committee for discussion, consideration, and approval before being put into action.

COMMITTEE MEETINGS

3.6. Throughout the 6th Parliament, the Committee convened a total of 235 meetings, some of which were held jointly with the Select Committee on Finance and Appropriations Committees on the fiscal framework. It finalised about 33 pieces of legislation, most of which were money and tax administration Bills.While oversight trips were somewhat limited, with only three undertaken, the Committee compiled13 oversight reports. The Committee processed six international agreements and tableda total of 71 reports on legislation and general oversight.

CORRESPONDENCE WITH THE OFFICE OF THE CHAIRPERSON

3.7. The Office of the Chairperson of the Committee received a substantial volume of correspondence, meeting requests, and inquiries from various stakeholders, including ordinary citizens, organizations, and other entities, covering topics within the Committee's portfolio. Handled by the Chairperson and the Executive Secretary and the Committee Secretariat, these communications were diligently acknowledged and addressed through written responses, telephone calls, or in-person meetings.

3.8. A significant portion of the queries pertains to matters under the jurisdiction of other Committees, promptly referred to the respective Committees for further action. Committed to responsiveness, the Chairperson's Office ensured that all correspondence is managed efficiently to maintain open communication channels and uphold the Committee's engagement with stakeholders and the public, contributing to the effective functioning of parliamentary oversight.

4. STANDING COMMITTEE FUNCTIONS

4.1. In the 6th Parliament, the Committee strategically emphasized critical areas related to fiscal policy, economic recovery, and financial governance.

FISCAL POLICY OVERSIGHT AND LEGISLATION

4.2. The Committee fulfills a vital function in processing the fiscal framework and revenue proposals, including the revised and proposed fiscal frameworks throughout the year, with a focus on ensuring public involvement and consultation. Annually, the Committee tables two fiscal framework reports, typically in March and November, following the National Budget in February and the MTBPS in October. These reports assess the government's fiscal plans, revenue projections, and expenditure priorities, offering thoroughcommittee observations (analysis) and recommendations for parliamentary consideration.

4.3. In response to the unprecedented challenges posed by the COVID-19 pandemic, the Committee took action by tabling a Special Adjustment Budget Report in 2020. This report considered and approved crucial measures aimed at addressing the economic fallout of the pandemic, including emergency spending allocations and policy adjustments to mitigate its impact, as discussed later below.

REVENUE LAWS AMENDMENTS

4.4. The Committee also handles an average of three revenueand related Bills each year, which include the Tax Laws Amendment Bill, Rates and Monetary Amounts and Amendment of Revenue Laws Amendment Bill, and Tax Administration Laws Amendment Bill. These bills propose amendments to tax laws, rates and monetary amounts, and administrative procedures, thereby shaping the country's fiscal policy landscape; tackling serious matters such as closing gaps on tax avoidance, tackling tax evasion and illicit financial flows.

4.5. The Committee initiates the processing of draft tax Bills in March, shortly after the approval of the national budget. This process extends until the Bills are formally introduced by the Minister of Finance alongside the MTBPS. Subsequently, Parliament proceeds to pass these Bills, typically completing the process by November or December each year.

4.6. Moreover, in 2020, amidst the COVID-19 pandemic, the Committee processed two Disaster Relief Tax Bills. These Bills were specifically focused on implementing tax measures to provide relief to individuals, businesses, and sectors adversely affected by the pandemic. One Bill delineated the relief measures themselves, while the other focused on the administration of these measures.

4.7. Throughout the oversight and legislative processes, the Committee placed a strong emphasis on public involvement and consultation. It actively sought submissions from a diverse cross-section of society, including government agencies, industry,labour, civil society organizations, and the general public. The Committee also consults and receives inputs from the Parliamentary Budget Office and the Financial and Fiscal Commission. This inclusive approach allows stakeholders to contribute their robust insights, feedback, and recommendations on proposed fiscal and revenue measures.

SPECIAL ADJUSTMENT BUDGET AND COVID-19

4.8. In July 2020, the Committee processed a Special Supplementary Budget in response to the economic challenges posed by COVID-19. This budget represented a comprehensive effort to mitigate the pandemic's impact, support economic recovery, and protect citizens' well-being. Through reallocation, suspension, and reprioritization of funds, the government aimed to address emerging challenges across various sectors and functions.

4.9. A key focus of the budget adjustments was bolstering the COVID-19 response efforts. Funds were redirected from existing budgets to finance a R500 billion relief package announced in April 2020. This package aimed to support the economy, provide a safety net for households and businesses, and mitigate economic restrictions' impact.

4.10. To accommodate the additional funding for the COVID-19 response, several measures were implemented, including suspending allocations for capital projects and redirecting funds from underperforming programs. Conditional grants were also affected, with funds redirected to support COVID-19 initiatives such as sanitation in schools and public transport facilities.

4.11. South Africa's fiscal support package in 2020/21 was among the largest globally, amounting to around 10% of GDP. This significant commitment to supporting the economy came at a time when the country's fiscal position was challenged. Compared to other emerging markets and African countries, South Africa's fiscal package stood out for its scale and magnitude.

4.12. Additionally, the South African Reserve Bank implemented significant monetary policy support, including multiple reductions in the repo rate, to further bolster the economy. These measures, combined with fiscal stimulus, aimed to mitigate the pandemic's economic impact and support recovery efforts.

5. PORTFOLIO COMMITTEE FUNCTIONS

5.1. As a portfolio committee of finance, the Committee focused on fulfilling its constitutional obligations, which included making general financial sector legislation and monitoring the financial and non-financial performance of entities falling under its portfolio. This oversight role extended to entities such as NT, SARS, and other entities. The Committee's actions were guided by the strategic and annual performance plans of these entities, ensuring alignment with government-wide policy frameworks such as the Medium-Term Strategic Framework (MTSF) and the National Development Plan (NDP). By closely monitoring performance and legislative developments within the financial sector, the Committee worked to uphold accountability, transparency, and effectiveness in the management of public finances and service delivery.

LEGISLATION

5.2. Besides the annual money and tax administration laws, the Committee passed several other statutes for the financial sector. These general financial sector regulatory laws included the: Financial Sector Laws Amendment Bill (B15-2020), Financial Matters Amendment Bill (B20-2022), Municipal Fiscal Powers and Functions Amendment Bill (B21-2022), General Laws (Anti-Money Laundering and Combating Terrorism Financing) Amendment Bill (B18-2022), Financial Sector and Deposit Insurance Levies (Administration (B3-2022)), Deposit Insurance Premiums Bill (B4-2022), Auditing Profession Amendment Bill (B2-2020), Revenue Laws Amendment Bill (B39-2023), Public Procurement Bill (B18-2023), and Pension Funds Amendment Bill (B3-2024), among others. The objectives of some of these Bills are explained later below in the Oversight section of the report.

PRIVATE MEMBERS BILLS

5.3. The Committee also processed several Private Members Bills including the South African Reserve Bank (SARB) Amendment Bill (B26-2018), the Public Finance Management Amendment Bill (B13-2020), Fiscal Responsibility Bill (B5-2020), Pension Funds Amendment Bill (B30-2020), and the Responsible Spending Bill (B9-2023). All these Bills were finalised by the Committee except for the SARB Amendment Bill.

5.4. On the latter Bill, there was a briefing and public hearings and a response from the Bill Sponsor. The Committee requested socio-economic impact analysis from the Parliamentary Research Unit (PRU), which had no capacity to conduct such.

5.5. On a physical meeting held by the Committee on 08 September 2023, the Committee deliberated on the way-forward on this Bill. The Committee discussed how to proceed with the Bill in the absence of the Bill Sponsor to explain their position. It was decided that a summary of the work done on the Bill so far will be requested from the Parliamentary Legal Adviser. The Committee also considered whether an impact assessment study was necessary, and it was agreed that the Parliamentary Budget Office would undertake the Socio-Economic Impact Assessment Study (SEIAS) on behalf of the Committee. A formal request letter to the Parliamentary Budget Office was sent.

INTERNATIONAL AGREEMENTS

5.6. During the sixth Parliament, several international agreements were processed by the Committee and ratified by Parliament, each serving distinct purposes and involving various countries. One significant set of agreements focused on tax treaties and related measures. These agreements aimed to enhance cooperation between South Africa and other nations in matters concerning taxation. Among these were the Protocol Amending the Agreement with Kuwait and the Multilateral Convention to Implement Tax Treaty Related Measures. Both protocols were ratified by Parliament on May 25, 2022, signifying a commitment to preventing double taxation and tax evasion with respect to taxes on income.

5.7. Another crucial area of international engagement during the sixth Parliament involved amendments to tax treaties with Germany, Eswatini, and Switzerland. These amendments addressed evolving tax landscapes and sought to ensure fair and transparent taxation practices between South Africa and these partner countries. The ratification of these amendments took place on September 1, 2021, reflecting Parliament's efforts to modernize and optimize tax agreements in alignment with international standards.

5.8. Furthermore, the Parliament ratified the Asian Infrastructure Investment Bank (AIIB) Agreement on November 22, 2022. This agreement marked South Africa's formal membership in the AIIB, a multilateral development bank aimed at supporting infrastructure development across Asia. The ratification signalled South Africa's commitment to participating in global development initiatives and fostering cooperation with Asian countries.

BUDGET VOTES AND BUDGETARY REVIEWS AND RECOMMENDATIONS REPORTS

5.9. Alongside its oversight of the fiscal framework, the Money Bills Act establishes a parliamentary process for amending Money Bills, granting National Assembly committees increased influence over fund allocation to departments and entities within their jurisdiction. Mandated by Section 5 of the Money Bills Act, National Assembly committees are required to submit annual Budgetary Review and Recommendations Reports, focusing on evaluating the performance and future funding needs of accountable departments and entities.

5.10. These BRRRs provide a comprehensive assessment of how efficiently entities utilize allocated funds and their success in delivering services aligned with strategic and annual performance plans.

5.11. Over the past five years, the Committee has produced five such reports, informed by thorough scrutiny of annual reports, including audited expenditure reports, financial statements, strategic and annual performance plans, and oversight activities.

5.12. Additionally, the Committee approves the strategic plans, annual performance plans, and annual budget votes of entities within its portfolio. Over the last five years, it has approved strategic and annual performance plans forNational Treasury and SARS, along with passing five budget votes for NT. These Budget Votes and BRRRs undergo debate and adoption by the National Assembly.

5.13. SCOF stands out within the National Assembly as it serves dual roles as both a standing and a portfolio Committee. However, this unique position presents challenges, notably in allocating sufficient time to fulfil its oversight and legislative responsibilities across all entities within its portfolio, while also having to play athoroughlegislative and oversight role over the fiscal framework and money Bills.

PRIORITIZATION OFNATIONAL TREASURY AND SARS

5.14. The Committee accorded high priority to regular engagements with the National Treasury and SARS due to their critical roles in determining the overall availability of funds for the state. Recognizing the extensive number of entities falling under the portfolio, the Committee adopted a rotational approach to consider the annual reports of various entities, ensuring a comprehensive review beyond National Treasuryand SARS. The selection of entities for review was influenced by identified challenges and the need for closer scrutiny. Additionally, the Committee annually received the annual reports of the Reserve Bank and the Prudential Authority, which also focussed on the monetary policy and financial stability review issues.

5.15. To address the challenge of not being able to meet with all entities every year, the Committee relied on the Office of the Auditor General of South Africa (AGSA) to provide snapshots of the financial and non-financial performance of all audited entities. However, not all entities with the portfolio are audited by AGSA, as some are audited by private auditors.

AUDITOR-GENERAL'S ROLE

5.16. The presentations of AGSA's audit reports played a crucial role in offering a comprehensive overview of the entities reporting to the Ministry of Finance. Instances where concerns were identified during these presentations prompted a more focused oversight approach for the implicated entities. Consequently, the Committee initiated a systematic effort to oversee the development and execution of audit action plans for all entities flagged by AGSA. To ensure thorough oversight, the Committee conducted visits to all entities highlighted by AGSA, closely examining weaknesses in their operations. Subsequent oversight reports detailing the progress in developing and implementing these action plans were then formally presented to the House.

6. SOME KEY OVERSIGHT ISSUES

OVERSIGHT OVER THE AUDIT ACTION PLANS

6.1. In response to the audit findings of the finance portfolio for the 2020/21 fiscal year, the Committee organized a virtual meeting on 8 February 2022, engaging with entities such as the Land Bank, GPAA, GTAC, IRBA, PIC, and the CBDA to discuss their action plans. In April 2022, the Committee conducted site visits to SASRIA, Land Bank, and the FFC, the former two grappling with liquidity and solvency challenges- as discussed later below.

6.2. Subsequently, in March 2023, oversight visits were made to NT, CBDA, FAIS Ombud, FFC, FIC, OPFA, GTAC, GPAA, and the PIC to assess the implementation of audit action plans. This proactive oversight resulted in the tabling of 13 reports to the National Assembly, leading to significant improvements in audit outcomes within the finance portfolio for the 2022/23 financial year, as acknowledged by AGSA in its engagements with the Committee.

6.3. AGSA's report for 2022/23 indicated a notable enhancement in overall audit outcomes compared to the previous year. Eleven out of the audited entities (69%) received an unqualified audit opinion with no findings, a substantial increase from the previous year's 37%. Entities achieving clean audit opinions included the DBSA, Land Bank Insurance SOC (LBIC), Land Bank Life Insurance SOC Limited (LBLIC), IRBA, FAIS Ombud, FFC, FIC, OPFA, SARS, GTAC, and the FSCA.

6.4. While some entities maintained their audit outcomes, the Land Bank regressed to an unqualified audit with findings due to material misstatements related to ineffective controls over collateral registers. National Treasuryretained its qualified audit status, primarily due to non-disclosure of Fruitless and Wasteful expenditure linked to the Integrated Financial Management System (IFMS).

6.5. AGSA’s report highlighted a notable reduction in reported annual irregular expenditure across the portfolio, decreasing from R85 million to R80 million. NT, GTAC, and GPAA were identified as major contributors to irregular expenditure, accounting for over 78% of the total. Financially, entities within the finance portfolio exhibited stability, with specific challenges faced by the Land Bank requiring targeted interventions.

6.6. AGSA acknowledged effective measures in managing consequences related to irregular expenditure, with notable progress in FFC, while areas requiring improvement were identified, particularly at GPAA and the CBDA. Regarding material irregularities and investigations, no new material irregularities were identified for NT, DBSA, LB, and GPAA in the 2022/23 period, but an ongoing investigation related to a material irregularity issued to National Treasury in the 2020-21 audit cycle concerning IFMS expenditure was highlighted.

INTEGRATED FINANCIAL MANAGEMENT SYSTEM

6.7. The Integrated Financial Management System (IFMS) project has undergone a complex evolution characterized by phases, challenges, and disputes between National Treasury and AGSA. Initiated in response to the need for modernizing the IT environment within the South African government, the project was mandated by Cabinet in 2005 and unfolded in two phases – IFMS I and IFMS II. IFMS I, initiated in 2005, was a bespoke system, while IFMS II, mandated in 2013, shifted to an off-the-shelf system after encountering challenges during the initial implementation.

6.8. Stakeholders in the IFMS project included National Treasury as the sponsor and policy owner, the Department of Public Service and Administration (DPSA) overseeing policy and human resource management, the Department of Communications and Digital Technologies (DTDC) handling ICT policy, and SITA Services providing hosting services and IT infrastructure. However, challenges in the procurement process, particularly through the State Information Technology Agency (SITA), emerged as a significant obstacle, with unsuccessful procurement calls and lapses in procurement agreements contributing to project delays.

6.9. The AGSA raised concerns about approximately R400 million in fruitless and wasteful expenditure related to the IFMS project. A dispute arose between National Treasury and AGSA regarding the classification of this expenditure, specifically related to IFMS technical support and maintenance. National Treasury disputed the classification, leading to a modification (qualification) of NT's audit opinion by AGSA. Ongoing investigations into the IFMS project have been conducted by various agencies, including the Hawks, Special Investigations Unit (SIU), Public Protector, Zondo Commission, Deloitte, and Nexus, triggered by concerns about mismanagement, irregularities, and wasteful expenditure.

6.10. The Committee, in response to the issues surrounding the IFMS project, took significant steps to address and resolve them. During its oversight visit to National Treasury on 29 March 2023, the Committee received comprehensive briefings covering the challenges associated with the IFMS project. A subsequent tour of the IFMS project site at State Information Technology Agency (SITA) in Pretoria aimed to provide members with a firsthand look at its components, enhancing the Committee's understanding of the complexities and challenges involved. The Committee has made numerous recommendations in its oversight report and BRRRs, with a key recommendation for the incoming Committee to continue monitoring and ensuring accountability.

LAND BANK DEFAULT ISSUES

6.11. This Committee on 19 October 2022 discussed matters concerning the Land and Agricultural Development Bank of South Africa (Land Bank), focusing on its debt challenges, efforts to save the bank, and plans for repurposing it. This was after the Committee had conducted an oversight visit to the Bank on 21 April 2022 and had an engagement with the Bank in February 2020.

6.12. The Land Bank continued to face liquidity challenges as it had defaulted on its debt obligations in April 2020. Efforts to resolve the default included negotiations with lenders and a proposed liability solution. National Treasury provided fiscal support with a total recapitalization of R10 billion, with R3 billion transferred in 2020 and the remaining R7 billion pending transfer, at the time of this meeting.

6.13. Measures to save the Land Bank included utilizing guarantees, forming coordinated groups to support debt restructuring, and recapitalization. The bank aimed to resolve its default position in the short term and undergo a full review of its operations and funding model in the medium to long term to align with government policies on agriculture and rural development.

6.14. The Committee welcomed the Land Bank's efforts in its turnaround but raised concerns about staff retention, non-performing loans, and the role of intermediaries. There were discussions about the timeline for the liability solution and the source of funding for resumed lending activities. The Committee emphasized the importance of the Land Bank's developmental impact, collaboration with the Department of Agriculture, Land Reform, and Rural Development, and support for emerging black farmers.

6.15. The Deputy Minister of Finance highlighted the Land Bank's importance in the agricultural sector and appreciated the Committee's support. The Committee emphasised the Committee's oversight visit findings and recommendations, calling for legislative reconstruction to position the Land Bank as a leading development finance institution.

SASRIA AND JULY 2021 UNRESTS

6.16. The Committee visited the South African Special Risk Insurance Association (SASRIA) on 20 April 2022 in Gauteng. The primary objectives was to receive a briefing on the impact of the July 2021 unrest on the SASRIA’s financial health. The Committee also received briefings on SASRIA's annual report, strategic and annual performance plans, and the implementation of audit action plans.

6.17. SASRIA faced liquidity and solvency risks following the July 2021 riots in KZN andGauteng, leading to delayed submission of its annual report. However, after receiving a financial injection from the National Treasury, SASRIA achieved accounting solvency. SASRIA received R22 billion from the fiscus to address claims resulting from the July 2021 riots. Additionally, it received payments of R9.5 billion from its reinsurers. This injection of funds enabled SASRIA to achieve accounting solvency in accordance with the provisions of the Companies Act, 2008.

6.18. The total claims incurred for the July unrest amounted to R37.14 billion, with R22.52 billion settled and R14.62 billion outstanding, at the time of the Committee’s visit. While liquidity challenges were temporarily addressed, sustainability concerns persisted, especially regarding future events of similar magnitude. SASRIA implemented risk mitigation and underwriting initiatives to address these challenges.

6.19. The Committee acknowledged SASRIA's challenges and commended its handling of the July unrest aftermath. Recommendations included expediting the resolution of outstanding claims, raising public awareness about SASRIA's insurance cover, and addressing sustainability concerns. Despite challenges, SASRIA was praised for effective management, governance, and succession planning.

TAX OMBUDS ISSUE

6.20. In a virtual meeting held on June 7, 2022, the Committee, jointly with the Select Committee on Finance, received briefings from the Tax Ombudsman, SARS, and National Treasury regarding tax administration challenges. The meeting addressed various issues related to the functioning and independence of the Office of the Tax Ombud (OTO), as well as concerns about the relationship between SARS and the OTO.

6.21. The Tax Ombud then, Judge Bernard Ngoepe, highlighted challenges faced by the OTO, including financial dependence on SARS despite its oversight role and the lack of a legal provision establishing the OTO. He emphasized that the OTO could investigate matters only when referred or directed by the Minister, citing complaints to Parliament about SARS's conduct, delayed refunds, and identity theft issues. The OTO had communicated these concerns to SARS and believed that systematic issues were being addressed.

6.22. SARS Commissioner reassured that the relationship between SARS and OTO did not compromise the Ombud's independence. He outlined improvements in taxpayers' experience, fairness, and response times, along with automated processes to manage the workload. Referring to refund delays, he explained the legal basis for withholding refunds during audits, stressing that informing taxpayers of the audit was a prerequisite.

6.23. National Treasury acknowledged the need for OTO's independence and committed to responding after receiving recommendations from the Nugent Commission and the Zondo Commission.

6.24. Committee members expressed concerns about the OTO's financial and structural dependence on SARS, fair treatment issues, and delays in refunds. Questions were raised about the working relationship between SARS, Treasury, and OTO to ensure taxpayer benefits.

6.25. The Committee again met with the OTO on the presentation of its annual report for 2022/23. Concerns arose again about the OTO's structural and financial ties to SARS, and the Committee emphasized the need for genuine autonomy to maintain public trust and eliminate conflicts of interest. Anticipating legislation on this matter, the Committee stressed the problematic nature of an oversight body's operational dependence on the institution it oversees, advocating for a comprehensive legislative overhaul for absolute structural independence.

IMPLEMENTATION OF THE NUGENT COMMISSION RECOMMENDATIONS

6.26. The Nugent Commission of Inquiry, led by retired Judge Robert Nugent, commenced its investigation into Tax Administration and Governance at the South African Revenue Service (SARS) in May 2018. Its mandate included delving into the root causes of the governance breakdown within SARS and proposing remedial measures. The Commission delivered its interim findings in September 2018, followed by the final report in December 2018. The inquiry pinpointed deficiencies in the governing legislation as a significant factor contributing to the breakdown of governance at SARS.

6.27. The recommendations of the Nugent Commission primarily centred around introducing structural mechanisms to enhance internal governance and accountability at SARS. Key proposals included the establishment of an Inspector-General position and the appointment of one or more independently appointed deputy commissioners. These measures aimed to mitigate the concentration of authority in the hands of the Commissioner, fostering a more balanced and transparent operational environment. The Commission also advocated for a nuanced approach, striving to protect SARS's autonomy while ensuring accountability, improving tax compliance, and strengthening coordination with the Office of the Minister of Finance.

6.28. The Committee diligently monitored the implementation progress of the Nugent Commission's recommendations. Reports indicated that out of the 16 recommendations (further divided into 27 sub-recommendations), SARS successfully executed 13 within its purview. The remaining four were under continuous implementation, with two cases, notably the BAIN matter and investigations into former employees' fruitless and wasteful expenditure, forwarded to the justice system. As part of its response to concerns regarding the BAIN consultancy firm, SARS requested and secured a 10-year prohibition on BAIN's eligibility to tender for any government contracts.

6.29. In alignment with the recommendations, SARS adopted an enhanced, integrated, and collaborative enforcement strategy to deal with compliance and the illicit economy. To operationalize this strategy, various specialized units were established to work collectively in addressing the threats and risks associated non-compliance and the illicit economy. These units include the Syndicated Tax and Customs Crime (STCC), Criminal Investigations (CI), Large Business and International (LBI), Priority Individuals and Related Entities (PIRE), High Wealth Individuals (HWI), and Specialized Audit. The incoming Committee is urged to scrutinize the 10 sub-recommendations falling under the jurisdiction of the National Treasury for further oversight.

IMPLEMENTATION OF THE MPATI COMMISSION RECOMMENDATIONS

6.30. The Mpati Commission of Inquiry, officially titled the Judicial Commission of Inquiry into the Public Investment Corporation, was established on October 17, 2018, to investigate allegations of impropriety, maladministration, and questionable investment decisions within the PIC. Chaired by retired Judge Lex Mpati, the Commission aimed to address concerns surrounding the management practices, investment decisions, and potential misconduct within the PIC, a significant state-owned entity responsible for managing government pension funds and other assets.

6.31. In December 2020, the Committee received a comprehensive briefing from the National Treasury and the PIC, along with its Board, regarding the findings and recommendations of the Mpati Commission. The focus was on the progress made in implementing the recommendations, emphasizing actions taken to enhance governance within the PIC.

6.32. To strengthen governance, the PIC implemented various measures, including restructuring Board committees and establishing an Advisory Panel chaired by retired Justice Yvonne Mokgoro. The restructuring aimed to address structural weaknesses, such as the overconcentration of executive power, leading to the approval of an interim organizational structure that delineated responsibilities more clearly.

6.33. Updates provided during the briefing covered investment transactions and litigation cases, offering insights into critical transactions like Ayo Technologies, SA Home Loans, VBS Mutual Bank, Sekunjalo/Independent Media South Africa, and Steinhoff. These updates reflected the PIC and its Board's commitment to addressing the issues raised by the Mpati Commission and keeping the Committee informed about the progress in these areas.

6.34. On May 12, 2021, a follow-up virtual meeting was held with National Treasury, the PIC, Sekunjalo Group, and Matome Maponya Investments (MMI). This meeting continued discussions initiated in March, where both companies claimed discrimination as black-owned entities. Criticism was directed at the PIC for legal tactics, and the meeting aimed to address ongoing concerns, providing a platform for relevant parties to present their perspectives, with concerns raised by Sekunjalo and MMI about the disproportionate legal resources available to the PIC. The PIC defended its actions, stating that legal proceedings were initiated based on disputes arising from unmet terms and conditions in their partnerships.

6.35. The Committee highlighted Parliament's commitment to participatory democracy, welcoming stakeholders to approach the Committee. The meeting aimed to address ongoing concerns and provide a platform for all relevant parties to present their perspectives, without interfering with the legal proceedings.

6.36. On December 3, 2019, the Committee had convened to receive a briefing from the PIC regarding ongoing mediation efforts with the Steinhoff Group and its creditors. The PIC had invested approximately R9.35 billion in Steinhoff before the company experienced turmoil. This investment included a loan to the Lancaster Group to purchase an equity stake in Steinhoff. The PIC reported on a proposal from a third party referred to as "The White Knight," although specific terms remained confidential. The PIC reported that If the mediation process failed, the PIC would resume legal action against Steinhoff. Additionally, the Government Employee Pension Fund (GEPF) outlined corrective measures, including requiring PIC consultation before making investments of R2 billion or more.

6.37. Committee members expressed frustration over the slow progress in recovering funds from Steinhoff and emphasized the urgency of the situation. They also raised concerns about Steinhoff's refusal to release an audit report from PriceWaterhouseCoopers (PwC), suggesting the possibility of using subpoena powers to obtain it.

6.38. During the PIC's briefing, assurances were made regarding the seriousness of efforts to recover pension funds of workers that were invested with Steinhoff. Three key groups of creditors and claimants were identified, and the complexity of the mediation process, involving multiple jurisdictions, was highlighted. The PIC had received confirmation of investigations into those implicated in the Steinhoff matter and was assisting with criminal investigations.

IMPLEMENTATION OF THE ZONDO COMMISSION OF INQUIRY RECOMMENDATIONS

6.39. To address the recommendations stemming from the Judicial Commission of Inquiry into Allegations of State Capture, Corruption, and Fraud in the Public Sector, including Organs of State (led by the Deputy Chief Justice Zondo, as he then was), the Committee took several proactive steps.

6.40. Firstly, in response to tax-related investigations, the Committee played an oversight role in ensuring that SARS and the Reserve Bank actioned all recommendations of the Zondo Commission promptly. SARS pursued investigations into tax-related offenses, while the Reserve Bank initiated probes into the illegal transfer of funds abroad (illicit financial flows).On October 18, 2023, the Committee received a briefing from SARS providing an update on its progress on implementing the recommendations outlined in both the Nugent and Zondo Commissions on tax-related issues. SARS reported that it had referred 13 cases arising from the Zondo Commission report to the National Prosecuting Authority (NPA).

6.41. The Zondo Commission made 11 recommendations concerning further investigations and potential actions against individuals and entities for alleged violations of relevant statutory or professional regulations. These recommendations were directed towards bodies such as the South African Institute of Tax Practitioners (SAIT) and the South African Institute of Chartered Accountants (SAICA) and IRBA. The Committee took significant steps to address concerns within the auditing profession.

6.42. The Committee passed the Auditing Profession Act Amendment Bill [B2 - 2020] on November 17, 2020, even before the final report of the Zondo Commission. The purpose of the bill was to address challenges faced by IRBA in fulfilling its regulatory and oversight duties, particularly considering recent auditing scandals.

6.43. The amendments aimed to strengthen governance and independence within IRBA, enhance investigative and disciplinary processes, and introduce measures to protect personal information. Specific provisions included requiring IRBA to establish a policy framework for its functions, restricting auditors' participation on its board to mitigate conflicts of interest, and empowering IRBA to appoint additional disciplinary committee members.

6.44. Additionally, suggestions were made to expand the Auditing Profession Act's scope to regulate accountants and legislate mandatory auditing firm rotation rules. While these proposals were not part of the Amendment Bill, the Committee recommended a comprehensive review of the legislation governing accounting and auditing professions to accommodate relevant issues raised by stakeholders.

6.45. On May 17, 2023, the Committee also passed the Financial Matters Amendment Bill [B20 – 2022], which introduced further amendments to the Auditing Profession Act. These amendments empowered the enforcement committee of the IRBA to refer instances of serious improper conduct to the disciplinary committee of IRBA for appropriate sanctions.

6.46. This was aimed at rectifying issues within the auditing profession, particularly instances where auditors were implicated in covering up corruption involving both private firms and State-Owned Companies. The Financial Matters Amendment Bill was passed by the National Assembly on May 25, 2023, and subsequently endorsed by the NCOP's Select Committee on Finance on June 14, 2023. It was signed into law by the President on July 5, 2023, with its provisions coming into effect on July 14, 2023.

6.47. The incoming Committee should follow-up with SAIT, SAICA, and IRBA to ensure that action is taken againstspecific professionals who are mentioned in the Zondo Commission report.

6.48. The Committee welcomed the imposition of a 10-year ban on Bain & Co. from conducting business with the South African state and supports similar measures against other implicated companies. The incoming Committee needs to follow-up withNational Treasury to ensure that it implements all the recommendations of the Zondo Commission.

6.49. In response to the Zondo Commission recommendation on procurement, the Committee embarked on a comprehensive legislative process on government procurement. This initiative culminated in the processing and passing of the Public Procurement Bill (PPB), specifically tailored to modernise the country's procurement system andaddress concerns raised by the Zondo Commission report. The processing of PPB yielded substantial submissions, with over 4000 comments and was passed by the National Assembly on December 6, 2023, advancing it to the National Council of Provinces for further consideration.

6.50. In addressing the restoration of SARS as recommended by the Zondo Commission report, the Committee has closely monitored the implementation of recommendations from the Nugent Commission, as explained above.

6.51. Lastly, the Zondo Commission made recommendations for improving the measures to combat money laundering in the country. Key legislative actions have been undertaken to strengthen the country's anti-money laundering and counter-terrorism financing framework.

6.52. One significant milestone was the adoption of the General Laws (Anti-Money Laundering and Combating Terrorism Financing) Amendment Bill (GLA Act) by the Standing Committee on 11 November and the National Assembly on 22 November 2022.

6.53. Additionally, the Tax Administration Laws Amendment Bill [B37 - 2023] (National Assembly-section 75) was passed by the Committee on 22 November 2023. This legislation incorporated tax administration measures aligned with the GLA Act. The Committee stressed the importance of adhering to international standards to prevent financial crimes and advocated for close cooperation between relevant authorities.

6.54. In a proactive move, the Financial Intelligence Centre (FIC) reported that it hadcommissioned attorneys to conduct an urgent independent review of the effectiveness of the current suspicious transaction reports regime under FICA. The incoming Committee should requests updates on the outcomes of this study.

6.55. On September 7, 2022, the Committee received a comprehensive briefing by key stakeholders including the NT, SARB, and the FIC concerning the concerning practice of arbitrary and unilateral closure of bank accounts by financial institutions. This briefing shed light on the challenges faced by customers due to such arbitrary closures and underscored the need for urgent action to address this issue. The Zondo Commission report recommended that law be amended or enacted to ensure the protection of banking customers in this regard.

6.56. In response to the concerns raised during the briefing, the Committee committed to closely monitoring and following up on the issues highlighted by stakeholders. Recognizing the gravity of the situation and the potential violation of constitutional rights, the Committee pledged to take proactive measures to address this matter effectively.

ILLICIT FINANCIAL FLOW AND TAXATION OF THE DIGITAL ECONOMY

6.57. The Committee, taking from the previous Committee in the 5th Parliament, continued to play its oversight role in monitoring the illicit economy. In this regard, it convened meetings and received briefings on illicit financial flows and the taxation of the digital economy.

6.58. On March 17, 2020, the Committee received a briefing from the Inter-Agency Working Group on Illicit Financial Flows (IAWG). The IAWG, comprising various agencies such as the South African Police Service, the Hawks, SARS, FIC, SARB and others, focuses on combating money laundering, tax evasion, and other illicit transactions. They concentrate on cases involving amounts exceeding R100 million and work on complex cross-border cases. It reported on investigations into illicit financial activities. Notably, R400 million in illicit funds had been recovered, leading to several prosecutions. Additionally, SARB Financial Surveillance department had blocked funds totalling R3.8 billion in 148 cases, resulting in forfeitures of R111.9 million in 50 cases, at the time.

6.59. SARS highlighted concerns about transfer pricing to avoid taxes, estimating that R93 billion left the country in service charges in 2017. Criminal and illicit economic activities were cited as significant problems, with an estimated prejudice to the fiscus of over R100 billion. The Committee expressed worry about the extent of the illicit economy and called for a comprehensive report on illicit financial flows and tax evasion within a month.

6.60. The Financial Intelligence Centre (FIC) defined illicit financial flows as illegally earned, transferred, or utilized money crossing borders, including proceeds from tax evasion, corruption, and criminal activities. They emphasized the drain IFFs pose on foreign exchange reserves and tax collections, impacting investment and exacerbating poverty.

6.61. Members of the Committee raised questions about the effectiveness of investigations, cooperation with international agencies, and the threshold for cases handled by the IAWG. Concerns were also voiced regarding the closure of cases without prosecution and the status of investigations referred to law enforcement agencies.

6.62. SARS reported on active investigations into cases involving R30.8 billion and outlined concerns about transfer pricing, assessed losses carried forward by large corporates, and base erosion and profit shifting. They emphasized the need to improve information exchange agreements and address offshore assets held by South Africans.

6.63. Together with the Select Committee on Finance, on 9 June 2020, the Committee received briefings from the Parliamentary Budget Office (PBO), National Treasury, and SARS on the implications of the digital economy for taxation policy, particularly regarding the generation of new income tax revenues.

6.64. The PBO highlighted that South Africa's ability to raise tax revenue is hindered by the absence of targeted digital economy taxation measures, resulting in potential income tax revenue losses. SARS indicated that the existing treaty network restricts South Africa's right to tax foreign businesses in the digital space due to the requirement of physical presence.

6.65. National Treasury emphasized the need to expand taxation beyond companies physically present in a country due to the digital economy's global nature. However, unilateral actions could prompt countervailing actions, as seen in France's case with the US.

6.66. With the 2024 Budget, National Treasury reported that the government has decided to implement the global minimum corporate tax (GloBE), a multi-lateral initiative championed by the OECD countries. It said that this initiative seeks to prevent countries from competing to attract income by offering low tax rates and incentives.

6.67. NT explained that South Africa has played a role in developing global tax rules to address base erosion and profit shifting in the digital economy. As a member of the Steering Group of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting, South Africa has contributed to designing rules that limit profit shifting from high- to low-tax countries.

6.68. If further explained that the 2023 Budget Review outlined the two pillars of this framework, endorsed by over 135 countries. The first pillar focuses on the digital economy and aims for a consistent tax treatment of multinationals. It will be implemented through a multilateral convention to ensure that large multinationals allocate part of their profit to all countries where they operate.

6.69. The second pillar introduces the global minimum tax, ensuring that multinationals with annual revenue exceeding €750 million are subject to an effective tax rate of at least 15 per cent, regardless of profit location. South Africa plans to introduce two measures to implement this change from January 1, 2024: an income inclusion rule and a domestic minimum top-up tax for qualifying multinationals.

6.70. The income inclusion rule will allow South Africa to levy a top-up tax on profits reported by qualifying South African multinationals operating in countries with tax rates below 15 per cent. The domestic minimum top-up tax will enable SARS to collect a top-up tax from qualifying multinationals paying an effective tax rate below 15 per cent in South Africa.

6.71. NT explained that further details on these proposals, along with a request for public input, will be provided in the explanatory memorandum of the Draft Global Minimum Tax Bill to be tabled in Parliament. The Committee welcomed this initiative in its fiscal framework and revenue proposalsreport of 2024.

FATF GREYLISTING

6.72. On February 24, 2023, the Financial Action Task Force (FATF) announced its decision to list South Africa as a "jurisdiction under increased monitoring," commonly known as the "grey list." This decision followed extensive engagements between South Africa and the FATF regarding the country's progress in addressing deficiencies highlighted in the mutual evaluation report published in October 2021. Despite recognizing significant progress, FATF identified eight strategic deficiencies related to the effective implementation of South Africa’s AML/CFT laws.

6.73. The identified deficiencies included areas such as increasing outbound Mutual Legal Assistance requests, improving risk-based supervision of designated non-financial businesses and professions, ensuring timely access to beneficial ownership information, enhancing law enforcement agencies' requests for financial intelligence, and strengthening investigations and prosecutions of money laundering and terrorism financing activities.

6.74. To address these deficiencies, South Africa committed to actively working with FATF and the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG). Notably, South Africa has already demonstrated its commitment to implementing recommended actions, including enacting two major pieces of legislation to address technical deficiencies identified in the mutual evaluation report.

6.75. In February 2024, FATF adopted a report confirming progress on some action items, with five out of 22 items addressed or largely addressed. However, challenges remain, with three action items still outstanding. South Africa is expected to address all 22 action items to exit the grey list by January 2025.

6.76. National Treasury emphasized that addressing these action items is crucial for South Africa's financial stability and its commitment to combatting financial crimes and corruption. While the increased monitoring may have limited impacts on financial stability and the cost of doing business, South Africa remains dedicated to addressing these challenges to preserve the integrity of its financial system.

6.77. Additionally, South Africa has made significant progress in addressing technical compliance deficiencies related to the adequacy of its AML/CFT laws and policy frameworks. As of October 2023, South Africa is fully or largely compliant with 35 of the 40 FATF Recommendations.

TRANSFORMATION OF THE FINANCIAL SECTOR

6.78. Flowing from the processing of the Financial Sector Regulation Bill of 2017, the 5th Parliament Committee, jointly with the Portfolio Committee on Trade and Industry, hosted public hearings on the transformation of South Africa’s financial sector. The public hearings took place over 3 days in 2017 and led to the adoption of the “*1st Report into the Transformation of Financial Sector*”by the Committee and the National Assembly in November 2017. These hearings garnered significant participation from stakeholders and ordinary South Africans.

6.79. The 5th Parliament Committee recommended that this Committee considers the recommendations outlined in the Report and exert pressure for the long-overdue Financial Sector Summit to be convened.

6.80. On 26 November 2019, the Committee received a briefing on transformation in the financial sector from National Treasury, the Financial Sector Transformation Council (FSTC), the B-BBEE Commission, and the Prudential Authority.

6.81. National Treasury expressed concern over the lack of progress since 2017 and questioned the effectiveness of the Financial Sector Code targets in achieving transformation objectives. It emphasized the need for a mass-based, sustainable transformation and proposed updates to the current B-BBEE framework to address weaknesses and clarify the concept of transformation.

6.82. The FSTC acknowledged the challenges in meeting transformation targets and provided an overview of its efforts, including the review of the Financial Sector Code and initiatives to promote financial inclusion. It highlighted the importance of the financial sector summit and called for government assistance in funding the FSTC initiatives.

6.83. The B-BBEE Commission presented findings on compliance with B-BBEE objectives in the financial sector, noting a decline in ownership and management control among JSE-listed companies. It emphasized the need for penalties for non-compliance and efforts to combat fronting practices.

6.84. Discussion among Committee members raised concerns about the slow pace of transformation, the impact of racism in the sector, and the role of B-BBEE in driving economic growth. There were calls for more radical measures, including the establishment of a state bank and legislative changes to enforce compliance.

6.85. On December 3, 2019, the Committee convened to receive a briefing from NEDLAC, which had missed attending the last meeting.NEDLAC, highlighted the history of financial sector transformation summits. It explained that 2002 Summit focused on ensuring access to basic financial services and developing sustainable institutions for poor communities. However, lessons from the Summit revealed limited monitoring and consequences for non-implementation.A workshop in April 2018 prepared for a second Summit, but it didn't occur due to conflicting events.

6.86. During the discussion, concerns were raised about NEDLAC's management weaknesses and the unresolved issues despite the April 2018 workshop. Questions were posed about discrimination by banks, the progress of transformation since NEDLAC's establishment, and the need for a review of the National Credit Act.

6.87. NEDLAC representatives acknowledged the challenge of implementing commitments made by social partners and emphasized addressing it at the next Summit. The Committee urged NEDLAC to report back to Parliament on the Summit's schedule.

6.88. On several occasions, the Committee enquired about the hosting the Financial Sector Summit, which has not been hosted up until the end of the 6th term of Parliament. The Committee however received a more detailed briefing from theB-BBEE Commission on transformation in the financial sector on 16 February 2022.

6.89. The presentation delivered by the B-BBEE Commission provided a comprehensive overview of the state of transformation within the financial sector, highlighting both achievements and areas of concern.

6.90. Throughout the presentation, various statistics were presented to illustrate the state of compliance and transformation within the financial sector. The data revealed a concerning trend of non-compliance with sector codes, particularly in areas such as black ownership and black women ownership. Despite regulatory requirements, there was a noticeable decline in black ownership, indicating a failure to meet targets set under the sector code.

6.91. Moreover, the presentation highlighted a significant decrease in the number of uploads and reports submitted by financial sector entities, suggesting a prevailing culture of non-compliance with B-BBEE laws. This lack of reporting not only contravenes regulatory requirements but also undermines efforts to monitor and enforce transformation initiatives effectively.

6.92. The statistics further revealed disparities between reported data and actual transformation outcomes. Key management, executive, and board positions remained largely unchanged, perpetuating existing inequalities within the sector.

6.93. Additionally, the presentation underscored the importance of sector codes in driving transformation and economic empowerment. However, many entities failed to meet the targets set under these codes, raising concerns about the efficacy of current regulatory framework. This failure to comply with sector codes not only hinders progress toward transformation goals but also undermines the credibility of the entire B-BBEE framework.

6.94. In light of these challenges, the presentation outlined a series of recommendations for addressing non-compliance and accelerating transformation within the financial sector. These recommendations included strengthening enforcement measures, increasing awareness and advocacy efforts, and fostering greater collaboration between stakeholders.

6.95. Committee members again expressed deep concerns about the prolonged lack of transformation in the financial sector spanning nearly three decades, despite existing legislative mandates.

6.96. Throughout the session, there was a prevalent call for legislative amendments to bolster the efficacy of the B-BBEE Act, targeting loopholes, enhancing enforcement mechanisms, and instituting penalties for non-compliance. Suggestions included the establishment of a specialized tribunal to expedite proceedings related to fronting cases and the reinforcement of the Commission's autonomy and budget allocation to enable more effective oversight.

6.97. The incoming Committee should consider following up on issues of transformation in the financial sector and the hosting of the Financial Sector Summit by NEDLAC as the last Financial Sector Summit was in 2002.

UNILATERAL CLOSURE OF CUSTOMER BANK ACCOUNTS

6.98. The Committee convened a virtual meeting on September 7, 2022, to receive a briefing on the arbitrary and unilateral closure of customer bank accounts by South Africa’s banks on account of reputational or business risk. The Committee received briefings from some stakeholders who had written to the Committee, National Treasury, the Prudential Authority, the FSCA, and the FIC on this matter.

6.99. These stakeholders reported representing clients whose bank accounts were closed arbitrarily, leading to undesirable consequences and possible violation of Constitutional rights of banking customers. They highlighted that their clients, who are predominantly black individuals, faced account closures without sufficient justification.

6.100. National Treasury and the regulators acknowledged the matter's complexity, noting that it is currently before the Western Cape Equality Court and the Competition Tribunal. Due to the ongoing litigation, specific details could not be discussed in depth during the meeting.

6.101. The regulatory authorities provided context on the conduct standards banks are expected to adhere to, emphasizing the importance of providing notice to clients before terminating contractual relationships. These standards, they clarified, are not mere guidance but are enforceable, and the FSCA has the authority to impose penalties for non-compliance.

6.102. During discussions, some Committee members debated the government's role in intervening in the relationship between commercial banks and their clients. While some suggested that the matter should be left to the courts, others argued for parliamentary attention, citing concerns over racial discrimination and the arbitrary closure of accounts. Some members proposed legislative changes to empower clients in defending themselves against bank closures, emphasizing the impact on ordinary citizens and corporate entities alike.

6.103. The Committee emphasized Parliament's responsibility to address issues brought forth by the public. While acknowledging the ongoing court cases, the Committee highlighted Parliament's role in referring such matters to relevant entities tasked with addressing them, especially when individuals lack access to legal representation.

ITHALA BANK OPERATIONAL CHALLENGES

6.104. The Committee convened Ithala SOC Limited for a briefing on February 13, prompted by media reports indicating liquidity and operational difficulties within the bank following the revocation of the Prudential Authority’s deposit-taking exemption in December 2023. Key issues discussed during the meeting centred on Ithala's regulatory challenges, financial performance, and its role in promoting financial inclusion and economic development in KwaZulu-Natal (KZN).

6.105. Ithala clarified misconceptions about Ithala SOC Limited, affirming its financial stability and liquidity. It emphasized that Ithala has consistently met depositors' demands over the past two decades without resorting to using depositor funds to cover losses. While Ithala has received funding from shareholders for capital, it has been inadequate. The core issue lied in Ithala operating under an exemption notice, which expired on December 15, 2023.

6.106. Under this exemption, granted since 2001, Ithala's activities aligned with the Banks Act. However, the Prudential Authority declined to extend the exemption, and Ithala's application for a banking license was rejected in 2016 due to insufficient capital and banking expertise. A subsequent application in June 2023 was denied on a technicality. Without an exemption or banking license, Ithala lacks the means to operate as a bank, hindering its mission to empower historically disadvantaged communities.

6.107. To address this, Ithala proposed an alliance to host its deposits temporarily while it regularizes operations to become a licensed commercial bank. However, this option poses risks to rural branch operations, potentially compromising financial inclusion goals. Currently sponsored by ABSA for clearing and settlement, Ithala negotiated an extension until May 1, 2024, and seeks to expand sponsorship to cover additional payment streams.

6.108. Ithala reported that the Financial Matters Amendment Act of 2019presented further challenges. While the amendment Act allows public companies to register as banks, it defines public companies to include national state-owned companies. As Ithala is provincial, it does not meet this definition and cannot apply for a banking license under the amended Act. Ithala asked for parliamentary intervention to amend the Act, removing the "national" prefix from state-owned company definitions to enable provincial entities like itself to apply for banking licenses.The urgency of this legislative change was emphasized, as failure to act before the 6th Administration's expiration would exacerbate financial exclusion, particularly in rural areas.

6.109. Recommendations emerging from the meeting included urging the Minister to intervene in Ithala's challenges, requesting the MEC for Economic Development in KZN to present a turnaround strategy for the bank before the end of the parliamentary term, and planning an oversight visit to Ithala to assess its operations firsthand. Members unanimously expressed support for Ithala's pivotal role in serving historically disadvantaged communities, stressing the urgency of resolving its challenges to ensure its continued service to the community.

6.110. On 22 February, some members of the Committee conducted an oversight visit to Ithala Head Office in KZN. On March 1, 2024, the Committee received correspondence from Ithala Board,regarding Ithala's application for designation under Section 2 of the Banks Act, No. 94 of 1990 ("the Act").The letter outlined the critical considerations undertaken by the Board of Ithala regarding the institution's future sustainability and its commitment to protecting depositors' interests. The Board highlighted the regulatory challenges faced by Ithala and its strategic objective of obtaining an exclusion from the provisions of the Banks Act, as stipulated in section 2 (b) (vii) of the Act.Ithala formally requested the Committee's support in advocating for their application to the Minister of Finance. The designation sought under the Banks Act would enable Ithala to pursue a full banking license while ensuring operational stability and deposit security for its customers.

6.111. The correspondence emphasized the significance of timely intervention to safeguard Ithala's continued service delivery and its pivotal role in promoting financial inclusion and economic development in its community.

7. SOME KEY ISSUES THAT THE INCOMING PARLIAMENT AND COMMITTEE NEEDS TO CONSIDER

7.1. This Handover Report for the 6th Parliament’s Standing Committee on Finance acknowledges that it may not cover all issues comprehensively. It advises readers to supplement it with detailed reports, observations and recommendations found in the fiscal framework, revised fiscal framework, Budget Votes, and Budgetary Review and Recommendations Reports (BRRRs) of the Committee between July 2019 to March 2024. This report is not intended to dictate the structure or focus areas of the incoming Committee's affairs but are provided as guidelines, aligning with Parliamentary long held practice of compiling legacy reports at the end of each term.

7.2. Acknowledging the considerable workload of the Committee, operating in dual capacities as both a standing and a portfolio Committee, it is advisable for the incoming Committee to formulate efficient operational strategies. One viable solution is to establish dedicated sub-committees, with one focusing on standing committee work and the other handling portfolio committee responsibilities. In this scenario, it is paramount to ensure the availability of adequate support staff to effectively manage the workload.

7.3. The incoming Committee should consider adopting a comprehensive approach to planning by developing both a 5-year strategic plan and annual performance plans. This approach will provide a long-term vision and direction for the Committees’ activities, ensuring alignment with their mandates and objectives. Additionally, annual performance plans will allow for more detailed planning and monitoring of progress towards achieving short-term goals and objectives. By implementing these planning frameworks, the Committee(s) can enhance strategic decision-making, improve accountability, and effectively prioritize activities over the long and short term.

7.4. The incoming Committee should prioritize the timely adoption of meeting minutes, aiming to ensure that every meeting agenda has an item for the adoption of previous committee meeting. This practice enhances transparency, accountability, and organizational efficiency by ensuring that accurate records of discussions and decisions are promptly available to members and stakeholders.

7.5. The incoming Committee should advocate for the empowerment of Parliament's support staff by urging management to facilitate their attendance at relevant conferences and workshops addressing issues affecting the financial sector. This includes events hosted by organizations such as SARS and other pertinent agencies, as the insights gained from these gatherings are crucial for informing the Committee's work. By ensuring that support staff are up to date with ongoing developments and equipped with the latest knowledge and expertise, the Committee can enhance its effectiveness in fulfilling its oversight and legislative responsibilities.

7.6. It is recommended to prioritize building capacity within the broader Parliament community for conducting socio-economic impact studies to enhance the efficiency and effectiveness of processing Private Members' Bills. The Parliamentary Budget Office could play an important role in the conduct ofsocio-economic impact studies on Private Members' Bills.

7.7. It is essential for the Legal Services responsible for assisting Members in drafting Private Members Bills to identify and clarify whether a proposed Bill falls under the category of money Bills, which can only be introduced by the Minister of Finance according to constitutional provisions. The parliamentary authorities should ensure that all Bills are thoroughly assessed for their socio-economic impact and legal classification before advancing them further to Committees for consideration. It is also imperative that parliamentary authorities maintain a proactive approach to addressing these challenges to facilitate smoother legislative processes of Private Member's Bills and uphold parliamentary standards.

Standing Committee Function

7.8. The Standing Committee should broaden its focus beyond the consideration and approval of the fiscal framework, revised fiscal framework and passing money and tax administration Bills. Instead, it should prioritize continuous oversight of the fiscal framework throughout the year, getting quarterly reports from NT, and SARS where relevant,on fiscal policy implementation, adherence to fiscal rules, debt management and borrowing activities, revenue generation and policy, and other related issues.

7.9. To enhance the Committee's capacity in processing technical money and tax administration Bills effectively, the incoming Committee and support staff should undergo induction training on the original revenue and tax administration laws that are amended annually. This training should be facilitated by experts from organizations such as SARS and National Treasury and other experts, providing participants with a thorough understanding of the tax legislation framework and technical intricacies involved. By investing in capacity-building initiatives of this nature, the Committee can ensure robust scrutiny and processing of money Bills.

7.10. The Committee should adopt a more inclusive approach to consultation by engaging with civil society, statutory and Constitutional institutions, academics, and other stakeholders throughout the government's budgetary cycle, rather than limiting consultations to specific periods during the national budget and the MTBPS. By involving stakeholders at various stages of the budget cycle and throughout the year, the Committee can enhance the quality of its deliberations and promote more informed decision-making.

7.11. Collaboration and coordination between the incoming Committee and the Standing Committee on Appropriations should be strengthened. Close cooperation between these two committees is vital for ensuring that budget allocations are aligned with policy objectives and effectively utilized to achieve desired outcomes.

7.12. The Committee recommends that the incoming Committee dedicates significant attention to following up on issues related to tax avoidance, IFFs, and the taxation of the digital economy. These issues pose significant challenges to the country's fiscus and require proactive measures to address them effectively. By prioritizing these matters, the Committee can contribute to safeguarding government revenue, ensuring fairness in the tax system, and promoting economic sustainability. Additionally, robust oversight and policy interventions in these areas can help mitigate the risks posed by tax evasion, base erosion and profit shifting and IFFs, ultimately protecting the country's financial interests and fostering a more equitable and transparent economic environment.

7.13. Given South Africa's placement on the FATF grey list due to identified deficiencies in its AML/CFT regime, the incoming Committee must prioritize oversight and support measures to address these challenges. The Committee should collaborate closely with relevant stakeholders, including other Committees of Parliament, the FIC and National Treasury, law enforcement agencies, and regulatory bodies, to ensure the timely and effective implementation of measures aimed at rectifying the deficiencies highlighted by the FATFby the designated deadline of January 2025.

Portfolio Committee Function

7.14. The incoming Committee should consider increasing the frequency of oversight visits compared to the 5th term. These visits are essential for gaining firsthand insights into the operations of government departments, entities, and projects, thereby enhancing accountability.

7.15. The incoming Committee should ensure that it processes all the strategic and operational plans and budgetary allocations of the entities within the portfolio of finance. It should also ensure that it meets all the entities within the portfolio for BRRR purposes, so that its oversight role fully complies with the Money Bills Act and the Public Finance Management Act.

7.16. Maintaining regular communication and engagement with the AGSA is critical, particularly concerning the Budgetary Review and Recommendations Reports. This ensures that the Committee receives timely audit findings and recommendations, facilitating robust oversight and accountability over public finances and service delivery. Maintaining strong ties with the AGSA will enhance the Committee's ability to address audit concerns and improve financial management practices within government entities.

7.17. AGSA found the work of the Committee in monitoring the implementation of audit action plans fruitful as the auditees with unqualified audit opinions with no findings for 2022/23 improved to 69% from 37% the previous year. The Committee recommends that the incoming Committee continues with this focus area of monitoring and holding the executive accountable for the development and implementation of audit action plans.

7.18. The Committee recommends that the incoming Committee introduces some consultation and public participation in the processing of Budget Votes and BRRR. This will enhance transparency and accountability in the budgetary process and ensure that the views and concerns of stakeholders are taken into consideration when allocation are made to NT and the finance portfolio entities.

7.19. Building on the established practice of regular engagements with SARB and its associated agencies over the past five years, the incoming Committee should consider ongoing oversightof key financial regulatory bodies, including the SARB, the Prudential Authority, the FSCA, and the Corporationfor DepositInsurance. These engagements should encompass a comprehensive update on the financial health, governance, operational activities, and performance of these institutions. Additionally, the Committee should continue to receive annual reports and presentations on the Financial Stability Review to remain informed about emerging risks, trends, and challenges within the financial sector.

7.20. Given the persistent challenges in achieving meaningful transformation within South Africa's financial sector, the incoming Committee is urged to prioritize the implementation of recommendations outlined in the "*1st Report into the Transformation of Financial Sector,*" adopted in November 2017. These recommendations should be revisited and pursued with renewed vigour to address the longstanding deficiencies. Additionally, the Committee should follow-up on the convening of a long-overdue Financial Sector Summit by NEDLAC (last held in 2002), leveraging insights from previous engagements and briefings to inform the agenda and objectives of the summit effectively.

7.21. The incoming Committee is urged to consider expediting laws to protect banking customers' rights amidst the concerning trend of arbitrary account closures by South Africa's banks. Collaborating with regulatory bodies like the FSCA, FIC and NT, the Committee should advocate for enhanced transparency and accountability in banking practices, particularly regarding account closure procedures. It should also heed recommendations from the Zondo Commission to amend or enact laws safeguarding customers' rights against unilateral closures. The incoming Committee should also follow-up on the tabling on the Conduct of Financial Institutions Bill by NT.

7.22. The incoming Committee should prioritize addressing the current operational challenges faced by Ithala SOC Limited, a crucial institution in promoting financial inclusion and economic development in KwaZulu-Natal. This includes advocating for timely intervention to address regulatory hurdles, supporting the development and presentation of a turnaround strategy by the provincial government, and amending the Banks Act to permit provincial financial state-owned companies like Ithala to apply for a commercial banking license. These actions are essential to ensure the continued stability and effectiveness of Ithala in serving historically disadvantaged communities and promoting financial inclusion in the region.

7.23. The incoming Committee should prioritize monitoring the liquidity developments of both the Land Bank and SASRIA. This includes closely monitoring efforts to address any liquidity challenges faced by these institutions, such as defaults on debt obligations or insufficient capital reserves.

7.24. The incoming Committee should consider addressing the structural and financial challenges facing the OTO to ensure its independence and effectiveness in addressing taxpayer concerns. This includes advocating for legislative reforms to establish a clear legal provision for the OTO's independence and autonomy, separate from SARS. Additionally, the Committee should work to address budgetary constraints faced by the OTO, balancing the need for revenue with protecting taxpayers' rights.

7.25. The incoming Committee should consider following up on the finance and tax-related recommendations of the Mpati, Zondo, and Nugent Commissions to ensure accountability, transparency, and integrity within the financial and tax sectors.

7.26. Based on the challenges and complexities surrounding the IFMS project, the incoming Committee should consider prioritising continued monitoring and oversight to ensure accountability and resolution of outstanding issues. Given the history of disputes, delays, and concerns about wasteful expenditure, it is essential for the Committee to request and review all completed forensic investigation reports related to the IFMS project. This will provide insight into any mismanagement, irregularities, or wasteful expenditure, enabling the Committee to take appropriate action and hold accountable those responsible.

7.27. Additionally, the Committee should engage with relevant stakeholders, including National Treasury, the Department of Public Service and Administration, the Department of Communications and Digital Technologies, and SITA, to address procurement challenges and ensure effective project management moving forward. By remaining vigilant and proactive in its oversight role, the Committee can contribute to the successful resolution and improvement of the IFMS project for the benefit of the government and its citizens.

APPRECIATION

The Committee extends its gratitude to citizens, organizations, and other stakeholders, as well as the National Treasury, SARS, other public entities, officials, and support staff for their invaluable participation,contributionsand support to the work of the Committee.

Report to be considered.