

NATIONAL ASSEMBLY

QUESTION FOR ORAL REPLY

QUESTION NUMBER 350 [NO4342E]

DATE OF PUBLICATION: 15 NOVEMBER 2011

Dr D T George (DA) to ask the Minister of Finance:

- (1) Whether, with regard to the increasing leakage from the public financial system, the National Treasury has developed a detailed plan on how the leakage will be eliminated; if not, why not; if so, what are the relevant details;
- (2) whether any leakage reduction targets have been set; if not, why not; if so, what are the relevant details?

NO4342E

REPLY:

- (1) Whether “leakage” from the public financial system is increasing is not known, but we all agree that it is too high. And so, yes, Government has a comprehensive strategy for combating leakage, because this has to be part of our plan for improving service delivery and building a successful economy and a capable state.

Firstly, financial integrity begins with transparency. Since the PFMA was introduced, greater transparency in expenditure planning and execution have been the hallmark of our public finances. This has contributed significantly to exposing waste and inefficiencies: what used to be hidden away is increasingly brought under the public and Parliamentary scrutiny. The Auditor-General, departmental audit committees and internal audit teams all play critical and invaluable roles in financial oversight. We are now far better informed about failures in financial management than ever before, and this plays a key part in constructing an environment in which accountability can be strengthened.

Secondly, we have a constitution that prescribes that public sector procurement must be competitive, and fair. We also recognise that procurement provides valuable opportunities for promoting local industry, supporting black advancement and diversifying our economy. Getting the balance right between these goals is not easy. It is made impossible when corrupt businessmen and officials collude to abuse the supply chain procedures and frustrate the intent of the law. So we have introduced new rules to control procurement more effectively, and we are reviewing the balance between centralised and decentralised arrangements. But this cannot just be a regulatory matter, it has to be a national campaign, in which we give effect to better rules, and we institutionalise fair play. It is everybody’s duty to ensure that citizens get full value for money in the delivery and effectiveness of public services.

Thirdly, in the tax environment, considerable progress has been made. The tax laws have eliminated many loopholes through which privileges were preserved and wealth unfairly protected. Tax administration has become tougher and more effective, which also contributes to fiscal fairness and reduced leakage.

And in debt management, fourthly, we have one the deepest and most competitively priced debt markets in the world. This means that by comparison with many other countries, there is far less leakage in our borrowing and debt management in the form of margins, fees and excessive charges associated with less liquid markets.

These are the broad foundations of our approach to combating leakage, but Members of the House will know that it is the details that count. When it comes to fighting theft and fraud, let me be specific.

One, we are expanding the capacity of the institutions that are fighting corruption. These include the Accountant-General's office, the Financial Intelligence Centre, the Public Protector, the SIU, parts of the police, and the audit and investigative capacity of the state.

Two, we have established new and better mechanisms for collaboration between these agencies.

Three, we have introduced new regulations that clarify what civil servants and political office bearers may and may not do in the procurement environment.

Four, there are many kinds of procurement that require centralised capacity and standardised processes. In respect of medicines and schoolbooks, for example, we have already saved billions of rands through better managed long-term supply agreements.

Five, the principle of transparency extends not just to spending plans and allocations, but also to the rules governing procurement and public disclosure of the outcome of tenders, not just when tender decisions are taken, but also as projects are implemented and services are provided. Public and Parliamentary scrutiny is central to the fight against corruption, fraud and mismanagement.

Parliament allocates resources to departments who are responsible to ensure that these resources are managed efficiently and effectively and spent on programmes for which they were appropriated. The Public Finance Management Act (PFMA), 1999 provides the legal framework for the management of these resources. The Minister of Finance is empowered to issue treasury regulations in terms of the PFMA and the National Treasury issues Practice Notes to provide guidance on concepts in the Act. The National Treasury's role is therefore regulatory in nature.

Leakages are often the result of theft, fraud and corruption mainly in the area of supply chain management. In this regard, the National Treasury has issued several Practice Notes and Circulars aimed in increasing transparency and tightening loopholes with a view to reducing the prevalence of theft, fraud and corruption. These regulations and circulars are available on the National Treasury website and have been widely commented upon.

In terms of section 38(1)(a)(i) of the PFMA, accounting officers must ensure that his or her department has and maintains an effective, efficient and transparent system of financial and risk management and internal control. Plans to prevent corruption are therefore the responsibility of departments to whom resources have been entrusted.

However, rules and regulations are not enough to prevent unscrupulous businesses from conniving with government officials or vice versa to commit acts of fraud and corruption. Enhanced vigilance of oversight structures is also critical, including Legislature committees holding Executive Authorities accountable for the prudent management of resources appropriated to their departments.

- (2) The Accountant-General has been, and will continue to work with the Auditor-General to reduce the “leakage” as will other agencies. Whilst no target has been set, the aim must be to reduce levels of fraud, tax leakage and corruption from the financial system.