

### Recent Outputs

- The National Treasury, in partnership with the Construction Industry Development Board and the Development Bank of South Africa, is in the process of implementing the Infrastructure Delivery Improvement Programme. The purpose of the programme is to identify and address capacity constraints and problems resulting to under-expenditure of capital infrastructure budgets by provincial departments of education, health, roads and public works. The project has currently been piloted in all provincial departments of education, two health departments and two roads departments.
- The Local Government Restructuring Grant assists municipalities in implementing the MFMA. The Treasury aims to accelerate the capacity building programme of municipalities through this grant.

#### Issues to Consider

- In some provinces, instalments of this grant had to be delayed due to non-compliance with the conditions of the grant. While four provinces received their total allocations of the grant, portions of the grant to five provinces were withheld, amounting to R747 million. These funds were withheld due to factors such as the slow spending of infrastructure budgets, and failure to comply with the reporting and planning requirements set out in the Division of Revenue Act No. 1 of 2005. Provinces thus face challenges in implementing their infrastructure projects. Thus, the Infrastructure Delivery Improvement Programme (IDIP) was designed to assist provinces in addressing service delivery challenges.
- Provinces report on the compliance transfers and spending on a quarterly basis to acquire funding, which is withheld from those that fail to report, or report poorly.

### 3.7 Civil and Military Pensions, Contributions to Funds and Other Benefits Programme

The Programme provides for pension and post-retirement medical-benefit obligations to former employees and state departments and bodies, and for disability benefits for former members of the statutory and non-statutory forces.

#### Recent Outputs

- During the 2005/06 financial year, the administration continued on its efforts to verify the member's roll of eligible beneficiaries. It has also strengthened its administrative processes to improve the reconciliation of claims received from medical schemes. As of 1 July 2005, the Medical Benefit Administration Section implemented the change on contributions paid to Medihelp regarding members who retired prior 1 July 1992.

#### **Issues to Consider**

- In terms of the Civil Pensions and Contribution to Funds Programme, there are delays in the processing of exits from service, which have contributed to backlogs in the processing of applications for continuation of medical aid subsidies after retirement.
- During the period under review, amendments were effected to the Special Pensions Act to provide for: introduction of spouse's pension, orphan's pension and funeral benefits; extension of the closing date for submission of the new special pension applications to 31 December 2006; as well as promulgation of regulations to provide for the dissolution of the Special Pensions Board and Special Pensions Review Board.
- Medical treatment provided to military pensioners at military hospital across the country is hindered by internal deficiencies and poor service delivery. It is recommended that service delivery procedures have to be investigated in order to address deficiencies. Moreover, there is a need of clarity with regards to the transfer of medical treatment from provincial administrations to the Department of Defence. This is indicated by the SANDF structure, which has however, limited the services rendered by pensioners and thus resulted to the delays in the transfer process.

### **3.8 Fiscal Transfers**

The Fiscal Transfers Programme avails funds to public authorities and other institutions in terms of various legal provisions governing the financial relations between government and the particular authority or institution. Domestic transfers are made to the South African Revenue Services, Financial and Fiscal Commission, Secret Services Account, and the Financial Intelligence Centre. However, foreign transfers are made to the World Bank Group, African Development Bank, member States of the Common Monetary Area<sup>3</sup>, the Commonwealth Fund for Technical Cooperation, and the Vaccination Fund. No funds were transferred to the Development Bank of Southern Africa in 2005/06, as the funds previously transferred to it were for the APEX Fund, which is now administered by the Department of Trade and Industry.

#### **Recent Outputs**

- South Africa made its third contribution to the World Bank Group's International Development Association, which is the resource base for development to low-income countries. In addition, South Africa contributed towards its multilateral debt-relief initiative.
- Transfers to the African Development Bank were used to acquire shareholding (an additional 0.4%, bringing South Africa's total

<sup>3</sup> Lesotho, Namibia and Swaziland.

shareholding 4.5%) in the ADB aimed at contributing to the African Development Fund (ADF) resources.

#### **4. Analysis of Other Reports**

- The Audit committee held five meetings in the year under review, and three members resigned during the year. The Committee further reported that internal control systems for the period under review were effective and efficient.
- The National Treasury has adopted a medium-term internal audit strategy whereby the internal audit approach will be shifted from a fully outsourced internal audit function to an in-house function. The Treasury is also effectively pursuing the establishment of an effective Internal Audit Function.
- The National Treasury underspent by R76.7 million on its operations budget, mainly due to an under-spending of R61 million for goods and services that emanated from slow implementation of the Integrated Financial Management System. Thus, R4.4 million on the acquisition of capital assets and an underspending of R11 million due to vacant positions.
- A total of R841.6 million was not transferred to provinces and municipalities due to non-compliance with conditions of the relevant grant. This includes the R746.7 million Municipal Infrastructure Grant mentioned earlier in the report, and R95 million in respect of grants to municipalities.
- There were savings of R71.6 million due to lower than anticipated transfers to the African Development Bank and Common Monetary Area.
- Virements to the value of R11.4 million were applied to the Economic Planning and Budget Management Programme to fund a growth research project of the Accelerated and Shared Growth Initiative of South Africa (ASGISA).
- Management has identified various legal issues related to the Civil and Military Pensions, Contributions to Funds and Other Benefits Programme and has reported to be currently assessing the feasibility of a more comprehensive investigation on how legal issues impact on with diligence. This is aimed at addressing legal issues in a holistic and comprehensive manner.
- Departmental revenue for the period under review amounted to R5.2 billion. In addition, local and international donor funds amounted to R11 million, of which R10.5 million was spent.
- The public entities that report to the Treasury include the Development Bank of Southern Africa, South African Revenue Service, Financial Services Board, Financial Intelligence Centre, Accounting Standards Board, South African Special Risk Insurance Association, and the Public Investment Corporation Limited.

## 5. Report of the Auditor General

The Auditor General emphasised the following matters in his report:

- Certain supply-chain management contracts were not approved as required by the PFMA, and thus resulted in certain departments and entities incurring irregular expenditure.
- The opening balances of capital assets for national and provincial departments have not been audited because of the time frames from National Treasury relating to the treatment, valuation and disclosure of these assets.
- The operating expenditure of the Special Pensions Board was accounted for in the annual financial statements of both the Treasury and the Board. However, the Special Pensions Benefits were only accounted for in the statements of the National Treasury.

## 6. Appropriation Statements

R'000	Adjusted App.	Actual Expenditure	Variance	%	Explanations of Variances
Administration	129 661	121 281	8 383	6.46	Underspending of R8.4 million relates to R5.6 million for vacancies, R1 million for business processes mapping and R1.8 million for capital expenditure (office equipment)
Economic Planning and Budget Management	181 349	173 961	7 388	4.07	Underspending of R7.4 million relates mainly to the delay in transferring R4.2 million to the University of Cape Town for research; R1.2 million for goods and services; and R1.9 million for vacancies.
Asset and Liability	30 843	30 162	681	2.21	Underspending is mainly due to vacancies and low expenditure on the procurement of equipment.
Financial Management and systems	294 176	239 181	54 995	18.69	Underspending of R51.2 million relates mainly to delayed approval of the Integrated Financial Management System (IFMS); and R3 million relates to vacancies.
Financial Accounting and reporting	57 990	47 970	10 020	17.28	R32 million savings were due to less payment to the African Development Bank and R31.8 million for the Common Monetary Area. Transfers of R 50 million to the APEX fund were delayed due to slow take-up, and R7 million for the immunisation fund was left to be paid in the 2006/07 financial year.
Provincial and Local Government Transfers	4 279 513	3 437 853	841 660	19.67	The withholding of Conditional Grants of R841 million was due to slow spending and non-compliance with grant conditions.
Civil and Military Pensions, contributions to	2 080 805	2 010 874	69 931	3.36	Savings of R69.6 million were mainly due to changes on the method of payment resulting from changes in

production (21%) vacancies. In addition, most turnovers occur at two levels (17% and 14% respectively), as well as the Senior Management Service Band A. 50% of staff leaves the Department by resignation, while 32% are transferred to other public service departments and 135 leave due to expiry of contracts.

- Evaluation occurred between 2% of jobs in the lower skilled levels (levels 1 and 2) and 16% at senior management level.
- The Department has seven employees with disabilities, with an extremely disproportionate racial distribution. These include one African male, six white females and six white males. In addition, white males are the majority of employees whose salary levels exceed the grade determined by the job evaluation. No employees with disabilities were recruited in the 2005/06 financial year. Salaries are still very high for white males, and lowest for African and coloured females.
- The Department has functional HIV/AIDS awareness programmes and has reported that none of its employees are under any occupational exposure to HIV/AIDS.
- In terms of misconduct and disciplinary hearings, 12 written warnings were issued, while 2 verbal warnings were issued. Out of 18 launched grievances, 17 were resolved, while 1 was not resolved. Furthermore, one employee has been suspended for an average of 182 days.

- In terms of the utilisation of consultants, the Department spent R11 million on 19 projects, with a total duration of 2 644 working days. Furthermore, the Treasury provided detailed information regarding consultant appointments using both appropriated and donor funds, which comprises the appointments of Historically Disadvantaged Individuals.

## **Conclusion**

The annual report of the National Treasury indicates that the Department has achieved most of its targets for the 2005/06 financial year. In some cases where targets were not achieved or underspending was experienced, it was because of other organs of government, such as provincial departments not complying with the conditions of conditional grants.

The Treasury has reported in detail on its training and skills development programmes, which benefit all employees, including women. One area of concern regarding equity is the lack of priority placed on disabled employees.

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## **Sources**

- National Treasury Annual Report, 2005/06.
- Estimates of National Expenditure, 2005.
- Estimates of National Expenditure, 2006.