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1. INTRODUCTION

1.1 Purpose of the Guide

This guide is intended for use by committees when they compile their Budgetary Review and Recommendation (BRR) Reports. This guide should be read together with the following:

- The Constitution of the Republic of South Africa, 1996, (the Constitution);
- The Money Bills Amendment Procedure and Related Matters Act (Act No. 9 of 2009), (the Act);
- The Public Finance Management Act (Act No. 1 of 1999 as amended by Act No. 29 of 1999);
- The Public Service Act (Act No. 34 of 1994);
- Rules of the National Assembly; and
- The template for the BRR Report.

1.2 Background

The Constitution vests power in the Parliament of the Republic of South Africa (hereafter referred to as Parliament) to amend money Bills. A money bill is defined in section 77(1) of the Constitution as a bill that appropriates money; imposes, abolishes, or grants exemptions from national taxes, levies, duties or surcharges; or authorises direct charges against the National Revenue Fund. Section 77(3) requires that an Act of Parliament provides a procedure for the legislature to amend money Bills.

The main objective of the Money Bills Amendment Procedure and Related Matters Act (the Act) is to provide for the required procedure. The Act is the fulfilment of section 77(3) of the Constitution. The Act also seeks to establish a Parliamentary Budget Office to provide research and support to Parliament and its committees. The Act not only enables Parliament to oversee budget expenditure by government departments, but also to influence budget prioritisation by amending (if necessary) the national Budget.

2. SUMMARY OF SECTION 5 OF THE ACT

Section 5 of the Act requires the National Assembly, through its committees, to annually assess the performance of each national department, with reference to the following:

- The medium term estimates of expenditure of a department including its strategic priorities and measurable objectives. These are tabled in the National Assembly together with the national budget;
- The departments' strategic plans and annual performance plans;
- The expenditure report of departments published by the National Treasury in terms of section 32 of the Public Finance Management Act;
- The departments' annual reports and financial statements;
- The Committee on Public Accounts' reports relating to a department; and
- Any other information requested by or presented to Parliament.

A committee must submit a report of its assessment (known as a Budgetary Review and Recommendation Report) for tabling in the National Assembly. The Budgetary Review and Recommendation (BRR) Report must provide an assessment of:

- The respective department's service delivery performance given available resources; and
- The effectiveness and efficiency of the department's use of available resources.

A BRR Report may also include recommendations for the department's forward use of resources.

A committee should, in compiling its BRR Report, consider departmental performance for the previous, completed financial year, beginning with the budget and strategic plan and ending with the annual report – which should be available before the committee has completed its work. While the committee should focus on the previous year, the performance of the department for the current year, at least up to the second financial quarter, should not be overlooked.

The BRR Report must be submitted *after* the main Appropriation Bill has been passed and *prior to* the adoption of the reports on the Medium Term Budget Policy Statement..

Once the National Assembly has adopted a Committee's BRR Report, it must be submitted to the Minister of Finance and the Minister of the relevant department. In terms of the Act the Minister of Finance must report to the House when the next Budget is tabled in February, explaining how the Budget gives effect to, or the reasons for not taking into account, the recommendations contained in the reports. The BRR Report is therefore an important mechanism in that it provides an opportunity for the National Assembly to influence the formulation of the budget and also lays a foundation for committees to engage with the budget once tabled. Proposed Amendments to the budget should in fact typically make reference to concerns raised previously in BRR Reports.

3. THE BUDGET CYCLE

The Budget cycle has four phases. These phases are as follows:

3.1 Drafting phase

The drafting phase involves the formulation of annual and medium-term revenue and expenditure plans. This phase of the budget cycle is performed by the Executive although the role of the legislature has become more pronounced.

3.2 Legislative Phase

In February, the Minister of Finance tables the annual budget in the National Assembly, which consists of amongst others the Fiscal Framework, the Division of Revenue Bill and the Appropriation Bill. The legislative phase begins once the Fiscal Framework, the Division of Revenue Bill and the Appropriation Bill are tabled in the National Assembly and referred to the Committees on Finance and Appropriations for consideration and report. The legislative phase ends when Parliament passes these bills and the President assents to them.

3.3 Implementation Phase

During the implementation phase, plans and budgets considered by Parliament are implemented by the Executive. The National Assembly and its committees monitor implementation and evaluate progress.

3.4 Audit phase

In terms of section 65 of the Public Finance Management Act, the Minister must, within one month after the Accounting Officer received the audit report, table the annual report and audited financial statements in the National Assembly. Parliamentary Committees, including the Committee on Public Accounts, consider and report on these documents. Their reports may include recommendations. Once these recommendations are approved by the House, they have to be followed-up.

4. THE BRR REPORT CYCLE

The BRR report cycle is made up of five phases. Figure 1 (below) depicts the BRR Report cycle:

Table 1 (below) summarises the BRR Report cycle:

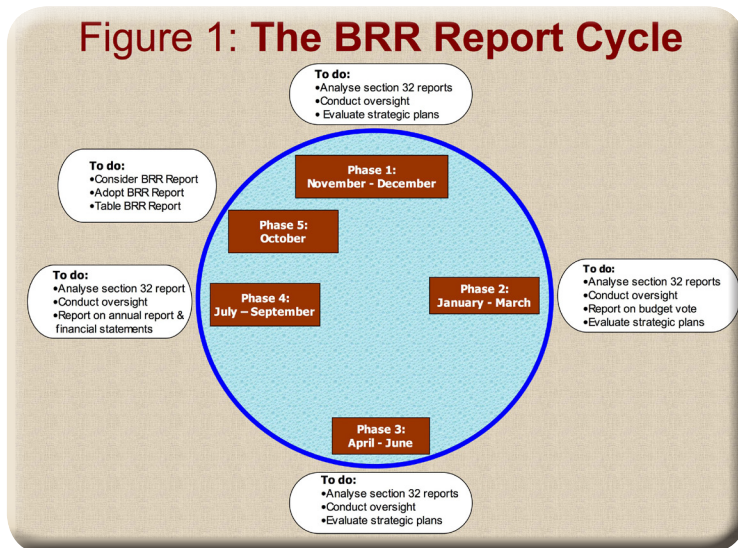


Table 1: Summary of the BRR Report cycle

When to do it	What to do
<i>The Budgetary Review and Recommendation Report e.g. 2010</i>	
<p>Phase 1: October – December</p>	<ul style="list-style-type: none"> • Analyse section 32 report for the July-September period (2nd quarter) of the financial year (e.g. 2010/11); • Evaluate strategic plans; and • Conduct oversight, including briefings on specific issues and site visits.
<p>Phase 2: January – March</p>	<ul style="list-style-type: none"> • Analyse section 32 report for the October-December period (3rd quarter) of the financial year (e.g. 2010/11); • Report on the budget vote; • Conduct oversight, including briefings on specific issues and site visits; and • May advise the Standing Committee on Appropriations (in terms of section 10 of the Act) on the Appropriation Bill.
<p>Phase 3: April – June</p>	<ul style="list-style-type: none"> • Analyse section 32 report for the January–March period (4th quarter) of the financial year (e.g. 2010/11); and • Conduct oversight, including briefings on specific issues and site visits.
<p>Phase 4: July – September</p>	<ul style="list-style-type: none"> • Analyse section 32 report for the April–June (1st quarter) period of the financial year (e.g. 2011/12); • Conduct oversight, including briefings on specific issues and site visits; and • Report on the annual report and financial statements for the financial year.
<p>Phase 5: October</p>	<ul style="list-style-type: none"> • Consider BRR Report; • Adopt BRR Report; and • Table BRR Report.
<i>The Budgetary Review and Recommendation Report e.g. 2011</i>	

The following sections of this document provide details on how activities of the BRR Report cycle could be carried out.

5. SECTIONS IN THE BRR REPORTS

Although the BRR Report may have other sections, it is made up of the following four *core* sections, which are required by the Act.

Section 1: Evaluation of strategic and business plans

The quality of non-financial performance and service delivery information is crucial. This information is required on programme and sub-programme performance. Furthermore, this information must include reports on the extent to which the department has delivered on its annual business plan and budget, including the following:

- The achievement of desired outcomes;
- The delivery of planned outputs;
- Reports on capital projects;
- Use of financial and non-financial resources;
- Supply chain management objectives;
- Transformation and empowerment; and
- Job creation.

Parliament and its committees derive powers to conduct oversight and receive information from section **56** of the Constitution and sections **40** and **56** of the Public Finance Management Act. In addition to provisions of the Public Finance Management Act, the Public Service Act sets out the reporting requirements of government departments and their entities.

As indicated in the template for the BRR Report, there are a number of sources/tools that could be used to analyse the performance of a department in relation to its business plan. The sources of information for oversight activities may include the following:

- Department's 5-year strategic plan (as a benchmark);
- Department's business plan, including strategic priorities and measurable objectives (as a benchmark);
- Briefings by the department (progress reports);

- State-of-the-Nation Address;
- Reports of the Ministry in the Presidency: Performance Monitoring and Evaluation as well as Administration in the Presidency;
- Reports of the Financial and Fiscal Commission;
- Committee's reports on fact-finding (site) visits;
- Previous BRR Reports' recommendations; and
- Reports on budget votes.

All oversight reports may be summarised into a single, logical and comprehensive section of the BRR Report. Put differently, the objectives of any oversight activity should include the compilation of the BRR Report in October.

Section 2: Analysis of section 32 reports

Section **32** of the Public Finance Management Act requires that the National Treasury publishes a statement of (report on) actual revenue and expenditure with regard to the National Revenue Fund. These reports are commonly referred to as section 32 reports and are published by the National Treasury on its website.

In terms of the Act, a Committee is required to analyse these section 32 reports in order to determine and examine spending trends and patterns. In practice, a department is invited to brief the committee on its spending patterns. These section 32 reports may be analysed on a quarterly basis and, in October of every calendar year, quarterly reports may be combined into a single section of the BRR Report for the calendar year.

Section 3: Analysis of annual report and financial statements

Section **40** of the Public Finance Management Act provides that the accounting officer for a department must, within five months of the end of the financial year, submit the following documents to the relevant Minister and National Treasury:

- Annual report of the department;
- Audited financial statements of the department; and
- The Auditor-General's report on the department's financial statements.

Section **65** of the Public Finance Management Act provides that a Minister

must, within one month after the Accounting Officer received the audit report, table the annual report and audited financial statements of his/her department and its entities in the National Assembly. The implication of sections 40 and 65 of the Public Finance Management Act is that a department, through the Minister, must table the annual report and audited financial statements within six months of the end of the financial year –that is on or before the month of September.

When analysing the annual report and financial statements, a committee may focus on the following:

- The technical quality of the annual report of the department and its entities;
- The report of entities on performance targets specified in their strategic plans and budgets;
- The report of the Auditor-General on the quality of the performance information;
- The efficiency and effectiveness of service delivery (performance indicators);
- The equity of service delivery;
- The report on service delivery improvement programme(s);
- Management’s explanations for variances between performance targets and performance results;
- Management’s explanations for variances between planned and actual expenditures for the previous financial year; and
- Any other analysis, evaluation, investigation, etc.

Furthermore, an analysis of the annual report and financial statements should complement and expand on the work of the Auditor-General and the Committee on Public Accounts. The Auditor-General prepares the following reports:

- Reports on unauthorised expenditure of a department;
- Reports on the financial statements of a department for a particular financial year;
- Reports on performance information; and
- Reports on investigation reports on a particular issue relating to a department.

The Committee on Public Accounts may consider and report on these reports of the Auditor-General.

Once a committee has met with the department to deliberate on its annual report and financial statements, a report on these documents is written. This report may include a summary of findings of the Auditor-General and the Committee on Public Accounts. Furthermore, this report should form a section of the BRR Report.

Section 4: Consideration of reports of Committee on Public Accounts

According to rule **206 (2)** of the National Assembly, the Speaker must refer financial statements and audit reports to the Committee on Public Accounts. As stated in rule **206 (1)** of the National Assembly, the Committee on Public Accounts must consider and may report on the audited financial statements and audit reports.

However, due to time constraints, the Committee on Public Accounts may not have reported on all financial statements of departments *before* the BRR Reports are finalised. Therefore, it is emphasised that, when analysing the annual reports and financial statements and in the absence of a detailed report of the Committee on Public Accounts, the committee should extend the previous section 3 of the BRR Report by including the following:

- Issues of financial probity (e.g. fraud);
- Compliance with the Public Finance Management Act and associated Treasury Regulations;
- Analysis of irregular, unauthorised and, fruitless and wasteful expenditures;
- The effectiveness of risk management systems, including fraud prevention, financial management systems, personnel management systems (e.g. leave management and disciplinary processes);
- Supply chain management and procurement, including tenders, large projects and, equally important, public private partnership deals; and
- Corporate governance of departments and their entities.

Other sections

Depending on the nature and mandate of the department, and the strategy of the committee, the committee may include any other service delivery and performance-related section(s) in the BRR Report.

6. RECOMMENDATIONS IN THE BRR REPORT

Committee recommendations, if adopted by the National Assembly, become resolutions of the House and departments are expected to implement them. Recommendations in the BRR Report (or any committee report) must therefore be constitutional and conform to the principles of separation of powers and co-operative governance. Recommendations should not, as an example, seek to introduce new government policy or direct administrative action –the constitutional prerogatives of the Executive – but rather give effect to the Legislature’s oversight function and influence government performance. Furthermore, recommendations should typically be directed at the responsible Executive Authority rather than Accounting Officers.

In terms of the Act, the Minister of Finance is required to respond to House resolutions emanating from the BRR Report when the following financial year’s national budget is tabled. In doing so, the Minister of Finance must explain how the budget (specifically the Division of Revenue and Appropriation Bills) gives effect to these resolutions. It should be noted that the Minister of Finance can only be expected to respond to recommendations which fall within his/her area of responsibility.

In general terms, the recommendations must be clear (in terms of who they are directed to and what action is expected); practical (reasonable/achievable action is expected) and have realistic time-frames.

For example:

- *The Minister of ABC should submit a report on DEF. The said report should include the following: XX and YY. Furthermore, the said report should be submitted to the National Assembly within ZZ working days after the adoption of this report by the National Assembly.*

In order to ensure that action is taken on a matter that the Committee has investigated, it should consider making a recommendation to the National Assembly for adoption.

7. TIPS FOR ASKING QUESTIONS

Members should ask questions that are going to enable the committee to gather reliable information for inclusion in the BRR Report. Therefore, questions should have the following attributes: Be closed-ended, specific and relevant.

8. CONCLUSION

The Money Bills Amendment Procedure and Related Matters Act makes it possible for Parliament, not only to accept or reject money bills, but also to amend them. This is a constitutional provision. Section 5 of this Act provides Parliament with a comprehensive oversight mechanism –the Budgetary Review and Recommendation Report. Compilation of the BRR Report presents to Parliament an opportunity to exercise an effective oversight role over Executive’s actions.

9. REFERENCES

- Rules of the National Assembly.
- Template for the Budgetary Review and Recommendation Report of the Parliament of the Republic of South Africa.
- The Constitution of the Republic of South Africa, 1996.
- The Money Bills Amendment Procedure and Related Matters Act (No. 9 of 2009).
- The Public Finance Management Act (Act No. 1 of 1999 as amended by Act No. 29 of 1999).
- The Public Service Act (No. 34 of 1994).

Portfolio Committee on....

**BUDGETARY REVIEW
AND
RECOMMENDATION
REPORT**

Year:

Chairperson:

.....

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- 7. Consideration of other Sources of Information**

- 8. Committee's Observations**

- 9. Conclusion**

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The Budgetary Review and Recommendation Report of the Portfolio Committee on _____, dated _____

1. Introduction

1.1 The role of the Committee

- Set out the mandate of the Committee, including provisions of Section 5 of the Money Bills Amendment Procedures and Related Matters Act, No. of 2009.
- Set out the process/method that the Committee has followed in arriving at this report.

1.2 The Department

- Set out, in summary form, the Department's mandate, including its vision and mission statement.

2. Department's Strategic Priorities and Measurable Objectives

2.1 Strategic Plans of the Department

- A summary of the Department's 5-year strategic plan.

2.2 Measurable Objectives of the Department

- A summary of the Department's operational plans.

3. Analysis of the Department's Prevailing Strategic and Operational Plan

This analysis should be directed at existing strategic and operational plans and outcomes of the Department's projects (service-delivery performance). The Committee may invite the relevant department/s and other stakeholders (as part of oversight activities) to indicate how far the Department has come in achieving their goals and objectives during the financial year.

4. Analysis of Section 32 Expenditure Reports

Section 32 reports, compiled in terms of the Public Finance Management Act, are published by the National Treasury. These reports are available online at: www.treasury.gov.za. The Committee should analyse the spending patterns of the Department in order to identify under- and/or over-spending (if any).

In addition to Section 32 expenditure reports published by the National Treasury, the National Treasury conducts a spending trend analysis. This analysis is for Committees' purposes only and is available on request from the National Treasury. This analysis summarises the spending trend per budget vote. Specifically, the following variables are presented: appropriated budget, total additional budget, shifts & virements after Adjusted Estimates of National Expenditure (AENE), available budget, year-to-actual expenditure, and percent of budget expended. These variables are provided per programme and sub-programme of the Department. The presentation of these variables is followed by an analysis.

If there are material variances, the Committee should request an explanation from the Department. (Note that the Committee on Appropriations does a periodic review of spending patterns, and its reports should be useful. However, due to its workload, the Committee on Appropriations may not report on each and every Department, every quarter).

5. Analysis of the Department's Annual Report and Financial Statements

Departments are expected to table annual reports at the end of September of each year. In October of each year, Committees report on the annual reports of their Departments. The Budgetary Review and Recommendation Reports' process coincides with this process. Reports on annual report and financial statements should form part of the Budgetary Review and Recommendation Reports (BRRRs). Therefore, an important question is whether it is still necessary for

Committees to compile separate reports for the annual reports. It is recommended that reports on the annual report and financial statements are included in the BRRR.

It is also recommended that the Leader of Government Business should be advised to inform all Ministries of this and encourage all departmental heads to submit their annual reports as early as possible. Committees should also encourage their departments to submit their annual reports as early as possible.

Furthermore, it is recommended that the submission date for department's annual reports should be changed to August of each year (not September) or earlier. This will have implications on the Public Finance Management Act.

6. Consideration of Reports of Committee on Public Accounts

The *Money Bills Amendment Procedure and Related Matters Act* provides that Committees must consider performance assessment reports by the Committee on Public Accounts. The Committee may also invite the Committee on Public Accounts to comment on its reports. However, the Committee on Public Accounts may not have reported on the latest annual reports and financial statements of departments because they are only due at the end of September of each year.

It is recommended that the Committee on Public Accounts should be advised to prioritise their reports on departments and consider public entities at a later stage.

7. Consideration of Other Sources of Information

A number of sources can be used to analyse the strategic and operational plans of departments. These include:

- The State-of-the-Nation address;
- Reports of the National Planning Commission, and the Ministry in the Presidency: Performance Monitoring and Evaluation;
- Reports of the Auditor-General of South Africa, the Financial and Fiscal Commission;
- Fact-finding visit (or oversight) reports;
- Prior BRRRs; and
- Reports on Budget Votes.

8. Committee's Observations

The Committee should summarise their key findings in a coherent and logical format. Key findings should be based on the analyses done in the sections mentioned previously in this document.

9. Conclusion

Based on its observations, the Committee should focus on the extent to which strategic goals and objectives have been achieved. Also, Committees should comment on the efficient, effective and economical use of both monetary and non-monetary resources.

The conclusion should clearly spell out whether the Committee is satisfied with the Department's level of service-delivery performance or not.

10. Recommendations

The content of the recommendations should conform to the following:

- The Constitution of the Republic of South Africa, No. 108 of 1996,
- The principle of the separation of powers, and
- The principle of cooperative governance.

Furthermore, the recommendations should be:

- clear (who they are directed to, what action is expected, etc)
- practical (reasonable/achievable action is expected, etc.), and
- have timeframes (realistic, etc).

Report should indicate “report to be considered” at the end.

