

NATIONAL ASSEMBLY
QUESTION FOR WRITTEN REPLY
QUESTION NUMBER: 191 [NW197E]
DATE OF PUBLICATION: 21 FEBRUARY 2014

191. Mr M G P Lekota (Cope) to ask the Minister of Finance:

Whether, from the period 1 June 2009 to 30 November 2013, he continuously monitored the adherence by officials in all departments to the strict provisions of the Public Finance Management Act, Act 1 of 1999, to prevent any circumvention or transgression thereof; if not, why not; if so, (a) how many instances of circumvention or transgression had he found, (b) what steps had he taken, (c) what improvement in compliance had he found and (d) which of the departments were the least compliant?

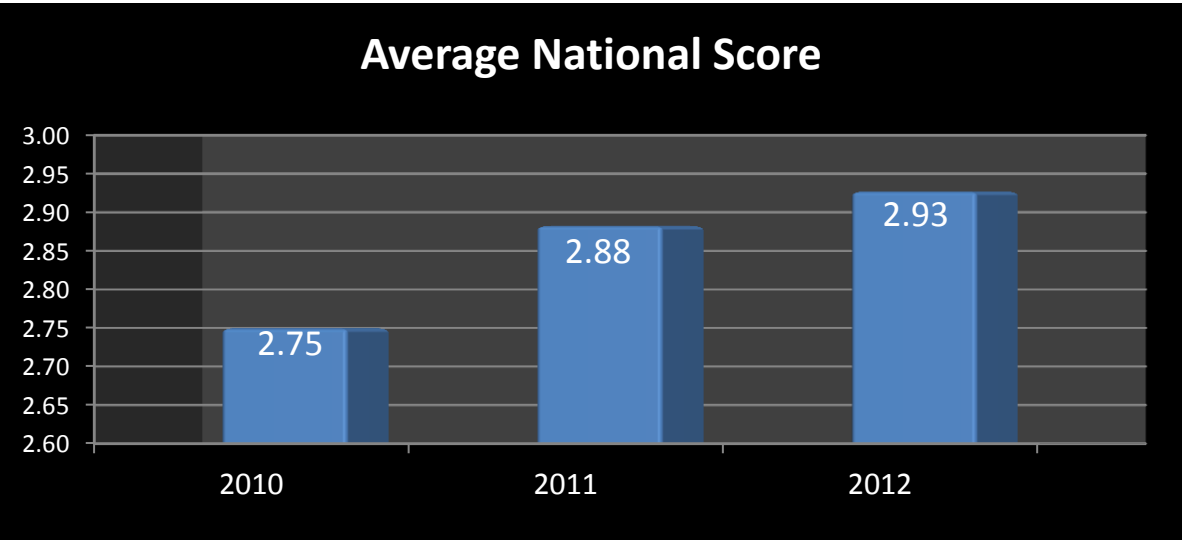
NW197E

REPLY:

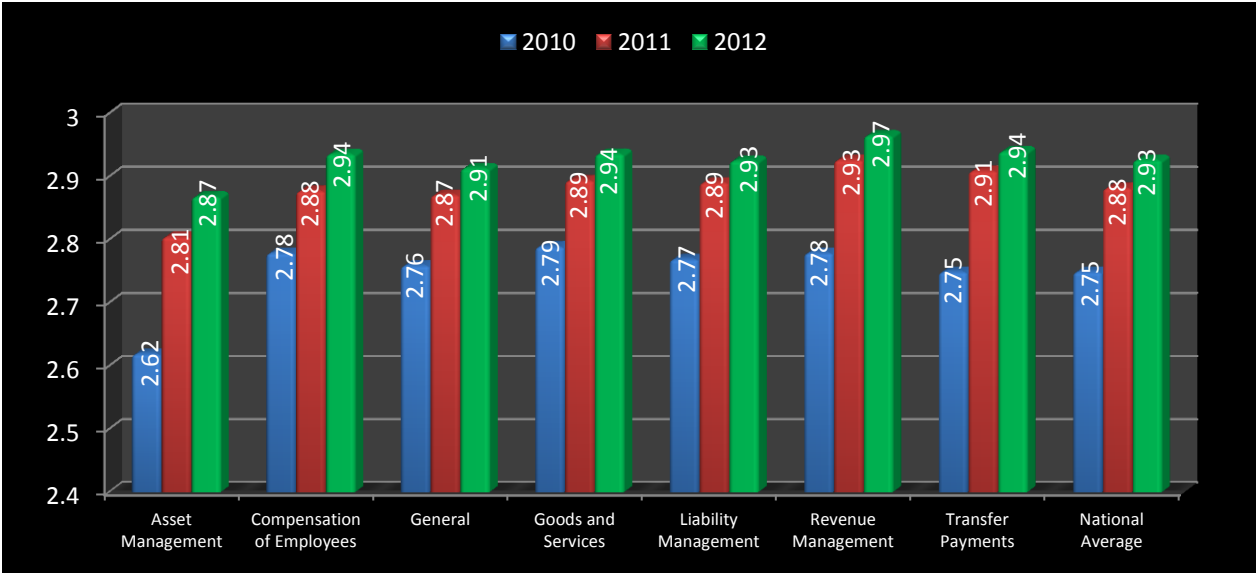
In terms of section 38(1)(a)(i) of the Public Finance Management Act (PFMA), 1999 (Act No. 1 of 1999), the accounting officer of a department must ensure that his/her department has and maintains effective, efficient and transparent systems of financial and risk management and internal control. In terms of section 38(1)(h)(i) and (ii) of the PFMA, the accounting officer must take effective and appropriate disciplinary steps against any official in the service of the department who contravenes or who fails to comply with the provisions of the PFMA and who commits an act which undermines the financial management and internal control system of the department. The accounting officer is also required, in terms of section 38(1)(n) of the PFMA, to comply and ensure compliance by the department with the provisions of the PFMA. Taking cognizance of the above, the responsibility to continuously monitor the adherence by officials with the strict provisions of the PFMA rests with the accounting officers of the respective departments.

The National Treasury continues to use the Financial Management Capability Maturity Model (FMCMM) to assess the financial maturity of departments. The objective of the assessment is to measure the level of financial management maturity and the status of compliance in departments. Results of the assessments show a steady improvement in departments' financial management, with the average national level being close to the required compliance level 3.

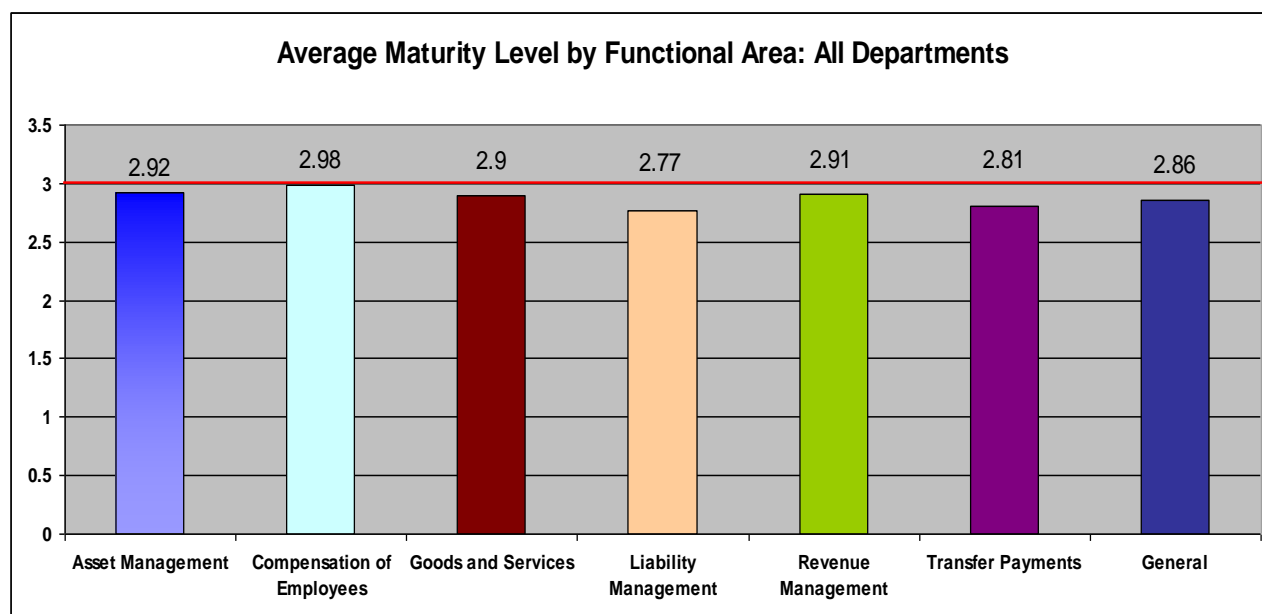
Average level of Financial Management Maturity in National Departments from 2010 to 2012



Financial management capability maturity levels per functional area



Financial Management results for 2009 for national and provincial departments



In the reports submitted to the Standing Committee on Public Accounts (SCOPA) and to the Standing Committee on Finance (SCoF) in November 2012, the National Treasury advised that significant changes were being made to the scope and architecture of the FMCMM. The National Treasury has used the FMCMM since 2008. It was therefore considered prudent to update the Model to ensure its continued relevance. The revision was undertaken to ensure alignment with local and international financial management best practices, including the King III Report on Corporate Governance (King III), 2009, as well as with financial management frameworks issued by the National Treasury, in an effort to create a better functioning and efficient financial management landscape in the public sector. The extended scope of the revised Model is aimed at:

- a) Measuring the financial, performance, governance and compliance management maturity and capability within departments, constitutional institutions and public entities listed in Schedules 3A and 3C to the PFMA;
- b) Identifying gaps within institutions' financial, performance, governance and compliance management systems and processes;
- c) Evaluating institutions leadership, accountability and support in financial, performance, governance and compliance management;
- d) Determining the impact of key non-financial processes on financial, performance, governance and compliance management;
- e) Providing early-warnings of risk within financial, performance, governance and compliance management in the institutions referred to in (a) above;
- f) Prioritising, enhancing and monitoring National Treasury support initiatives, as well as other relevant interventions; and
- g) Evaluating existing capabilities against the pre-defined financial management requirements and determining the required future financial management capability.

Overall improvements

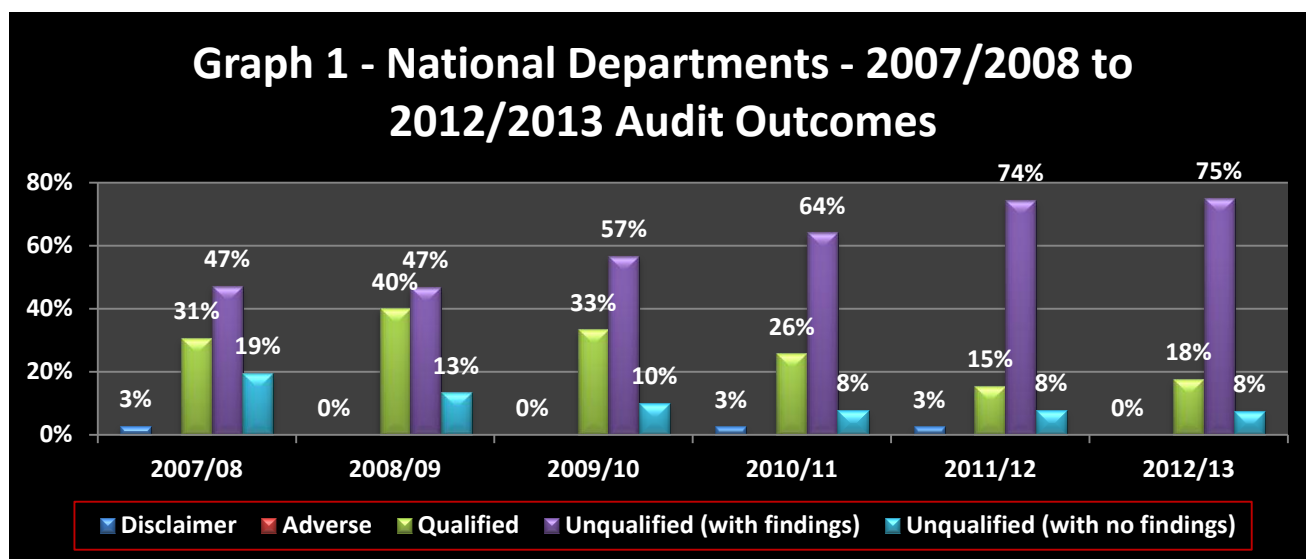
Notable improvements in financial management and accountability

The PFMA is currently in its tenth year of implementation and has contributed towards the enhancement of financial management and accountability in the public sector. These include:

- notable improvements being recorded in the alignment of objectives and performance information in the annual reports of departments with those contained in the Estimates of National Expenditure and in their strategic plans;
- improved budgeting and in year management processes in provincial departments;
- the finalisation and submission of annual financial statements to the Auditor-General within two months after the end of the financial year;
- the tabling of annual reports (including financial statements) in the legislature within six months from the end of the financial year; and
- the introduction of strategic sourcing as part of the supply chain management reforms which has contributed positively towards Government realizing substantial savings in the acquisition of certain commodities.

Despite the positive influences exerted by the PFMA, there are institutions that still experience difficulties in implementing certain aspects of the Act.

Audit Outcomes from 2007/08 to 2012/13 financial periods



Summary of audit outcomes of national and provincial PFMA compliant institutions for 2012/13 financial year

7 national departments, 2 constitutional institutions and 14 national public entities received qualified audit opinions for the 2012/2013 financial year whilst 2 national public entities received disclaimer opinions. None of the aforementioned institutions received adverse audit opinions for the year under review. Information collated from Parliament's Announcement, Tabling and Committee Reports as at

29 October 2013 reveals that 1 national department, 1 constitutional institution and 7 national public entities and failed to table their annual reports and financial statements timeously.

At the provincial level of government, 28 provincial departments and 11 provincial public entities received qualified audit opinions whilst 5 provincial departments and 6 provincial public entities received disclaimer opinions. None of the aforementioned institutions received adverse opinions for the year under review. Twenty seven (27) provincial departments and 30 provincial public

Whilst the general improvements are to be applauded, the internal control weaknesses that still remain; have a far reaching impact on the overall financial management of departments because of the nature thereof. These are elementary internal controls that are crucial to the effective functioning of any institution. They are also the building blocks to a good financial management, and the continuing failure by departments to address them renders other efforts and measures in some instances ineffective.

| Table 1 - Tabling of Annual Reports for Public Sector Institutions - 2012/2013 | | | | | |
|---|-------------------------------|------------------------------|---------------------------|-------------------------------|--------------|
| Institution | Tabled within 6 months | Tabled after 6 months | Explanation tabled | Information not Tabled | Total |
| National Departments | 39 | 1 | 0 | 0 | 40 |
| Constitutional Institutions | 8 | 1 | 0 | 0 | 9 |
| Sc2 - Major Public Entities | 19 | 0 | 1 | 0 | 20 |
| Sch 3A - National Public Entities | 143 | 3 | 0 | 3 | 149 |
| Sch3B - National Government Bus Enterprises | 12 | 0 | 0 | 0 | 12 |
| Provincial Departments | 96 | 1 | 2 | 24 | 123 |
| Provincial Public Entities | 36 | 4 | 0 | 26 | 66 |
| TOTAL | 353 | 10 | 3 | 53 | 419 |