



Member of the Executive Council  
for Finance  
FREE STATE PROVINCE

## **2016 FREE STATE PROVINCIAL TREASURY BUDGET VOTE SPEECH**

**Hon. Elzabe Rockman  
MEC for Finance**

**22 MARCH 2016**

Honourable Speaker  
Honourable Premier and Members of the Executive Council  
Members of the Legislature  
Invited guests,

Let us acknowledge the privilege we had yesterday to commemorate Human Rights Day and honour those who sacrificed their lives in the struggle for our freedom. Whilst we value and celebrate the Bill of Rights that sets out the very foundation of our Constitution, there are instances that forces us back to the reality that there are elements in our society that have not embraced the values of a non-racial and equal South Africa that we have committed ourselves to promote and embrace.

It makes no material difference whether those instances are the blatant racist comments of individuals gone viral on social media or the subtlety of the nuanced language play that underscores the insidious and far more dangerous nature of embedded racism in our society. For all of us who truly believe in the values of a democratic, non-racial and non-sexist society, it is time to be reminded that there is no room for neutrality in the fight against racism and prejudice.

The failure to speak and act against racism and prejudice allows the further entrenchment of a subculture that must have no space in our society. It is our responsibility, individually and collectively, to actively promote the vision of the South African nation that we wish to create for our children and to live those values in our daily lives. Our commitment to achieve that ideal cannot hesitate or falter.

### **Credit Rating and Turn-Around Strategy**

Hon. Speaker, the Provincial Budget Speech set out the details of government's response to the global, regional and national economic context as well as our provincial response thereto. During the past week, reference has often been made to what this means in practical terms for our various provincial departments. Our national discourse has also been dominated by the announcement of one of the three prominent international rating agencies, Moody's, that it has placed South Africa on the review list for a possible downgrade to one investment notch above the so-called "junk status".

Allow me to briefly reflect on the matter of the international credit ratings agencies. In recent times, we have become overly-familiar with the names of Moody's, Standard & Poor's and Fitch without necessarily having a clear understanding of who they are and what they do.

The three biggest rating agencies that exist are Moody's Investors Service, Standard & Poor (S&P) as well as the Fitch Group. The first two are based in the USA and control 80% of market share whilst the Fitch Group owns approximately 15% of market share, making these three the most dominant credit rating agencies in existence.

Two initiatives within the BRICS block, aim to challenge the traditional dominance of the established ratings agencies. The first of these initiatives was launched in November 2013 with credit ratings organizations from five countries (India, South Africa, Brazil, Portugal and Malaysia) formed a joint venture to launch ARC Ratings as an alternative to the "Big Three".

The second initiative saw Russia and China announcing the establishment of a joint rating agency in June 2014. These two initiatives will face significant challenges to overcome the reliance and trust placed on the existing so-called "Big Three" credit rating agencies. It may take some time before the new credit rating agencies make a significant impact on the global market.

The ratings agencies basically tells investors that a government has a track record and indicates how likely it is to be able to pay back the money. It is these ratings that then influences the rates at which markets are willing to lend to national governments.

Some of the factors that rating agencies consider to determine the credit rating of a government, include the following;

- Level of government borrowing
- Level of national debt
- Prospects for economic growth
- Debt interest payments as a % of GDP
- Investor confidence
- Who owns the debt? If the debt is owned by domestic individuals and domestic pension funds, the debt is less risky to capital flight
- Debt Maturity

The last time South Africa had a junk credit rating from Moody's was during the period 1995 to 1999. In general, the country has been viewed as having adequate payment capacity over the last 15 years. Whilst the underlying factors for the downgrade then are fundamentally different if compared to the current situation, fact of the matter is that South Africa was able to extricate itself from the downgrade and became a beacon of hope and a preferred investment destination in Africa and amongst the emerging markets.

Government is fully aware of the implications of a downgrade on the country, on business, on ordinary people, and particularly the poor. Notwithstanding the sustained efforts of our detractors, this ANC government continues to provide leadership on all challenges that face us as a country. Government's turnaround strategy to address both the ailing economy of South Africa as well as the looming downgrade by ratings agencies are based on 10 key elements as set out in the 2016 State of the Nation Address. These ten elements are;

- Investment Promotion – marketing of South Africa as a preferred investment destination;
- Red-Tape Reduction – review of legislative and regulatory blockages;
- Improved governance and financial viability of State Owned Enterprises as well as the establishment of the state-owned pharmaceutical company;
- Tourism Promotion – taking advantage of weaker foreign exchange rate to boost inbound tourism;
- Empowering Small, Micro & Medium Enterprises (SMMEs) – ensure SMMEs have access to high-quality and innovative business support
- Economic transformation for inclusive growth – transform the economy through industrialization and manufacturing, including the creation of black industrialists;
- Establishing a centre of excellence for financial services and leadership training – this is to take advantage of our sound financial sector and ensure that South Africa can attract, nurture, develop and retain the best talent in financial services;
- Cost cutting measures and elimination of wasteful expenditure – these are intended to strengthen the efficiency of the state in service delivery and promote value for money;
- Implementing Phase 2 of the Back to Basics programme with more focus on monitoring and accountability in the provision of services and the spending of scarce public funds by local government; and
- Global Partnerships – membership and participation in global partnership should continue to give South Africa a comparative advantage when it comes to trade agreements and other issues of international importance.

These elements speak directly to the main characteristics of our national and provincial budget approach, such as our fiscal consolidation stance, the reduction in the expenditure ceiling, the containment of the national and provincial public service wage bill, our cost containment measures and the emphasis that we place on provincial and local economic development to ensure that we grow our economy. We call on all the role players to support these initiatives as they are in the best interest of our country and its people.

Honourable Speaker, the world is rapidly globalising. This provides many opportunities but also major challenges to the nations and people of the world. Interdependence in the world economy is reflected in the flow of goods, services, labour and capital across

national boundaries. Financial markets are rapidly globalising and a financial crisis in one financial centre quickly spreads across the world at the click of a mouse.

The achievement of faster sustainable growth and large scale job creation through structural shifts in the economy, stronger supply-side value chains, higher exports, moderate wage increases and, crucially, growing private-sector investment based on confidence in the long term business environment, reliability of power supply and the expedition of the new power stations are essential for the growth of our economy.

### **Strategic Plan and APP of Provincial Treasury**

Honorable Speaker, although the Provincial Treasury does not render services directly to the public, we make a substantial contribution to the creation of an enabling environment at the centre of government. It is within this environment that we execute our mandate, including;

- preparing the provincial budget and monitoring and controlling the implementation thereof,
- promoting and enforcing transparency and effective management in respect of revenue, expenditure, assets and liabilities of provincial departments and public entities,
- promoting financial governance and ensuring compliance with relevant public sector finance-related legislation, including the;
  - Public Finance Management Act, 1999
  - Municipal Finance Management Act, 2003 and the
  - Public Audit Act, 2004
  - Annual Division of Revenue and Adjustment Appropriation Acts of national government as well as our provincial Appropriation and Adjustment Appropriation Acts
- Supporting and strengthening of the local government financial management environment, including our initiatives with our provincial Department of Cooperative Governance & Traditional Affairs and National Treasury.

This budget vote speech aims to provide an overview of our performance during the current financial year and outlines our priorities and programmes for the 2016/17 financial year.

## Progress in 2015/2016

Hon. Speaker, allow me to highlight some of the progress registered by the Provincial Treasury during the course of the current financial year;

### Fiscal Environment

Provincial Treasury guided the process of the development of a credible and responsive provincial budget for 2015/16 financial year and monitored the implementation thereof within the challenges of the current fiscal environment. Our intergovernmental relations framework and focussed revenue and expenditure for a, including the Provincial Medium Term Expenditure Committee hearings, greatly enhanced our engagements with our national and provincial departments, our provincial public entities and our local government sector.

### Provincial and Local Government Audit Outcomes

Provincial Treasury uses the audit outcomes of provincial and local government as one of the indicators of the extent to which we succeed in our quest to support departments, municipalities and entities towards improving financial accountability and sustainability. We have placed on record the substantial improvement in our **provincial audit outcomes** for the 2014/15 financial year, resulting in 7 clean audits from;

- Provincial Treasury,
- Office of the Premier,
- Department of Sport, Arts, Culture and Recreation,
- Department of Public Works and Infrastructure,
- Free State Legislature,
- Fleet Management Trading Entity
- Provincial Revenue Fund

**Compliance with legislative requirements** improved substantially from the 2013/14 audit to the 2014/15 audit. The various functional areas registered the following improvements;

- Governance : 80%
- Revenue Management : 65%
- Budget and Expenditure : 45%
- Human Resource Management: 44%
- Asset Management : 43%

We have equally placed on record the significant improvement of our local government sector with the **municipal audits of 2014/15** but allow me again to highlight our progress;

- The Thabo Mofutsanyana District Municipality obtained the first clean audit by a Free State municipality,
- The Mohokare Local Municipality and Fezile Dabi District Municipality that improved from “qualified” to “unqualified” audit opinions,
- The excellent progress of the Nala and Ngwathe Local Municipalities to improve from “disclaimer” to “unqualified” audit opinions,
- The Moqhaka, Letsemeng and Mantsopa local municipalities improved from a “disclaimer” to a “qualified” audit opinion
- The number of municipalities with disclaimer opinions decreased from 9 in 2013/14 to only 3 in 2014/15.
- One audit, namely at the Phumelela Local Municipality, is still outstanding.

Hon. Speaker, we ascribe the progress we have made in improving our provincial and municipal audit outcomes to a variety of factors. At provincial government level, we believe that we have significantly improved the quality of our technical work, the functionality of our intergovernmental fora such as the Chief Financial Officers’ Forum, the effectiveness of our audit action plans, the frequency and standardization of our reporting requirements and purposefully built and developed internal capacity in critical areas.

At local government level, we believe that our progress results from some of the following;

- Improved coordination and focus on targeted areas through the support programmes implemented by the Department of COGTA, Provincial Treasury, SALGA and National Treasury
- Practical hands-on support and advice on a continuous basis and in a proactive manner strengthened by the implementation of our district-based approach
- Political leadership and management at district and local municipalities playing a much stronger role in driving improvements in the internal control environment which directly translates into improved audit outcomes

There is one critical factor at both the provincial and local government level that we must emphasize. This is the unfailing cooperation and direction that we consistently and continuously receive from the Office of the Auditor-General in the Free State. I must acknowledge and express our appreciation for the role played by Mr. Odwa Duda, the Business Executive, his management team and the respective audit teams that execute their mandate and perform their audit functions within our departments, entities and municipalities.

Without compromising the integrity or independence of the audit process, we have established a Provincial Audit Intervention Committee. This Committee deals with the broader coordination of the provincial and municipal audit process, intervenes where audits do not progress within the envisaged time-frames, facilitates communication on

audit matters with relevant role-players and attends to transversal issues as well as technical disputes. The provincial and local government audit processes of the 2014/15 financial year has convinced us that this Intervention Committee has been one of the missing links in our attempts at facilitating a more efficient and effective audit process.

### **Fight against Fraud and Corruption**

With regard to advancing the fight against fraud and corruption at all levels of government, Provincial Treasury implemented its various initiatives focusing on protecting the integrity of our provincial payroll, our provincial central supplier database and supported initiatives to ensure the credibility of indigent registers in our local municipalities. We also continued our partnership with various stakeholders to facilitate the annual International Fraud Awareness Week activities as well as regular information and education sessions throughout the province.

We have also enrolled a group of 20 public servants drawn from the provincial and local government sector that have attended the Certified Fraud Examiners training and this group will be writing the prescribed international examination during May this year.

In addition, all provincial departments have developed and implemented a Fraud Prevention and Response Plan. Ten departments achieved a compliance rate of 85% or higher in an assessment against the Fraud Risk Key Performance Indicators compared to only five departments in the prior year.

### **Support to municipalities**

Hon Speaker, municipalities in the province are experiencing a significant decline in revenue collection due to the high unemployment rate and current economic challenges, especially those in rural areas.

The Provincial Treasury, COGTA , SALGA, NERSA, Department of Energy and Eskom established a Steering Committee whose main task has been to review and revise all payment plans previously submitted to Eskom. The committee has engaged a number of municipalities in the province and revised payment plans and turnaround strategies have been developed and will be presented to the affected Councils before the end of March 2016 where after it will be submitted to Eskom for consideration. This process continues to unfold whilst the alternative funding model for electricity supply and distribution in identified municipalities are being developed.

Hon Speaker, I indicated in the 2015 Budget Vote speech that Provincial Treasury has formed partnerships with stakeholders in relevant sectors, to support municipalities. Amongst these was NERSA who is continuously assisting municipalities with the determination of cost reflective electricity tariffs. The Department of Energy has also come on board and assisted the Maluti-a-Phofung Local Municipality with an infrastructure audit.

NERSA has further undertaken to assist both the Maluti-a-Phofung and Ngwathe local municipalities with the identification and detection of both technical and non-technical losses.

The South African Revenue Service (SARS) has conducted training on VAT returns and assisted municipalities with VAT reconciliations. The scope of support was extended to include PAYE.

### **Municipal Risk and Internal Audit**

In our endeavour to capacitate governance structures in municipalities, more specifically risk management and internal audit structures, we focused on extensive capacity building initiatives, including the establishment of district forums for risk officers and internal auditors to share ideas and best practices.

Training initiatives focused on areas such as performance management, the risk management framework, the identification and compilation of a fraud risk register and the development of multi-year annual audit plans.

### **Intervention in the Departments of Health and Education**

Provincial Treasury has been working with the departments of Health and Education to strengthen financial management. Our collective efforts have yielded positive results as set out in the provincial budget speech tabled earlier this month.

I wish to extend my appreciation to the MECs, Heads of Departments and senior management teams of these departments for the constructive cooperation that we continue to receive as we work tirelessly to strengthen the financial management practices of the departments.

### **2016/17 AND BEYOND**

Hon Speaker, Provincial Treasury's mission is to establish and promote prudent financial management and good governance in the province. Our strategic goals in support of this mission are:

- An efficient, effective and development oriented department;
- Supporting departments, municipalities and entities towards improving financial accountability and sustainability;
- Enhancing processes, practices and systems towards efficiency gains, maximise cost-efficiencies and value for money; and

- Improving the development and management life cycle of infrastructure and assets

Provincial Treasury has been allocated R326.766 million in 2016/17. The budget has been allocated to programmes in accordance with our strategic goals. I will now deal with the details of each of the respective programmes.

### **PROGRAMME ONE: ADMINISTRATION**

Hon Speaker, the role of this programme is to provide leadership and strategic management in accordance with legislation, regulations and policies. The programme also provides administrative support services to all other programmes. The programme is allocated R94.476 million.

The main cost drivers in this programme are compensation of employees, Auditor-General fees, printing of annual publications and centralised support services such as photocopy machine leases and information technology support.

The department values its human resources and we support an active culture of continued learning in our department. We currently have 39 officials furthering their studies with departmental bursaries. Of these, 6 are pursuing their doctorate degrees, 10 are pursuing masters degrees, 4 are studying towards their honours degrees and 19 towards degrees, national diplomas or national certificates.

### **PROGRAMME TWO: SUSTAINABLE RESOURCE MANAGEMENT**

The role of this programme is to provide professional advice and support on provincial economic analysis, fiscal policy and the management of the annual budget process as well as the implementation of the provincial budget. This programme is allocated R38.724 million.

Hon. Speaker, I requested that the Treasury officials responsible for the compilation of the provincial budget join us here today. These are the men and women who do not hesitate when called upon to attend to further deliberations and clarifications in the formulation of the provincial budget, regardless of the time of day or the day of the week. They are our frontline public servants responsible to assist and support provincial departments and entities whilst ensuring compliance with the provincial fiscal framework. These officials embody the spirit and ethos of the public servant that helps us to build the capable state that will deliver Vision 2030 as set out in the National Development Plan.

### **Provincial Revenue**

Hon Speaker, the current unfavourable economic conditions and resultant unemployment have obvious detrimental consequences for our estimated provincial revenue. The 2015/16 estimated revenue amounts to R1.008 billion and our current projections

indicates an under collection of 4.3 percent, but nonetheless R46 million above the 2014/15 outcome.

Our current collections are below the benchmark and are mainly affected by the outstanding patients' fees, largely emanating from health services provided to patients from our neighbours in the Kingdom of Lesotho. I must indicate that there are on-going negotiations between Provincial Treasury, the Department of Health and the Ministry of Health in Lesotho to effectively deal with the outstanding patients' fees as well as strengthening of our systems and relationship going forward.

We have also initiated discussions with the Road Accident Fund (RAF) with the view to streamline our processes for better management of road accident claim cases going forward and there is already on-going work between the RAF, our provincial Health Department and Treasury to review and verify the claims submitted to RAF by the province.

Over the forthcoming 3-year MTEF, we estimate to generate revenue in excess of R3.1 billion. We will however remain cautious of developments, especially on economic front, and where there is a need to adjust or revised our revenue estimates we will do so without any prejudice to our provincial priorities.

### **Budget Management**

The Provincial Treasury as a budgetary institution is expected to strengthen the government's accountability to the electorate and ensure improved fiscal outcomes. We acknowledge and appreciate that we manage public funds within the democratic dispensation where the electorate has delegated power over public spending and tax collection to elected politicians. It therefore, becomes our responsibility to ensure that we create the environment in which the budgeting process is transparent and promotes principles of responsibility, accountability and good governance.

Our budget process is rigorous, interrogating the advantages and disadvantages inherent to our funding choices, balancing and mediating competing priorities within a very confined envelope of available funds. This process resulted in certain programs receiving additional funding, some are required to accelerate delivery within baseline budgets while others were either scaled down or terminated to release funding to support or strengthen our provincial priorities.

The development of the provincial budget is only one part of the budget process. Equally important is the management of the implementation of the budget. Earmarked funding for specific purposes will be gazetted and closely monitored. We will be enforcing the principle that no funding deviations from provincial priorities will be allowed by Provincial Treasury without the approval of the Executive Council.

During the budget process, a number of matters have been identified that require further work. Provincial Treasury will continue to work closely with various Departments on a broad range of matters, including the following;

- With the Office of the Premier on non-financial performance management as well as funding models for strategic infrastructure projects;
- With the Department of Social Development on the funding model of statutory and non-statutory non-profit organizations.
- With the Department of Public Works and Infrastructure and DESTEA to maximise own revenue generating initiatives through provincially-owned fixed assets
- With the Department of Agriculture and Rural Development on the implications of the function shift from national to provincial government with regard to the export of animal and meat products, the grading of abattoirs and the slaughtering of game.

### **Limiting expenditure on non-core items**

Hon Speaker, ensuring the efficient, effective and economic spending of resources remains a critical responsibility for Provincial Treasury. The implementation of cost containment measures by all departments have resulted in a decline of 7.4 percent expenditure on non-core items at the end of the third quarter of 2015/16 when compared to the same period in the last financial year.

We will continue to monitor the implementation of cost containment measures by all departments and entities to ensure that we limit growth of spending on non-core items. The Provincial Treasury will revise its cost containment measures to be in line with the new cost containment measures pronounced by National Treasury.

Furthermore, management of the provincial wage bill will be a key focus area of this programme. As a first step, we have managed to reduce the compensation of employees' budget by R325 million over the 2016 MTEF period. We must find additional ways in which we can achieve the containment and reduction of the provincial wage bill to ensure that we redirect more funding towards frontline service delivery.

Two particular focus areas will be guiding our Infrastructure Unit during the forthcoming year. The first of these will be to enhance our compliance with the Infrastructure Development Management System (IDMS) and relevant conditions of the Division of Revenue Act. This is imperative as we move towards the incentive conditional grants for infrastructure that will offer additional resources to provinces who can demonstrate capacity to deliver infrastructure across the value chain.

The second initiative relates to contract management. Our provincial departments must ensure that construction costs, professional fees, contingency costs and escalation costs are carefully managed whilst actual performance against contract milestones and standards are adequately and appropriately monitored. We will be working with the Monitoring & Evaluation Unit in the Office of the Premier to execute our external performance monitoring responsibilities in this matter.

### **Cash Management**

Treasury is the custodian of the Provincial Revenue Fund and one of our critical objectives is to promote improved cash management practices in the province. We have employed various strategies to contain actual cash disbursements within the available cash resources of the departments. Specific focus is also given to ensure that conditional grant payments are not released before the funding has been received from the relevant national departments.

We have also amended the BAS disbursement runs and aligned these to the payment schedules. This measure will be sustained over the 2016 MTEF period. The process to review cash management instruction notes is under way to ensure that we maintain compliance with legislative and regulatory prescripts.

### **Economic Analysis**

Hon. Speaker, we remain committed to ensure that our budget and policy decisions remain firmly supported by evidence-based economic research and analysis. We will be finalizing our studies in the following areas;

- The Socio-economic Impact Assessment of MACUFE 2015 on behalf of the Department of Sport, Arts, Culture and Recreation. Some of the preliminary findings indicate that the festival is attended by at least 16 000 visitors annually from outside the province. Those attending and participating in MACUFE, both from inside and outside the province, spend an approximate R124 million in Mangaung during the festival period. This study will assist to guide us to further position MACUFE as a festival that has outgrown its provincial dimensions.
- We are completing a study on the economic transformation, skills and labour market dynamics of the Free State for the 13-year period between 2002 and 2015. I mentioned in the provincial budget speech that this study will form the basis of future engagements between the provincial government and various stakeholders on future training and development initiatives to be undertaken to support identified needs and requirements.
- In a follow-up study on the Expanded Public Works Programme, Provincial Treasury investigated whether a rise in public expenditure on EPWP initiatives in province has a mitigating effect on the unemployment rate, economic growth and productivity.

One of the recommendations of this study is that the EPWP must be extended to deep rural areas where poverty and unemployment is acutely high.

- A feasibility study on the financial viability of identified municipal resorts in the Moqhaka, Ngwathe and Mafube Local Municipalities has been commissioned. Given the developments and trends in the domestic tourism sector, these resorts have inherent revenue potential and this study will enable us to assist municipalities to chart a clear way forward for the future of these critical municipal assets.
- We continue to participate in structures set up nationally to find solutions to challenges that confront us a country. These include task teams set up by National Treasury to amongst others (a) review the provincial equitable share model as well as (b) a review of the Development Finance Institutions Framework.

We will be sharing the findings and recommendations of these studies with the Executive Council and relevant Departments. This will form the basis for further engagements on the conceptualization, planning and implementation or especially provincial programmes and projects going forward.

### **PROGRAMME 3: ASSET AND LIABILITIES MANAGEMENT**

The role of this programme is to promote the effective management of provincial assets and liabilities and to manage and maintain transversal systems. The programme has been allocated R104.345 million.

#### **30 Day payment of suppliers**

A critical area of ongoing work in this programme is the monitoring of payment of suppliers within the stipulated 30 days. Non-payment within the required time frame undermines government's efforts to grow the economy and develop the SMME sector. There is an increasing trend where the assistance and intervention of Provincial Treasury is directly sought in cases where payments are made outside the 30 day period, irrespective of the department within which the transaction occurred. This will also require of us to be able to facilitate resolution of disputes on payments as and when these occur.

Although there is a decline in the number of invoices and values of payment made after 30 days, this is an area of work where there is definite scope for improvement. In order to promote awareness and knowledge regarding the requirements to ensure that payments can be legitimately made within the 30 day period, we will be facilitating a road show in all districts of the province. We encourage suppliers and/or potential suppliers to participate in these road shows.

We are confident that our measures, together with the Honourable Premier's directive during the State of the Province Address 2016/17, that accounting officers must take steps

against government officials who do not pay invoices within 30 days, will further improve performance in this regard.

### **Supply Chain Management Capacity Building**

To build technical competence and skills in Supply Chain Management in departments and entities, we have provided them with a SCM Toolkit accessibility guide and access codes that enable them to access the SCM Toolkit from the Provincial Treasury's website. 173 Officials in departments and entities have been trained in the use of the toolkit.

We welcome the initiative of the Cabinet by approving the use of retired and in-service public servants as lecturers in the National School of Government (NSG). The Provincial Treasury in conjunction with National Treasury and the National School of Government will provide formal training to SCM Practitioners to further improve capacity in SCM units.

### **Central Supplier Database (CSD)**

The Free State Provincial Treasury procured a Provincial Supplier Database that will integrate with the Central Supplier Database of National Treasury. This will place all the registered suppliers from the CSD to the Provincial Supplier Database once-off and then on a daily basis, the Provincial Supplier Database will be automatically updated with any changes on the CSD meaning that the Provincial Supplier Database and CSD databases will be synchronised.

The CSD will be the source of information on all suppliers and the Provincial Supplier Database will serve as the transacting system. The main benefits of utilising the Provincial Supplier Database as the transacting system is that it will allow for supplier rotation and contract awards information to be used, based on the approved suppliers from the CSD database. It must be emphasized that only registered suppliers on CSD can be utilised by government departments and public entities to do business from 1 April 2016. The same will apply to municipalities from the 1<sup>st</sup> of July 2016.

## **PROGRAMME FOUR: FINANCIAL GOVERNANCE**

The role of this programme is to promote and enforce financial governance in the provincial government. The programme has been allocated R24.747 million.

### **Financial management and reporting**

Hon Speaker, much work has been done by this programme to improve financial management and reporting in departments and entities. The department will continue with the initiatives, which include:

- Formal training sessions to build and strengthen capacity in provincial departments and entities in accounting practices;

- Regular engagements with CFOs to share information and best practices;
- Assessing monthly and quarterly Key Control Matrix reports; and
- Assessing quarterly interim financial statements as well as draft annual financial statements and work files of departments and entities to improve the quality of financial statements and ultimately audit opinions.

### **Risk Management, Internal Audit and combatting fraud and corruption**

Our coordination and cooperation with the Department of Public Service and Administration, the National Anti-Corruption Hotline of the Public Service Commission, the Presidential Hotline of the Presidency, the South African Revenue Service, the National Prosecuting Authority and our Chapter 9 institutions will provide added momentum to our ongoing fight against fraud and corruption.

Provincial Treasury will continue to partner with the ACFE, Standard Bank, PwC and the University of the Free State to facilitate the province's participation in the International Fraud Awareness week whilst further expanding our pool of certified fraud examiners through the appropriate qualification process.

To improve Risk Management and Internal Audit practices in the province, the department will continue with the following:

- Formal training sessions will be held to build capacity and promote Risk Management, Internal Audit and fraud alertness for provincial departments and entities; and
- Assessment of departments and entities to promote compliance with the Risk Management Framework and Fraud Risk Assessments as well as the Internal Audit Framework.
- Continuous monitoring to ensure that no public servants hold interests in service providers listed on our Provincial Central Supplier Database and ensuring compliance with the restrictions on public servants doing business within the public sector environment as prescribed by relevant legislation.
- We will furthermore continue to support municipalities to ensure the credibility and integrity of their indigent registers.

### **PROGRAMME 5: MUNICIPAL FINANCE MANAGEMENT**

The role of this programme is to improve the state of financial governance and management at local government level together with the Department of Cooperative Governance and Traditional Affairs, SALGA and our national departments. Our work is

enhanced by our cooperation initiatives with Eskom, NERSA and SARS. The programme has been allocated R64.474 million.

Hon Speaker, in 2015 we indicated that we were reviewing the working methodology and approach of the Municipal Finance Management branch to have a more integrated, district-based approach to monitoring and support. The process of restructuring has been completed and the district-focused approach has been implemented from August 2015. We are satisfied that the new approach has the desired effect.

Further focus areas for the year ahead will include;

### **Revenue**

On municipal revenue, we will be working with COGTA and SALGA to resuscitate the revenue forums at all municipalities in order to improve revenue collection and financial management sustainability. Provincial Treasury will also continue to work with COGTA to ensure the regular review and clean-up of municipal indigent registers.

### **Budget management**

We have made significant progress with budget management in municipalities. The Free State municipalities achieved 98% budget compliance for the 2015/16 financial year, making them the second best in the country after the Northern Cape Province. There has been a steady improvement in the quality of the municipal budget statements and work in this critical area will continue. I must recognise the sterling work done by COGTA, SALGA and of course our municipal leadership in this regard.

### **Accounting**

Municipalities are preparing to implement mSCOA in 2017. Provincial Treasury is working with National Treasury to prepare municipalities for the transition. We are currently engaged in assessing the state of readiness of each municipality and will continue to support municipalities and monitor progress against their implementation plans.

### **Municipal Support Programme (MSP)**

The AGSA General Report for the financial year ending 30 June 2014 highlighted a number of best practices for clean audits, including the production of financial statements, performance information, compliance with key legislation, the internal control environment and strong political leadership for monitoring, oversight and holding the administration accountable.

It is against this backdrop that the Provincial Treasury established a Municipal Support Programme (MSP). The aim of this support programme is to provide advanced technical

hands-on support to municipalities in specific critical specialized areas, improve financial viability, audit outcomes and capacitate municipal staff. This programme will continue in the forthcoming financial year.

### **Monitoring, oversight and capacity building**

Provincial Treasury will continue with its on-going monitoring and support which include compliance with compliance with tax matters, section 71 reporting requirements, monitoring of audit action plans and key controls, review of submitted mid-year financial statements and assessment of the functionality of Internal Audit and Risk Management in municipalities.

I am confident that, together with COGTA and SALGA, we will make significant strides towards the responsive, accountable, effective and efficient developmental local government system envisioned in Outcome 9 of the Medium Term Strategic Framework.

I have also requested that the officials of the MFM Unit join us here today. They have had to adapt within a very short period of time to an avalanche of new demands emanating from our more pro-active, hands-on approach in support of local government. The implementation of our district-based focus has also had significant consequences on our officials who are required to spend significant periods of time within our district and local municipalities.

These officials have also not hesitated to meet the challenges that we have placed in front of them and they have implemented and led our municipal support initiative with dedication and commitment. Together with our municipalities, they have placed us firmly on the path towards the creation of a resilient local government sector in the Free State. We equally acknowledge their contribution towards leading us towards Vision 2030.

### **CONCLUSION**

Hon Speaker, we continue to rely on the cooperation and support of all provincial departments, public entities, local government and our partners such as SALGA, SARS, NERSA and others to ensure that the department delivers on its mandate.

I must also extend my appreciation to our private sector partners, notably the provincial banker, Standard Bank, for their continued support of our work as Provincial Treasury and also of the provincial government.

I wish to thank the CEO of Provincial Treasury together with the senior management and all the officials for their commitment and hard work.