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# **JOINT BUDGET COMMITTEE REPORT ON THE BUDGET ANALYSIS WORKSHOP**

*19 to 20 February 2007, The Lagoon Beach Hotel, Milnerton*

**AfReC** 

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**Abbreviations:**

AG	Auditor General
APP	Annual Performance Plan
BAS	Basic Accounting System
DORA	Division of Revenue Act
DPSA	Department of Public Service and Administration
DTI	Department of Trade and Industry
DWAF	Department of Water Affairs and Forestry
JBC	Joint Budget Committee
MP	Member of Parliament
NA	National Assembly
NCOP	National Chamber of Provinces
PFMA	Public Finance Management Act, 1 of 1999
SCOA	Standard Chart of Accounts
SCOPA	Standing Committee on Public Accounts
TOR	Terms of Reference

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# 1 INTRODUCTION

Parliamentary Committees' oversight over the executive function by the executive has reached a point where legislatures need to build capacity to keep up with reforms in the public sector. Such reforms have introduced new requirements for planning, budgeting, and financial management and reporting. As a result more information is regularly tabled before Parliament, requiring capacity and skills to interpret legislative frameworks. This requires defining a structured way through which information tabled by the executive can be interrogated. It also requires effective mechanisms to be put in place to ensure that issues raised at Committee level are followed up until they are resolved.

The Joint Budget Committee (henceforth referred to as 'the JBC' or 'the Committee') approached AFReC to facilitate a Budget Analysis Workshop and to present on Budget Analysis Techniques. This workshop took place on Monday the 19<sup>th</sup> and Tuesday the 20<sup>th</sup> February 2007 at The Lagoon Beach Hotel, Milnerton. This document serves both as a recap of the events and a summary of challenges and action points for the JBC on how to be more effective in its oversight role.

# 2 TRAINING NEEDS ANALYSIS

The following topics present the training needs of the JBC as identified at the start of the workshop.

**Topic 1: Tools for effective oversight** - such as efficiency and effectiveness ratios for input/output analyses.

**Topic 2: Information needs** - guidance on the relevant information pieces available for scrutiny.

**Topic 3: The appropriate and legislated budget formats** that departments should use when budgeting.

**Topic 4: Fiscal Dumping** - how to interpret early warning signals and act on instances of fiscal dumping. Members of the JBC gave examples of extraordinary fiscal dumping exercises. These examples and ensuing discussions indicated a fairly good understanding of this topic. The JBC highlighted the need for the appropriate timing of national budget transfers to other structures and spheres of government.

**Topic 5: Transfers and subsidies.** Although linked to the concern about fiscal dumping, the JBC also highlighted the need for proper enforcement of the necessary prerequisites and prescriptions for transfers and subsidies to entities. The following legislative pieces govern these prerequisites and prescriptions: ***PFMA, section 38 (1)(j)***, ***Treasury Regulation 8.4***, and ***Division of Revenue Act of 2006, section 17***.

**Treasury Regulation 8.4: Transfers and subsidies (excluding Division of Revenue grants and other allocations to municipalities) [referring to Section 38(1)(j) of the PFMA]:**

**8.4.1 An accounting officer must maintain appropriate measures to ensure that transfers and subsidies to entities are applied for their intended purposes. Such measures may include-**

- (a) regular reporting procedures;
- (b) internal and external audit requirements and, where appropriate, submission of audited statements;
- (c) regular monitoring procedures;
- (d) scheduled or unscheduled inspection visits or reviews of performance; and
- (e) any other control measures deemed necessary.

**8.4.2 An accounting officer may withhold transfers and subsidies to an entity if he or she is satisfied that-**

- (a) conditions attached to the transfer and subsidy have not been complied with;
- (b) financial assistance is no longer required;
- (c) the agreed objectives have not been attained; and
- (d) the transfer and subsidy does not provide value for money in relation to its purpose or objectives.

*(Source: National Treasury, 2005. "Public Finance Management Act, 1999: Treasury Regulations for departments, trading entities, constitutional institutions and public entities" Pretoria: Government Printer.)*

The financial management environment at the recipient entity should be conducive for fiscal management, transparency and accountability. The following should for example be in place:

- proper submission of business plans and audited financial statements;
- stakeholder consultation prior to transfer of funds; and
- effective communication systems.

**Topic 6: Physical oversight mechanisms** available that can be utilised by the JBC.

**Topic 7: More information on In-Year-Monitoring** and training how to effectively utilise departments' **Strategic Plans, APPs, and monthly and quarterly expenditure reports.**

**Topic 8: Utilising feedback from public participative budgetary processes.** For example the JBC may need to explore how to link up with public hearings and other civil society initiatives on the budget. The Institute for a Democratic South Africa (IDASA) has a programme dedicated to budgetary analysis – Budget Information Service (BIS) and the Committee may enquire about cooperation possibilities ([www.idasa.org.za](http://www.idasa.org.za)).

***Suggestion by AFReC:***

Public and/or civil society stakeholders relate to specific information presented in a given budgetary information piece. Prior to engaging these stakeholders in public hearings, roles and responsibilities with respect to the various stakeholders should be made very clear.

**Topic 9: Training on public finance terminology.** The Committee highlighted the need for more clarity on public finance terms such as inputs, outputs, activities, outcomes, allocative efficiency, operational efficiency, etc. These should be explained in terms of departmental examples.

***Suggestion by AFReC:***

AFReC can facilitate and present on ***strategic planning*** at a shorter version workshop.

**Topic 10: Training on Performance Budgeting,** which would aid in determining the impact of changes in output and quality of services when resource envelopes are adjusted. The example of the rehabilitation of specific prisons in the country was used to illustrate the need to clearly understand the relationship between inputs (budget and resources), outputs and outcomes.

**Topic 11: Issue of vacancies in departments** – the need to contextualise the practical problems and current remedies.

**Topic 12: Clarity on the role and nature of adjustment budgets.**

**Topic 13: Clarity on the scope and enforceability of conditions attached to grants and subsidies,** as well as information on the mechanisms available in tracking expenditure, outputs, and quality of outputs delivered.

***Suggestion by JBC:***

A workshop where a department's Strategic Plan, APP, and other relevant reports are used as a case study for a budget analysis exercise. Activities during such a workshop could focus on the budget analysis questionnaire provided by AFReC.

### **3 AFREC PRESENTATION AND OBSERVATIONS**

On Day One, 19 February 2007, AFReC presented to the JBC the topic of Budget Analysis Techniques. This presentation is available as a separate document.

In the recapping session after the presentation, Members of the JBC noted the following areas of knowledge appreciation.

- Knowledge on the tools for budget analysis and the relevant terminology.
- The need to thoroughly analyse departments' Strategic Plans.
- The need to acquire more skills on quantitative budget analyses.
- The need to have good questioning skills when interviewing departments.
- The need to have better clarity on the JBC's own TOR and mandate.
- The fresh outlook on budgeting.
- Emphasis on the need for contextualising stakeholders in the situational analyses of departments during their strategic review processes.

Both chairs of the JBC noted that the Committee was satisfied with the outcomes of the presentation by AFReC on Budget Analysis. They noted the need for the following deliverables, which would aid the functioning of the JBC:

- formal guidelines on a system for oversight;
- a dedicated, annual programme for oversight activities; and
- a manual on work procedures for the JBC. This manual would be especially useful for new Members of the Committee and would contain topical and technical questions to departments.

#### ***Suggestions from AFReC:***

AFReC noted that discussion questions ranged from simplistic, on explaining capital expenditure and operational expenditure, to fairly complex, on explaining accountability framework and tradeoffs in resource allocations. This highlighted the dispersion of training needs among Members of the JBC. A formal training needs analysis may need to be conducted for the Members of the JBC to ascertain future training and consulting needs, taking into account the topics listed above.

As there are no significant constraints to the supply of information Parliament, and only the capacity of information analysis presents a problem, the JBC needs to undertake a capacity assessment to ascertain the level of demand for research support for its oversight activities.

## ***Conclusion***

An analytical approach is necessary for scrutinising departments' financial management records for oversight purposes. Such an approach focuses on:

- a thorough analysis of trends – expenditure, service delivery targets, etc.;
- effective information dissection – Strategic Plans, APPs, monthly and quarterly reports; and
- the correct format of hearings, reviews, recommendations and follow-ups.

## 4 JOINT BUDGET COMMITTEE'S TERMS OF REFERENCE

The need to operationalise the JBC's TOR is important for the Committee to fulfil its oversight functions. The following provide an explanation of steps to take in operationalising.

- Sharing of workload vis-a-vis time constraints of the JBC. Firstly, this entails that sufficient staff should be allocated to the JBC to fulfil the necessary research and support functions. Secondly, a sub-committee system should be utilised with a focus on clusters issues. In turn, the mandates of these sub-committees should be very clear.
- Restructuring of the JBC. SCOPA for example has sub-committees, which are staffed with two secretaries each. These sub-committees meet in plenary when required.
- The JBC should formulate a memorandum of understanding with external consultants and parliamentary researchers.

### ***Suggestions from AFReC:***

AFReC may advise the JBC on how to operationalise the Committee's TOR.

The JBC stated that as an organisation it is not yet at a stage to "consider and make proposals regarding the nature of its functions relative to those of other committees." The following issues have been highlighted during the facilitated session, which serve to inform action points.

*JBC's role in constitutional processes:* In terms of "Proposals regarding the processes Parliament should follow with regard to its role in the developing of budgets in accordance with constitutional requirements," Members of the JBC highlighted the following practical problems.

- How does JBC make impact onto DORA, as it may be falling in domain of another Committee?
- What exactly is the JBC's role in impacting on Money Bill(s)? Parliament has to date not come up with recommendations on procedures to amend Money Bills. The JBC's Task Team on this matter indicated that the deadline for feedback on this needs to shift outward. The JBC needs to decide on a deadline for the Task Team.

### *Accountability model of Parliament:*

- The JBC stated that it have not been given the necessary space to feature in the oversight/accountability framework of government. The JBC noted that it had been promised that the Committee would be fitted in the framework. The JBC is waiting for the final framework to assess its role in this regard.

*Relations with the (Joint) Rules Committee:*

- Members of the JBC were encouraged to suggest how to change the rules governing Parliament.
- A question arose whether there should be separate legislation that may consolidate the role of the Committee.
- Clarity on the role and functions of the JBC vis-a-vis NCOP Committees is needed.

*The JBC's relationship vis-à-vis Parliament and other entities:*

- Should Parliament as an entity be accountable to the JBC? Clarity is needed.
- Clarity on the JBC's relationship with other spheres of government, namely Provincial and Local Government.
- Some Members of the JBC stated that Parliament should be interviewed by the JBC on budgetary matters. The rationale for this is that Parliament also needs to implement legislation governing financial management, such as the PFMA.
- Clarity on the role of the AG and SCOPA as two separate entities is needed.

*2005-2009 Strategic Plan of the JBC:*

- The Strategic Plan was adopted and could be seen as a further development of the JBC's TOR. The Strategic Plan was compiled with the help of external consultants. However, workshops prior to the consultants' involvement would have helped the JBC to come up with its own Strategic Plan.
- Members of the JBC emphasised the importance to use the Strategic Plan in conjunction with the Committee's TOR.
- The JBC needs to complete the process of reviewing its Strategic Plan. The Strategic Plan does not include the latest issues that arose. It was not clear from the discussion at the workshop what these issues were.

***There seems to be a genuine concern that it is not clear what the TOR and/or mandate of the JBC is. The fact that the TOR was imposed by Parliament was highlighted.***

### ***TOR challenges:***

The facilitated session on the TOR of the JBC highlighted the following challenges that may need to be addressed. Some of these problem areas may already be discussed above.

1. Clarity is needed on how to deal with Appropriation Bill: the Appropriation Bill is procedurally referred to the Portfolio Committee on Finance, not the JBC.
2. There is a lack of adequate research capacity and support for the committee, as well as funding constraints from Parliament's annual budget.
3. The need to articulate the JBC's mandate to conduct physical oversight visits.
4. The constraints presented by the tight time schedules of NCOP and NA MPs.
5. Clarity is needed as to what extent can the JBC measure institutional performance, such as value for money, which is something that SCOPA also looks at.
6. Ensure that budget oversight is practiced in conjunction with Finance Committee. Eradicate overlap in terms of macroeconomic aspects of budgets. Divorce the two Committees roles. Need to identify issues not pertaining to macroeconomic issues. The need to design analysis tools accordingly to engage the executive effectively.
7. Need for public participation from civil society and individuals, in addition to macro or umbrella organisations. Need for the broadening of stakeholder participation. Participation by second economy stakeholders should be encouraged.
8. The JBC's work load is too heavy and this undermines its own service delivery.
9. The JBC recognised the need to determine value for money on its own expenses once recommendations to other entities on budgetary matters are provided.

### ***Suggestions from the JBC:***

Link challenges identified above with TOR as it exists now.

## 5 PRESENTATION BY THE NATIONAL TREASURY

On Day Two, 20 February 2007, the National Treasury (NT) presented to the JBC on In-Year-Monitoring and the various expenditure and non-financial reports produced by itself and other entities. This presentation is available as a separate document.

The Committee stressed the need for departments to pay suppliers within 30 days, as per PFMA requirements. Especially small suppliers need to be protected from extended delays in payments. The NT responded that the funds necessary for timeous payment of suppliers are normally adequate, however due to internal inefficiencies and poor departmental cash management these payments are often not made timeously.

The NT stated that the lack of project planning and management capacity is serious and a general government problem. Although enthusiasm is present, much-needed information and skills are not present at under-performing departments. Examples of this is the recurring request by some departments for asking for monthly disbursements of one twelfths of the total annual funding envelope – this often does not coincide with their expenditure needs. In response, the JBC noted that there is a lack of especially project management skills in government.

The NT's presentation focused on the information presented in the (PFMA) Section 32 report and the components of this report. Of note are the budgeted vs actual revenue and expenditure figures, as well as the audited outcome of previous and current year figures. The purpose of Section 32 reports is to track the implementation of the Appropriation Act, and after October of each year, the Adjustments Appropriation Act.

The NT noted that this report will not necessarily help the JBC and other oversight bodies to pick up indications of fiscal dumping in the twelfth month.

The NT explained infrastructure expenditure patterns. Some of the problems of infrastructure roll-out were highlighted, such as the lengthy delays in environmental impact assessments. Delays and cost associated with litigation also bring additional cashflow pressures onto infrastructure projects.

### ***Suggestions from the JBC:***

Departmental plans should expand and report on infrastructure expenditure. For example, infrastructure projects planned and executed for a given period should be measured on an ongoing basis, and payments made during the various phases should be indicated. This type of information is not contained in the Section 32 report.

The NT expanded on its national infrastructure project register, which tracks the progress of governmental infrastructure programmes and projects. The register is however not ready to be included in the Section 32 reports. The NT stated that it was reliant on accurate and timeous input from stakeholders for the updating of this register. The register tracks infrastructure programmes, project by project, from identification phase through to the construction design and completion phases. Similar registers are being held for provincial government infrastructure programmes. The NT stated that it would be difficult to utilise the register for oversight purposes, as it could be very difficult to interpret the complex register.

Although not particularly aligned with the topic of governmental infrastructure programmes, the JBC noted that it had a concern over the lack of proper asset registers, especially in the case of the Department of Public Works. The need for municipalities to properly value and account for their assets was also noted.

The NT's presentation went on to describe the rationale and need for running balanced budget. Apart from the Section 32 report The NT also generates an internal report after monitoring entities' expenditure and service delivery. These reports are not published for public scrutiny.

***Suggestions from AFReC:***

Request the NT to workshop the internal expenditure analysis and service delivery report to the JBC.

The NT fielded questions on the Gautrain project and explained that budget for it is appropriated in the Gauteng transport budget. Money is transfer from national to provincial government for this purpose. The JBC enquired about the monitoring of expenditure of these transferred funds. The NT responded that it is currently piloting a project monitoring tool and it may be built into SCOA to ease financial accounting of transfers and subsidies. The current project monitoring tool is Excel-based and this is not desirable. The NT is working on it to enable financial systems to capture transactional data at the source.

The NT stated that the Gautrain project is monitored very extensively due to the fact that it is a PPP arrangement. The project had to undergo a number of stringent NT approvals before commencement.

The JBC posed the question on what instruments the Committee can rely on to track under-expenditure patterns once these patterns have been identified. It was not clear whether the NT answered this question satisfactorily.

The NT reported that there are serious problems with under-expenditure on some essential services such as health, where under-expenditure at some hospitals occurs frequently. However, funds are still imbursement to these hospitals due to the nature of this particular service, i.e. health. Reasons for under-expenditure are varied, but the NT often found that personnel at hospitals blame a dysfunctional supply chain management unit and system. On the other hand, the NT stated that funds for specific projects, such as for the building of some prisons, were redirected to other areas as the executing agencies did not have the capacity to deliver these prisons.

The NT noted that under-expenditure occurred on the hospital revitalisation programmes. It named the lack of project management skills as one of the reasons for this and stated that expenditure patterns improved considerably after this skill had been attended to. As for the prison building programmes named above, the lack of proper feasibility studies severely hampered the roll-out of prison construction given. Even though the NT proposed that PPP arrangements should be followed with the building of these prisons, the relevant Department resisted. The NT concluded that problems with under-delivery – for this particular case and many other cases in other departments - may be traced to inadequate strategic planning.

The JBC inquired about the NT's capacity to monitor physical outputs, such as infrastructure projects. The NT responded that there were separate teams that monitor

individual infrastructure projects. Large construction projects are easy to physically monitor, such as DWAF dam-building projects. As for smaller projects, such as the DTI's small enterprises development agency outlets in towns, it is difficult to monitor physically.

The NT stated that the monitoring of these projects should also be a bottom-up participative process, in that communities should assist with the verification of completion and quality standards. The NT could only effectively focus on the financial reporting aspect of departments' service delivery programmes. Some monitoring functions are delegated to Provincial Treasuries. The NT stated that non-financial reporting is useful to verify delivered outputs, although physical inspections are problematic.

The JBC enquired about what can be done if found that capital projects are not verified on the ground. The NT responded that there is government wide monitoring and evaluation of outputs. The way the monitoring and evaluation systems are set up is that the lowest level of managers could report on outputs. The NT is currently trying to build into the monitoring and evaluation system some kind of verification system.

The JBC noted the perceived absence of a monitoring tool on local level for national departmental projects. The NT official dealing with infrastructure projects responded that the integration infrastructure projects at municipal level is particularly problematic. The example of MPCCs (multi-purpose community centres) was used to illustrate the point that some local authorities often do not want to maintain and operate these centres.

The problem of tracking of service delivery at a local level was further illustrated by housing examples. The NT explained that the nature of the Department of Housing's database and internal tracking system makes it difficult to account for completely built houses. The database measures sites set out, sites cleared, and various other phases associated with housing projects.

The example of the disputes surrounding, and the slow pace of the N2 Gateway project was also given. This project has unique delivery problems, compounded by community preferences for the location of houses, the relative cost of temporary relocation, and perceptions of City of Cape Town approval delays. The JBC responded that this information was new and that the information it was getting from the Department of Housing only listed the number of houses built, if any.

The NT went further to explain the format of the departmental monthly expenditure reports for internal use. The report highlights deviations in actual and budgeted figures, as well as in relation to projected figures to the end of the financial year. The NT stated that not all instances of under-expenditure are due to poor financial management: in the case of the Department of Land Affairs money destined for land restitution projects was taken away due to external legal problems in the land restitution process.

Discussion focused a while on the apparently large suspense accounts of some departments. The JBC noted its concern about this issue. The NT stated it was preparing a document to address this matter.

The NT adequately fielded questions on the nature of contingency reserve funds and the relation to the annual adjustments budget. More information may need to be supplied at a different setting.

The JBC enquired about the enforceability of conditional grants, for example what will happen if there is non-compliance with conditions. The NT stated that it never utilised

legislated procedures in the event of non-compliance. In stead it facilitated quarterly meetings with the guilty parties, as the NT could not walk away from these entities. The NT recalled vengeful behaviour from some departments in the event that funds were withheld. The NT stated that independent and external entities often assist government on assessments of the service delivery outputs of departments. Some institutions are very active in pointing out under-delivery, for example the AG, communities, and the public media.

The NT invited the JBC to play a leading role in terms of the formulation of criteria for grants and to aid the NT on making allocative decisions.

***Suggestions from AFReC:***

To open up discussions with the NT as to how the JBC can aid the NT on making allocative decisions.

The NT satisfactorily explained why the North West Province runs a different financial accounting system ('Walker') than the other provinces ('BAS'). It was not clear why Parliament had a separate system ('Oracle') than all the rest. The NT assured the Committee that both Walker and Oracle provide similar information than BAS, although Oracle is more advanced in that it enables accrual accounting.

The JBC stated its concern about the unacceptable levels of vacancies in many departments and enquired what the NT could do about the situation. The NT responded that DPSA is better suited to field such questions. The NT did however state that employee appointment procedures are difficult and complex and that streamlining of these procedures are necessary. The NT stated that vacancies are often bloated by some departments in order to vire from these budget line items at the end of financial years to cover other expenditure. The NT stated its concern about the skills miss match in the public service.

The JBC stated its concern with the payment of bonuses despite service delivery failures and the lack of performance contracts in some instances at some departments. The NT responded that it verifies the accounting of these issues, but that the DPSA verifies compliance with performance contract requirements. The JBC also stated its concern about reports of unrealistic bonuses paid to public servants when KPIs have been met. These KPIs should be thoroughly research and deserve the necessary NT scrutiny.

The NT offered to meet with and explain to the JBC the next quarterly performance report as well as the Section 32 reports. The JBC welcomed this offer. The setting of such a meeting should be an informal workshop.

***Action Point: Need to arrange meeting with appropriate NT delegation on Section 32, quarterly performance, and other relevant reports. Need to follow up with NT offer of contacts of relevant officials that can assist with in-depth expenditure and service delivery analyses, as well as on particular segments, such as debt management and local government finances.***

***Suggestions from the JBC:***

1. Departments should report to the JBC on whether they implement controls identified by AG.
2. The JBC needs to conduct physical oversight. Therefore the Committee needs to identify certain departments and target them.
3. The monitoring and evaluation sections of departments may need to be called to account for their implementation of proper systems.

## 6 PRESENTATION BY THE AUDITOR-GENERAL

The AG, Mr Terence Nombembe, presented the Financial Capability Model to the JBC on Tuesday morning, 20 February 2007. Prior to discussing this model, the AG explained the three types of audits his office undertakes:

- a) **audits on the reliability of financial information presented in Annual Reports**, which look for adequate evidence of the financial information presented in Annual Reports. The AG noted the increasing intensity of doubt about evidence in some entities' Annual Reports.
- b) **audits of service delivery information** – officially known as “audits of predetermined objectives.” These audits assess whether underlying information support objectives and targets set out in the entity's Strategic Plan.
- c) **performance audits**, which take a closer look at the delivery competence of entities. Performance audits cover issues of efficiency, effectiveness, and economy (the three “Es” of public expenditure management. For example, such audits examine the input/output ratios of entities' service delivery programmes.

The AG conceded that it is a common mistake to confuse the last two types of audits. It is the intention of the AG to reverse the level of concentration in the first type of audit towards a focus on the last two types of audits. A balance between the three types of audits would bring the operations of the AG closer to similar benchmark institutions in the world.

The AG told the JBC that for purposes of performance audits, his office will work closer with stakeholders, such as the JBC.

In response to a question from the JBC on whether the AG also reports on the existence of performance agreements at departments, the AG responded that this particular area is monitored closely by the Public Service Commission.

In response to a question from the JBC on the difference between ‘Emphasis of Matter’ conclusion and qualified opinions by the AG, the AG said that the former only lists items in the financial statements without the necessary financial information provided. An ‘Emphasis of matter’ conclusion is no less onerous. A ‘Material emphasis of matter’ conclusion does however become a qualification.

### ***The Financial Management Capability Model***

The AG of Canada has developed a financial management capability model that can be used by regularity auditors to determine the financial management capabilities of government departments. This model forms the basis for the model currently under development by the South African Office of the AG. The object of this model is to provide a framework to enable the reader of the Annual Report to assess the adequacy of financial management, to monitor progress and to make comparisons.

The AG explained the various levels of analysis contained in the model.

**Level 1: Start-up level.** No proper control framework exists. Basic planning and control is taking place on an ad hoc basis. Financial accounting and internal control systems are not properly developed. No internal audit systems or audit committee has been established.

**Level 2: Development level.** Financial accounting and internal control systems are developed and documented (including computer systems). Internal audit systems and audit committee have been established. Both Level 1 and 2 are unacceptable capability levels for departments. Management reports from departments at these levels that address how departments will increase their financial management capabilities are typically needed by the AG.

**Level 3: Control level.** The focus is on the proper implementation and functioning of financial accounting and internal control systems, including compliance with the PFMA and other reporting requirements. The focus for the office is on Level 3, which focuses on implementation and functioning of financial accounting and internal control systems, including compliance with PFMA and other reporting requirements. The challenge is that not all departments are classified as Level 3. The AG believes that performance audits will gradually increase in volume once financial management requirements (Level 3) are met by the department.

**Level 4: Information level.** The focus is on measuring how resources are used with reliable and sufficient financial information. This level of capability typically is associated by unqualified AG audit reports.

**Level 5: Managed level.** The focus is on balancing efficient and economical use of resources with quality and/or effectiveness of results achieved.

**Level 6: Optimising level.** The focus is on continuous improvement and learning

The JBC noted that at some departments there are no proper basic financial management controls in place to prevent their apparently chronic under-expenditure. The AG responded that the model is not an Audit Committee itself, but does provide a benchmark for improvement, helps by asking the most relevant questions, and aids in simplifying conclusions over the capacities of entities. The ultimate question that the model asks is to what extent are the financial management processes mature in an entity so that ensure financial information released is consistently reliable.

The AG stated that explanations and assessments based on the Financial Management Capability Model will be included in the next General Report of the AG.

**Suggestions from the JBC:**

1. Each member should study the Financial Management Capability Model in order to facilitate hearings of departments. The Model should be used as a benchmark tool to check internal controls and required systems. It could help to assess expenditure patterns and trends, as well as the capabilities of the leadership.
2. The JBC to be briefed in more detail on audits of service delivery information (audits of predetermined objectives), as this may be very useful for oversight purposes.

## 7 RECOMMENDATIONS

AFReC highlights the following action points:

1. In order to implement the JBC's properly formed vision and mission, the Committee's TOR must be clarified and operationalised. It follows that an operational system on effective oversight for the Committee should be designed and implemented.
2. An operational system should address and clarify the overlapping functional areas between the JBC and other committees, especially SCOPA and the Portfolio Committee on Finance
3. An operational system should address and clarify the JBC's reporting commitments, focussing on clarifying the process of engagements with Committees and departments. For example an operational plan may suggest a formal letter, flow of commands, and follow-up prompts. Such a plan could empower the JBC to alert the relevant Portfolio Committee to interrogate departments on expenditure management issues as they arise, such as under-expenditure picked up in recent third quarterly reports. The JBC should have a matrix of questions to be published alongside every quarterly report to aid oversight interviews.
4. An effective operational system will rely on the sourcing and appointment of an appropriately skilled project manager.
5. The JBC should take up the NT's invitation to meet with the Committee to explain the Section 32 reports, quarterly performance report, and other relevant reports.
6. The government wide monitoring and evaluation task team at the Presidency should brief the JBC in order to track its findings and to understand dynamics faced by the task team.
7. It is acknowledged that working in silos in departments created problems with regard to financial management. This suggests that stakeholder information must be gathered because that impacts on budgeting.
8. The In-Year-Monitoring tool from the National Treasury is useful and serves as an early warning system. Regrettably, the tool is not open for public scrutiny, although the JBC should strive to obtain demonstrations of its functionality and source reports generated from it.
9. The JBC should also thoroughly scrutinise the Strategic Plans of departments in order to track input/output ratios and later assess the outcomes achieved by these departments' various programmes. There has perhaps been a tendency to rely too much on after-the-fact information contained in departments' Annual Reports.
10. An institutional memory should be maintained in the JBC. In other words, continuity in the procedures and technical expertise of the Committee needs to be established.
11. Public hearings should be treated as projects, not merely as events. Follow-up session should be integral to the workplan of the JBC. A task team for all public hearings should be formed amongst Parliamentary Committees in order to promptly assist relevant committees, such as the JBC.

## 8 CONCLUDING REMARKS

This report has focussed on highlighting the salient issues addressed at the Budget Analysis Workshop for the Joint Budget Committee, hosted by AFReC. AFReC noted the Chair of the JBC's appreciation of the well-oiled relationship between the ruling and opposition party in the Committee. The AFReC facilitators would like to thank the JBC for the honour to serve.

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