



treasury

Department:
Treasury
PROVINCE OF KWAZULU-NATAL

**VOTE 6:
PROVINCIAL TREASURY**

**2020/21
BUDGET SPEECH**

VOTE 6: PROVINCIAL TREASURY 2020/21 BUDGET SPEECH



HONOURABLE MR RAVIGASEN RANGANATHAN PILLAY, MPL
Member of the Executive Council for Finance

PROVINCE OF KWAZULU-NATAL

Budget address by Mr RR Pillay, MPL Member of the Executive Council for Finance

On tabling of the Vote 6 Budget in the Provincial Legislature

3 June 2020

Honourable Speaker

Honourable Members

Head of Provincial Treasury and Officials Present

Organised Labour, Business, Academic, Religious and Community Leaders

Members of the Media

Ladies and Gentlemen

Comrades and Friends

1. INTRODUCTION

I am pleased, albeit under challenging conditions, to table the Provincial Treasury Budget for 2020/2021 of R718.763 million.

At the outset, let me confirm that this will be subject to significant adjustment, the details of which will be known when the National Minister presents the Adjustment Budget which is expected on 24 June 2020. This Adjustment Budget is expected to be sharp and severe.

The beginning of 2020 has proven to be difficult and challenging for the global economy due to the onslaught of the Covid-19 pandemic. Across the world, the coronavirus has infected millions of people. Hundreds of thousands of lives have been lost to this global pandemic.

South Africa has not been immune to this as our rate of infections and the number of Covid-19 related deaths continue to climb each day. As a country, we count ourselves lucky that our government sprang into action early enough to devise and implement a comprehensive response to the pandemic.

Informed by international best practice and based on advice from top scientists, epidemiologists and public health specialists, this response encompasses a bouquet of interventions which can be categorised into four pillars, namely:

- Health/medical interventions
- Provision of support to the vulnerable
- Compliance with National Disaster Regulations
- Economic relief and recovery

Central to the response has been the implementation of a National Lockdown which has been in place since 27 March. The lockdown ensured that we avoided an exponential rise in the rate of infections, giving us more time to work on other aspects of our response such as expanding our public health system to ensure it is prepared to cope with a surge in Covid-19 cases.

While necessary, the lockdown has had unavoidable negative consequences on all sectors of the economy across provinces. It has led to the closure of workplaces, disruption of supply chains, and impacted most on the poorest of the poor and the informal sector.

As President Cyril Ramaphosa said, ***"The urgent and dramatic measures have given us space to better respond to the inevitable rise in infections and to save tens of thousands of lives. While the nation-wide lockdown is having a devastating effect on our economy, it is nothing compared to the catastrophic human, social and economic cost if the coronavirus could spread among our people unchecked."***

The R500 billion economic support package announced by President Ramaphosa in April required a reprioritisation of R130 billion from national and provincial budgets. Of that, R30 billion is being reprioritised from the provincial budgets with KwaZulu-Natal's share of that amount being R6.2 billion.

Further to this, some of our provincial departments, notably Health, Social Development and Education, have also realised increased pressures on their budgets as a result of Covid-19 interventions they have had to undertake.

As Provincial Treasury, we are working with all departments to finalise a comprehensive budget reprioritisation exercise to provide for the provincial response, details of which will be contained in the Adjustment Budget.

Covid-19 has and continues to disrupt every aspect of life as we know it. It forces us into a new way of doing things, one that is anchored on discipline, sacrifice and consideration for others.

Global and National Outlook

The lockdown measures implemented in all corners of the world have compelled the International Monetary Fund (IMF) to slash the global economy growth forecast to a contraction of 3% this year. This reflects a downward revision of negative 6.3 percentage points compared to the growth rate of 3.3% projected earlier in January. The IMF expects this year's global recession to be far worse than the 2009 world financial crisis. It is precisely for this reason that many financial institutions consider Covid-19 as the highest risk the world economy has faced since the 1929 Great Global Depression which lasted for a decade.

The weak global conditions will see a sharp decline in South Africa's export volumes during this year. Though it is still too early to quantify the impact of Covid-19, the International Monetary Fund expects the South African economy to contract by 5.8%. Projections by the South African Reserve Bank indicate that the country's Gross Domestic Product (GDP) for the current year will contract by 7%. National Treasury forecast a negative growth of 6.8%.

As you are aware, the country was already in an extended business cycle downswing before Covid-19. The economy slipped into a technical recession during the fourth quarter of last year and recorded an average annual growth rate of 0.2%. This was partly due to challenges such as power supply, low business confidence, weak private sector investment, less revenue collection, inadequate consumer spending and other structural bottlenecks.

The massive contraction of the country's real GDP has obvious consequences for unemployment, poverty and inequality. With the estimated GDP loss this high, the number of unemployed people is expected to increase dramatically. This dire situation also has massive effects on businesses, many of which face closure, liquidation, or minimal operations. Furthermore, a substantial fiscal deficit is now expected at 11% of GDP for the current financial year. The fiscal deterioration is also a notable downside risk to government debt as a percentage of GDP.

Credit Rating

The economic impact of Covid-19 is further compounded by Moody's decision to downgrade South Africa's sovereign credit rating to Non-Investment Grade late in March this year. In April, Standards & Poors Global Ratings further downgraded us to three notches below investment-grade, citing the country's cost of servicing public debt as one of the significant threats to the country's most desired growth trajectory.

Disturbingly Moody's expects the country's budget deficit to reach 13.5% of the GDP in the current fiscal year, up from its previous forecast of 8.5%. The rating agency is concerned about the R500 billion Covid-19 rescue package, arguing that it weighs heavily on the public finances. This, according to Moody's, will push the country's debt burden up to 84% of GDP, including guarantees to state-owned enterprises.

KwaZulu-Natal Economic Outlook

Our preliminary projections as Provincial Treasury suggests that the effects of Covid-19 will be detrimental across all sectors of the economy in KwaZulu-Natal. However, the hardest hit industries are manufacturing, construction, wholesale, retail, hotel, finance, real estate, business services and personal services.

The scourge of Covid-19 is expected to cause the overall demand for goods and services to drop by about 7.5% in the province. The provincial GDP is expected to contract by approximately 8.5%, with employment falling by a staggering 14.6% this year. The contraction in the provincial economy will ultimately result in a further increase in the current official unemployment rate of 25% to reach a possible high of 40%. This is not good news, particularly as the province already has close to a million unemployed people, excluding the discouraged work seekers.

These are hard facts presented to inform our planning and response. It must not paralyse us. These extraordinarily difficult times demand of us an extraordinary response.

It is therefore critical that we are not distracted from the tasks at hand. The infection peak is yet to come. The economic crisis will deepen. The Provincial Government of KwaZulu-Natal has been hard at work rolling out the four pillars of our response.

On the one hand we will have to meet the demands of our public health response knowing full well that we are still going to face the peak of the wave of infection. On the other hand, we must mitigate the economic loss and prepare the ground for a sustained economic recovery. This requires a very special united and collective effort.

Worldwide, it has been said that the pandemic has exposed the faultlines in society, between rich and poor. In our country this is an exceptionally serious faultline with a toxic overlap between race and inequality. All our measures in response to this crisis must also be underpinned by principles of transformation. We are encouraged that all levels of society seem to understand and accept this imperative. It has to be economic recovery AND economic transformation. We can only achieve this together.

Guided by the Public Finance Management Act (PFMA) and the Municipal Finance Management Act (MFMA), Provincial Treasury will continue to strive to be the ***“Guardian of the Public Purse.”***

This budget I am tabling will underpin and drive our agenda of financial sustainability, building a capable and developmental state and fundamental transformation.

1.1 Provincial Treasury’s Commitment

Our focus in the 2020/2021 financial year will firstly be directed towards the following fundamentals:

- Embed internal controls and processes, addressing audit matters within Departments, Municipalities and Public Entities while ensuring long term sustainability of audit improvements and successes;
- Take effective steps towards the elimination of fraud and corruption in government;
- Ensure transparent and fair Supply Chain Management practices;
- Focus on the enhancement of Broad-Based Black Economic Empowerment (B-BBEE) through effective Supply Chain Management policies;
- Monitoring and review of all Covid-19 emergency procurement incurred by Departments, Public Entities and Municipalities

- Ensure on-budget spending (in all Departments and Public Entities) through effective in-year monitoring of expenditure and sound cash management;
- Maintain the present favourable provincial cash position;
- Enhance support to Municipalities and Public Entities to encourage prudence in financial management; and
- Provide further assistance to Departments, Public Entities and Municipalities to unlock stagnant infrastructure projects.

Our goals underscore the necessity for Provincial Treasury to have a healthy relationship with all Members of the Executive Council, their Departments and Public Entities. In collaboration with the Premier and the Department of Co-operative Governance and Traditional Affairs (CoGTA), Provincial Treasury will strive to build strong relationships with all Municipalities. These relationships will have to be built on **trust and effective advice and support**. We all need to work as partners in promoting good governance and meaningful service delivery.

1.2. Provincial Treasury's Response to Covid-19

One of our main tasks as the Provincial Treasury, during this time of the Covid-19 crisis, is capacitating Supply Chain Management on the new Covid-19 emergency procurement regulations. We are acutely aware of the risks that are already manifesting themselves. We will undertake the training of Supply Chain Management to ensure that departments can procure commodities on an emergency basis in line with the emergency procurement regulations without compromising on quality, specifications and value for money. It must be stressed that Provincial Treasury cannot do the procurement itself. Departments remain responsible and Accounting Officers remain accountable.

The Provincial Treasury has started monitoring expenditure related to Covid-19 by Municipalities, Public Entities and Departments. Risks such as the possible purchase of items not related to Covid-19 while using the emergency procurement regulations and instruction notes have been identified.

Preliminary unaudited figures for Covid-19 expenditure per department are as follows:

Department	Total Sum of Orders
Agriculture and Rural Development	R 5,859,010
Arts and Culture	R 383,353
Community Safety and Liaison	R 262,500
Co-operative Governance and Traditional Affairs	R 198,516
Economic Development, Tourism and Environmental Affairs	R 5,676,741
Education	R 35,029,806
Health	R 1,285,719,624
Human Settlements	R 1,765,377
Office of the Premier	R 735,421
Provincial Treasury	R 83,209
Public Works	R 144,900
Social Development	R 51,642,374
Sport and Recreation	R 126,197
Transport	R 1,873,074
Total as at 15 May 2020	R 1,389,500,106

The lockdown has delayed the implementation of some of our programmes including the rollout of the invoice tracking tool which was initially scheduled to start on 1 April and the Clean Audit workshop for MECs, HoDs and CFOs which had been planned for 24th of March 2020.

We are exploring other avenues on how these can still be rolled out.

2. OVERVIEW OF OWN REVENUE AND EXPENDITURE PER PROGRAMME

I now deal specifically with Treasury's own revenue collection as well as the primary service delivery objectives and funding of each of Provincial Treasury's programmes for the coming year. Full details are contained under Vote 6 of the *Estimates of Provincial Revenue and Expenditure (EPRE)* and in the Annual Performance Plan of the department.

The baseline of the department has decreased by R2.9 million, from R721.629 million in 2019/20 to R718.763 million. This reduction relates mainly to fiscal consolidation aimed at reducing expenditure across all spheres of government.

2.1 Revenue

Departmental receipts collection – R388.862 Million (Up from R365.842 Million in 2019/2020): 6.29% increase

The bulk of Provincial Treasury's revenue is the interest earned from the provincial bank accounts. This relates mainly to interest received by the Provincial Revenue Fund on daily positive bank balances in the Inter-governmental Cash Coordinating (IGCC) account at the Reserve Bank.

To maximise interest, withdrawals from this account are made only when cash is needed. The improvement in collection against this category is due to the collective implementation of both cash blocking and cost-cutting measures by Departments.

3. EXPENDITURE PER PROGRAMME

3.1 PROGRAMME 1: ADMINISTRATION – R215.771 MILLION (DOWN FROM R220.209 MILLION IN 2019/20)

The decrease of 2% in the allocation is mainly due to a reduction in a specific Treasury intervention allocation for the Supply Chain Management intervention in Health. An allocation of R23 million has been provided for the provincial exercise of condonement of irregular expenditure and any other special intervention for the province. This money has been allocated to the office of the HoD under special projects.

This Programme is responsible for the executive and strategic functions of the department and includes the overall managerial and corporate responsibilities of Provincial Treasury. It comprises the Office of the Member of Executive Council, the Head of Department, the Chief Financial Officer and Corporate Services, which includes the Human Resource Management component.

3.1.1 Operation Sukuma Sakhe (OSS)

The Provincial Executive Council developed and implemented Operation Sukuma Sakhe to augment the existing government department systems of service delivery. This aims to break down any obstacles that prevent people and communities from accessing government services. It is a model that has been recognised nationally and internationally.

The programme deploys Members of the Executive Council and Heads of Departments (HoDs) as Political and HoD Champions of the various districts in the province. The MEC for Finance is deployed in the uMgungundlovu District, and the HoD is deployed in the eThekweni Metro.

3.1.2 Community Outreach and Social Responsibility

The Constitution of the Republic of South Africa mandates Provincial Treasuries to coordinate dialogue between government and the public on service delivery issues. Provincial Treasury provides information and interacts with communities and other stakeholders to ensure a two-way process of sharing ideas.

The nature of Provincial Treasury as a department, not directly involved in service delivery, requires a unique approach to its community outreach programme. As mass gatherings are usually not appropriate, the department identifies and assists non-governmental organisations and/or non-profit-making institutions that operate within communities to develop and improve the quality of lives of people. The Provincial Treasury objective is to make an impact and provide tangible assistance to address specific needs. The department has willing officials and a capable Communication Unit to undertake this function.

Both MEC and HoD have community outreach and social responsibility projects that include:

- Donation of school uniforms, used computers and other resources to needy learners identified through War Rooms;

- Assisting drought-stricken areas by providing tanked water supply at schools. (This includes the installation of water tanks and water reticulation and the supply of boreholes and installation of gutters);
- Lobby sponsorship for school infrastructure development and repairs; and
- We are working with the Department of Social Development to assist accredited NGOs, with a focus on orphans and the elderly.

The department will this year also focus on engaging with the professions and young people pursuing high-level technical skills.

Through the Inter-governmental Relations Unit (IGR), the HoD's office continues to be very instrumental in driving National Treasury and Local Government SETA programmes targeted towards meeting the minimum competency levels in the financial management of Municipalities in the province namely:

i. Minimum Competency Regulation

This programme is geared towards effecting Sections 83, 107 and 119 of the MFMA which state, among other things, that *“the Accounting Officers, Senior Managers, the Chief Financial Officers and other finance officials of a municipality must meet the prescribed financial management competency levels.”*

The programme is aimed at the improvement of financial management competencies and levels of Municipal Managers, Chief Financial Officers and Supply Chain Managers to increase opportunities for the attainment of improved audit outcomes by the municipalities.

ii. Municipal Finance Internship Programme

The programme is geared towards training municipal interns employed in areas such as strategic planning and management, municipal budgeting, supply chain and finance to develop their skills to add more value in the functionality of the Municipalities and form a pool of suitable prospective candidates for permanent employment in the Municipalities.

The programme directly addresses the lack of suitably qualified and experienced candidates that some rural Municipalities are faced with, resulting in critical posts either remaining vacant or occupied by unsuitably qualified incumbents.

iii. Youth Programme

This programme resides with the Office of the Premier and links up with Treasury through IGR. The programme seeks to forge synergy and integration of initiatives by departments to advance youth development in the province by ensuring that youth become active participants in government initiatives culminating in a Youth Parliament and implementation of resolutions thereof.

The province has adopted a holistic, interdepartmental and integrated approach that responds to the socio-economic needs of young people in KwaZulu-Natal. It is aligned to key national and provincial policy frameworks and strategies that guide the government and social partners to align their programmes accordingly. The IGR Unit forms part of the provincial team that coordinates, integrates and monitors youth development interventions and programmes and works with the Office of the Premier to report progress in the province.

iv. Expanding the pool of financial skills in Provincial Government

Provincial Treasury received accreditation from the South African Institute of Chartered Accountants (SAICA) as a training office in December 2015. In January 2020, this department welcomed a further three trainee Chartered Accountants, making a total of fourteen in the programme, nine of whom are currently undergoing training towards becoming Chartered Accountants (CA), and five who have been successfully signed off as Public Service trained Chartered Accountants and who are currently within an internal two year Management Development Programme. This programme is responding to the call from the President to increase the capacity of the state and to expand the pool of financial skills in the country. Through this initiative, Treasury will also strengthen the capacity of Departments and Municipalities to manage their finances prudently. These Chartered Accountants will be utilised as skilled resources within the Audit Improvement Strategy of the province.

Provincial Treasury has made financial investments through the Thuthuka Bursary Fund for previously disadvantaged students in

financial management who want to pursue Chartered Accountancy. There are a total of 86 students who have been funded by the Department. All of these students come from various district municipalities in KwaZulu-Natal and are expected to serve the province upon completion of their studies. They feed into the training programme mentioned above, and to other government programmes, for example, in the eThekweni Municipality and the office of the Auditor-General.

3.2 PROGRAMME 2: SUSTAINABLE RESOURCE MANAGEMENT – R49.984 MILLION (UP FROM 2019/20 APPROPRIATION OF R47.641 MILLION)

The 4.9% increase in the programme is an inflationary adjustment.

3.2.1 Sustainable Fiscal Resources – Public Finance

The Public Finance Unit within Provincial Treasury is responsible for the robust engagements with National Treasury and national sector departments to ensure that KwaZulu-Natal receives its fair share of the nationally collected revenue. The Unit has had to do this under severe economic conditions given South Africa's economic performance. The provincial budget that I tabled in this house in March highlighted the difficult economic and fiscal challenges that our country is facing. Having secured the necessary resources, allocations were done to all the Departments. The Unit will continue to monitor the expenditure in-year, ensuring that there is strict adherence to prudent fiscal rules and regulations. We will compile in-year detailed budget performance and management reports and present same to the Provincial Executive Council, the Finance Portfolio Committee and the Legislature. Our main aim is to ensure that the province remains financially stable and delivers adequate services to the population of KwaZulu-Natal to address the triple challenges of poverty, unemployment and inequality.

We will continue to strive to ensure that the Departments deliver value for money and that there is compliance with the PFMA and Regulations, various Treasury Circulars, Instruction Notes and Directives. This we will do in an endeavour to make sure that the fiscal consolidation cuts do not severely impact on the province's capability to deliver quality goods and services. While Provincial Treasury will play its part in the management of financial and fiscal resources, accounting officers and accounting authorities must also play their role in the management of our resources. Ultimate responsibility lies with the Accounting Officer of each Department.

3.2.2 Infrastructure and Economic Analysis

This Unit guides all Departments that implement infrastructure programmes and projects. This includes guidance in terms of planning, budgeting and implementation of their infrastructure plans using the Infrastructure Delivery Management System (IDMS). This Unit also houses the Infrastructure Crack Team responsible for assisting Departments, Public Entities and Municipalities in the delivery of infrastructure programmes and projects, with a focus on those projects that experience blockages or slow implementation.

The Infrastructure and IDMS teams will continue to engage National Treasury and ensure that provincial departments, especially the Departments of Health and Education, maximise their infrastructure allocations. Both Departments have an opportunity of accessing additional financial incentives to the baselines by submitting planning documents and performance reports that meet the minimum requirements as outlined in the guidelines for the performance-based system. The financial incentives are ring-fenced within the baselines of the Education Infrastructure Grant (EIG) and Health Facility Revitalisation Grant (HFRG). To qualify for the incentive allocation, a Department must attain an overall minimum score of 60%. Both the Departments of Education and Health have received the incentives since it started in 2015/16. For the 2020/21 financial year, the Department of Health achieved a total score of 80% and received an amount of R58.8 million from the performance incentive grant. The Department of Education achieved an overall score of 93% and received an amount of R73.38 million from the performance incentive grant for the 2020/21 financial year.

It is against this background of effective support to government institutions in the implementation of infrastructure programmes and projects that the IDMS team, in partnership with CoGTA's infrastructure team, has been mandated to support the Water Services Authorities (WSA) in the province with the effective and efficient planning, budgeting and implementation of water projects to ensure all sustainable water service delivery opportunities are explored and evaluated, with the objective that water supply is accessible to all households in the province. Where "accessible" means households will have access to a water source, i.e. central community tap stand or water tanker (owned by WSA), and in terms of the Department of Human Settlements, Water and Sanitation norms and standards.

The *Estimates of Capital Expenditure (ECE)*, tabled in the March 2020 provincial budget, lists all infrastructure projects per Department that will be rolled out this year and over the Medium-Term Expenditure Framework

(MTEF). This publication is instrumental as it can play a vital role in effective oversight in terms of infrastructure delivery in our province. It can also empower Members of this House to play an oversight role at project level. Regrettably, early indicators are that the Adjustments Budget may invariably result in this programme being severely limited unless additional sources of funding are secured.

The Socio-Economic Review and Outlook (SERO) was also tabled with the main budget. This publication provides a detailed economic analysis of the provincial economy with some critical policy suggestions to address the triple challenges of unemployment, poverty and inequality. Policymakers must take note of these policy suggestions, especially given the current economic challenges faced by the nation and the province.

The economic analysis team will continue to publish high quality relevant economic policy research that will enable policymakers to evaluate and implement socio-economic policies that will support the growth of the provincial economy and ensure long term economic development. Research underway focuses on the Provincial Equitable Share Formula and the Norms and Standards for Funding for Public Schools.

3.3 PROGRAMME 3: FINANCIAL GOVERNANCE – R219.783 MILLION (DOWN FROM R223.541 MILLION IN 2019/20)

3.3.1 Accounting Services Sub-Programme

The slight decrease in the Programme of R2.3 million is due to the reprioritisation of funds. These funds have been moved to Programme 1: Special Projects to assist with the condonation of irregular expenditure project.

The main purpose of this Programme is to ensure that all the financial management systems and processes utilised in the province lend itself to the effective and efficient management of the province's resources. The issuing and monitoring of provincial directives and norms and standards are pivotal in practising transparent and sound financial management.

The Accounting Services Unit will continue to play a significant role in the implementation of the province-wide, multi-level PFMA Audit Readiness Financial Management Support Plan that has been developed to achieve the broad and overarching goal of improved financial management practices and

the achievement of 90% unqualified audit outcomes by 2024. The improvement of the effectiveness of financial management in the province remains a priority towards the attainment of improved audit outcomes.

The following targeted projects and initiatives have been identified by the Accounting Services Unit to achieve the outcome outlined above:

- Provision of specialist financial and asset management support to Departments and Public Entities to enhance financial management skills and capabilities and ensure audit readiness.
- Provision of technical support and financial management training to strengthen capacity of officials at Departments and Public Entities on financial reporting standards.
- Support to Departments in the preparation of interim financial statements with the objective of improving the availability of quality supporting documentation to support the financial statements and management information.
- Monitor compliance with month-end closure procedures and submission of Interim and Annual Financial Statements.

In addition to the above, the Sub-Programme provides support to Departments in terms of:

- Operation “Pay-On-Time”: A dedicated “Operation Pay-on-Time” team is available to support SMMEs in particular with resolving payment disputes that arise and reporting to National Treasury on compliance with Instruction Note No. 34.
- Inter-Governmental Debt Management: Assistance with the reconciliation of Inter-Departmental Accounts and Municipal Debt Recovery.

3.3.2 Supporting and Interlinked Financial Systems Sub-Programme

This Sub-Programme continues to provide support for financial systems in the province. The Sub-Programme remains committed to providing optimal protection to both BAS and Persal transversal systems, thus mitigating any financial loss to the province. The use of the Biometric Access Control System (BACS) has significantly strengthened the integrity of our financial system. The

Unit will be instrumental in the implementation of the invoice tracking system in the province. The strengthening of ICT controls to facilitate the connectivity to IT systems and the work from home solutions will be a key focus area in the coming months.

3.3.3 Norms and Standard Sub-Programme

The Norms and Standards Unit will conduct a follow-up on the recommendations made to Departments as set out in the Provincial Treasury report that was issued on the status of the Financial System of Delegations Framework for Departments. An assessment will be carried out by the Unit to evaluate the qualification of officials in the Office of the CFO to confirm that the minimum financial management qualification levels for posts are observed, and any discrepancies are identified and addressed. The Unit will moreover continue to assist Departments with addressing audit queries relating to policies and procedures as highlighted by the Auditor-General.

3.3.4 Reduction of Irregular Expenditure

The teams managing the Sub-Programmes of Accounting Services and Supply Chain Management will take proactive steps to ensure that timely interventions are in place to mitigate the possibility of negative audit opinions and to assist with the reduction in irregular expenditure through a process of condonation in compliance with Instruction Note No. 2 of 2019/2020. These Units are instrumental in the implementation of the Instruction Note, which further regulates irregular expenditure for institutions subject to the PFMA as set out in the Irregular Expenditure Framework. To this end, all requests for condonation of irregular expenditure from Departments and Public Entities listed in Schedules 3C and 3D of the PFMA are submitted to the Provincial Treasury for its consideration with effect from 17 May 2019. Provincial Treasury has commenced with the implementation of the framework for the condonation of irregular expenditure and will ensure that all requests for condonation made by Departments before 31 March 2020 are considered before submission of the Annual Financial Statements for audit.

The tenth consecutive clean audit of Vote 6 and the Provincial Revenue Fund bear testimony to our commitment and adherence to sound financial management prescripts.

3.3.5 Provincial Supply Chain Management Unit (SCM)

The Provincial Supply Chain Management Unit has realigned its strategic objectives to focus mainly on improved audit outcomes, reduction of irregular expenditure, economic transformation and policy development.

The Unit is actively supporting the Financial Management Unit to ensure appropriate condonation of irregular expenditure. The Unit continues to discharge its obligations in terms of approving contract deviations, variations and extensions, thereby allowing it to monitor potential weaknesses in SCM systems in Departments.

The Unit has been active in identifying suitable avenues for further economic transformation in the province. These have included establishing a specialised unit that will ensure economic transformation is achieved in key industries by vetting specifications before advertisements.

The Unit is successfully monitoring progress about post-implementation Contract Management support. Post-implementation support is ongoing, and currently, at least 80% of Municipalities have vetted contract registers. The Unit is enhancing visibility in terms of the compliance assessment to reduce cases of irregular expenditure in Departments and Municipalities.

We have embarked on an exercise to drive proper Contract Management in Departments.

Provincial Treasury will continue to provide SCM-related support to Departments, Municipalities and Public Entities which are found to be in distress with their procurement systems. The support is provided by deploying hands-on resources at different institutions, responsible for identifying all SCM-related weaknesses and gaps to implement sustainable SCM reforms.

3.3.6 Public-Private Partnerships (PPP)

The Public-Private Partnerships (PPP) Unit will continue to build capacity in Departments and Municipalities in identifying and managing PPP projects.

The feasibility study report for the Inkosi Albert Luthuli Central Hospital (IALCH) has been completed and approved by the Provincial Executive Council. The Unit will endeavour to place greater emphasis on its compliance monitoring and evaluation function to assess the implementation of Treasury Regulation 16 by the Department of Health concerning this project.

This Unit is also assisting with the ILembe Siza Water Concession. The former Borough of Dolphin Coast entered into a concession agreement with Siza Water Proprietary Limited (Siza Water) for the supply of water and sanitation services to a defined concession area within the municipality. As the contract is entering its last ten years of the concession contract, the PPP Unit will assist the Municipality in making sure that the exit strategy for this contract is started very early to ensure seamless hand over at the end of the contract.

The Unit will also advise the City of uMhlatuze on its proposed PPP in relation to waste water treatment and its reuse. The feasibility study for this project has been completed and is awaiting Treasury approvals before the issuance of its procurement document for the appointment of the private partner.

3.4 PROGRAMME 4: INTERNAL AUDIT – R156.495 MILLION (DOWN FROM R166.345 MILLION IN 2019/20)

The baseline decrease of 5.9% is due to a once-off allocation of R10 million in the prior year to cater for the completion of the 2019/2020 assurance operational plan.

3.4.1 Assurance Services

The Unit will continue to provide assurance to Accounting Officers on the adequacy and effectiveness of controls implemented to mitigate identified risks. There are several audits planned for the 2020/2021 financial year. These will include full scope reviews of processes and programmes. A significant amount of time will be spent on determining the extent to which Departments have implemented previous recommendations to findings from both Internal Audit and the Auditor-General. The effectiveness of any audit function is dependent on how active management is in effecting the required and recommended improvements. The outcome of all internal audit work conducted will be reported regularly to Accounting Officers and to oversight bodies to ensure there is a more proactive response to all audit issues raised. A process to ensure that Executive Authorities are regularly apprised of the status of Departments' control environment through quarterly reporting is now in place.

Additional focus will be given to the financial statement processes. The Unit will review the Interim Financial Statements prepared by all Departments and provide management with recommendations to improve the quality of financial reporting. Supply Chain Management, including contract

management, will also continue to be an area of focus for internal audit, with thorough reviews being conducted across all Departments. Concerns relating to irregular expenditure through these audits, if reported timeously, may be prevented if recommendations to management are implemented. Another transversal high-risk area that will be audited regularly is the performance information reports produced by Departments. Internal Audit will focus on the quality of the reported information as well as conducting some verification of achieved targets.

Specialised IT audits will be conducted across all Departments where certain transversal high-risk focus areas will be reviewed. Systems implemented by individual Departments will be a specific focus area to ensure proper processes and internal controls are in place. Performance audits will be conducted on certain strategic provincial programmes to determine the effectiveness and the efficiency of these programmes as well as the value for money thereof.

The structure of the Unit still needs to be reviewed in light of the pending implementation of the hybrid model.

The Audit and Risk Committee plays a crucial role in the Internal Audit value chain and will continue to be supported by the Unit. In order to ensure a more robust and dynamic approach in dealing with audit matters, the Committee will be enhancing its reporting processes to the Executive and other oversight bodies. The size of the Committee is being considered to accommodate additional expertise needed and to respond to the pending implementation of the hybrid model.

3.4.2 Risk and Advisory Services

The Risk and Advisory Service is a sub-component of the Internal Audit Programme. The Unit is tasked with supporting Departments, Public Entities and Municipalities on risk management and governance-related matters. The strategic focus of the Unit will include the following:

- Broadening the assessment of Occupational Health and Safety (OHS) beyond head offices of Departments to also focus on regions, district and facilities. Although compliance with OHS is improving at head offices, the level of OHS maturity in regional and district offices are not at the same level. Our assessments will also include a review of compliance with the recently issued Department of Public Service and Administration (DPSA) Circular on dealing with Covid-19.

- Detailed assessment and assistance will be provided to Departments with regard to their business continuity plans. Our reviews will also focus on the state of readiness of Departments' business continuity plans to address the risks associated with Covid-19.
- The revised Provincial Risk Management Framework, will be approved in the first quarter of 2020/2021 and will be rolled out to Departments during the 2020/2021 year. The revised framework has a set of minimum risk management standards that Departments must comply with.
- To enhance the internal control environment of Departments, the Provincial Internal Audit Services (PIAS) recently assessed Departments' internal control functions, and all were found to be inadequate. To address this, PIAS will be developing and rolling-out the Provincial Internal Control Framework in June 2020 depending on government decisions related to Covid-19 pandemic conditions. This is envisaged to, among other things, standardise the functions of internal control functions, designing a common set of controls and policies for transversal areas such as Supply Chain Management, Human Resources and Information Technology.
- Detailed reviews of the state of risk management at Public Entities and Municipalities will be done on a sample basis this financial year. Together with CoGTA, the local government risk management frameworks which have been developed will be rolled out to local government institutions during the 2020/2021 financial year. Support to these institutions includes risk management strategies and policy development.

3.4.3 Forensic Services

The KwaZulu-Natal government fosters a zero-tolerance approach to fraud and corruption in all its manifestations. Together with the leadership in various Departments, the Forensic Unit within Provincial Treasury presents the required capacity towards the fight against fraud and corruption by assessing and performing comprehensive investigations that aim to deal with the root causes and associated recommendations.

The Forensic Unit has conducted investigations since the promulgation of the PFMA in 1999. Most of the allegations received and investigated are serious and complex in nature. These investigations are very costly and had created

serious financial pressures for the Unit. During the 2017/2018 financial year, a strategic decision was taken to direct all local government institutions and Public Entities to fund their investigations, disciplinary hearings and criminal investigations themselves. Provincial Treasury will, however, assist wherever possible, but will prioritise investigation requests from Departments. In the same way, Departments have been directed to fund their disciplinary hearings and in some cases, request criminal investigations.

Four-hundred-and-forty-nine (449) investigation requests were received by the Forensic Unit between the period December 2009 to 31 March 2020 from Departments, Public Entities, and Municipalities. The majority of investigation requests relate to supply chain management irregularities and/or fraud. Approximately 83% of the investigation requests received were investigated and completed. Those that warranted criminal investigation were referred to the law enforcement agencies for further investigation. The remaining 17% of alleged corruption and fraud cases reported are currently under investigation.

Recently the Forensic Unit was able to successfully initiate a recovery order to the value of approximately R547 million through the Asset Forfeiture Unit in one of its matters. Several arrests have been made during the past years with some high-profile matters currently on the court roll.

Through the coordinated efforts of all components within Provincial Treasury and law enforcement agencies, we believe that we will be able to, within reason, shut down perpetrators as well as to improve on the internal control environment within Departments. The Forensic Unit will continue pursuing matters reported through various sources such as the fraud hotline, the Executive Leadership, government oversight committees and anonymous whistleblowers.

The provincial government is on a drive to implement a consequence management framework, and transgressions of this nature will also fall within the ambit of the framework currently being developed by the Office of the Premier.

Follow-ups on the implementation of recommendations contained in the finalised forensic reports relating to criminal, disciplinary and civil proceedings are conducted. It has been found that slow progress has been made on the implementation of recommendations by the respective Accounting Officers and/or Executive Authorities. The undue delays in the implementation of disciplinary and/or civil proceedings are being escalated to the Executive Authority and/or other oversight committees.

In addition, and to specifically fast-track criminal investigations the Forensic Unit has assisted law enforcement agencies such as the Anti-Corruption Task Team (ACTT), National Prosecuting Authority (NPA), South African Police Services (SAPS), Specialised Commercial Crime Unit (SCCU) and Asset Forfeiture Unit (AFU) on matters under criminal investigation. The Unit has assisted Accounting Officers of Departments with the compiling of affidavits for registering of criminal cases and are in regular contact with the investigating officers and prosecutors to determine the status of the registered cases and to determine whether any further assistance is required. Support is also rendered to Departments during disciplinary hearings when implementing disciplinary actions.

3.5 PROGRAMME 5: MUNICIPAL FINANCIAL MANAGEMENT – R76.730 MILLION (UP FROM R63.893 MILLION 2019/20)

The increase of 20% in the allocation is due to a reallocation of funding from Programme 3 to assist Municipalities and Municipal Entities to transact in compliance with the Municipal Standard Chart of Accounts (mSCOA) regulations and the funding of a new Sub-Programme, Municipal Revenue and Debt Management. This Sub-Programme is planned to be fully functional from the 2020/2021 MTEF onwards. The allocation makes provision for establishing and formulating support strategies to address weaknesses within the revenue and debt management processes of delegated Municipalities.

The Municipal Finance Management Unit provides oversight, technical support and guidance to assist Municipalities in managing their financial resources prudently and sustainably.

A provincial Memorandum of Understanding has been drafted between Provincial Treasury and CoGTA which outlines the responsibilities of the two Departments and creates an enabling environment for a more effective delivery of support. Each Department plays a vital role in the improvement of municipal audit outcomes, e.g. CoGTA is responsible for improving governance within Municipalities which provides the foundation for Provincial Treasury to deliver financial management support effectively. The collaborative approach is aimed at assisting Municipalities in improving their audit outcomes and to build capacity where required through the efficient use of financial and human resources.

The Municipal Finance Management Unit consists of five Sub-Programmes, together responsible for the provision of technical support to delegated Municipalities in the following areas:

- *Municipal budget* will continue to focus on enhancing technical support to capacitate delegated Municipalities on the preparation of multi-year budgets with the objective of improving the funding position of delegated Municipalities' budgets. The ongoing engagements with senior management at Municipalities and formalised feedback on budget assessments provided to Municipalities are also aimed at promoting realistic and funded municipal budgets. With the current ongoing implementation of mSCOA, more focus will be placed on capacitating delegated Municipalities to improve the quality of the data strings (financial information from the municipalities' financial system).
- *Municipal Accounting and Reporting* provides identified Municipalities with technical support in Financial Management to promote financial sustainability and to monitor compliance with the annual reporting framework. The support includes the improvement of financial management processes and controls while building capacity that can assist Municipalities in improving their financial management practice and ultimately contribute to the improvement of audit outcomes.
- The *Municipal Support Programme (MSP)* is committed to provide specialist support to Municipalities in identifying methods to promote sound financial management and sustainability. The MSP initiatives are focused on building capacity, such as the Grant Management Training Programme. The initiative is aimed at embedding the key foundations of grant management that can assist the Municipality in managing grants more effectively and therefore, contribute to an improvement in service delivery.
- The *Municipal Revenue and Debt Management Sub-Programme* is being phased in during the 2020/2021 financial year and is aimed at providing technical support to selected Municipalities that can assist them in improving their revenue and debt management processes and controls.

4. CONCLUSION

In closing, allow me to remind this House of the clarion call made by President Cyril Ramaphosa on Freedom Day where he implored us to work towards building a new society and a new economy.

In his address, the President said: "***The true lessons of this (Covid-19) experience will not just be about the necessity of social distancing, proper handwashing and infection control. They will also be about whether we can turn this crisis into an opportunity to invest in a new society, a new consciousness and a new economy. In this new society, the privileged cannot afford to close their eyes to the plight of the poor and sleep peacefully at night. This is the time when we should actively work to build a fair and just country.***"

As the Provincial Treasury, we commit ourselves to work diligently with all Departments, Public Entities and Municipalities to ensure that this new society and the new economy does not remain a pipe dream. As the Guardian of the Public Purse in KwaZulu-Natal, we re-affirm our resolve to being an active player in building a capable State through programmes which I have already outlined in this budget speech. As we undertake the task of building a new society and a new economy our focus, as the Provincial Treasury, will remain on infrastructure support, general financial management, forensic services, and municipal financial management.

I would like to take this opportunity to thank HoD Smiso Magagula and the entire team at Provincial Treasury for their hard work and dedication which is evident in the smooth day-to-day operations and the achievements made over the years by the Department.

I also want to extend gratitude to Members of this House, the Premier, Members of the Provincial Executive Council, my family and my organisation the African National Congress for their unwavering support and guidance they have and continue to give me.

I present Vote 6: Provincial Treasury for 2020/2021 for consideration of this august House.

I thank you.

“As individuals, as families, as communities, it is you who will determine whether we experience the devastation that so many other countries have suffered, or whether we can spare our people, our society and our economy from the worst effects of this pandemic”

– President Cyril Ramaphosa, 24 May 2020

**Vote 6: Provincial Treasury
2020/2021 Budget Speech**

ISBN: 1-920041-60-5