

**FREE STATE
PROVINCIAL TREASURY**

**2020-2025 STRATEGIC PLAN
MID-TERM PROGRESS REPORT**



treasury
Department of
Treasury
FREE STATE PROVINCE

www.treasury.fs.gov.za

CONTENTS

Table of Contents

ABBREVIATIONS AND ACRONYMS	2
OFFICIAL SIGN OFF	3
EXECUTIVE AUTHORITY STATEMENT	4
ACCOUNTING OFFICER STATEMENT	5
PART A: OUR MANDATE	8
1. CONSTITUTIONAL MANDATE	8
2. LEGISLATIVE AND POLICY MANDATES	8
3. INSTITUTIONAL POLICIES AND STRATEGIES OVER THE FIVE YEAR PLANNING PERIOD	10
PART B: OUR STRATEGIC FOCUS	11
1. VISION	11
2. MISSION	11
3. VALUES	11
PART C: MEASURING OUR PERFORMANCE	12
1. IMPACT STATEMENT	12
2. PROGRESS ON THE ACHIEVEMENT OF OUTCOMES	13
2.1 TABLE OF OUTCOMES, INDICATORS AND TARGETS	13
2.2. EXPLANATION OF ACHIEVED PERFORMANCE OVER THE MID-TERM PERIOD	17

Abbreviations and Acronyms

AFS	Annual Financial Statements
AGSA	Auditor General South Africa
CEO	Chief Executive Officer
CFO	Chief Financial Officer
COE	Compensation of Employees
COGTA	Department of Cooperative Governance and Traditional Affairs
COVID	Corona Virus Disease
DESTEA	Department of Small Business Development, Tourism and Environmental Affairs
EPRE	Estimates of Provincial Revenue and Expenditure
FIDPM	Framework for Infrastructure Development Procurement Management
FMCMM	Financial Management Capability Maturity Model
FSGDS	Free State Growth and Development Strategy
GDP	Gross Domestic Product
ICT	Information and Communication Technology
IDMS	Infrastructure Delivery Management System
IFMS	Integrated Financial Management System
IFS	Interim Financial Statements
IPM	Infrastructure Progression Model
IYM	In Year Monitoring
KCM	Key Control Matrix
KPI	Key Performance Indicator
MEC	Member of the Executive Council
MFM	Municipal Finance Management
MFMA	Municipal Finance Management Act
MTBPS	Medium Term Budget Policy Statement
MTEF	Medium Term Expenditure Framework
MTSF	Medium Term Strategic Framework
NDP	National Development Plan
NSDF	National Spatial Development Framework
PERO	Provincial Economic Review and Outlook
PPE	Personal Protective Equipment
PFMA	Public Finance Management Act
SALGA	South African Local Government Association
SCM	Supply Chain Management

OFFICIAL SIGN-OFF

M.G. Sithole
Chief Director: Corporate Services

Signature: 

K.S. Modisane
Acting Chief Director: Sustainable Resource Management

Signature: 

T.M. Mabilo
Chief Director: Asset and Liabilities Management

Signature: 

N. Jordaan
Acting Deputy Director General: Financial Governance

Signature: 

S.B. Mhlambi
Acting Chief Director: Municipal Finance Management

Signature: 


J.H. Botes
Chief Financial Officer

Signature: 

A.M.J. Hattingh
Director: Strategic Management

Signature: 

M.A. Sesing
Accounting Officer

Signature: 

Approved by:

G. Brown
Executive Authority

Signature: 

Executive Authority Statement



This Strategic Plan Mid-Term Progress Report provides an overview of the progress that has been made towards the achievement of the outcomes that the Provincial Treasury is pursuing in its endeavour of sustainable and accountable fiscal governance in provincial departments, public entities and municipalities.

We have been guided by the overarching goals of reducing unemployment, poverty and inequality and taken direction from the Medium Term Strategic Framework, in particular Priority 1: A capable, ethical and developmental state. In this regard our focus has been on improving financial management capability in the public sector, eliminating wasteful, fruitless and irregular expenditure and implementing measures to support procurement reform and fiscal sustainability.

We have set ambitious targets and progress has been made in areas such as improving the audit outcomes and reducing irregular expenditure, both at provincial and local government level and reducing fruitless and wasteful expenditure at local government level.

One cannot reflect on the past two and a half years without touching on the devastating effect that the COVID-19 pandemic had on our economy and fiscus but I am very proud of the way in which we were able to steer the fiscal ship through the challenges of the COVID-19 pandemic and fiscal consolidation. Tough decisions had to be taken and implemented to ensure tangible service delivery outcomes are achieved with the limited resources at our disposal. Through our robust budgeting and monitoring processes we were able to restructure and steer the provincial budget in such a manner that funds could be unlocked and reprioritised towards key provincial priorities. I am particularly happy that we have been able to turnaround the cash position in the province to close the 2021/22 financial year with a positive bank balance.

Whilst there have been successes we are mindful that there are challenges that remain. Areas where we were less successful and that would require greater effort to have the impact we desire include, finding innovative ways to improve provincial own revenue, payment of suppliers within 30 days and liquidity and financial health of departments and municipalities. I am confident that we have the resilience, determination and persistence to persevere and improve in the implementation of the 2020-2025 Strategic Plan.

I wish to thank the Head of the Department and her team, accounting officers and chief financial officers of departments, entities and municipalities as well as the Premier and Members of the Executive Council for their support and cooperation.

I herewith endorse the 2020-2025 Strategic Plan Mid-Term Progress Report.

A handwritten signature in black ink, appearing to read 'G. Brown', written over a horizontal line.

Ms G. Brown
Executive Authority: Free State Provincial Treasury

Accounting Officer Statement



Provincial Treasury plays a pivotal role in enforcing public finance management legislation and building capacity in departments, entities and municipalities to achieve the objectives of such legislation. It is an institution that seeks to promote fiscal coordination across the spheres of government.

Emanating from the Public Finance Management Act (Act No. 1 of 1999) and the Municipal Finance Management Act (Act No. 56 of 2003), the Provincial Treasury is responsible for preparing the provincial budget, exercising control over the implementation thereof, promoting and enforcing transparency and effective management in respect of revenue, expenditure, assets and liabilities of provincial departments and entities, overseeing the preparation of municipal budgets and the submission of reports by municipalities. The Department also provides support to provincial departments, entities and municipalities to improve financial management.

The Free State Provincial Treasury strives to be an innovative and resilient partner in prudent fiscal management, socio-economic growth and service delivery and its mission is to promote socio-economic inclusiveness for shared growth through innovative fiscal management, sustainable resource management and good governance. To give effect to our vision and mission, the Department's strategy for 2020-2025 is based on two pillars, namely oversight and capacity building.

Whilst we started the new planning cycle with unprecedented challenges emanating from the COVID-19 pandemic, which impacted immensely on the economy and fiscus of the province, the Department continued with rigour and assertiveness to exercise oversight through deepened monitoring activities and comprehensive feedback to the administrative and political leadership of departments, public entities and municipalities.

During the height of the pandemic, departmental operations were revised to ensure that we were able to fulfill our mandate within the constraints of the measures that were implemented to mitigate the spread of the virus. Despite these challenges Provincial Treasury achieved 84 per cent of its output targets for the 2020/21 financial year followed by 87 per cent for the 2021/22 financial year.

The Department improved from an unqualified with findings opinion in the 2020/21 financial year to an unqualified with no findings ("clean") audit opinion for the 2021/22 financial year while the Provincial Revenue Fund maintained its clean audit status for the last two financial years.

Over the past two and a half years the impact of COVID-19 and government's fiscal consolidation stance made the Department's task to find appropriate funding solutions for the provincial priorities in a financially sustainable manner particularly challenging. The province's equitable share was reduced from the R95.571 billion for the 2020/21 MTEF to R87.067 billion over the 2021/22 MTEF and increased slightly to R92.325 billion over the 2022/23 MTEF. Extensive engagement processes however allowed the Department to develop a provincial budget that enabled the province to reprioritize R1.114 billion towards the COVID-19 response and address the imperatives of fiscal consolidation and financial sustainability.

While from the equitable share point of view it is evident that allocations from national government towards provinces are not sufficient to meet all the provincial service delivery demands, it should also be noted that there is a need to entrench a culture of spending the allocated conditional grants in some departments and municipalities. The Department worked closely with departments to strengthen revenue collection, and

was able to collect 98.5 per cent of the adjusted own revenue target in 2020/21 and a further 101.4 per cent in 2021/22, which plays a vital role in supplementing national transfers.

The Department plays a key role in ensuring that provincial resources are optimally used to improve service delivery. Monitoring and oversight of spending was strengthened and provincial departments assisted to ensure that the budget is spent in accordance with set priorities. The province was able to spend 99.1 per cent and 98.7 per cent of the budget for the 2020/21 and 2021/22 financial years respectively.

In terms of improving fiscal sustainability in the province, there has been an improvement in the provincial cash coverage; accruals and payables; and unauthorised expenditure. Areas that need further attention include reducing the compensation of employees as well as building contingency reserves for the province. Compensation of employees currently accounts for more than 62 per cent of the provincial budget and it is projected to further increase over the MTEF. In a quest to curtail the growth of the provincial wage bill, by collaborating with the Office of the Premier, the province has adopted the following strategies: restricting growth in numbers of non-essential and administration posts; no recruiting of personnel without sufficient funds in the budget and monitoring and evaluation of the number of excess/additional personnel in the departments on a monthly basis.

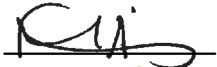
Provincial Treasury is also responsible for providing policy direction, facilitating the effective and efficient management of assets, liabilities and financial management systems. The management and facilitation of provincial supply chain is indispensable as it forms an integral part of the operations of any department or entity and is integral to effective service delivery. The Department monitored compliance with supply chain management prescripts, practices and systems and regularly provided feedback and recommendations to departments and entities. This is one area where our province is one of those which is faced with a formidable task to enforce compliance with the constitution and other related prescripts across local and provincial spheres of government to enforce compliance thereof. Where there has been non-compliance, our process must strengthen consequence management on all responsible for these non-compliances with the prescripts governing the procurement environment. Whilst the payment of suppliers within 30-days remains a challenge, we are encouraged by the marked improvement that was registered in this regard.

The provincial audit outcomes for the 2021/22 financial year showed significant improvement, two departments improved to unqualified with no findings (clean) audit opinion and two departments improved from qualified opinion to unqualified with findings. No Department received a disclaimed audit opinion in the past financial year. The number of entities with clean audit opinions remained at two with the Housing Fund remaining clean for the past ten years. The number of qualification paragraphs improved by 65 per cent from thirty-one qualification paragraphs across all departments and entities in the 2019/2020 financial year to twenty-two in the 2020/2021 financial year and eleven in the 2021/2022 financial year.

It remains a challenge to have municipalities submit their annual financial statements on time for auditing. Only eleven municipalities submitted their 2020/21 financial statements on time. While some audit outcomes are still outstanding and there are still challenges at local government level, it is clear that there has been improvement and it is encouraging that there is a steady decrease in the number of disclaimers and adverse opinions. Twenty-one audits (including the Metro) were finalized at the time of reporting. This resulted in six unqualified with findings, thirteen qualified audit opinions and two disclaimers. One district municipality as well as the metropolitan municipality improved from a qualified to unqualified with findings opinion.

Provincial Treasury remains committed to improving fiscal sustainability and financial accountability across provincial departments, entities and municipalities. The Department will continue to work with key role-players such as its sister departments, the AGSA, SALGA and the Provincial Legislature to execute its mandate through its oversight and capacity building activities. The Department is committed to improve the implementation of the 2020-2025 Strategic Plan.

I wish to acknowledge the MEC for Finance for her unwavering support and guidance, our stakeholders such as National Treasury, the AGSA and the Portfolio Committee on Public Accounts and Finance for their valuable inputs and the management and staff of Provincial Treasury for their commitment and dedication to improve the implementation of the Strategic Plan.



Mrs. M.A. Sesing

Accounting Officer: Free State Provincial Treasury

Part A: Our Mandate

1. Constitutional Mandate

The Provincial Treasury's mandate is based on Chapter 13 of the Constitution of the Republic of South Africa Act, 1996 (Act No.108 of 1996).

2. Legislative and policy mandates

The existence of the Provincial Treasury and its operations are governed by the following legislative and policy mandates:

2.1 Legislative mandates

Public Finance Management Act, 1999 (Act No. 1 of 1999)

The Public Finance Management Act (PFMA) regulates financial management in the national government and provincial governments. It aims to ensure that all revenue, expenditure, assets and liabilities of those governments are managed efficiently and effectively and it provides the responsibilities of persons entrusted with financial management in the said governments.

The Provincial Treasury is established in terms of Section 17 of the PFMA (Act No. 1 of 1999) and its functions and powers are set out in Section 18 of the Act. These include amongst other, that the Provincial Treasury must prepare and exercise control over the implementation of the provincial budget and promote and enforce transparency and effective management in respect of revenue, expenditure, assets and liabilities of provincial departments and provincial public entities.

The Provincial Treasury must, furthermore, enforce the Act and prescribed standards and generally recognised accounting practices and uniform classification systems in provincial departments. It must also comply with the Annual Division of Revenue Act and monitor and assess the implementation of that Act in provincial public entities as well as the implementation of national and provincial norms and standards in provincial public entities. Provincial Treasury must intervene by taking appropriate steps, which may include the withholding of funds, to address a serious or persistent material breach of the Act by a provincial department or provincial public entity.

The Act allows the Provincial Treasury to assist provincial departments and provincial public entities to build their capacity for efficient, effective and transparent financial management and to also investigate any system of financial management or internal control applied by such departments and entities.

Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003)

The Act aims to secure sound and sustainable management of the financial affairs of municipalities and other institutions in the local sphere of government and it establishes treasury norms and standards for the local sphere of government.

Section 5(4) of the MFMA, 2003 (Act No. 56 of 2003) determines that the Provincial Treasury must, amongst other, monitor compliance with the Act by municipalities and municipal entities, the preparation of their budgets and the monthly outcome thereof as well as the submission of reports as required by the Act.

It may further assist municipalities in the preparation of their budgets. It may exercise any powers and must perform any duties delegated to it by the National Treasury in terms of the Act and may take appropriate steps if a municipality or municipal entity in the province commits a breach of the Act.

Annual Division of Revenue Act

This Act is passed annually to provide for the equitable share of revenue raised nationally amongst the national, provincial and local spheres of government for the particular financial year. It determines each province's equitable share and allocations to provinces, local government and municipalities from national government's share as well as the responsibilities of all three spheres pursuant to such division and allocations. The Act sets out specific duties for the Provincial Treasury.

2.2 Policy mandates

National Development Plan

The National Development Plan (NDP), which was adopted in September 2012, aims to eliminate poverty and reduce inequality by 2030. In order to achieve this South Africa has to, amongst other, spend more on investment and also improve the quality of such spending through better planning, sound procurement systems and greater competition in the economy. There is a need for greater efficiency in all areas of government expenditure, because the overall envelope is likely to grow relatively slow over the medium term. Particular attention needs to be given to managing the government wage bill, making resources available for other priorities.

Provincial Treasury has to ensure that the provincial fiscal policy framework supports the priorities of the National Development Plan and systems and processes are put in place to reduce inefficiencies in expenditure, improve accountability and support the achievement of a capable and developmental state.

Medium Term Strategic Framework

The Medium Term Strategic Framework (MTSF) 2019-2024 outlines the implementation priorities across South Africa's national development priorities for sixth administration. It aims to address the challenges of unemployment, inequality and poverty through the following three pillars:

- Achieving a more capable state
- Driving a strong and inclusive economy
- Building and strengthening the capabilities of South Africans

The MTSF 2019-2024 is both a five-year implementation plan and an integrated monitoring framework. It translates the ruling party's electoral mandate into government's priorities over a five-year period.

The three pillars underpin seven priorities, which will be achieved through the joint efforts of government, the private sector and civil society. The priorities are:

- Priority 1: A capable, ethical and developmental state
- Priority 2: Economic transformation and job creation
- Priority 3: Education, skills and health
- Priority 4: Consolidating the social wage through reliable and quality basic services
- Priority 5: Spatial integration, human settlements and local government
- Priority 6: Social cohesion and safe communities
- Priority 7: A better Africa and world

The MTSF 2019-2024 serves as a five-year building block towards achieving Vision 2030. All national sector plans, provincial growth and development strategies, municipal integrated development plans, departmental strategic plans and annual performance plans must be aligned to the MTSF 2019-2024. It provides a clear, transformative framework within which national, provincial and local government can plan for and drive service delivery.

Free State Growth and Development Strategy

The Free State Growth and Development Strategy (FSGDS) is steeped within the National Development Plan and serves as the development framework for the entire province. It is an important instrument to shape and coordinate the allocation of resources across government and societal spectrum based on the provincial development needs and priorities.

Provincial Treasury is responsible to ensure that the provincial budget is aligned to the provincial priorities as set out in the FSGDS. In addition, Provincial Treasury has to assist and support provincial departments, public entities and municipalities towards the implementation of Pillar 6: Good governance, Driver 15: Foster good governance to create a conducive climate for growth and development, Long-term Programme: Improve the overall financial management in governance structures in the province to ensure clean audits and appropriate financing towards the growth and development of the province.

3. Institutional Policies and Strategies over the five year planning period

The following are key policies and strategies that the Department will continue with or initiate:

- Ensuring that financial sustainability within the constraint fiscal environment and working towards building contingency reserves for the province.
- Supporting the Provincial Government to implement innovative programmes aimed at stimulating the economy of the province.
- Using government procurement as a tool to assist in transforming the economy and closing some of the gaps that exist from the unequal society of the past and advance economic opportunities for previously disadvantaged designated groups, small businesses and locally produced goods.
- Improving accountability and governance and ensuring that irregular expenditure in the province is reduced and ultimately eliminated.
- Supporting the improvement of intergovernmental coordination, specifically with regard to infrastructure investment and the district model.

Provincial Treasury's strategy for the five years is based on two key elements, which are oversight and capacity building.

The Department will continue to exercise oversight through regular monitoring activities and comprehensive feedback to the administrative and political leadership of departments, public entities and municipalities.

Capacity building is a two pronged strategy with one leg directed at building the financial resources of the province through generating savings by ensuring more effective utilisation of available funds and value for money to build reserves and the other leg directed at building capacity within departments, entities and municipalities to effectively manage and account for the finances in the respective organisations.

Part B: Our Strategic Focus

1. Vision

An innovative and resilient partner in prudent fiscal management, socio-economic growth and service delivery.

2. Mission

To promote socio-economic inclusiveness for shared growth through:

- Innovative fiscal management;
- Sustainable resource management; and
- Good governance.

3. Values

The actions of every Provincial Treasury employee are guided by the following values and principles:

Accountability	<i>We will honour our commitments; we will take responsibility and we will act in a transparent manner</i>
Assertiveness	<i>We will be honest, firm and decisive in our interaction with stakeholders</i>
Collaboration	<i>We will be considerate in working with our stakeholders to realize shared goals. We will be devoted, dedicated and involved</i>
Professionalism	<i>We will continuously develop our knowledge, skills and competency. We will deliver high quality work and behave politely.</i>
Integrity	<i>We will conduct ourselves with uncompromising standards and principles as individuals, as teams and as a department</i>

Part C: Measuring Our Performance

1. Impact statement

Impact Statement	Sustainable and accountable fiscal governance in provincial departments, public entities and municipalities
-------------------------	---

Progress made towards the achievement of the impact statement.

For the period under review the Department's priority was to continue to ensure ***sustainable and accountable fiscal governance in provincial departments, public entities and municipalities.*** To achieve this impact, the Department continued to pursue the following outcomes:

- Sound and responsive management practices
- Improved fiscal sustainability in provincial departments and public entities
- Improvement in financial accountability in provincial departments and public entities
- Improved fiscal sustainability in municipalities
- Improvement in financial accountability in municipalities
- FIDPM and IDMS institutionalised in the province for effective and efficient infrastructure delivery and management

There is notable progress that has been made against most of the above outcomes though there are areas in which efforts will have to be intensified to achieve the desired impact. The Department will continue to monitor progress towards the achievement of the targets, which have been set for these outcomes, on a regular basis and implementing corrective measures where necessary.

A detailed report of progress made towards the achievement of the outcomes and impact statement is included in Section 2.2 of this report with some of the achievements and challenges of the Provincial Treasury over the past two and half financial years.

2. Progress on the Achievement of Outcomes

2.1 Table of Outcomes, Indicators and Targets

Outcome	Outcome Indicator	2019/20 Baseline	2024/25 Target	Actual achievement as at 30 September 2022	Data Sources	Improvements required for the remainder of the planning period
Sound and responsive management practices	Audit outcome	Unqualified with findings (2018/19 financial year)	Unqualified with no findings (clean)	Unqualified with no findings (clean) [2021/22 financial year]	Administrative records (Auditor General Report)	Control measures to be maintained.
Improved fiscal sustainability in provincial departments and public entities	Cash coverage: Bank balance as a % of the budget of the following year	-0.65% (2018/19 balance of -R243.84 million as % of 2019/20 budget of R37.27 billion)	-0.1%	0.68% (2021/22 balance of R277.267 million as % of 2022/23 budget of R40.981 billion)	Provincial Revenue Fund annual financial statement	Cash management control measures to be maintained.
	Accruals and payables as a % of the budget of the following financial year	5.9% (2018/19 Accruals and payables of R2.2 billion as % of 2019/20 budget of R37.27 billion)	5% or less	5.8% (2021/22 Accruals and payables of R2.362 billion as % of 2022/23 budget of R40.981 billion)	Consolidated annual financial statement	Continued monitoring of payment of suppliers within 30 days.
	Unauthorised expenditure as a % of the budget of the following financial year	1.7% (2018/19 Unauthorised expenditure of R617.6 million as % of 2019/20 budget of R37.27 billion)	1.2%	1.3% (2021/22 Unauthorised expenditure of R515.570 million as % of 2022/23 budget of R40.981 billion)	Consolidated annual financial statement	Continued monitoring of expenditure, particularly compensation of employees.
	Compensation of employees as a % of total budget	62%	60%	62.5%	Estimates of Provincial Revenue and Expenditure (EPRE)	Continued monitoring of human resource plans and spending on compensation of employees.
	Contingency reserves	R50 million	R100 million	R0	Administrative records	The target to be reviewed in line with current fiscal realities.
Improvement in financial accountability in provincial departments and public entities	Fruitless and wasteful expenditure as a % of total expenditure	0.12% (R40.6 million of 2018/19 expenditure of R34.98 billion)	0.05%	0.2% (R62.577 million of 2021/22 expenditure of R39.558 billion)	Consolidated annual financial statement	Monitoring of unwanted expenditure to be intensified and hands on support to be provided through the appointment of a panel of experts for forensic investigations and unwanted expenditure.

Outcome	Outcome Indicator	2019/20 Baseline	2024/25 Target	Actual achievement as at 30 September 2022	Data Sources	Improvements required for the remainder of the planning period
	Irregular expenditure as a % of the total expenditure	7.1% (R2.5 billion of 2018/19 expenditure of R34.98 billion)	2%	4.69% (R1.855 billion of 2020/21 expenditure of R39.558 billion)	Consolidated annual financial statement	Monitoring of compliance with regulatory frameworks to continue and hands on support to be provided through the appointment of a panel of experts for forensic investigations and unwanted expenditure.
	Percentage of Provincial Treasury findings on Draft Annual Financial Statements resolved	95.5% (2018/19 Draft)	95% annually	95% (2021/22 draft AFS)	Administrative records	Assessment of interim and draft financial statements to continue.
	Percentage compliance to the minimum requirements of the AFS work file	4 Departments scored between 80 and 89% and 8 departments scored 90% or higher (2019/20 3 rd Quarter IFS work file)	12 Departments ≥ 90% 2 Entities ≥ 80%	11 Departments ≥ 90% 2 Entities ≥ 80% (2021/22 IFS work file)	Administrative records	Assessment of work files to continue.
	Total number of audit qualification paragraphs	47 (2018/19 financial year)	12 (75% reduction)	11 (2021/22 financial year)	Annual Reports/Audit reports and AGSA consolidated report	Support to departments and entities to continue. Target to be reviewed in light of the better than anticipated performance.
	Number of departments and entities to achieve a score of 90% or higher on Risk Management and Internal Audit KPIs	Risk Management: 7 Departments and 1 public entity Internal Audit: 8 Departments and 1 public entity	Risk Management: 12 Departments and 2 public entities Internal Audit: 12 Departments and 1 public entity	Risk Management: 9 Departments and 0 public entity Internal Audit: 8 Departments and 0 public entity	Administrative records	Monitoring and support to departments and entities on Risk Management and Internal Audit to be intensified.
Improved fiscal sustainability in municipalities	Number of municipalities with fully funded budgets as at 30 June	8 (2019/20 budget)	16	7 (2022/23 budgets)	Administrative records	Capacity building to be intensified and assessment of budgets to continue
	Number of municipalities in financial distress	10	5	18	Administrative records	Continue to monitor and report on budget performance and support interventions in municipalities.

Outcome	Outcome Indicator	2019/20 Baseline	2024/25 Target	Actual achievement as at 30 September 2022	Data Sources	Improvements required for the remainder of the planning period
Improvement in financial accountability in municipalities	Unauthorised expenditure as a % of total expenditure	32.9% (¹ R3.16 billion of total expenditure of R9.6 billion for 2018/19) ³ Updated 22.30% (3.614 billion of total expenditure of R16.207 billion for 2018/19)	10%	19.08% (⁴ R3.745 billion of total expenditure of R19.632 billion for 2020/21)	Municipal Annual Financial Statements	Technical support and capacity building to continue.
	Fruitless and wasteful expenditure as a % of total expenditure	4.17% (¹ R0.40 billion of total expenditure of R9.6 billion for 2018/19) ³ Updated 6.01% (R0.975 billion of total expenditure of R16.207 billion for 2018/19)	2.5%	2.26% (⁴ R0.443 billion of total expenditure of R19.632 billion for 2020/21)	Municipal Annual Financial Statements	Technical support and capacity building to continue. Specific training and handholding interventions focusing on preventative control measures and processing of prior period UIF&W expenditure to be undertaken.
	Irregular expenditure as a % of the total expenditure	7.53% (¹ R0.72 billion of total expenditure of R9.6 billion for 2018/19) ³ Updated 8.02% (1.3 billion of total expenditure of R16.207 billion for 2018/19)	5%	5.96% (⁴ R1.171 billion of total expenditure of R19.632 billion for 2020/21)	Annual Financial Statements of municipalities	Technical support and capacity building to continue. Specific training and handholding interventions focusing on preventative control measures and processing of prior period UIF&W expenditure to be undertaken.
	Number of municipalities that concluded the FMCMM self-assessment	6	16	6 (includes municipalities since 2016)	Administrative records	FMCMM self-assessment to be encouraged and monitored once web-based system is in place.
	Number of municipalities that submitted the Annual Financial Statements on time	13 (2018/19 financial year)	22	13	Administrative records	Technical support, capacity building and monitoring of development of AFS to continue.
	Total number of audit qualification paragraphs	² 120 (2017/18 financial year) ³ Updated 180	80	76 (2020/21 financial year – 20 Audits finalised, includes 2 disclaimer)	Annual Reports/Audit reports and AGSA consolidated report	Technical support and capacity building to continue.

Outcome	Outcome Indicator	2019/20 Baseline	2024/25 Target	Actual achievement as at 30 September 2022	Data Sources	Improvements required for the remainder of the planning period
FIDPM and IDMS institutionalised in the province for effective and efficient infrastructure delivery and management	Infrastructure Progression Model (IPM) assessment score	Departments: 1 Dept at 51.75% and 1 Dept at 49.75% (only two departments assessed in 2018/19)	Departments: 8 Depts at 80% or higher	Departments: 1 Dept at 73% 1 Dept at 68% 1 Dept at 56% 1 Dept at 58% 1 Dept at 64% 1 Dept at 52% 1 Dept at 42% 1 Dept at 54%	Administrative records	The Department is currently building its capacity to assess and support departments. It is however not foreseen that assessments will be conducted in municipalities with the current capacity and the target will have to be reviewed.
		Municipalities: Baseline to be established with 2020/21 assessment	Municipalities: 10 Municipalities at 50% or higher	No assessments have been conducted at municipalities yet.		

¹ The original baseline is based on the audited figures of 15 of the 22-delegated municipalities, 7 audits for 2018/19 were not yet finalised at the time of setting the baseline.

² The original baseline is based on the audited figures of 19 of the 22-delegated municipalities, 3 audits for 2017/18 were still outstanding.

³ The baseline has been updated following the completion of the audits.

⁴ Include unaudited information for 2021/22 as two audits were not yet completed

2.2. Explanation of Achieved Performance Over the Mid-Term Period

Sound financial management is key to achieving the seven apex priorities of the Medium Strategic Framework and in particular to the achievement of Priority 1: A Capable, Ethical and Developmental State.

In accordance with its mandate in terms of the PFMA and the MFMA, Provincial Treasury is responsible for ensuring sound and sustainable financial management in provincial departments, public entities and municipalities.

The outcomes that the department pursued are all key aspects of sound financial management and contribute directly to following interventions under Priority 1 in the MTSF:

- Improve financial management capability in the public sector
- Measures to eliminate wasteful, fruitless expenditures and irregular expenditure in the public sector.

The outcomes furthermore contributed to the achievement of Pillar 6: Good Governance, Driver 15: Foster good governance to create a conducive climate for growth and development of the Free State Growth and Development Strategy.

Progress towards the achievement of the impact statement: “Sustainable and accountable fiscal governance in provincial departments, public entities and municipalities” is a culmination of the progress made in terms of the outcome indicators that have been identified. These are discussed in detail below.

Outcome 1: Sound and responsive management practices

Sound and responsive management practices are key components of achieving a capable, ethical and developmental state as envisioned in the Medium Term Strategic Framework. It is also a critical enabler to delivering the outputs that are required to achieve the desired outcomes. The audit opinion expressed by the Auditor General is used as an indicator to measure the extent to which the Department achieved this outcome. The Department improved from the baseline of an unqualified with findings opinion in the 2018/19 financial year to an unqualified with no findings (“clean”) audit opinion for the 2019/20 financial year. In the 2020/21 financial year the Department regressed to an unqualified with findings audit opinion, mostly due to non-compliance with supply chain requirements with the procurement of PPE during the COVID-19 pandemic. The Department reverted back to clean audit status in the 2021/22 financial year and has measures and controls in place to retain its clean audit status.

The quality of interim financial statements as well as the Department’s performance in the Key Control Matrix (KCM) assessments are some of the indicators that are used to gauge the Department’s progress in terms of financial management. The Department was able to reduce the average number of findings on interim financial statements from nine in 2019/20 to five findings in the 2021/22 financial year. The assessment score on the accuracy and completeness of the IFS work-file improved from 96% in 2019/20 to 97% in the 2021/22 financial year.

The Department further focused on compliance with the PFMA and other related requirements by improving the percentage of Key Control Indicators at level four score on Provincial Treasury’s KCM assessment for both monthly and quarterly assessments.

Having the required human capabilities is critical to achieving a capable state. Therefore, integral to sound management practices is ensuring that the department is adequately staffed and has the necessary skills and competencies available. This included ensuring that the Department improves in employment of designated groups, particularly with regard to women at senior management level and people with disabilities as well as improving the training of employees.

Outcome 2: Improved fiscal sustainability in provincial departments and public entities

Towards ensuring improved fiscal sustainability in provincial departments and public entities, the Department focused on improving the provincial cash coverage, reducing accruals and payables, reducing unauthorised expenditure and limiting the provincial wage bill as well as increasing contingency reserves.

The provincial **cash coverage**, which is measured as the bank balance at the end of the financial year as a percentage of the budget of the following financial year, improved from a baseline of -0,65% in 2019/20 to -0.11% in the 2021/22 financial year and further improved to 0.68% in 2022/23 financial year with the province ending the 2021/22 financial year with a cash balance of R277.267 million. The Department will continue with cash management measures such as limiting disbursement runs and investing excess cash on short-term periods to generate additional revenue in the form of interest.

The high level of **accruals and payables** increases pressure on the budget and impacts on financial sustainability as the province technically starts a financial year on a deficit. Accruals and payables, measured as a percentage of the budget of the following financial year, improved slightly from the baseline of 5.9% in 2019/20 to 5.6% in 2020/21 and further to 5.4% in the 2021/22 financial year. Although it regressed to 5.8% in the 2022/23 financial year, there is a slight improvement from the baseline of 5.9%.

The inability of departments to pay suppliers within 30 days remains a major concern not only because of the role that government procurement plays in the empowerment of Small, Medium and Micro Enterprises (SMMEs) but also because of the impact it has on accruals and payables. Some of the factors that have been reported to contribute to the challenge of paying suppliers within 30 days include difficulties with the Central Supplier Database, the tax status of suppliers and service providers, disputed invoices and inadequate funding. Regular monitoring and reporting on 30-day payment of suppliers were done to improve compliance to Treasury Regulations 8.2.3 and Instruction Note 34/2012 to settle accounts within required timeframes. The Department further implemented a grievance procedure to assist service providers. By the end of the 2020/21 financial year the province had 74 559 invoices to the value of R 3, 441, 229, 558.33 that were older than 30 days. This however improved significantly to 43 055 invoices to the value of R903, 789, 391.01 at the end of 2021/22 financial year.

The province made a noticeable progress towards reducing **unauthorised expenditure** in departments. The number of departments that incurred unauthorised expenditure declined from five departments in 2019/20 to three departments in 2020/21 and further declined to two departments in 2021/22. Unauthorised expenditure measured as a percentage of the budget of the following financial year decreased from the baseline of 1.7% in 2019/20 to 1.3% in 2021/22.

Areas that still need further attention include reducing the **compensation of employees** as a percentage of the total budget as well as building **contingency reserves** for the province.

For the 2019/20 financial year, **compensation of employees** accounted for 62% of the provincial budget, which increased to 64.4% in 2020/21. It decreased to 62.7% in 2021/22 and for the 2022/23

financial year, COE amounted to 62.5% of the provincial budget. The Department will continue with the critical analysis of recruitment plans as per the human resource plans of departments and monitoring of spending on COE as the unsustainably high levels of the public sector wage bill will have to be managed downwards to unlock funding for other priorities as well as derive efficiency on compensation of employees' budgets. The target may however have to be reviewed given the budget cuts in prior years and the latest improvement in conditions of service of employees.

The COVID-19 pandemic and the fiscal reforms brought by the drive to stabilize the budget deficit and government debt not only depleted the **contingency reserve**, but it greatly impacted on the province's ability to build contingency reserves. As a result the contingency reserve decreased from the baseline of R50 million to zero in the 2022/23 financial year. The limited resources that are available to address the challenges of poverty, inequality and unemployment will make it very hard for the province to reach the 5-year target of a contingency reserve of R100 million and the target will have to be revised despite the commitment to fiscal prudence and accountability.

In pursuit of improved fiscal sustainability in provincial departments and public entities the department had the following outputs over the past two and a half years:

The Sustainable Resource Management Programme produced five research papers, two Provincial Economic Review and Outlook (PERO) and two District Economic Review and Outlook (DERO) publications, 10 Quarterly Labour Market Reviews, 30 reports on Provincial Own Revenue, 30 monitoring reports on Conditional Grants, 10 reports on non-financial performance of public entities, 10 monitoring reports on funded priorities, 10 analysis reports on spending on personnel by provincial departments, two reports on the analysis of recruitment plans, 38 in-year monitoring reports on expenditure and tabled three Appropriation Bills and 5 Adjustment Appropriation Bills.

The Asset and Liabilities Management Programme produced 130 SCM compliance assessment reports to departments and entities, 52 Procurement Plan assessment reports, 12 supplier development sessions, 30 reports on payment of suppliers within 30 days, 120 reports on monitoring of assets, 108 reports on the assessment of asset management KPIs and ensured that BAS terminal servers were available on average 99.8% of working hours.

Outcome 3: improved financial accountability in provincial departments and public entities

In pursuit of improved financial accountability in provincial departments and public entities the Department focused on reducing irregular, fruitless and wasteful expenditure, improving the quality of financial statements as well as reducing the number of audit findings in the province.

The province made a noticeable progress towards reducing **irregular expenditure** in the departments and entities. Irregular expenditure measured as a percentage of the total expenditure decreased from the baseline of 7.15% in 2018/19 to 7.03% in 2019/20 and further decreased to 4.97% in the 2020/21 financial year as well as 4.69% in 2021/22 financial year.

One of the main reasons for the high levels of irregular expenditure incurred in the province is non-compliance with SCM legislation. The Department monitors compliance with SCM prescripts on a regular basis and provides accounting officers with feedback, with the expectation that it would contribute towards improving compliance with legislation subsequently a reduction in irregular expenditure. Provincial Treasury is furthermore in the process of appointing a panel of experts to provide hands on support to departments and public entities with regard to forensic investigations and unwanted expenditure. The Department will however have to review the 5-year target as the current trend indicates that it is not achievable.

Another area that needs further attention is **fruitless and wasteful expenditure**, which is measured as a percentage of the total expenditure. Though it significantly improved by 83.3 percentage points from the baseline of 0.12% in 2018/19 to 0.02% in 2019/20, it regressed to 0.2% in 2020/21 and remained constant at 0.2% in 2021/22, which is a regression of 66.6 percentage points from the baseline. The steep increase in fruitless and wasteful expenditure is partly due to interest on the ENGO case and COVID-19 extension of time claims. The Department will continue to monitor fruitless and wasteful expenditure through the key control matrix reporting.

To improve financial accountability, the Department worked towards improving the quality of financial statements and reducing the number of audit findings.

To improve the quality thereof quarterly interim financial statements, draft AFS as well as work files of all departments and entities were assessed and detailed assessment reports were provided to accounting officers and CEOs for consideration of the findings and rectifications before submission of the unaudited AFS to AGSA. Assessment reports were also forwarded to Chief Audit Executives and Chairpersons of Audit Committees for their information and enhancement of their oversight role. Provincial Treasury's assessment and recommendations enabled departments to improve the quality of the financial statements before it is submitted for auditing.

The **percentage of Provincial Treasury findings on interim and draft annual financial statements** that departments and entities resolved, prior to submitting the financial statements for auditing, improved slightly from the baseline of 95.5% (2018/19 draft AFS) to 95% (2021/22 draft AFS). For the 2020/21 financial year three departments resolved 100% of the findings and this was improved to five departments that resolved 100% of the findings in the 2021/22 financial year.

In order to improve the quality of the work files, assessments were also done to determine adherence to minimum requirements of the audit work file. The **percentage compliance with the minimum requirements of the AFS work files** improved from the baseline of four departments that scored between 80 and 89% and eight departments that scored 90% or higher (2019/20 3rd quarter IFS work file) to nine departments that scored more than 90% compliance and two entities that scored more than 80% compliance in the 2020/21 financial year. The compliance further improved to 11 departments that scored more than 90% and two entities that scored more than 90%.

The **number of qualification paragraphs** improved from the baseline of 47 qualification paragraphs for the 2018/19 financial year across all departments and entities to 31 for the 2019/20 financial year. The qualification paragraphs further improved to 22 for the 2020/21 financial year and to 11 in the 2021/22 financial year. That is a 77% improvement from the baseline.

With the assistance of all oversight programmes in Provincial Treasury the province had four "clean audits" at the end of 2021/22. (Provincial Treasury and COGTA improved from unqualified with findings audit opinions to unqualified with no findings audit opinions or "clean audits". Fleet Management and the Housing Fund retained their clean audits.

Non-compliance with laws and regulations also improved by 45% over the past two financial years. In the 2019/20 financial year there was 169 non-compliance paragraphs which improved to 129 non-compliance paragraphs in the 2020/21 financial year and further improved to 93 non-compliance paragraphs (excluding FDC) for the 2021/22 financial year.

Assessment of risk management and internal audit activities in departments aims to provide information on the capacity and effectiveness of governance structures which play a key role in ensuring a healthy control environment in departments. The **number of departments and entities that achieved a score**

of 90% or higher on Risk Management KPIs slightly improved from the baseline of seven departments to eight departments in 2022/23. Challenges include the lack of implementation of combined assurance in some departments, non-functionality of risk management committees and lack of capacity in anti-fraud and corruption units, which is perpetuated by lack of training of staff in departments where the tasks are delegated to other units.

With regards to **Internal Audit KPIs** the number of departments that achieved above 90% remained stagnant at eight compared to the baseline and the number of public entities regressed from one to zero. Challenges include inadequate internal audit structures and vacant internal audit positions, external assessments not conducted and audit committee reports not prepared/signed and submitted to accounting officers and accounting/executive authorities.

Provincial Treasury will continue to monitor and support departments and entities with regard to risk management and internal audit through key control matrix reporting, bi-annual assessments and training and capacity building activities.

In terms of financial accountability, the Financial Governance Programme produced nine reports on the assessment of interim and draft annual financial statements and work files in addition to the feedback reports to departments and entities and 40 consolidated key control matrix reports, which is over and above the feedback reports to departments and entities. It furthermore tabled two Annual Report of consolidated financial statements. The programme produced five consolidated reports on compliance with risk management and fraud and ethics risk regulatory requirements and four consolidated reports on compliance with internal audit activities regulatory requirements. These reports were over and above the individual feedback reports to departments and entities. The programme furthermore provided five training sessions to build capacity and promote risk management and internal audit for provincial departments and entities. Eight fraud awareness sessions were held.

Outcome 4: Improved fiscal sustainability in municipalities

In pursuit of improved fiscal sustainability in municipalities, the Department aimed at ensuring that municipalities table funded budgets and that the number of municipalities in financial distress is reduced. However, performance in these areas was less satisfactory and more attention and efforts are required.

The **number of municipalities with fully funded budgets as at 30 June** declined from a baseline of eight to seven municipalities (including Mangaung Metro). Provincial Treasury assessed budgets based on the completeness of budget submissions and funding of budgets. Municipalities that did not have funded budgets were required to compile and table credible budget funding plans that would ensure that municipalities would be working towards funded budgets over a certain period. Provincial Treasury will continue to support municipalities on the submission of quality datasets, developing credible funding plans, tariff setting and valuation roll reconciliation. The Department will furthermore regularly monitor progress and the budget process plan.

The **number of municipalities in financial distress** increased from the baseline of ten municipalities in the 2019/20 financial year to 18 municipalities at the end of September 2022. The state of municipal finances is measured using 13 key indicators identified in the Funding Compliance Methodology and MFMA Circular no. 42. The assessment and ratios that are used to determine financial distress were calculated based on the information (data strings) submitted by municipalities and extracted from the National Treasury Local Government Database. Provincial Treasury monitors municipal financial performance on a regular basis and provide monthly and quarterly consolidated municipal budget performance reports. The inability of municipalities to collect revenue is a major concern. In September 2022 the collection rate for the province reported by municipalities was only 57.4%. The Department is

intensifying its monitoring of revenue management in targeted municipalities and is also building revenue and debt related capacity in municipalities. The Department will furthermore continue with its monthly analysis of budget performance and providing feedback and support to municipalities.

The improvement of fiscal sustainability and financial accountability in municipalities remains a priority for the Department and particular attention will be paid to financial recovery of municipalities during the remainder of the five-year period.

Over the past two and half years the Municipal Finance Management Programme produced three consolidated reports on the assessment of tabled municipal budgets in addition to the budget bilaterals and hands-on support that was provided to municipalities. The Programme furthermore produced ten Section 71(7) monitoring reports on the state of municipalities' budget performance. Six reports have been produced on revenue management at targeted municipalities, 11 revenue and debt related intergovernmental relations engagements and six capacity building sessions were held.

Outcome 5: Improvement in financial accountability in municipalities

To ensure improvement in financial accountability in municipalities, key priorities were to support municipalities to reduce unauthorised, fruitless, wasteful and irregular expenditure; increase the number of municipalities that conclude the FCMMS self-assessment; support municipalities to submit annual financial statements on time and reduce the number of audit findings.

Unauthorised expenditure as a percentage of the budget of the following financial year decreased from the updated baseline of 22.3% (2018/19 financial year) to 19.08% in the 2020/21 financial year. Unauthorised expenditure emanates from e.g. under budgeting of non-cash items such as depreciation, provision of debt impairment etc. which are addressed through capacity building, budget bilaterals etc.

Irregular expenditure as a percentage of the budget of the following financial year decreased from the updated baseline of 8.02% (2018/19 financial year) to 5.96% in the 2020/21 financial year. Non-compliance with legislation, particularly in the area of procurement and contract management, e.g. lack of competitive bidding processes, inadequate number of quotations etc., is one of the main reasons for the high levels of irregular expenditure. Provincial Treasury is in the process of appointing a panel of experts to support municipalities through probity audits.

Fruitless and wasteful expenditure as a percentage of total expenditure also improved from the updated baseline of 6.01% (2018/19 financial year) to 2.26% for the 2020/21 financial year. Fruitless and wasteful expenditure consist mainly of interest and penalties due to bulk service providers and SARS.

The Department will continue to support municipalities in implementing preventative control measures and empowering councils to deal with all forms of unwanted expenditure. The Department will furthermore work with stakeholders such as COGTA and SALGA on capacitating municipalities in disciplinary processes linked to unwanted expenditure.

Financial reporting is a key aspect of accountability and the timely submission of financial statements is therefore one of the indicators that are measured in the pursuit of improved financial accountability. The **number of municipalities that submitted annual financial statements on time** improved slightly from the baseline of 13 municipalities (2018/19 financial year) to 14 municipalities in the 2019/20 financial year. This however regressed to 13 municipalities in the 2021/22 financial year. In some instances the late submission follows on late submission in the prior year, which result in the late finalisation of the

audit of the previous financial year. Other challenges include employee strikes, resignation or contracts of key employees coming to an end, closing of financial systems due to financial constraints etc. The Department will continue with its efforts to support municipalities in this regard by continuing to monitor and report on the preparedness of municipalities to submit their financial statements in order to allow for timely intervention when necessary, assessing draft statements that have been submitted to the department and providing training and hands on support.

The **number of audit paragraphs** increased from an updated baseline of 180 for the 2017/18 financial year to 240 for the 2018/19 financial year where after it decreased to 189 paragraphs for the 2019/20 financial year, with one audit still outstanding. With two audits still outstanding the total number of audit paragraphs for the 2020/21 financial year amounts to 76. Although there has been real improvement in the number of audit paragraphs it should be noted that in the case of one municipality the financial statements were disclaimed in its entirety without individual paragraphs. Provincial Treasury will continue to monitor the development and implementation of audit action plans, build capacity through training and hands on support.

There has been no progress on the **FMCMM self-assessment** as most municipalities were not able to complete the self-assessment due to the COVID-19 pandemic. Municipalities will however be encouraged to conduct the self-assessment.

In its endeavour to improve financial accountability in municipalities, the Municipal Finance Management Programme produced four reports on the monitoring of audit action plans in municipalities, three monitoring reports on submission of annual financial statements to the AGSA, supported 22 municipalities on SCM compliance and had one asset management forum meeting. All delegated municipalities (22) were assessed and supported on internal audit and risk management and five internal audit and risk management training sessions were held.

Outcome 6: FIDPM and IDMS institutionalised in the province for effective and efficient infrastructure delivery and management

On the outcome FIDPM and IDMS institutionalised in the province for effective and efficient infrastructure delivery and management, IPM assessments were conducted for departments with infrastructure. The Infrastructure Progression Model measures the level of institutionalisation and impact of the IDMS within a department/municipality. It measures the capability and maturity as well as the performance in planning, procurement, delivery and management of infrastructure by a department/municipality using the IDMS methodology and highlights areas where further development is needed.

Eight departments were assessed on the IPM in 2020/21 as well as 2021/22 compared to only two in 2019/20. One department scored 73% while two departments scored above 60%, four departments scored above 50% and one department above 42%. The highest score in the 2020/21 assessment was 68% and the highest score in the 2021/22 was 73%. The Department had limited capacity for monitoring and overseeing infrastructure and could therefore not assess municipalities as well. Although the Department is in the process of appointing officials in the unit, it may not be possible to assess municipalities as planned and the target may have to be reviewed.

In pursuit of institutionalizing FIDPM and IDMS in the province, the Sustainable Resource Management Programme produced 27 UAMP assessment reports, two Custodian Asset Management Plan assessment reports, 16 Infrastructure Progression Model assessment reports, 10 reports on monitoring of infrastructure projects and ten reports on quarterly infrastructure reviews. Two departments were assessed twice for the infrastructure performance based incentive grant.

Conclusion

The outcomes that Provincial Treasury pursues and its efforts to strengthen and institutionalize the principles of transparency, accountability, responsibility, efficiency and effectiveness in the utilisation of public resources in provincial departments, entities and municipalities will not bear fruit without the cooperation and commitment of client organisations to the same principles and ideals.

The Department is encouraged by the pledges to quality service delivery, good governance and fiscal and financial management that the executive authorities, accounting officers, chief executive officers and chief financial officers of departments and entities signed in November 2021 and is committed to provide the oversight and support necessary to achieve the outcomes set out in the 2020-2025 Strategic Plan.