

The Public Finance Management Act (PFMA) and the role of Parliament in the Oversight of the Budget

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national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

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Constitutional/ Legal framework for oversight (1)

The Constitution:

- Section 55(2) of says the National Assembly:
 - “must provide for mechanisms to ensure that all executive organs of state in the national sphere of government are accountable to it; and to maintain oversight of the exercise of national executive authority, including the implementation of legislation; and any organ of state.”
- Section 92(3)(b) requires that:
 - “Members of Cabinet must provide Parliament with full and regular reports concerning matters under their control.”

The PFMA

- Section 6 of the PFMA
 - Articulates the functions and powers of the National Treasury. S6(c) says the treasury must: “manage the budget preparation process;
- Section 26 of PFMA
 - Parliament and each provincial legislation must appropriate money for each financial year for the requirements of the state and province, respectively

Constitutional/ Legal framework for oversight (2)

- Section 27(4) of PFMA
 - When the annual budget is introduced in the National Assembly, the accounting officer for each department must submit to Parliament measurable objectives for each main division within the department's vote. The relevant treasury may co-ordinate these submissions and consolidate them in one document.
- Section 40(1)(d) & 55(1)(d) of PFMA
 - The Accounting Officer must submit within five months of the end of the financial year to the Minister responsible for that Department an Annual Report
- Section 65(1) of PFMA
 - the Minister responsible for a department must table the annual report in the relevant legislature within one month after the Minister received the annual report.
- Chapter five of the Treasury Regulations in terms section 76 of PFMA
 - In order to facilitate the annual discussion of individual votes, accounting officers must provide Parliament or the relevant legislature with their respective institution's medium-term plan, and where applicable, with its annual performance plan.

Roles and Responsibilities In budget oversight

Department of Planning, Monitoring and Evaluation

- The Department of Performance Monitoring and Evaluation (DPME) is mandated to monitor the performance of individual national and provincial government departments and municipalities, and to carry out evaluations in partnership with other departments
- Performance dialogues are also convened by DPME officials responsible for coordinating planning, monitoring and evaluation across government together with the departmental, technical group or functional stakeholders may be held
- Performance by departments is displayed in departmental Annual Reports, Strategic Plans and APP's through indicators that are monitored throughout the year
- These indicators should be SMART (specific, measurable, achievable, relevant and timely)
- One of the roles of the Portfolio Committee is to review performance information to ensure that government spending is having the desired impact on the various sectors

National Treasury

- National Treasury is responsible for the compilation and publication of a report detailing the spending outcomes in each of the government votes
- This report is submitted to the Standing Committee on Appropriations (SCoA) on a quarterly basis
- Subsequently, a presentation is also made summarising the expenditure outcomes and spending issues for that quarter
- The report is currently structured in a manner that includes spending information by vote and economic classification as required in Section 32 of the PFMA:
- Section 32(1) states that “within 30 days after the end of each month, the National Treasury must publish in the national Government Gazette a statement of actual revenue and expenditure with regard to the National Revenue Fund.”
- Furthermore, Section 32(3)(b) states that it must specify the “actual expenditure per vote (distinguishing between capital and current expenditure) for that period, and for the financial year up to the end of that period”

Accounting Officers of departments and public institutions

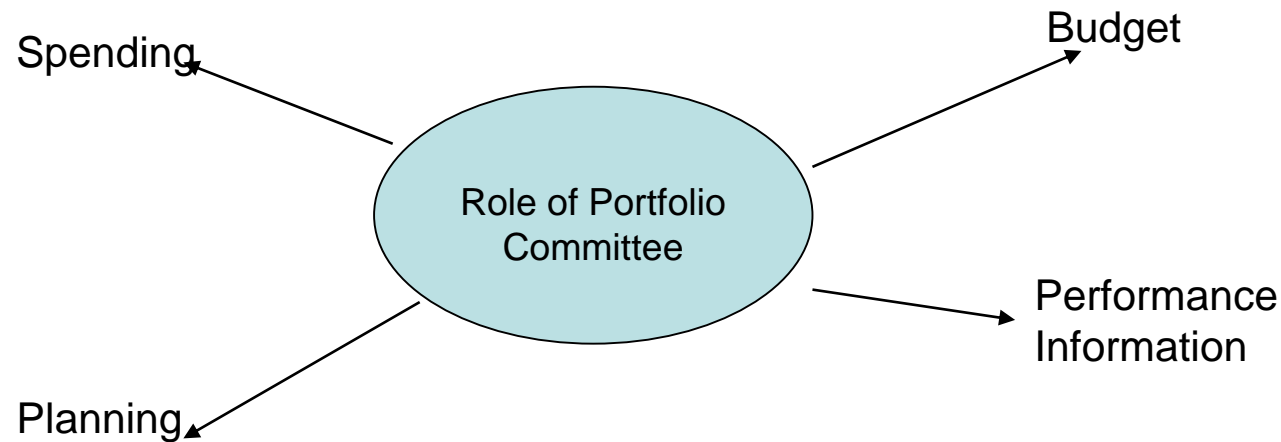
- Sections 38- 43 of Public Finance Management Act (1999) stipulates responsibilities of Accounting Officers (AOs) of departments, trading entities and constitutional institutions
- AOs are responsible for ensuring effective and efficient and transparent finance management of their institutions. They must set up relevant systems such as internal audit and procurement for this purpose
- AOs must enforce budgetary control ensuring that expenditure is in accordance with the vote of the department and the main divisions within the vote
- They must keep full and proper records of the financial affairs of the department and prepare annual financial statements and submit to the Auditor General for auditing and the Treasury for consolidation
- They must prepare and submit cash flows to the treasuries, which they should report on monthly and quarterly. They are also obliged to supply information as requested by the NT and AG
- AOs must also oversee the effective management of the institutions' assets and liabilities

Parliamentary Committees: Standing Committee on Appropriations (SCoA)

- SCoA Committee was established in terms of Section 4(3) of the Money Bills Amendment Procedure and Related Matters Act;
- Section 4(4) of the Act states that the Committee's powers and functions include considering and reporting on:
 - Spending issues;
 - Amendments to the Division of Revenue Bill, and all Appropriation Bills (Adjusted, Special or Supplementary)
 - Recommendations of the Financial and Fiscal Commission (FFC), including those referred to in the Intergovernmental Fiscal Relations Act, 1997 (Act No. 97 of 1997);
 - **Reports on actual in-year expenditure published by the National Treasury**; and
 - Any other related matters
- The focus areas centre around the Section 32 Report on the expenditure of national departments
 - highlighting high level spending;
 - including a distinction between capital and current expenditure by vote, and
 - that cumulative spending data is included

Parliamentary Committees: Individual Sector Portfolio Committees (1)

- The role of a Sector Portfolio Committee is described as considering bills, dealing with departmental budget votes, overseeing the work of the department they are responsible for, and enquiring and making recommendations about any aspect of the department, including its structure, functioning and policy
- This role differs from that of the SCoA by focusing on every aspect of a department which considers:



Parliamentary Committees: Individual Sector Portfolio Committees (2)

- Sector Portfolio Committees interact with departments more frequently. The Committees are also required to understand how the spending, planning, budget and performance intersect holistically
- Portfolio Committees also engage with a variety of documentation such as strategic plans, annual performance plans, annual reports, site visits, and other reports
- It would be the responsibility of the relevant Sector Portfolio Committee to conduct in-depth investigations, understand the reasons why a department would require a substantial budgets for certain line items such as spending on consultants, and provide recommendations on how to address any shortcomings

Parliamentary Committees: How they interact

- Committees are the places where members of the public can express their opinions directly and try to influence the outcome of Parliament's decisions
- Committees monitor and oversee the work of national government departments and hold them accountable
- The SCoA Committee and other Committees are both used to exercise oversight and monitor government actions; by detecting and reporting issues that need to be referred to Parliament in order for the Executive to answer to any anomalies on how public funds are spent
- This ensures that government operations are more transparent to enable increased public trust in the government
- In addition the committees support each other:
 - They take care of domestic parliamentary issues
 - They consider bills and amend them, and may initiate bills
 - They consider private members' and provincial legislative proposals and special petitions
 - They consider international treaties and agreements

The budget process

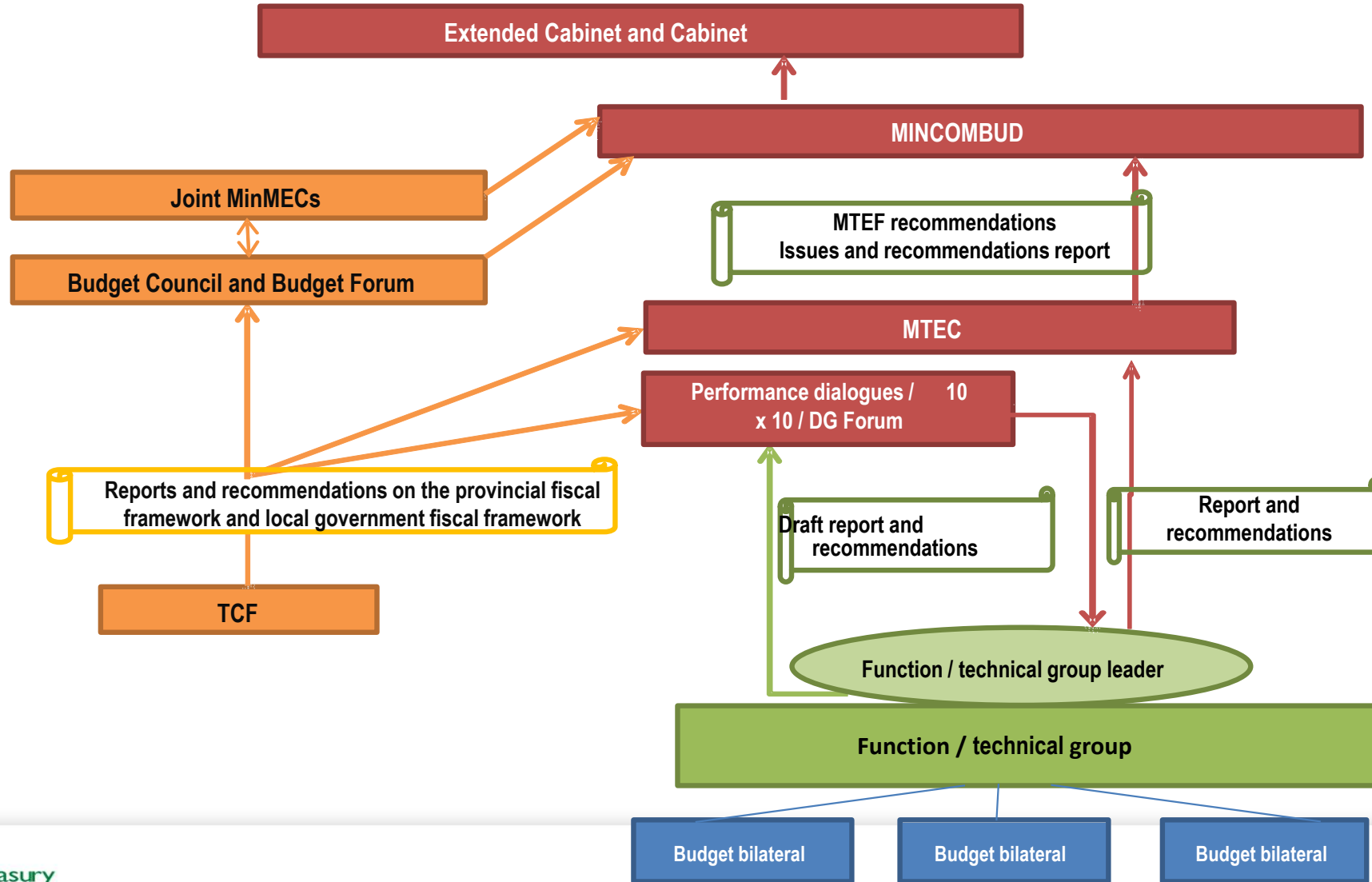
Overview of the budget

- Budgeting is a political exercise that starts with political choices about priorities and ends with political choices about which programmes and projects get funded
- Objectives of the budget include; achieving fiscal sustainability, allocative efficiency, value for money and service delivery
- The vertical division of revenue shows resources allocated to the three spheres of government, to provide for delivery of services including concurrent functions
- The Constitution provides Parliament with powers to amend the budget – realised through the Money Bills Amendment Procedure and Related Matters Act, 2009

Role-Players in the budget process

- The Executive
 - Ministers Committee on the Budget Technical Committee (MTEC)
 - Minister's Committee on the Budget (MINCOMBUD)
 - Cabinet and Extended Cabinet
- Departments
- Constitution:
 - Financial and Fiscal Commission (FFC); provincial government - the budget council;
 - Relevant entities and donors
- Legislatures
 - Portfolio Committees, Finance Committees, Appropriations Committees
 - National Assembly
 - National Council of Provinces
 - Provincial Legislatures

Technical and political structures



National Treasury's technical role in the budget process

- Provide the overall Fiscal Framework based on the macroeconomic forecast
- Propose the Division of Revenue between the 3 spheres based on above, and decisions made at a political level on priorities
- Provide technical guidelines for budget submissions and evaluate budget submissions and ensure that they reflect key government priorities
- Maintain on going communication with other central government departments
- Make recommendations to MTEC, Budget Council and Ministers' Committee on the Budget (who in turn make recommendations to Cabinet and Extended Cabinet)
- Prepare and table budget documentation
- Brief Parliamentary Committees in respect of budget documentation tabled

Political oversight in the budget process

- **The Ministers' Committee on the Budget (MINCOMBUD)**
 - MINCOMBUD has been constituted by the President as a Committee of Cabinet. It is chaired by the Minister of Finance
 - MINCOMBUD considers matters related to the determination of expenditure allocations, including the economic assumptions underpinning the budget, fiscal policy objectives and tax proposals
- To promote **co-operation between national, provincial & local spheres** on **fiscal, budgetary & financial** matters the Intergovernmental Fiscal Relations Act (97 of 1997) establishes:
 - Budget Council**
 - consisting of the Minister of Finance (who is the chairperson), the MEC for Finance of each province and the Chairperson of the Financial and Fiscal Commission
 - Local Government Budget Forum**
 - comprising of the Minister of Finance (who is the chairperson), the MEC for Finance of each province and representatives of the South African Local Government Association (SALGA) chairperson
 - The Minister of Finance in consultation with the Cabinet member responsible for another portfolio may convene a Joint MINMEC to consider sector budget issues and make recommendations to MINCOMBUD
 - A Joint MINMEC is comprised of the Minister of Finance, Members of the Executive Council of Finance from nine provinces and their counterparts at national and provincial level from the relevant department

Budget preparation summary

- July: Departments submit their estimates of expenditure for the MTEF based on their strategic plans
- July: Performance indicators contained in submissions are aligned to those reflected in strategic and annual performance plans as informed by the National Development Plan (NDP), the SoNA, the Medium Strategic Framework (MTSF) and the stated high level priorities
- Aug & Sept: The MTEC, an interdepartmental committee - comprising of the DG's of the National Treasury, Department of Public Service and Administration (DPSA), DPME, and Cooperative Governance and Traditional Affairs (CoGTA) - considers the allocation of funds in respect of each function in line with the priorities of government
- Sept: Medium Term Expenditure Committee (MTEC) makes recommendations to Ministers' Committee on the Budget
- Oct: Medium Term Budget Policy Statement (MTBPS) tabled – highlighting key government priorities, fiscal framework and division of revenue
- Nov: Allocation letters are sent out, including the provision for earmarking certain amounts or set conditions
- Jan & Feb: Budget documents are then prepared
- Feb: Budget document are tabled in the Legislature

Budget publications list- February

- **Feb-Appropriation Bill**- To appropriate money from the National Revenue Fund by vote for the first year of the MTEF cycle
- **Division of Revenue Bill**- Division of revenue among the 3 spheres of government for the first year of the MTEF cycle.
- **Revenue Bills**- Present the various tax laws to ensure government can raise money
- **Budget Review**- Highlights Economic overview, Fiscal policy, revenue and trends tax policy, division of revenue and government debt
- **Estimates of National Expenditure**- Explanatory memorandum to the Appropriation Bill
- People's Guide- Highlights of the budget in a simplified format, with emphasis on the how the budget affects citizens
- **Oct-Medium Term Budget Policy Statement**- A government policy document that communicates to Parliament and the country the economic context in which the forthcoming budget will be presented, along with fiscal policy objectives and spending priorities over the 3 year MTEF
- **Division of Revenue Amendment Bill**- To effect current financial year adjustments to the Division of Revenue Bill
- **Adjustments Appropriation Bill (s)**- To effect adjustments to the appropriation of money from the National Revenue Fund in respect of the current financial year; and to provide for matters incidental thereto
- **Adjusted Estimates of National Expenditure**- Reflects revisions to the main Budget, and provides detailed information on mid-year actual expenditure and performance as well as revised spending and performance projections for the rest of the current financial year.

Reporting on Expenditure

In year monitoring overview

- The reporting requirements specified in sections 32 and 40(4) of the PFMA, and also in sections 7 to 9 of DoRA, require that expenditure and revenue information for all programmes be provided each month to the national Treasury
- Failure to provide this information as prescribed in the Acts is not only irregular and constitutes grounds for sanctions under the Act to take effect, but also reflects lack of accountability and may negatively impact on the financial planning of government
- The monitoring of financial data is an essential element in managing the performance of any spending agency. Public Finance division is one of the divisions in the National Treasury responsible for the monitoring and evaluation of, and reporting on financial data
- There are monthly, quarterly and annual reports

IYM reports National and Provincial Departments (1)

- In terms of Section 40(4)(c) of the PFMA, **the accounting officer (AO)** must submit to the relevant treasury and executive authority within 15 days of the end of each month and to the National Treasury by the 22nd, information on:
 - the actual revenue and expenditure for that month, in the format determined by the National Treasury
 - projections of anticipated expenditure and revenue for the remainder of the current financial year in the format determined by the national Treasury
 - conditional grants received and actual spending against them
 - all transfers
 - any material variances and a summary of actions to ensure that the projected expenditure and revenue remain within the budgetTo improve accountability, **AOs** are required to sign-off on the monthly reports before submitting to relevant treasury or executive authority (TR 18.1.2)
- The National Treasury (Public Finance) should, according to the National Treasury's annual performance plan, evaluate and respond to departments based on the data reported in the 40(4) of the PFMA reports within 2 weeks after the receipt of these reports from departments- addressing the following questions: What has happened so far, and why?; How does it impact on the rest of the year?; What intervention strategies are required, if any?

IYM reports National and Provincial Departments (2)

- In terms of Section 40(4)(a) of the PFMA and Section 15.10.2 of the Treasury Regulations, the Accounting Officer of a department must - each year before the beginning of a financial year provide the relevant treasury in the prescribed format with a breakdown per month of the anticipated revenue and expenditure of that department for that financial year
- Section 6 of the Division of Revenue Act (DoRA), as part of the reporting envisaged in section 40(4)(c) of the Public Finance Management Act, provincial departments are to submit a financial report on conditional grants to national departments and respective provincial treasuries within 15 days after the end of each month:
- National departments administering conditional grants are to submit a report to the National Treasury within 20 days after the end of each month including information on the amounts transferred, the amount of funds delayed and actual expenditure incurred by their provincial counterparts
- Provincial treasuries must within 22 days after the end of each month report on actual transfers received from national, actual expenditure and any challenges of compliance with the provisions of the DoRA, and the steps taken to deal with such challenges
- Section 22(1)(b) of the annual DoRA requires that the National Treasury must take into account the monthly expenditure commitments of provinces and seek to minimise risk and debt servicing costs for both national and provincial government in determining the payment schedule for the provincial equitable share
- Section 22(3) of the annual DoRA requires that National Departments provide to the National Treasury with detailed information (dates and amounts per week and/or per month in rand thousands) for the preparation of the annual Provincial Payment Schedule that takes account of all conditional grant funds to be transferred to provinces

Section 32 Reports

- Section 32 of the PFMA requires the National Treasury to, within 30 days after the end of each month, publish in the national Government Gazette actual revenues (and expenditures in relation to the National Revenue Fund
- The statement published by the National Treasury in terms of section 32 of the PFMA include;
- Actual revenue for the relevant month, and for the financial year to the date of the relevant reporting period
- Actual expenditure for the relevant month, and for the financial year to the date of the relevant reporting period (distinguish between current and capital expenditure)
- Actual borrowings for the relevant month, and for the financial year to the date of the relevant reporting period
- In terms of Section 32(2) of the PFMA, provincial treasuries have to submit to the National Treasury a statement of receipts and payments regarding their Revenue Fund on a quarterly basis for the publication of this information by the National Treasury within 30 days after the prescribed period

Quarterly Reports

- The National Treasury: Public Finance submits to SCoA, within 6 weeks after the end of each quarter, a consolidated expenditure report on the National Budget for preceding quarter of the financial year
- The report provides a breakdown of preliminary cumulative expenditure for each of the national votes, with emphasis on the most significant preliminary expenditure patterns (comparing expenditure to the overall budget, as well as projected spending for the relevant period) across government
- Focus is also given to the expenditure reported per programme of a national vote, as well as items that are specifically and exclusively appropriated which mainly comprise of compensation of employees, and transfers to public entities and other government institutions
- Any significant issues identified through the monthly evaluation of spending by national departments are brought to the attention of Parliament (SCoA) through these reports

Division of Revenue Act – Provincial Grants Monitoring

- Section 10(6) The transferring officer must submit to the National Treasury a monthly financial report within 20 days after the month has ended. The report must include
 - funds transferred to provinces in respect of schedule 5 conditional grants;
 - funds withheld or stopped from the province;
 - actual expenditure incurred by the province; and
 - other information as determined by NT
 - Section 10(7)(a) requires the transferring officer to submit a monthly report on infrastructure expenditure partially or fully funded by the health Revitalisation Grant, National Health Insurance Indirect Grant, School Infrastructure Backlogs Grant and the Maths, Science and Technology Grant, within 22 days after the end of each month, in a format determined by NT
- Section 9(1)(e) and 10 (7)(b) states that the transferring officer must submit quarterly performance reports on all programmes partially or fully funded by schedule 4,5 & 6 conditional grants, within 45 days after each quarter, in accordance with the applicable framework
- Section 9(1)(f) and 10(8) requires the transferring officer to evaluate annual performance of all programmes partially or fully funded by schedule 4, 5 & 6 conditional grants, and submit such evaluations to the NT within four months after the end of the financial year.

Role of the NCOP

- The NCOP through the appropriate committees is required to consider and report on:
- the spending issues
- the Division of Revenue Bill, the Appropriation Bill and the amendments thereof
- recommendations of the Financial and Fiscal Commission
- reports or statements on actual expenditure published by the National Treasury

Local Government oversight by Provinces

- National Treasury has delegated responsibility for 240 municipalities to the respective provincial treasuries
- Provincial treasuries take lead from National Treasury
- Provincial treasuries' role with regards to municipal budgeting
 - Ensure compliance with the MFMA, including:
 - Adherence to the time-lines for tabling and approval of municipal budgets;
 - Implementation of the Municipal Budget and Reporting Regulations, especially the new budget formats;
 - Application of the funding compliance assessment; and
 - Overall evaluation of municipal budgets
 - Provide budget related training to municipalities
 - Assist municipalities with implementation of budget related reforms
- Work with Depts. of LG and provincial sector departments to ensure proper co-ordination of provincial and municipal plans and budgets

Annual Reports

- Section 65 of the PFMA requires that Ministers/MECs table the annual reports for the departments and public entities for which they are responsible by 30 September.
- In Section 40 of the PFMA Accounting Officers are responsible for keeping of records and compiling financial statements and annual reports and submitting them to the AG for auditing
- National Treasury provides guidelines for the compilation of the annual reports
- The Auditor General has an onerous responsibility as the audit report is the most important, and only, independent assessment of the quality of financial statements, including all its disclosures.
- Parliamentary committees can play the same role as they do with budget formulation and execution as reporting is the last leg of the budget cycle
- Portfolio committees are critical to scrutinise and to hold departments and entities to account for their performance, using their strategic plans, budget documents and annual reports.

Thank You!