

**A CRITICAL ASSESSMENT OF THE ROLE OF EASTERN CAPE PROVINCIAL
TREASURY IN ENFORCING COMPLIANCE WITH PUBLIC FINANCE
MANAGEMENT ACT FOR PUBLIC ENTITIES, (SOUTH AFRICA)**

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DECLARATION

I, hereby declare that the research project entitled: **A critical assessment of the role of Eastern Cape Provincial Treasury in enforcing compliance with Public Finance Management Act for Public Entities, (South Africa)** is my original work, except where indicated has not been submitted for any other degree at any other University.

Signature

.....

Date

.....

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CHAPTER ONE

GENERAL ORIENTATION OF THE STUDY

1.1 Introduction

The term Public Administration meant the study of the public service. The purpose of the public service is to provide services to society. However, before any services are provided, certain functions should be undertaken within the public service. The public service is required to execute the policies of the government. In this system, public administration enables and supports the activity of public management. The public management functions are related to public administration and gives direction to the administrative conduct of public servants to ensure the effective execution of policies by the public service (Dye 1987:324). The purpose of Eastern Cape administration is to provide a legislative, political and administrative direction to the province and is also responsible for providing strategic financial direction, monitoring and oversight to the departments and the province in terms of the Public Finance Management Act, (PFMA) (Act No. 1 of 1999). The Eastern Cape administration renders strategic planning services, providing transversal policy opinions and advice and protocol development, it also provides technical and managerial support to the provincial government. Among other things it develops and implements a Human Resource strategy that gives effect to a sustainable Human Resource function and Human Resource plan in support of the organizational structure and provides financial processes to ensure efficient, effective, economical and transparent use of resources.

The Eastern Cape provincial government consists of 15 departments, 45 district municipalities and 12 public entities that fall under Treasury. The Constitution of the Republic of South Africa, 1996, Section 195(1) (b) provides that public administration and management in all spheres of government should be efficient and effective in terms of the use of resources, as well as being economically viable and accountable. The Constitution plays a crucial role in setting principles of sound financial management which enhances good governance. Sections 213 and 215 to 219 of the Constitution regulate financial management in the public sector. The Constitution puts limits on government. It is like a contract between the government and the people. The Supreme Court rules on laws and behavior of office holders and determines if their actions are

constitutional or not. That is the importance of it. It is supposed to limit the behavior of those in office to do harm to the citizens using the power of their office while they serve in office.

The Public Finance Management Act (PFMA), 99 (Act No. 1 of 1999) (as amended by Act No. 29 of 1999) is one of the most important pieces of legislation passed by the first democratic government in delivery through the effective and efficient use of the limited resources. The intention in the promulgation of the PFMA is specifically to give effect to the above-mentioned sections of the Constitution. The key objectives of the Act may be to modernize the system of financial management in the public sector; enable public sector managers to manage, but at the same time be held more accountable; ensure the timely provision of quality information and eliminate the waste and corruption in the use of public assets. The Act, which came into effect from 1 April 2000, gives effect to sections 213 and 215 to 219 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) for the national and provincial spheres of government. These sections require national legislation to establish a national treasury, to introduce uniform treasury norms and standards, to prescribe measures to ensure transparency and expenditure control in all spheres of government and to provincial revenue funds.

Public Finance Management Act has traditionally been developed around a framework of control and is reflected in checking, testing, verifying and regulating through control accounts, centre, procedures (instructions) and departments (treasuries). As South Africa is a developing country, the government is concerned with introducing and effecting policies (including the PFMA) with a view to achieving sustainable development. The PFMA gives effect to certain prescriptions in the Constitution by providing more detailed measures and stipulations. Section 38(1)(b) of the PFMA stresses that, with the introduction of the new financial management dispensation in South Africa, effectiveness was made obligatory by law. Pauw et al (2002:23) agree, and add that the pursuit of effectiveness has important repercussions for financial management. It implies, among other things that the budget must clearly indicate services and/or products to be supplied and that financial reporting supports the measurement of these services and/or products. The objective of financial management in the public sector is to support management in the allocation of limited resources with the purpose of ensuring economy and efficiency in the delivery of outputs that will serve the needs of the community (Van Wyk 2004:411). The administration and management of public finance are governed by two elements, namely the

specific nature and extent of public finance on the one hand and the vital importance of effective government spending on the other hand (Erasmus & Visser 1997:81). Essentially, the PFMA is aimed at improving the effectiveness and efficiency of financial management within the public sector through introducing best practices in financial management. Fourie (2005:679) stresses that public financial management in the South African context is based on the three elements: improving transparency, entrenching accountability and ensuring the integration of policies. Regulations contained in the PFMA are of paramount importance in guiding public officials on compliance.

Provincial Treasury is encountering challenges with the public entity budget; certain public entities could not provide their budgets when requested by the Provincial Treasury Public Entities Governance Unit, thus (this could be an indication of poor planning). Controlling Departments did not take responsibility for ensuring that public entities' budget submissions were made on time and approved by them as executive authorities. There were inconsistencies when draft budgets of public entities were compared to budgeted departmental transfers to the entities.

1.2 Statement of the problem

The problem statement is to assess the critical role of Eastern Cape Provincial Treasury in ensuring that public entities are complying with the implementation of Public Finance Management Act.

The problem of non-compliance to the prescripts of the Public Financial Management Act (PFMA) by public entities is an issue of concern which embraces the provincial institutions. Non-compliance to the provisions of the Public Finance Management Act and receiving audit qualifications showcase poor financial management and defeat the ultimate objectives of the Public Finance Management Act in enhancing the quality of service delivery. This means that the functionaries are required to be more accountable and this has been lacking within the public entities. The full compliance with the PFMA is one of the main challenges that face public entities for effective service delivery. The Eastern Cape Treasury should play a constructive and proactive role in the governance of the public entities and in the achievements of its service delivery objectives by implementing measures that will help to reduce non-compliance levels

which should result on enhancing compliance monitoring and improve accountability and transparency.

1.3 Research questions

- (i) How does Eastern Cape Provincial Treasury undertake its mandate to ensure effectiveness in enforcing compliance of the Public Finance Management Act by public entities?
- (ii) Which roles and responsibilities to be played by the key stakeholders in the oversight and governance of provincial public entities?
- (iii) Which challenges are encountered by the department in enforcing compliance of the Act and which strategies to use when the public entities are not fully complying?

1.4 Objectives of the study

The main objective of the study is to assess the role played by the Eastern Cape Provincial Treasury in enforcing compliance with Public Finance Management Act for public entities in the province. To achieve the main objective:

- 1) To assess the roles and responsibilities of all key stakeholders in the oversight and governance of provincial public entities.
- 2) To assess the compliance of PFMA by the public entities in the province.
- 3) Eastern Cape Provincial Treasury support strategies in enforcing compliance of PFMA in improving financial management within the framework of legislation including, inter alia, the Constitution, PFMA, Treasury Regulations and the King Code of Governance for South Africa 2009 (King III).
- 4) To assess challenges encountered by the Eastern Cape Provincial Treasury with public entities that contributes to the inefficiency as they are not complying fully with the Act.

1.5 Significance of the study

The study, therefore, is likely to contribute to the new knowledge of upholding public accountability thereby engaging and alerting officials of the Eastern Cape Provincial Treasury in the study. Most importantly, the study aims to sensitize the authorities to skill and impart knowledge to officials on matters dealing with public funds. It is assumed that this study will enable the officials of the Provincial Treasury to identify and take corrective financial measures

which could uphold full compliance of Public Finance Management Act by public entities in the province. These measures could prevent recurrence that leads to audit qualifications which in turn can portray a negative picture of the department in as far as compliance of PFMA by public entities is concerned. Thornhill (1984:144) indicate the responsibilities of the state auditor or Auditor-General as determining the manner in which the executives' authority has executed its financial activities which include inter alia the efficient expenditure of public funds as well as the effective utilization of stock, equipment and personnel. According to Cloete (1986:187), the cornerstone of democracy is that anyone in a position of public authority must be liable to render account of his public activities and can be called upon to answer for his deeds in public.

1.6 Delimitations of the study

Financial and time constraint hinders the researcher to have access to all the institutions; for example the Legislature, Public Entities, Auditor-General hence the study was confined only to public entities unit in Bhisho.

Definition of key terms

- i. **Finance management:** the planning, directing, monitoring, organizing, and controlling of the monetary resources of an organization.
- ii. **Public finance:** collection of taxes from those who benefit from the provision of public goods by the government, and the use of those tax funds toward production and distribution of the public goods.
- iii. **Public finance management:** Public Finance Management basically deals with all aspects of resource mobilization and expenditure management in government as managing finances is a critical function of management in any organization, similarly public finance management is an essential part of the governance process.
- iv. **Public Finance Management Act:** is an act to regulate financial management in the national government and provincial governments; to ensure that all revenue, expenditure, assets and liabilities of those governments are managed efficiently and effectively; to provide for the responsibilities of persons entrusted with financial management in those governments; and to provide for matters connected therewith.
- v. **Regulation:** A rule to control the conduct of those to whom it applies. Regulations are official rules, and have to be followed or a principle or rule without the coercive

power of law) employed in controlling, directing, or managing an activity, organization, or system. Regulation can also be a rule based on and meant to carry out a specific piece of legislation. Regulations are enforced usually by a regulatory or mandated to carry out the purpose or provisions of legislation.

- vi. **Constitution:** Fundamental and entrenched rules governing the conduct of an organization or nation state, and establishing its concept, character, and structure. It is usually a short document, general in nature and embodying the aspirations and values of its writers and subjects. The Constitution of South Africa is the supreme law of the country of South Africa. It provides the legal foundation for the existence of the Republic of South Africa, sets out the rights and duties of the citizens of South Africa, and defines the structure of the government of South Africa.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The purpose of this chapter is to review relevant literature relating to the topic of study to create the platform on which the study will be based.

In Chapter one, background of the study, the research problem, the research questions, research objectives and the significance of the study were clarified. In this chapter, literature review on legislative framework of Public Financial Management will be discussed.

Provincial public entities have been established to facilitate the delivery of various key services, whilst in some cases creating crucial economic empowerment / wealth and ensuring adherence to the regulatory framework outlined by the National Constitution. The South African service delivery landscape has over the past few years endeavoured to promote, establish and secure various multifaceted structures to facilitate the rollout of services to the nation. One such structure to achieve these objectives in the public entity which may be defined as a service delivery institution that falls under a designated government department. Therefore, in alignment with the Constitution and the key governing legislation, viz. the PFMA and the Treasury Regulations, all public entities have to account for the funds that are appropriated to them.

In terms of Chapter 1 of the PFMA, “Provincial Public Entity” may be defined as: A provincial government business enterprise, or a board, commission, company, corporation, fund or other entity (other than a provincial government business enterprise), which is established in terms of legislation or a provincial constitution; fully or substantially funded either from a Provincial Revenue Fund or by way of a tax, levy or other money imposed in terms of legislation; and; accountable to a provincial legislature. In ensuring accountability, transparency, effectiveness, economy and efficiency of the public entity and the designated government department, in their joint responsibility for the required service delivery, the PFMA prescribes the legal responsibilities for all key stakeholders in this relationship. Government has created a range of entities outside of normal departmental structures in order to achieve particular objectives ranging from providing advice to facilitating investments, delivering services or providing

strategic goods. Many of these entities were created by separate ‘enabling’ Acts, which regulate their public purpose mandate to ensure alignment with Government’s objectives. Others were created in terms of private law, either through registration in terms of the Companies Act, or as trusts or funds. Still others have both their own enabling Acts and are registered in terms of the Companies Act. This has resulted in fragmented regulatory and accountability frameworks and diverse conditions of service. There is an unclear distinction between the fiduciary duties required for a public entity that has a public purpose mandate specified in its enabling legislation and those required for a government enterprise, registered in terms of the Companies Act that also have a public purpose mandate, specified in the shareholder agreement/compact that is delivered in the commercial environment. Besides these, the sector is also faced with financial management and human resource challenges.

2.1.1 Governance

Public entities were often created on an ad hoc basis resulting in the unnecessary proliferation of corporate forms. Lack of clarity between the fiduciary duties required for a public entity that has a public purpose mandate specified in its enabling legislation and, those required for a government enterprise, registered in terms of the Companies Act. The regulatory environment is fragmented with multiple accountability frameworks. The various enabling acts have not consistently provided comprehensive guidance on fiduciary duties, governance and service delivery. Public entity enabling legislation has proven cumbersome and rigid to deal with the changing government priorities.

2.1.2 Financial Management

The field of finance is broad and dynamic. It directly affects the lives of every person and every organization globally. Financial managers and executive managers must be able to understand and use the economic theories as guidelines for efficient and effective financial management. This view supported by Gitman (2003:10) when stating that “financial managers must understand the economic framework and be alert to the consequences of varying levels of economic activities and changes in economic goals.

2.1.3 Financial Performance

Financial management deals with such activities as cash management, formulating financial objectives in support of strategic plans and monitoring the flow of cash. The ultimate goal of

financial management in government is to ensure that the managers safeguard and use available funds and other scarce resources in the best interest of the citizens (Pauw et al, 2002:133). On the other hand the financial performance deals with the efficacy with which the financial management functions is discharged. The people expect that the government will manage the public funds under its control in an effective and accountable manner. Being accountable means the managers are held accountable for carrying out a defined set of duties or tasks and for conforming with rules and standards applicable to their posts (Pauw et al, 2002:136). A manager is not only the one who is rewarded for good performance, but also the one who suffers the consequences if performance is inadequate. In addition, these authors explain that governments have delegated greater flexibility and autonomy to managers as a means of improving efficiency and effectiveness of manager's operations. According to Madue and Mahwai (2008:364), the idea of linking budgets to performance management is that cost centres are given more autonomy on the management of their budgets, but must simultaneously meet performance targets with the allocated resources. Mkhize and Ajam (2006:769) state that the interdependence of performance monitoring and measurement form an integral part of the planning and budgeting process.

2.1.4 Human Resources

Government has developed very specific policy targets for the transformation of the public service. Members need to be familiar with these policies so that they can evaluate the progress entities are making towards becoming transformed and representative organizations.

2.2. Legislative Framework

The formation of entities by government to implement policy is a matter of general occurrence. Public entities operate within the framework of a variety of legislation including, inter alia, the PFMA and Treasury Regulations, the Companies Act and any relevant legislation under which a public entity operates. This legislation creates a comprehensive legal framework in respect of the oversight of the entity:

2.2.1 The Constitution

Section 114(2) of the Constitution affords extensive oversight in respect of the conduct of business by departments and their legal entities. The Companies Act will require a large measure of further regulation by government over the entity. The PFMA provides extensive oversight authority to be utilized which would encompass the financial management of funds by the public

entity. Together with the Treasury Regulations, the Act specifies the roles and responsibilities of both the accounting officer of departments that transfer funds to public entities and the recipients (accounting authorities of public entities). Chapter 13 of the Constitution (RSA, 1996) gives mandate to the National Treasury to ensure transparency, accountability and sound financial controls in the management of public finances (Ababio, 2008:4). Section 195 (1) of the Constitution provides that public administration and management in all spheres of government should be efficient and effective regarding the use of resources, economically viable and demand a high level of accountability. Madue in Madue and Mahwai (2008:366) describes accountability as the responsibility to undertake specific actions and the responsibility to provide an account for those actions.

2.2.2 Responsibilities according to the Constitution

The provincial treasury must ensure that the provincial budgets and budgetary processes promote transparency, accountability and the effective financial management of the economy. The Treasury must also ensure that the provincial budgets follow the form and timing prescribed by national legislation and show the sources of revenue and the way the proposed expenditure will comply with national legislation, according to section 215(2). Further, the provincial budgets must contain: Estimates of revenue and expenditure, differentiating between capital and current expenditure; proposals for financing any anticipated deficit for the period to which they apply; an indication of intentions regarding borrowing and other forms of public liability that will increase public debt during the ensuing year as outlined in section 215(3).

2.2.3 Public Financial Management Act

The Public Financial Management Act, (PFMA), 1999 (Act No. 1 of 1999) came into effect on 1 April 2000 with the aim of modernizing financial management in the public sector. The PFMA enables accounting officers to manage the resources allocated to their institutions and, at the same time, holds them accountable for these resources. Financial management in the public sector focuses on the prioritization and considered use of scarce resources, on ensuring effective stewardship over public money and assets, and on achieving value for money in meeting the objectives of Government: i.e. rendering the best possible services to the community. This must be done transparently and in terms of all relevant legislation. Institutions must comply with all applicable laws. Laws should be understood not only in terms of the obligations they create, but

also for the rights and protection they afford. The leadership is responsible for the institution's compliance with applicable laws and with those non-binding rules, codes and standards with which the institution has to comply. One of the most important responsibilities of the leadership is to monitor the institution's compliance with all applicable laws, rules, codes and standards (King's Counsel 2010:65).

PFMA promotes the objective of effective use of limited resources. The objective of the Act, therefore, is to modernize the system of financial management that focuses on outputs and responsibilities. One of the ways to ensure the Act maximizes service delivery is the prescription of the structures and officials to be accountable for the state funds and how these funds are spent. The tool use to monitor the usage of the fund for service delivery is the budget. The main aim of the system was to keep control of government expenditure to achieve fiscal discipline (Mkhize & Ajam, 2006:763). According to Hughes (2003:166) states that budgets have several functions ranging from recording of government financial transactions to a major role in determining the health of the economy of the country. This Act is a consultative body, which also gives advice and recommendations on financial matters for organs of state in national, provincial and local government. (Moeti 2007:72).

One of the target spheres of the Act, apart from direct government departments or constitution institutions, is public entities – institutions, corporations, bodies, trading entities etc., that receive public funds, by means of transfer payments, for their operations. The PFMA specifies the roles and responsibilities of both the accounting officer of the departments that transfer funds to public entities and the recipients, the accounting authorities of public entities. The government, as a major shareholder in public entities, faces a wide range of risks associated with the operations of these entities, including financial, reputation, political and operational risks. It is the responsibility of each Executive Authority (in whom the primary responsibility for appropriate public entity oversight and accountability to Legislature rests) to ensure that these risks are identified, reduced and managed. In this regard, a key requirement of public entities is to report and account for their performance to the relevant Executive Authority in respect of financial and non-financial matters, at the same time, however, maintaining independence in the conduct of their duties and free from day to day involvement by the Executive Authority. In order to ensure that there are no actual or perceived conflicts of interest and that public entities achieve the

government's broad policy objectives and ensuring that the public entities boards operate efficiently and effectively, the intentions and envisaged relationship between the department and the public entity is managed via a Shareholder's Compact. It is the responsibility of the Provincial Legislature and Treasury, who have oversight over public funds, to utilize the legal framework of oversight to regulate the affairs of the public entity. The PFMA adopts an approach to financial management, which focuses on outputs and responsibilities rather than the rule driven approach of the previous Exchequer Acts. The Act is part of a broader strategy on improving financial management in the public sector. Section 213 of the Constitution limits exclusions and withdrawals from the National Revenue Fund through an Act of Parliament; Section 215 which notes that budgets and budgetary process "must promote transparency, accountability and the effective financial management of the economy, debt and the public sector" and for national legislation to "prescribe" budget formats for all the spheres of government; Section 217 on procurement to be "in accordance with a system which is fair, equitable, transparent, competitive and cost-effective; Section 218 on the conditions for the issue of guarantees by a government in any sphere. The Public Finance Management Act replaces or supersedes the various national and provincial Exchequer Acts and the Reporting of Public Entities Act currently in place. Financial accountability was undermined as different legislation applied for different entities. Further, legislation regulation financial management was narrowly focused on expenditure control.

2.2.4 Responsibilities according to the PFMA

The Public Finance Management Act prescribes the abovementioned responsibilities that the Head of the Department must ensure is met by the Provincial Treasury. The Provincial Treasury must develop annually a multi-year budget projection of the estimated revenue to be raised during each year of the multi-year period; the estimated expenditure expected to be incurred per vote during each year of the multi-period, differentiating between capital and current expenditure. These projections – the Medium Term Financial Framework – will be tabled by the MEC for Finance in the National Assembly and in the provincial legislature. At least quarterly, the provincial treasury must submit to the National Treasury a statement of revenue and expenditure with regard to the provincial revenue fund, according to section 27 of the PFMA.

2.2.5 Treasury Regulations

The Public Finance Management Act lay down the basic rules for public financial management. In carrying out the effect of Section 216 of the Constitution, the Public Finance Management Act provides for the treasury control. The detailed regulation of the use of allocated funds is found in the Treasury Regulations that came into effect on 5 June 2000. This Treasury Regulation of 2000 was amended by the Minister of Finance, in terms of Section 76 of the Public Finance Management Act. These regulations cover the whole field of practical management, without being unduly detailed. They range from internal control to planning and budgeting, asset and liability management, banking and cash management and accounting and reporting, among other things (Pauw et al., 2002:44). Although the executive, in form of the National Treasury, promulgated these regulations, they must be consistent with the Public Finance Management Act.

2.2.6 King III Report

King III promotes the highest standards of corporate governance in South Africa. No legislation encapsulates best practices in terms of principles on management of ownership, director's, responsibilities, role of boards and establishment of committees. All entities incorporated in, or resident in South Africa, (irrespective of their manner or form of incorporation or establishment) should apply the principles in the Code. They should consider the best practice recommendations in the Report. The King III report was written from the perspective of the board as the focal point of corporate governance. The code should encourage action that ensures all role players in the investment chain become aware of their duties. The purpose of the King Report is to promote the highest standards of corporate governance in South Africa. The Code of Corporate Practices and Conduct contained in the King Report applies inter alia, to state owned entities and agencies that fall under the PFMA. The King Committee also agrees with the suggestion for Economic Cooperation and Development (OECD) that shareholders should be allowed to consult with each other on issues concerning basic shareholder rights (King Code of Governance, 2009: 9).

2.2.7 Parliament

The legislature provide the legal and regulatory framework within which the executive authorities and their officials operate, and large amounts of public funds are entrusted to the executive authorities on an annual basis for the execution of the public policies that they had

persuaded the legislature to endorse. According to McEldowney (2008:1), oversight by the legislature is the recognized means whereby the executive can be held to account; in addition, “the ability of the elected house to hold government to account is axiomatic to the health of the political life of the state”. Loney (2008:1) can therefore rightly state that accountability is increasingly being regarded as “the best mechanism for ensuring that executive government operates in the best interests of its citizens”. However, oversight is not an end itself. For oversight to have significance, it has to be guided by the nation’s interests and those of all of its citizens. In exercising their oversight mandate, the overseers – the members of the legislatures – must therefore clearly understand their role and authority vis-à-vis the Executive, and must be willing to assert this authority to improve service delivery and the quality of governance (Govender, 2008:35).

Legislative oversight takes place in two ways mainly: first when policies and plans are put forward for which public funds are required, also referred to as *ex ante* oversight; and after these plans have been implemented, with public funds having been spent in order to implement them, year-end or *ex post* oversight take place (Stapenhurst, Sahgal, Woodley & Pelizzo, 2005:2). A recommendation made by the AG of British Columbia in Canada at the end of his term of office points to the importance of oversight and he encourages legislators to “strongly encourage and champion the principle that the public has the right to know how government fulfills the responsibilities entrusted to government by the public – as government touches virtually every aspect of a person’s life (OAG BC, 2006:18).

Parliament’s role and ultimate outcome is to represent the people and ensure government by the people under the Constitution, as well as represent the provinces in the national sphere of government. Parliament has an oversight function, to ensure that the administration in fact does deliver the programmes that have been approved through the budget. Provincial legislatures are provided with similar oversight powers to the National Assembly in regard the oversight of provincial executive organs of the state. Historically, oversight functions focused on financial aspects of programmes, with the aim to ensure that rules and regulations were observed. However, the need to ensure value for money means that the oversight functions of legislatures increasingly focus on service delivery outputs and outcomes, i.e. if departments are delivering the services that they are required to, and if the programmes create the expected benefits for the

population. Evaluation of the annual reports prepared by departments and entities are a crucial tool for the legislature to hold departments and entities accountable for their service delivery performance, in combination with evaluation of budget documents, and strategic and annual performance plans. Reports must include the annual financial statements and the audit report on those statements.

For the National Assembly and the provincial legislature to carry out the constitutional requirement of oversight of their respective executives, is an enormous task. Legislatures establish portfolio committee to facilitate their oversight work. This division of labour enables the committee members to become experts in different fields and hence be able to provide oversight work of high quality. In most legislatures, the larger part of the oversight work is done by the public accounts committees, which have traditionally been responsible for exercising end-year oversight of the use of finances by Government. The annual reports are generally also referred to the relevant portfolio committees, but the oversight work of these committees has traditionally been less systematic and standardized. Previously legislatures focused on narrow financial oversight only, through the public accounts committee process.

However, the pattern seen in the budget process, where the division of labour between the public accounts committees and the portfolio committees generally works well, is emerging also in relation to the oversight function. To ensure that the National Assembly and the provincial legislatures can perform their oversight functions properly and in a timely manner, Ministers/MECs need to table their annual reports not later than 30 September in accordance with section 65 of the Public Finance Management Act. As responsible for the financial matters in the province, the provincial treasuries have an oversight responsibility. Furthermore, the provincial treasury must enforce the PFMA, and prescribed national and provincial norms and standards, according to the PFMA section 18(2)(c and d). The challenge facing members of Parliament is to improve the capacity of the policy/parliamentary Committees to hold departments and public entities to account for their performance using their strategic plans, budget documents and annual reports as the basis.

In Parliament, the Joint Budget Committee considers the quarterly financial reports, and tables formal reports in the National Assembly. Similarly, in provinces, most finance portfolio committees hold hearings to discuss each quarterly financial report, but do not necessarily issue a

formal report to the legislature. Sectoral portfolio committees may also use the quarterly performance reports to assess in-year performance of departments and entities. The main objective for producing this information is to enable Parliament, national and provincial executives to hold government departments accountable for their performance. While in-year monitoring is a highly valuable tool to help ensure no overspending takes place, the focus is presently on streamlining performance indicators to focus explicitly on matters directly relevant to the delivery of services, and to separate these from management or process objectives.

2.2.8 Committees as Primary Mechanisms of Oversight

A committee is a functional extension of a legislature's plenary structure or chamber, and is found in legislatures across the world. Committees have the obligation to keep their parent chamber informed of the outcomes of the work they do on its behalf, and this is normally done in the form of reports which contain preliminary findings and recommendations in relation to the matters considered. Committees nowadays carry out a significant part of the legislature's work (Yamamoto, 2007:15). In 2001, Pelizzo and Stapenhurst carried out a study involving 83 countries on the various oversight mechanisms being used by their legislatures. The mechanisms included commissions of inquiry; questions to members of the executive authority; interpellations; hearings in plenary sessions of the legislature; and committee hearings. Ninety-five per cent of the respondent legislatures identify committee hearings as a key oversight mechanism (2004:10).

According to Longley and Davidson, the committees of the legislatures are well suited to effective oversight. They point out that "a major – perhaps even the central factor explaining the growing use of committees in parliamentary democracies" is the legislatures into committees seems to serve the legislature's need for more efficient and informed oversight, and although they are "rarely mandated by constitution, yet they almost invariably exist" (Strom, 1998:24).

The main function of committees is to obtain detailed perspectives on the matters before the legislature in order to be in a position to advise the legislature. A committee system is also an effective mechanism to divide the resources available to the legislature, thereby providing efficient processing of the workload. As committee members have, or are able to, develop specialized skills, the quality of the work done by committees is potentially of a higher standard

than larger structures. A committee's composition is normally representative of all the political parties in the legislature (Yamamoto, 2007:160 and this is also the case in the RSA. As committees can develop work programmes based on the need that exists at any particular time, committees have the ability to cope with detailed reports or submissions (Murray & Nijzink, 2002:91). Committees have the flexibility to meet whenever and wherever necessary, i.e. outside of the legislature's precinct. In most democracies, the meetings of committees in the legislatures are open to the public. Committees are also able to process higher volumes of work than the legislatures are open to the public. Committees are also able to manage in plenary sessions, and committees can co-operate with each other as, and when, required. However, it is important that the outputs of the committees – their reports containing their Preliminary findings and recommendations – be given the necessary exposure in the plenary sessions, and that they receive the endorsement of the legislature. Committees primarily are instruments of specialization, and there seems to be agreement that they are effective in acquiring information. They provide their members with a definite advantage over non-committee members because of the superior information at their disposal, which enables their members to contribute greatly to informed discussion in plenary debates (Yamamoto, 2007:16).

2.2.9 Role of Public Accounts Committees

In a parliamentary democracy it is a fundamental and, in many cases, a constitutionally documented principle that the legislature has ultimate authority over the public funds. This authority is mainly exercised by authorizing the raising of public revenue, as well as the appropriation thereof. The executive should have no income which is not granted to Parliament or otherwise sanctioned by Parliament and have no expenditures except those approved by Parliament, in ways approved by Parliament (CCPAC, 1989:12).

In the case of the Public Accounts Committee (PAC), the indisputable focus of its oversight is public funds and the control or protection of the “public purse” (PCC/WBI, 2007:7). The focus of PAC is on the manner in which funds have been used in the implementation of agreed policy objectives (Hedger & Blick, 2008:5). The PAC draws on historical information relating to all aspects of the management of public funds and other resources as it is captured in the accounts of the State. The PAC concerns itself with administrative oversight and not policy oversight (Longley & Davidson, 1998:6), and does not investigate the spending activities of the public

sector only, but also other activities that impact on the public coffers, such as contingent liabilities or decisions that have a long-term impact on public assets (Heger & Blick, 2008:6).

The PAC traditionally seeks assurance that funds are spent with regularity and in line with the purposes for which it was initially approved by the legislature. The modern PAC, however, will also seek assurance that funds are spent economically, efficiently and effectively (Wehner, 2003:3). There are isolated instances where the PAC also oversees the development of budget policies and budget planning, but it is unlikely that this will become the norm (Hedger & Blick, 2008:9). However, if the PAC process is effective, its recommendations can also inform future budgets, creating continuous improvements in public spending (Wehner, 2003:3).

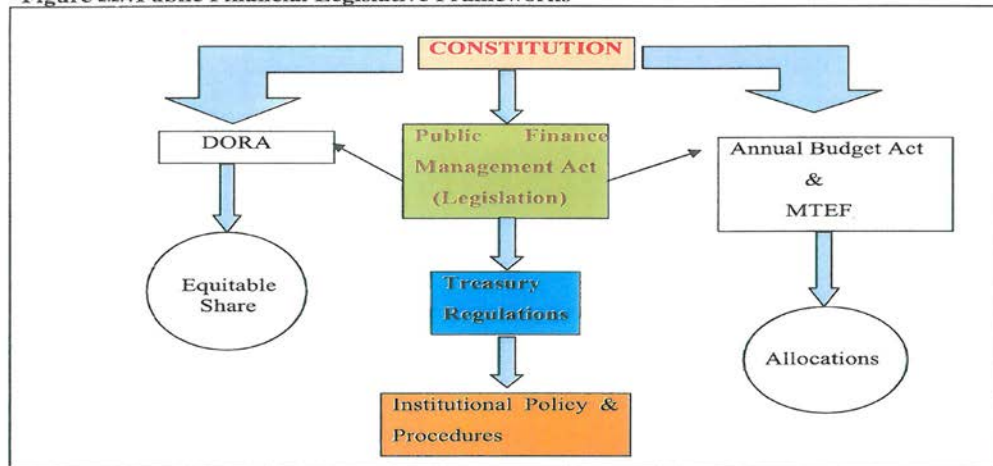
2.2.10 Portfolio Committees

Provincial portfolio committees focus on whether provincial departments have delivered on the targets set out in their annual performance plans, which was the basis for appropriating funding to the programmes by the legislatures. Portfolio committees are likely to consider these issues:

The technical quality of the annual reports produced by the department and public entities whether entities report on all performance targets in their strategic plans and budget; the quality of the performance information as highlighted by any audit of performance information by the Auditor-General may perform, or in the light of any other information that comes to the committee's attention; the economy, efficiency and effectiveness of service delivery as measured by the performance indicators presented in the annual report; the equity of service delivery; the implementation of the entity's service delivery improvement programme; evaluating management's explanations as if the service delivery performance did not attain the targets; investigating the circumstances that led to under-or over-expenditure and the impact this had on service delivery, and the measures taken by management to comply with the budget.

The National portfolio committee should therefore consider the full impact of the national policy. The national portfolio committee can meet this need by establishing a workshop with provincial

Figure 2.2.4 Public Financial Legislative Frameworks



Source: Adapted from Pauw et al., 2002:38

2.3 Shareholder's compacts

In terms of section 29.2 of Treasury Regulations, an accounting authority for a public entity listed in schedule 3D must, in consultation with its executive authority, annually conclude a shareholder's compact, documenting the mandated key performance measures and indicators to be attained by the public entity as agreed between the accounting authority and the executive authority. The shareholder's compact represents an agreement between the relevant Executive. It describes the relationship between the signatories and identifies the behavior that would be required on both sides to support effective management and performance of the entity.

The shareholder's compact results from the need to have a clear understanding of the relationship between government and the public entities as an extension of delivering public service through business entities. The agreement becomes an important tool in the assessment to measure the extent of achievement by the board of the set performance objectives and targets of the entity (State of Governance of Eastern Cape provincial public entities, June 2012).

2.4 The Budget Process

The budget process is about deciding and agreeing on the best allocation of scarce resources to fund Government's many social, economic and political goals. This is achieved in two parallel and linked processes, a policy prioritization process that describes what needs to be done and a budget review process that describes what resources are available. Once the national Executive has agreed on the most efficient allocation of available resources through a matching of the above outputs, the Budget is tabled in Parliament for legislative hearings debate and appropriation (Induction Manual for Heads of Provincial Treasuries: 29-30).

The division of revenue and budget process ensures that budgeting in South Africa is led by the national and provincial executives, while at the same time adhering to principles for the compilation of technically sound budgets. All budgets are formulated within the context of the Medium Term Expenditure Framework (MTEF) which details three year rolling expenditure and revenue plans for national and provincial departments. The MTEF budget process is designed to match the overall resource envelope, estimated through 'top-down' macroeconomic and fiscal policy process, with the bottom-up estimation of the current and medium-term cost of the existing departmental plans and expenditure programmes. All money received by the national government through the South African Revenue Services is paid into a National Revenue Fund, according to Chapter 13 of the Constitution. These funds can only be withdrawn from the National Revenue Fund through direct charge legislation (like the annual Division of Revenue Act) or an Appropriation Act. In the annual Division of Revenue act, funds are first allocated to debt-servicing and statutory commitments, as required by the Constitution (section 214).

The Division of Revenue Act then divides the remaining revenue between the three spheres of government giving each their equitable share. Thereafter the provincial and local equitable share grant is divided between each province through the provincial and local government equitable share formula, which includes criteria such as fiscal capacity, fiscal efficiency, developmental needs, economic disparities, and need for stable and predictable revenue, as outlined in the Constitution section 15. Further allocations to provinces and municipalities are also made from the national equitable share, as conditional or unconditional grants. Section 215 of the Constitution states that national, provincial and municipal budgets and budgetary processes must

promote transparency, accountability and the effective financial management of the economy, debt and the public sector. The PFMA, Chapter 4, National and Provincial budgets, section 28, requires departments to prepare multi-year budget projections. The Act specifies that this multi-year budget projection must provide details of estimated revenue, capital and operating expenditure for the period and key macro-economic projections (CFO Handbook for Departments, 1st edition; 63).

2.4.1 Key issues in Department's Budget Proposals

National Treasury, when preparing for the MTEC hearings in September, focuses on the following aspects of each department's MTEF budget proposal:

The proposed revisions to a department's medium-term plans and how the link to Government's policy priorities and the key challenges identifies for each sector; the credibility of the costing and the affordability of the new proposals; the department's ability to implement new proposals over the MTEF period, based on past performance and expenditure trends; the outputs to be achieved in support of measurable objectives. (Induction Manual: Heads of Provincial Treasuries 2009:35).

2.4.2 The Division of Revenue

The purpose of the division of revenue and budget process is to establish what the nation wants to achieve in terms of public service delivery; the resources available by reviewing expenditure over the last year and expected income from tax and other income sources; the allocation of resources for the coming 12 months period.

The division of revenue and budget process ensures that budgeting in South Africa is led by the national and provincial executives, while at the same time adhering to principles for the compilation of technically sound budgets. The budget process is about deciding and agreeing on the best allocation of scarce resources to fund Government's many social economic and political goals. This is achieved in two parallel and linked processes, a policy prioritization process that describes what needs to be done, and a budget review process that describes what resources are available. Once the national Executive has agreed on the most efficient allocation of available

resources through a matching of the above outputs, the Budget is tabled in Parliament for legislative hearing, debate and appropriation.

The division of revenue and budget process allows government to revise its policy priorities, macroeconomic framework and resource envelop; allocate available resources between the three spheres of government in line with policy priorities; involve role-players that provide technical advice when faced with trade-offs between competing spending priorities, while the final decision is taken by the executive; obtain the required authority from Parliament and provincial legislatures to divide revenue and spend in accordance with the relevant budgets.

2.4.3 In-Year Monitoring

The purpose of in-year management, monitoring and reporting is to ensure that departmental / entities resources are used efficiently, economically and effectively i.e. that departments are getting value for money when voted funds are spent. The in-year-monitoring and reporting system is intended to act as an “early warning system” for budget spending and to guide corrective action or control measures necessary to ensure that budget spending is effectively managed. Over spending on budget allocations is evidence of ineffective budget management however under spending is not necessarily desirable as it can represent ineffective use of resources and shortcomings in service delivery due to objectives not being met or poor budgeting, for example.

Budget monitoring is at the heart of effective financial management and the budget and performance monitoring report is an integral part of the department’s ongoing performance management and cost effectiveness. Officials entrusted with budgets are required to exercise effective financial control within their areas of responsibility and this demands careful monitoring of the financial position and accountability. In-year management, monitoring and reporting therefore measures progress on the department’s operational plan and related budget allocation which facilitates analysis of performance and allows for corrective action to ensure that the department performs adequately (CFO Handbook for Departments; 1st Edition; 70).

2.4.4 The Annual Budget Process

In a public sector context, the annual budget process mainly consists of four stages: the drafting stage; the legislative approval stage; the implementation stage and oversight stage. During the audit and oversight stage, the legislature, as overseeing authority, utilizes all information available to it for oversight. Before the start of a financial year, legislatures mainly engage the executive authority on strategic plans and budgets regarding issues of prioritization and affordability (Wehner, 2003:3). To ensure that public service delivery is as efficient, effective and economical as possible, government departments and other institutions are required to formulate strategic plans and propose the allocation of resources based on projected costs for the implementation of those plans (National Treasury, 2007:1). The legislative stage entails the examination of the expenditure plans put forward by the executive. Once satisfied, the legislature will approve the spending of public funds as presented in the documented budget by means of an Appropriation Act.

In the South African context, the implementation of budgets and strategic plans is in the hands of the managerial branch of the executive as “personified in the accounting officers (in the case of departments), accounting authorities in the case of public entities, and municipal managers in the case of municipalities” (Pauw, Woods, Van der Linde, Fourie & Visser, 2002:43). At the end of the accounting period, the accounting officer, accounting authorities and municipal managers are obliged to provide proper disclosure in an annual report on the manner in which the funds were spent. The Auditor-General as an independent attesting agency examines the public accounts and other information disclosed in order to provide the legislatures with an independent view thereon. The documents used in the accountability process include strategic plans, budgets, in-year reports, annual reports (at year end) and reports produced by independent institutions such as the AG (PCC/WBI, 2007:5). Certain oversight systems, such as in the United States of America, predominantly focus on policies and budgets before the commencement of the financial year (Schick, 1990:46), while the established focus of Commonwealth legislatures have always been on year-end oversight of budget implementation as informed by reports of the supreme audit institutions (Hedger & Blick, 2008:5).

2.4.5 Annual Budgets by Non-Business Schedule 3 Public Entities

The accounting authority for a public entity listed in Schedule 3 which is not a government business enterprise must submit to the executive authority responsible for that public entity, at least six months before the start of the financial year of the department designated in terms of subsection (2) or another period agreed to between the executive authority and the public entity, a budget of estimated revenue and expenditure for that financial year, for approval by the executive authority. The budget must be submitted to the executive authority through the accounting officer for a department designated by the executive authority with regard to the approval or amendment of the budget. A public entity which must submit a budget in terms of subsection (1), may not budget for a deficit and may not accumulate surpluses unless the prior written approval of the National Treasury has been obtained. The accounting authority for such a public entity is responsible for ensuring that expenditure of that public entity is in accordance with the approved budget. The National Treasury may regulate the application of PFMA section (53) by regulation or instruction in terms of section 76.

2.4.6 Financial Compliance and Budgeting

The Constitution and crucial legal documents such as the Public Financial Management Act (PFMA) establish the division of labour in the interphase between the technical departments and the provincial treasury. As a principle, while the MEC for Finance leads policy development for financial management, the actual implementation is by the provincial treasury, according to the PFMA Section 17(2), led by the head of the Provincial Treasury. As a principle, while the MEC for Finance leads policy development for financial management, the actual implementation is by the provincial treasury, according to the PFMA Section 17(2), led by the head of the provincial treasury. The technical departments carry out the service delivery programmes under the supervision of their head of department who is also the department's accounting officer, according to section 36(2)(a). Financial management concerns more than budgeting and compliance issues as value for money and oversight of performance are equally important. Furthermore, the allocation of budget resources is a politically driven process, in which the macro economic priorities are a cornerstone, and the track record of the departments, and the quality of their project and programme submissions, not least as concerns performance

information systems, shape their chances of success. This means that the provincial treasuries can play a key role by supporting the technical departments and entities as required to develop budget submissions that meet the required standards in terms of financial management and information.

2.4.7 Corporate Plan, Strategic Plan and Annual Budget by Schedule 2 Public Entities and Government Business Enterprises

(i) Corporate Plan

In terms of section 52(b) of the PFMA, an accounting authority of a 3D public entity must submit a corporate plan to the accounting officer of a department designated by the executive authority responsible for that public entity or government business enterprise, and to the relevant treasury, at least on month, or another period agreed with the National Treasury, before the start of its financial year. The following is an extract from Part 9, Chapter 29 in the Treasury Regulations, as it relates to corporate planning. According to section 52 of the PFMA, the corporate plan must cover a period of three years and must include:

- A strategic objectives and outcomes identified and agreed on by the executive authority in the shareholder's compact;
- Strategic and business initiatives as embodied in business function strategies;
- Key performance measures and indicators for assessing the entity's performance in delivering the desired outcomes and objectives;
- A risk management plan; fraud prevention plan and financial plan addressing-

Projections of revenue, expenditure and borrowings, asset and liability management, cash flow projections, capital expenditure programmes and dividend policies. The public entities listed in Schedule 2 or 3B must submit a three-year borrowing programme with their corporate plan to the National Treasury; and submit quarterly reports on the borrowing programme to the National Treasury reflecting actual borrowing for that quarter and any update of the borrowing programme (Guideline Framework for Corporate Planning and Shareholder's Compact: September 2002:12).

(ii) Strategic Plan

Strategic plan sets out government and the executive authority's strategic policy priorities and plans (Public Service Regulations: chapter 1, Part III B). Strategic objectives and outcomes identified and agreed on by the executive authority in the shareholder's compact; strategic and business initiatives as embodied in business function strategies; key performance measures and indicators for assessing the entity's performance in delivering the desired outcomes and objectives; the business strategies for managing risk; proposed borrowing; a fraud prevention plan; a materiality/significant framework, referred to in Treasury Regulation 28.3.1. A financial plan addressing: projections of revenue; expenditure and borrowings; cash flow statements; capital expenditure programmes; and dividend policies. The accounting authority for a public entity listed in Schedule 3A or 3C must annually submit a proposed strategic plan for approval by the relevant executive authority. Such a plan must be submitted at least six months before the start of the financial year of the designated department or another time period as agreed to between the executive authority and the public entity. The strategic plan must be finalized and submitted to the relevant executive authority not later than 1 April of each year. The strategic plan must cover a period of three years; include objectives and outcomes as identified by the executive authority; include multi-year projections of revenue and expenditure; include key performance measures and indicators for assessing the public entity's performance in delivering the desired outcomes and objectives and include the materiality/significant framework, referred to in Treasury Regulations.

(iii) Annual Performance Plan

Annual performance plan sets out what the entity plans to achieve in the upcoming financial year; where appropriate, a quarterly breakdown of performance targets is included as this will facilitate the quarterly performance reporting required (Treasury Regulations: chapter 5, Regulation 5.2.1).

2.4.8 Report of Withdrawals Not Based in the Budget

The provincial treasury and the Auditor-General should receive a consolidated report of all withdrawals that are not based in an approved budget, on a quarterly basis, according to section 11(4)(b). Provincial treasuries must be notified of proposed allocations and amounts to be transferred by national and provincial departments. Chapter 5 in the Municipal Finance Management Act on cooperative government states that national and provincial departments must notify the provincial treasuries of all proposed allocations and projected amounts to be transferred, not later than 20 January of each year according to section 36(1). The PFMA notes in section 6(2)(f) that the national treasury may stop transfer of funds in case of a serious or persistent breach of the accounting practices, expenditure classifications or treasury norms and standards, as outlined also in section 216(1) of the Constitution and the MFMA section 38(1). In effect the provincial treasury, in view of the transfer of oversight responsibility, would play a crucial role in this process.

2.4.9 The Provincial Revenue Fund

Being in charge of the provincial treasury, the HOD is also in charge of the Provincial Revenue Fund and must ensure compliance with the Constitution section 226. This states that all money received by the provincial government, including the province's equitable share and grants, must promptly be paid into the fund. Only the provincial treasury may withdraw funds from the Provincial Revenue Fund. Withdrawal may only take place only through a provincial appropriation act or as a direct charge if it is provided for in the Constitution or a provincial act. In case of an emergency situation, the MEC for Finance may authorize use of funds from the provincial revenue fund to cover expenditure which is not provided for and which cannot be postponed without serious prejudice to the public interest in the province.

2.4.10 Responsibilities in Relation to Budget Control and Reporting

The accounting officer must ensure that expenditure for a department is within the vote of the department and the main divisions within the vote. She/he must take effective steps to prevent unauthorized expenditure and take effective steps to prevent any overspending.

The accounting officer must report to the executive authority and the treasury in case of under collection of due revenue, shortfalls in the budgeted revenue, or overspending of the department's vote or within the main divisions of the vote, as outlined in section 30 of the PFMA. The Public Finance Management Act (PFMA) gives effect to this provision, by requiring transparency in the budget process and budget documents. The Constitution recognizes the importance of the budget and good financial management, by stating that: "national, provincial and municipal budgets and budget processes must promote transparency, accountability and the effective financial management of the economy, debt and the public sector" (section 215).

2.4.11 Challenges: 2011/ 2012 Public Entity Budgets

The challenges encountered by Provincial Treasury with the public entity budget detail contained in the departmental budget submissions for the 2011/12 financial year. According to PFMA Section 53, annual budgets by non-business Schedule 3 public entities states as below;

- the accounting authority for a public entity must submit to the executive authority responsible for that public entity, at least six months before the start of the financial year of the departmental designated in terms of subsection (2) or another period agreed to between the executive authority and the public entity, a budget of estimated revenue and expenditure for that financial year, for approval by the executive authority.
- A public entity which must submit a budget in terms of subsection (1) may not budget for a deficit and may not accumulate surpluses unless the prior written approval of the National Treasury has been obtained.
- Certain public entities could not provide their 2011/2012 budgets when requested by the Provincial Treasury Public Entities Governance Unit in February and March 2011 (this could be an indication of poor planning).
- Controlling departments did not take responsibility for ensuring that public entities' budget submissions were made on time and approved by them as executive authorities.
- There were inconsistencies when draft budgets of public entities were compared to budgeted departmental transfers to the entities.

- Certain public entity Service Level Agreements (SLA) and Annual Performance Plans (APP) were not concluded and signed timeously.
- Certain controlling departments transfer funds to entities prior to the finalization of SLA's and APP's.
- Certain APP's are not aligned to public entity budgets (this result in financial performance monitoring challenges).
- Certain controlling departments transfer over 60% of their departmental budget allocations to public entities that in turn budget amounts in excess of 60% of the overall transfers for compensation of employees.
- Controlling departments fail to ensure that the required supporting documents and plans are received prior to approving public entity budgets (e.g. Procurement plans, Operational plans, HR plans). This may cast doubt over credibility of budget submissions.
- Cash flow projections of entities are sometimes not submitted.
- Cash flow projections of some entities are not aligned to the projected departmental transfers to entities.
- Departmental budget databases were incomplete as public entities' detail was not updated (i.e. focus was on transfers to entities section).
- Prior year public entities information captured by controlling departments was found to be inaccurate (e.g. audited figures not accurate and budget amounts not aligned to the public entity budgets).
- Controlling departments sometimes fail to communicate changes (e.g. reductions) in budgeted transfers to entities to the relevant entities and some entities only
- Become aware of these once the provincial budget book is finalized.
- Certain public entities budgeted for deficits and this is in contravention of PFMA (Section 53 (3) (Provincial Treasury Public Entity Budgets: 2011/12).

2.5 The Role and Function of Provincial Treasuries

The PFMA establishes provincial treasuries, which are responsible for preparing and managing provincial budgets, and enforcing uniform treasury norms and standards as prescribed by the National Treasury and the Act (PFMA). The provincial treasury promotes sound financial management by enhancing the national norms and standards (which are encompassed by the Public Finance Management Act and the National Treasury Regulations) by issuing provincial Treasury Instructions, as well as financial best practices via the use of circulars and policy documents. As an oversight functionary the provincial treasury further promotes sound financial management by ensuring compliance with those norms and standards and the proper implementation thereof in departments/public entities by accounting officers/authorities. It is important for the provincial treasury to obtain essential information and to interpret the information properly for purposes of fulfilling its oversight role. The provincial treasury also recognizes the need for it to act as a change agent to ensure that various role players interact effectively within the scope of their responsibility, which in turn is bound to result in the effective and efficient management of revenue, expenditure, assets and liabilities within departments and public entities (Provincial Cabinet Resolution 274/2002: 69).

The provincial treasuries carry out an evaluation of the degree to which the departments' annual reports comply with regulations and guidelines. Provincial treasuries can also prepare a consolidated report for the provincial EXCO on audit outcomes for all provincial departments and entities. This will serve to give an overview and help to provide information about where financial management may need to be strengthened (Induction Manual for Heads of Provincial Treasuries, 64). The provincial treasury must observe a range of responsibilities; the most important are listed below (PFMA section 18) to:

- Prepare and table the provincial budget within two weeks of the tabling of the national budget;
- Exercise control over the implementation of the provincial budget;
- Promote and enforce transparency and effective financial management;
- Ensure that a province's fiscal policies do not prejudice national economic policies;
- Enforce the PFMA and national and provincial norms and standards, including generally recognized accounting practices and nationally uniform financial classification systems;

- Monitor and assess implementation of national and provincial norms and standards in provincial public entities;
- Intervene to address serious and persistent breach of the PFMA by a provincial department or provincial public entity;
- Provide information required by the National Treasury in terms of the PFMA;
- Assist provincial departments and provincial public entities in building their capacity for efficient, effective and transparent financial management;
- Ensure preparation of consolidated financial statements for provincial departments, public provincial entities and the provincial legislature and submit those statements to the Auditor-General (PFMA section 19(1)(a));
- Establish appropriate and effective cash management and banking arrangements for its provincial revenue fund, according to the national framework prescribed by the National Treasury (PFMA section 21).

2.5.1 The Role of MEC's (Minister) of Finance as Chief Financial Officer (CFO) of the Province

The MEC of Finance is accountable for ensuring that the Provincial Treasury:

- o Prepare and table the provincial budget
- o Exercise control over the implementation of the provincial budget
- o Promote and enforce transparency
- o Ensure that a province's fiscal policies do not prejudice national economic policies
- o Enforce the PFMA/MFMA
- o Monitor and assess implementation of national and provincial norms and standards in provincial public entities
- o Intervene to address serious and persistent breach of the PFMA/MFMA
- o Ensure preparation of consolidated financial statements
- o Establish appropriate and effective cash management

2.5.2 Mandates and Service Delivery Context in South Africa

The biggest challenges facing Public Finances in South Africa:

Sustainable use of available resources- efficiency, effectiveness, economy. Scarce resources not used optimally compromise the quality of service delivery. There is no value for money in expenditure.

Lack of requisite of financial management skill in public entities, municipalities and provincial department- poor financial management and improper accounting practices result in leakages in the system, result in the misalignment between polity priorities and resource allocation/utilization.

Weak cash management practices- this often results in payment not been done on time. Wrong people being paid; payments being made for services not rendered; result in the misalignment between cash flows and actual spending.

Inefficient recruitment practices- wrong people employed for specific positions thus leading to service delivery failure.

Poor planning, lack of proper costing of government priorities and allocation inefficiencies- non-core spending items “pet projects”.

Competing demands of various stakeholders- public expectations/individual sectors; priorities compounded by lack of coordination; evident in the manner in which concurrent functions are financed; tension on how to finance economic projects in provinces.

The impact of the economic downturn- this would adversely impact on national transfers to provinces and municipalities. Impact would be greater felt by municipalities with larger own revenues as the default rate on payment for rates and services would be increasing. This would impact on the level of services rendered, particularly to the poor. For provinces and national government, who rely primarily on national raised revenue, it is going to be critical to reprioritize spending from non-core areas of spending.

Ineffective oversight and monitoring- Accounting officers and Chief Financial Officers appear not to review the reports before they are signed (most evident in the In Year Monitoring and Budget Submissions) and do not foster proper accountability.

Unfunded mandates and under-funded mandates- often national government agrees on policies or change legislation that impacts on sub-national governments. These changes result in mandates that are not funded by national government. Due to poor costing practices, often national polities are not properly costed resulting in under-funded mandates. Unaffordable political priorities being approved without thorough assessment of liability.

Poor service delivery capacity to Supply Chain Management- result in efficient and ineffective service delivery and wastage.

Capacity and structured approach to deal with IT system (non-integrated)- lead to duplication of information or non-collection of information.

2.5.3 Goals to Improve Financial Management in South Africa

The PFMA and MFMA needs to be enforced religiously.

1. Take active steps to improve efficiencies and effectiveness of resource allocation
2. Address supply chain management challenges to eradicate corruption
3. Appropriate placement to staff and capacity building of staff
4. Coordinated approach to resource allocation and spending between all spheres of government
5. Improve financial management capacity of the state
6. Improve the integrity of financial management systems and information – linking resource allocation and spending to priorities and outcomes to ensure that spending has an impact; ensuring that the culture of prudent financial management permeates across the whole of government.
7. Continue to build capacity on the Internal Audit function – quality assurance reviews of the Internal Audits and Audit committees and will perform the OD exercise to ensure adequate and competent personnel to support the function. Continue to ensure that the structure is fed with intelligent information to improve oversight of departments.
8. Continue to improve the performance culture in Provincial Treasury (Governance in the Public Sector, Presentation, 29 July 2013, Provincial Treasury).

2.5.4 Key issues for the HOD of the Provincial Treasury

Communicating effectively with the MEC for Finance, the Executive and legislature, e.g. by creating a narrative that creates a context for financial data and information, which will facilitate the understanding of financial issues; managing the provincial treasury in an effective manner by as appropriate delegating responsibility, and focusing on the bigger picture and the challenges to the organization. Establishing effective working relations with technical departments and entities will strengthen implementation and development of service delivery programmes, and enable the provincial treasury to provide guidance in a number of areas, thereby resolving issues at an early stage. Oversight and management information: the provincial treasury has responsibility to ensure that information of both financial and non-financial nature is available for oversight. Performance information related to goals and outcomes of public investments makes it possible to assess if a programme is delivering as expected.

(i) Obligations as Accounting Officer of the Provincial Treasury

The provincial treasury is a department similar to other departments of the public administration. As its accounting officer, the HOD of the provincial treasury has to ensure he or she meets the obligations for accounting officers outlined in the PFMA. The PFMA is the main legal framework for the accounting officers of technical departments and other public provincial entities. The PFMA assigns a number of responsibilities on the accounting officers of technical departments and other provincial entities. The PFMA assigns a number of responsibilities on the accounting officer, of which the main points are introduced in the following. The accounting officer may choose to delegate these responsibilities to a chief financial officer (CFO). This however does not divest the responsibility of the exercise of delegated power from the accounting officer.

(ii) Responsibilities of Accounting Officer

In the case of provincial and national departments the PFMA prescribes that the Head of Department must be the accounting officer. The accounting officer is broadly responsible for effective, efficient, economical and transparent use of departmental resources i.e. the accounting officer must ensure that effective, efficient and transparent systems of financial and risk management and internal controls are in place. PFMA confers specific responsibilities on

accounting officers. The Act vests four key responsibilities, which are: the operation of basic financial management systems, including internal controls in departments and any entities they control; to ensure that departments and entities do not overspend their budgets; to report on a monthly and annual basis, including the submission of annual financial statements two months after the end of a financial year; and to publish annual reports in a prescribed format this will introduce performance reporting.

Accounting officers who are negligent and make no effort to comply with these responsibilities will face strict disciplinary sanctions, including dismissal. Similar sanctions will apply to treasury officials failing to carry out their responsibilities. Accounting officers are expected to appoint chief financial officers as part of their senior management to enable them to fulfill these responsibilities. “The accounting officer for a department, trading entity or constitutional institution before transferring any funds (other than grants in terms of the annual Division of Revenue Act or to a constitutional institution) to an entity within or outside of government, must obtain a written assurance from the entity that implements effective, efficient and transparent financial management and internal control systems. Or, if such written assurance cannot be given, render the transfer of the funds subject to conditions and remedial measures requiring the entity to establish and implement effective, efficient and transparent financial management and internal control systems”.

Sections 8.4.1 and 8.4.2 of the Treasury Regulations (under Expenditure Management) expand the statutory provision referred to in section 38(1) (j) as follows:

“An accounting officer must maintain appropriate measures to ensure that grants and other transfer payments are applied for their intended purposes. Such measures may include: regular reporting procedures; audit requirements and, where appropriate, submission of audited statements. An accounting officer must maintain appropriate measures to ensure that transfer payments to entities are applied for their intended purposes. “Such measures may include: regular reporting procedures; internal and external audit requirements and, where necessary, submission of audited statements, regular monitoring procedures; scheduled or unscheduled inspection visits or reviews of performance and any other control measures deemed necessary”.

The accounting officer may withhold a transfer payment or grant to an entity on grounds such as:

If the conditions attached to the transfer have not been complied with, for example, where the entity is supposed to prepare a strategic or business plan and present to the department, the accounting officer may withhold transfer payments to that entity if the plan is not submitted.

Again, an accounting officer may request for a feasibility report on a particular project before funds can be transferred to the entity undertaking the project. A public entity may have substantial cash invested in banks which it may not have immediate use of. The accounting officer may withhold further transfer of funds to such an entity because it may not need it. The chief financial officers (or other officials) of departments must examine the balance sheets of entities regularly to make sure funds are not transferred to entities that have large unutilized cash reserves. From the regular performance reports submitted, the accounting officer should be able to form an opinion as to whether the agreed objectives of the entity have been attained. Where there is a deviation, or non-achievement of objectives the accounting officer may terminate further transfer of funds to a public entity. The accounting officer must always ask the question “is the taxpayer getting value for money through the funding of this public entity?” The accounting officer must repeatedly ask this question when a request for funds transfer is made. Value for money must be one of the most important criteria for deciding to transfer funds.

(iii) The Role of the Accounting Officers with regards to End-Year Reporting

An accounting officer’s responsibilities with regards to end-year reporting do not end with the production and tabling of their department’s annual report in the relevant legislature. Indeed once a department’s annual financial statements have been audited, and its annual report has been drawn-up, there are a number of things that both the accounting officer and Minister/MEC should do prior to and after the tabling of the annual report in the relevant legislature.

(iv) Staffing

The accounting officer should, at the highest level, manage the change processes, establish appropriate objectives for senior staff, key milestones, timeframes and responsibilities whilst managing those outputs effectively and regularly reporting back to the executive authority on progress. It is recommended that a skilled and well-rounded senior management team, complemented with general financial management knowledge, is appointed. The senior

management team's roles and responsibilities, depending on the extent of delegations by the accounting officer, will greatly support the expeditious implementation of good financial management practices and governance. It is also appropriate to have the chief financial officer regularly update senior management on finance-related policies and areas of relevance (CFO Handbook for departments, 1st edition: 14).

(v) The Role of the CFO

The CFO is an important member of the department's leadership team because he/she participates in the development and implementation of the department's strategy and the resourcing of the strategic objectives in a sustainable manner. The CFO must be actively involved in all material business decisions to ensure that the immediate and longer term implications, opportunities and risks are fully considered. Lastly, the CFO must develop and promote a system of good financial management so that public money is safeguarded at all times and is used appropriately, economically, efficiently and effectively. The CFO is required to do the following, as a minimum, so that the above requirements in terms of the PFMA are achieved: Maintain a close liaison with the accounting officer and the management team; respond to changing needs for financial information and advice; make a contribution to the financial aspects of the strategic planning process; ensure that internal financial targets and budgets are fully consistent with the strategic plan and relevant agreements with government; manage working capital, assets and liabilities; manage the accounting and finance staff; expenditure management; revenue management; meet reporting requirements as required in terms of financial management legislation such as PFMA, Treasury Regulations and DoRA; maintain systems of internal control, which comply with internal audit requirements; undertake product and service costing tasks.

(vi) General Responsibilities of Accounting Officer

- (i) Is responsible for effective, efficient and transparent use of the resources of the department or entity, and must prevent unauthorized, irregular, fruitless or wasteful expenditure;
- (ii) Is responsible for the management including safeguarding and maintenance of assets, and management of liabilities, and must inform the relevant treasury of details of such cases,

- (iii) Must take disciplinary steps against any official who makes or permits such unauthorized, irregular, fruitless or wasteful expenditure, or who contravenes the PFMA or undermines the financial system;
- (iv) When transferring funds, the accounting officer must ensure that the transfer is in compliance with the Division of the Revenue Act;
- (v) When transferring funds into an institution outside of Government, the accounting officer must obtain written confirmation that the receiving institution has effective, efficient and transparent financial management systems;
- (vi) When policy proposals are being considered that may affect the accounting officers responsibilities, he/she must take into account relevant financial information, including issues as value for money, and bring these to the attention of the responsible executive authority;
- (vi) If considering to establish a new entity, the accounting officer must consult and seek the approval of the National Treasury.

(vii) Reporting Requirements

In terms of reporting responsibilities, the accounting officers have to ensure financial records of the department are kept as prescribed by norms and standards. The accounting officer must prepare financial statements for the financial year in accordance with generally recognized accounting practice and submit the financial statements no later than two months after the end of the financial year to the Auditor-General for auditing, and to the provincial treasury for preparation of consolidated financial statements. The importance of reporting, including financial and non-financial information, receives prominent attention in the King Code of Governance for South Africa 2009 (King III). Mervyn E. King, the King Committee Chairman, highlights the necessity of reports to increase trust and confidence and provide legitimacy to the operations of the entity and the Committee have recommended integrated sustainability performance and reporting (Institute of Directors Southern Africa 2009:16).

(viii) The Cycle of Oversight and Accountability

There is a general agreement that “public oversight” and “accountability” are about calling to account those entrusted with executive powers and public resources, so that they can give

account of how they exercise their powers and responsibilities. The cycle of accountability connects the national strategic plans and priorities with the allocation of funds in the budget to the reporting by departments and public entities, as to how they have utilized funds, and the results that have been created as a result. The departments and public entities produce strategic plans that set out performance targets and measures (indicators), based on the Mid-term Budget Policy Statement (MTPBS). The Executive allocates funds to implement the strategic plans and programmes for service delivery, through the budget. The Legislature approves the budget and appropriates from the revenue fund the money for implementation of departments and entity plans. According to the Constitution, members of the Cabinet must provide parliament with full and regular reports concerning matters under their control (section 92(3)(b)). As part of this framework of oversight, a Minister for a department must submit the annual report of the department to the legislature, not later than five months after the end of the financial year (PFMA section 40:48).

Yamamoto who carried out a comparative study of 88 national legislatures in 2003, defines legislative oversight as “the review, monitoring and supervision” of the executive government, but also of all public agencies” (2007:9). Schacter reminds us that society concedes wide powers to the executive authorities in the government of the day: “to tax, to spend and to make and enforce policies and laws” for which, in return, they expect accountability (Schacter, 2000:1). This accountability relationship is a horizontal process of relationship (Hedger & Blick, 2008:2), and is made possible because of the clear separation between the executive and the legislative authority – a core feature of democratic systems of government. In fact, McGee argues that being held accountable for the exercise of power is a “requirement for democracy” (McGee 2002:9) and Barkan, Admoelekun, Zhou, Laleye & Ng’ether (2003:1) points out that a legislature is effective only if it takes on a “watchdog” role over the executive. Brazier, Flinders & McHugh regards the scrutiny of executive government and holding it to account for its actions as the key function of a legislature (2005:33).

The drafters of the South African Constitution of 1996 were clearly in agreement with the aforementioned authors, seeing that they included constitutional provisions that require legislatures to establish mechanisms to ensure that all executive organs of state are accountable

to the legislatures – mechanisms that are to maintain oversight of the exercise of executive authority. The Report of the Independent Panel Assessment of Parliament produced twelve years after the promulgation of the Constitution confirms that accountability and oversight remain “crucial aspects of the representative role of legislatures” (Govender, 2008:37). The accountability obligation therefore originates from “the practical need to delegate certain tasks to others so as to distribute delivery of large and complex workloads” (Hedger, 2008:2). The oversight process entails that the delegating authority expects the executive authority to explain and defend his or her plans, actions and decisions taken in relation to an agreed accountability period. Oversight can happen before, during, or at the end of an agreed accountability period. In the case of financial oversight, the agreed period normally is a financial year, i.e. the 12 month implementation period for which public sector institutions budget and are obliged to account.

Those entrusted with delegated responsibilities must be required after the fact to render an account of their actions. According to Hedger and Blick (2008:2), the accountability principle potentially has two facets: Firstly there is “calling to account” – being required to explain action, or inaction, and the reasons for this, and, secondly, “holding to account”, which entails being penalized or required to institute corrective actions. According to a representation of the accountability cycle developed by the Institute on Governance in Canada, the oversight and accountability process has at least three stages (Schacter, 2000:3): (i) the information; (ii) the action; and (iii) the response stage. During the information stage, the overseeing authority normally attempts to obtain the best possible accountability information. Information is obtained directly from the accountable executive institution, or from another source such as an independent assurance agency, for example an Auditor-General. The aim of the second stage, the action stage, is to “produce demands upon the political executive” to clarify and account for the actions they have taken. However, the success of this stage is dependent on the ability of the overseer to process the information, and on the overseer’s commitment to use the processed information as the foundation for the demands to be placed on the accountable institution. The success of the third stage, the response stage, is dependent on the appropriateness of the accountable institution’s responses and how quickly it responds. However, it is important to note that the cycle of accountability does not occur in isolation – political, social and economic factors provide a context that will impact on the effectiveness of the accountability process

(Schacter, 2007:4). Hedger and Blick seem to be in agreement, as they point out that a fully functioning accountability mechanism such as Public Accounts Committee can be rendered ineffective if the surrounding governance environment is not conducive and supportive (2008:4)

2.5.5 Elements of the Annual Report

The annual report must include these elements: The accounting officer's report; the annual financial statement; report of the audit committee of the institution; the external audit report on the statements. The annual report should express a clear link, from the national strategy direction in the MTBPS to the department or entity's strategic plan and the goals expressed in the Estimates of National Expenditure, and down to the programme objectives.

2.5.6 The Accounting Officer's Report

The accounting officer's report is the opportunity of management to explain the state of financial affairs, the activities and the results of the entity. The PFMA emphasizes that annual reports and audited financial statements must present in a fair way the state of affairs of the department, trading entity or constitutional institution, its business, its financial results and its performance against predetermined objectives (PFMA s40). The Treasury Regulations further require that the accounting officer in preparing the annual report of an institution must include information about the institution's efficiency, economy and effectiveness in delivering programmes and achieving its objectives and outcomes against the measures and indicators set out in any strategic plan for the year under construction (National Treasury Republic of South Africa, 2005 par.18.3.1).

It would normally include issues such as: the entity's business strategy going forward; capacity constraints; management response and plans to address any significant audit findings and SCOPA resolutions; corporate governance arrangements; entities reporting to the departments including their compliance with PFMA; organizations that are receiving transfer payments; events after reporting date.

2.5.7 The Annual Consolidated Financial Statements

A provincial treasury must-

- (a) Prepare consolidated financial statements, in accordance with generally recognized accounting practice for each financial year in respect of provincial departments in the province; public entities under the ownership control of the provincial executive of the province; and the provincial legislature in the province an;
- (b) Submit those statements to the Auditor-General within three months after the end of that financial year.

The Auditor-General must audit the consolidated financial statements and submit an audit report on the statements to the provincial treasury of the province concerned within three months of receipt of the statements. The MEC for finance in a province must submit the consolidated financial statements and the audit report within one month of receiving the report from the Auditor-General to the provincial legislature for tabling in the legislature. The consolidated financial statements must be made public when submitted to the provincial legislature. If the MEC for finance fails to submit the consolidated financial statements and the Auditor-General's audit report on those statements to the provincial legislature within seven months after the end of the financial year to which those statements relate; the MEC must submit to the legislature a written explanation setting out the reasons why they were not submitted. The Auditor-General may issue a special report on the delay (PFMA section 19).

2.5.8 The Processes to Evaluate Performance

The accounting officer must ensure that the process to prepare the annual report is part of a broader annual performance evaluation process involving all senior managers. The process to prepare annual reports should therefore begin at the same time as the process to prepare the annual financial statements and both should be part of an annual performance evaluation process. This evaluation process should begin soon after the end of the financial year and be completed as soon as possible thereafter but not later than three months after the end of the financial year. The accounting officer should therefore develop an annual programme to evaluate performance. Such a review should involve all top managers and should begin immediately after the financial year ends and be completed before the annual financial statements are submitted for audit. The process could begin early in April with all top managers using the predetermined performance

targets to conduct a non-financial performance evaluation. This should culminate in a report to the accounting officer by the end of April. The CFO should also submit draft annual statements to all senior managers no later than the end of April and seek their comments before finalizing the annual financial statements (Guideline for legislative oversight through annual reports 2005:21).

2.5.9 Adjustments to the Provincial Budget

The provincial budget must include the estimates of all revenue expected to be raised, estimates of current expenditure for that financial year per vote and per main division within the vote, estimates of interest and debt servicing charges and repayment on loans, and estimates of capital expenditure per vote. The MEC for Finance may table in the provincial legislature an adjustment budget, according to section 31 of the PFMA. This budget may only provide for funds that have become available to the province or concerns unforeseeable and unavoidable expenditure as described in section 31 (2) of the PFMA. The Minister for Finance may determine the time when such a budget must be tabled as well as the format for these amended budgets, according to section 31(3) of the PFMA.

In terms of reporting responsibilities, the accounting officers have to ensure financial records of the department are kept as prescribed by norms and standards. The accounting officer must prepare financial statements for the financial year in accordance with generally recognized accounting practice and submit the financial statements no later than two months after the end of the financial year to the Auditor-General for auditing, and to the provincial treasury for preparation of consolidated financial statements. Not later than five months after the end of the financial year, the accounting officer must submit an annual report which includes the financial statement and the auditor-general's report on the financial statement, and the accounting officer's report on the activities of the department to the treasury, as outlined in the PFMA Section 40(1). The accounting officer must provide the provincial treasury with a breakdown per month of anticipated revenue and expenditure of the department for the financial year, and each month submit records as prescribed of actual revenue and expenditure of the preceding month and expected amounts for the coming month. Furthermore, within 15 days of the end of the month, he/she must report to the provincial treasury and executive, the financial information for that

month, and a projection of the expected revenue and expenditure for the remaining parts of the year. He/she should as required explain any significant differences and steps taken to address these differences, as outlined in section 40(4) of the PFMA.

Provincial treasuries must be notified of proposed allocations and amounts to be transferred by national and provincial departments. The PFMA notes in section 6(2)(f) that the national treasury may stop transfer of funds in case of a serious or persistent breach of the accounting practices, expenditure classifications or treasury norms and standards, as outlined also in section 216(1) of the Constitution. In effect the provincial treasury, in view of the transfer of oversight responsibility, would play a crucial role in this process.

2.5.10 Transfer of assets

When assets and liabilities are transferred the accounting officer must establish an inventory of the assets and liabilities, and provide the receiving accounting officer with records, including personnel records of staff to be transferred. This copy must be signed by both the transferring and receiving accounting officer and filed with the provincial treasury and the Auditor-General, according to the PFMA section 42.

2.5.11 Capacity building

The past years have been characterized by a number of restructuring processes. This resulted in the loss of skilled and competent personnel through the introduction of voluntary severance packages. Furthermore, stipulations in the Public Finance Management Act, 1999, place accountability with the heads of departments, resulting in the decentralization of certain core responsibilities to departmental level. Provincial Treasury may assist in building capacity at public entities for efficient, effective and transparent financial management; and may investigate any system of financial management and internal control applied. Furthermore, Provincial Treasury must intervene by taking appropriate steps, which may include the withholding of funds, to address a serious or persistent material breach of the PFMA. Section 19 of the PFMA requires Provincial Treasury to prepare consolidated financial statements of public entities under the ownership and control of the provincial executive authority of the province. Due to the strategic nature of the sector in enhancing service delivery there is increasing attention being given in regulating the sector, focusing on: restructuring and rationalizing; streamlining and

integrating the budget practices with broader public sector strategy; streamlining the human resource and remuneration practices with that of the public sector; strengthening compliance with the supply chain management framework and strengthening governance and internal control structures.

Some of the functions and powers of Provincial Treasury in terms of section 18 of the PFMA are as follows:

- Promote and enforce transparency and effective management in respect of revenue, expenditure, assets and liabilities of provincial departments and provincial public entities.
- Comply with the annual division of revenue act and monitor and assess the implementation of the PFMA in provincial public entities.
- Monitor and assess the implementation in provincial public entities of national and provincial norms and standards (IPFA:2002:43)

2.5.12 Corporate Governance

Corporate governance embodies processes and systems by which corporate enterprises are directed, controlled and held to account. Governance works better is driven from the top (leadership) and focuses on: Giving direction, Controlling and Accountability. Corporate governance in South Africa was institutionalized by the publication of the King Report on Corporate Governance in November 1994, which was subsequently superseded by the King Code of Conduct in 2002. Governance is broadly defined as a process by which entities are managed to deliver value to the shareholders. Governance works better is driven from the top (leadership) and focuses on: Giving direction, controlling and accountability. For public sector governance is even more critical, owing to complexity of stakeholders and the legitimate interest citizens have on the state. PFMA lays the basis of governance in the public sector. Audit outcomes are the key indicator that is used to measure financial management maturity, which is a key enabler for government to render services to its citizens.

The government, as a major shareholder in public entities, faces a wide range of risks associated with the operations of these entities, including financial, reputation, political and operational risks. It is the responsibility of each Executive Authority (in whom the primary responsibility for appropriate entity oversight and accountability to legislature rests) to ensure that these risks are identified, reduced and managed. In this regard, a key requirement of public entities is to report

and account for their performance to the relevant Executive Authority in respect of financial and non-financial matters, at the same time, however, maintaining independence in the conduct of their duties and free from the day-to-day involvement by the Executive Authority.

In order to ensure that there are no actual or perceived conflicts of interest and that entities achieve the government's broad policy objectives, the government needs to spell out its intentions and relationship with public entities. (Provincial Public Entities Draft: 16).

Oversight by the Executive Authority rests by and large on the prescripts of the PFMA. The PFMA governs/gives authority to the Executive Authority for oversight powers with particular reference to the corporate plans, shareholder's compacts and quarterly reports. The Executive Authority also has the power to appoint and dismiss the Board of an Entity. It must also ensure that the appropriate mix of executive and non-executive directors are appointed and that directors have the necessary skills to guide the Entity. Shareholder oversight is spread between various shareholder departments while policy departments which, in some instances are not the shareholder department, direct policy. The Board of Directors of Entities is the governing body of the Entity. The Board has absolute responsibility for the performance of the Entity and is fully accountable for the performance of the Entity. (Governance oversight role over entities:1-2).

The structures that support management for effective governance are Internal Audit and Risk Management. For public sector governance is even more critical, owing to complexity of stakeholders and the legitimate interest citizens on the state. PFMA lays the basis of governance in the public sector. Provincial Treasury is charged with giving effect to this platform. Audit outcomes are the key indicator that is used to measure financial management maturity, which is a key enabler for government to render services to its citizens (Governance in the Public Sector: Presentation, 29 July 2013).

2.6 Public Interest on the State

Accountable administration (report regularly on service standards, service delivery and in a user-friendly and transparent manner); budget responsiveness to the needs; spending within budget of

budget; carrying administration; benefits of procurement; reduction of risk and fraud; positive audit opinion.

2.7 The expectations of and on Public Entities

2.7.1 Planning and budgeting (3D Entities)

PFMA: Section 52 – submit to the Accounting Officer by 1 March each year: projection of revenue, expenditure and borrowings; corporate plan for the following three years.

Treasury regulations: 29.1 – corporate plan must include: strategic objectives and outcomes; key performance measures and indicators; risk management and fraud prevention plan; financial plan (projections, assets, liabilities, cash flow, capital expenditure).

2.7.2 Planning and budgeting (3C Entities)

PFMA Section 53 – submit to Executive Authority by 1 October each year: Budget of estimated revenue and expenditure for following year; may not budget for a deficit and may not accumulate surpluses; submitted to Executive Authority through the Accounting Officer; approval by Executive Authority.

2.7.3 Quarterly reporting (3C Entities)

Treasury regulations 26.1 submit information on actual and projected revenue and expenditure to Accounting Officer within 30 days of each quarter. Report to Executive Authority (via Accounting Officer) on extent of compliance with PFMA and Treasury Regulations. Quarterly performance reports provide progress on the implementation of the Performance Plan with particular reference to monitoring delivery against the predetermined quarterly performance targets (Treasury Regulations: chapter 5, 5.3 and PFMA: s27 (4) and s36 (5)).

2.7.4 Quarterly reporting (3D Entities)

Treasury regulations 29.3.1 and 30.2.1 – Accounting Authority (Board) must establish procedures to report quarterly to the Executive Authority in relation to progress made against achieving the targets set out in the strategic and corporate plan – usually provide report 30 days after each quarter.

2.7.5 Annual reporting

Annual report provides information on the performance of the entity in the preceding financial year for the purpose of oversight; reviews the entity's performance relative to the targets presented in the annual performance plan and budget; and shows how the budget was implemented and the state of the department's / entities financial management systems (Treasury Regulations: Chapter 18, 18.3 and PFMA: section 40(1) (d).

2.7.6 General reporting

Treasury regulations 33.3: Accounting Authority must, on an annual basis, submit to the Executive Authority, Treasury and Auditor General a schedule of: the outcome of any disciplinary hearings and /or criminal charges; the names and ranks of employees involved; the sanctions and any further actions taken against these employees as shown in figure 2.15 which illustrates the expectations on public entities and the expectations of public entities.

Figure 2.7.7 Treasury regulations:

Expectations ON public entities	Expectations OF public entities
Comply with PFMA, Treasury Regulations and other applicable legislation	To be included in the planning and budgeting process of parent departments
Carry out assigned mandate	SLA's to be signed timeously
Timely submit all required returns, reports, etc.	To be informed on time of ad hoc reporting requirements or requests
	To not be forced to undertake activities that are not part of mandate, etc.
	To be supported by parent department and Treasury

2.8 Principles of Corporate Governance

These principles have been adopted by the Board of Directors (the "Board") to assist the Board in the exercise of its responsibilities. These principles provide the overall framework for the governance of the Company and are not intend to limit, enlarge or change in any way the responsibilities of the directors as determined by applicable law and Articles, Bylaws and charters. These principles are reviewed by the Board periodically and may be amended from

time to time by the Board on the recommendation of the Nominating and Corporate Governance Committee.

- I. Role and Composition of the Board
- II. Board Committees – Structure and Procedures
- III. Board Performance and Operations
- IV. Director Compensation and Stock Ownership
- V. Executive Development
- VI. Principal Duties of the Chairman of the Board
- VII Principal Duties of the Lead Independent Director

2.8.1 Role and Composition of the Board

Boards constitute a fundamental base of corporate governance in the Entities. Accordingly, each Entity should be headed and controlled by an effective and efficient board, comprising of executive and non-executive directors of whom, preferably, the majority should be non-executive directors in order to ensure independence and objectivity in decision making. Given the diverse background of the South African population and the requirement for constant and effective interaction among directors, the unitary (as opposed to a two-tier) board structure is regarded as being appropriate for Entities.

The business and affairs of the company shall be managed under the direction of the Board. The Board may, by resolution, delegate its authority to Company management or to committees of the Board, subject to applicable law, rule or listing standard.

- General

The board of the Entity has absolute responsibility for the performance of the Entity and is fully accountable to the shareholder for such performance. As a result, the board should give strategic direction to the Entity, and in concurrence with the Executive Authority appoint the chief executive officer and ensure that an effective succession plan for all directors and key executives is in place and adhered to. (Medtronic, Inc. © 2013:1-8).

- **Accounting Authority**

Every public entity governed by the PFMA must have an accounting authority, which must be accountable for the purposes of the PFMA. This is usually the board. However, if there is no board, the statutory governing body will be considered the “accounting authority.” In special circumstances, the relevant treasury may approve or instruct that another body serve as the accounting authority for that public entity. Accounting authorities must ensure that accurate books and records are kept and that financial statements and other statutory reports are prepared. These delegations are normally delegated to senior management, and their progress and accuracy monitored by a committee(s) of the board or authority. This delegation must be done in writing.

- **Selection of the CEO:** The Board shall be responsible for identifying potential candidates for, and selecting, the CEO and for electing all other executive officers on the recommendation of management team and ultimately monitor their performance.
- **Board size:** The Board periodically reviews the number of director positions with the intent of keeping the Board small enough to promote substantive discussions in which each director can actively participate, and large enough to offer a diversity of backgrounds and expertise.
- **Director Independence:** Independence directors shall always constitute a majority of the Board and there shall be no more than two directors who are then employed by the Company serving on the board at any time. The Board makes an affirmative determination regarding the independence of each director annually, based upon the recommendation of the Nominating and Corporate Governance Committee.
- **Board Leadership:** The Board does not have a firm policy as to whether the position of the Chairman and position of the Chief Executive Officer (CEO) should be separate and intends to preserve the freedom to decide what is in the best interest of the Company at any point in time. However, the Board strongly endorses the concept of having one of the independent directors serve in a position of leadership for the rest of the non-management

directors. If at any time the CEO and Chairman roles are combined or if the Chairman is not otherwise an independent director, the Board annually will elect a lead independent director and such director shall also serve as Chair of the Nominating and Corporate Governance Committee. Although elected annually, the Lead Independent Director is generally expected to serve for five years. If the Chairman is an independent director, then the duties of the Lead Independent Director described herein shall be a part of the duties of the Chairman.

- **Director Selection Criteria:** The Nominating and Corporate Governance Committee is responsible for recommending candidates for election to the Board. In evaluating candidates to become directors of the Company, the Nominating and Corporate Governance Committee will consider all relevant experience and qualifications as well as whether such person has demonstrated, by significant accomplishment in his or her field, an ability to make a meaningful contribution to the Board's oversight of the business and affairs of the Company and the person's reputation for honesty and ethical conduct in his or her personal and professional activities. Additional factors which the Nominating and Corporate Governance Committee will consider include a candidate's specific experiences and skills, relevant industry background and knowledge, time availability in light of other commitments, age, potential conflicts of interest, material relationships with the Company and independence from management and the Company. The Nominating and Corporate Governance Committee also will seek to have the Board represent a diversity of backgrounds and experience.

If the Nominating and Corporate Governance Committee identifies a need to replace a current member of the Board, to fill a vacancy in the Board, or to expand the size of the Board, the Committee considers candidates from a variety of sources. The process followed by the Committee to identify and evaluate candidates may include (a) identification of potential candidates from shareholders, Board members, potential candidates themselves, and other sources, (b) use of external search firms to organize the Committee's consideration and evaluation of candidates, (c) meetings to evaluate biographical information and background material relating to candidates, and (d) interviews of selected candidates for inclusion in the Board slate of director nominees are based upon the criteria set forth in these principles as well

as any other relevant factors that the Committee may from time to time deem appropriate, including the current composition of the Board, the balance of management and independent directors, the need for financial experts on the Audit Committee, and the evaluation of all prospective nominees. After completing interviews and the evaluation process, the Committee makes a recommendation to the full Board as to persons who should be nominated by the Board. The Board determines the nominees after considering the recommendations and report of the Committee and making such other evaluation as it deems appropriate.

The Committee applies the same criteria to candidates recommended by shareholders. Any shareholder who wishes to recommend a prospective nominee for the Board for consideration by the Committee shall notify the Company's Corporate Secretary in writing. Any such recommendations should provide whatever supporting material the shareholder considers appropriate, but should at a minimum include such background and biographical material as will enable the Committee to make an initial determination as to whether the nominee satisfies the criteria for directors set out in these principles. Alternatively, shareholders intending to appear at the annual shareholder's meeting to nominate a candidate for election by the shareholders at the annual shareholder's meeting (in cases where the Board does not nominate the candidate or where the Committee was not requested to consider his or her candidacy), must comply with the procedures in the Company's Restated Articles of Incorporation and Bylaws.

- **Election of Directors- Shareholders Elect Directors Annually:** In an uncontested election of directors (i.e. an election where the only nominees are those recommended by the Board), any nominee for director who receives a greater number of votes "withheld" from his or her election than votes "for" his or her election by shareholders present in person or by proxy at the Annual Meeting of the Shareholders and entitled to vote in the election of directors, shall tender a written offer to resign from the Board within five business days of the certification of the shareholder vote by the Inspector of Elections. The Nominating and Corporate Governance Committee shall promptly consider the resignation offer and recommend to the full Board whether to accept it. In considering whether to accept or reject the resignation offer, the Nominating and Corporate Governance Committee will consider all factors deemed relevant by members of the Nominating and Corporate Governance Committee, including, without limitation, (i) the

perceived reasons why shareholders withheld votes for election from the director, (ii) the length of service and qualifications of the director, (iii) the director's contributions to the Company, (iv) compliance with listing standards, (v) possible contractual ramifications in the event the director in question is a management director, (vi) the purpose and provisions of these principles, and (vii) the best interests of the Company and its shareholders.

To the extent that one or more directors' resignation are accepted by the Board, the Nominating and Corporate Governance Committee will recommend to the Board whether to fill such vacancy or vacancies or to reduce the size of the Board. Any director who tenders his or her offer to resign from the Board pursuant to this provision shall not participate in the Nominating and Corporate Governance Committee or Board deliberations regarding whether to accept the offer of resignation. The Board will act on the Nominating and Corporate Governance Committee's recommendation within 90 days following the certification of the shareholder vote by the Inspector of Elections, which action may include, without limitation, acceptance of the offer of resignation, adoption of measures intended to address the perceived issues underlying the Majority Withheld Vote, or rejection of the resignation offer. Thereafter, the Board will disclose its decision whether to accept the director's resignation offer and the reasons for rejection the offer. This process relating to nominees for directors who receive a Majority Withheld Vote will be summarized or included in each proxy statement relating to an election of directors of the Company. The Board believes that this process enhances accountability to shareholders and responsiveness to shareholder's votes, while allowing the Board appropriate discretion in considering whether a particular director's resignation would be in the best interests of the Company and its shareholders.

- **Other Public Company Directorships:** The Company does not have a policy limiting the number of other public company boards of directors upon which a director may sit, in general. However, the Nominating and Corporate Governance Committee considers the number of other public company boards and other boards on which a prospective nominee or a director is a member. Directors shall provide prior written notice to the Chair of the Nominating and Corporate Governance Committee of any proposed service on the board of a public or private company. Although the Company does not impose a

limit on outside directorships, board members are expected to devote sufficient time and attention to carrying out their director duties and responsibilities and ensure that their other responsibilities, including service on other boards, do not materially interfere with their responsibilities as directors of the Company. All directors shall tender a written offer to resign from the Board after a material change in that director's full-time position or responsibilities. The Nominating and Corporate Governance Committee shall review the director's continuation on the Board and recommend to the Board whether the Board should accept such proposed resignation or request that the director continue to serve on the Board.

Director Retirement: It is the general policy of the Company that a director shall retire from the Board at the annual meeting of shareholders immediately following his or her attaining the age of 72 and shall not be nominated for re-election or reappointment to the Board. However, the Board may determine to waive this policy in individual cases.

2.8.2 Board Committees – Structure and Procedures

The standing committees of the Board are: Audit Committee; compensation committee; finance committee; nominating and corporate governance committee.

- **Quality and Technology Committee**

The following committees are considered the most important for every SOE. However, depending on the circumstances of each Entity, other committees may have to be established as more fully recommended in the King Code. The board should establish an audit committee that has at least two independent non-executive directors. The audit committee is responsible for improving management reporting by overseeing audit functions, internal controls and the financial reporting process. The majority of the members of the audit committee should be financially literate. The audit committee should select a chairperson who is an independent non-executive director and who is not the chairperson of the board; the audit committee should have written terms of reference, sufficiently describing its membership, authority and duties. Duties of the committee should include helping the Entity and its directors to comply with obligations under the PFMA and providing a forum for communication between the directors, the senior management of the Entity and the internal and external auditors of the Entity to ensure, inter alia,

the adequacy of the Entity's internal controls; the audit committee should liaise with Entity management, the internal and external auditor, report to the board and disclose appropriate information to the board. Entities should disclose in their annual report, whether or not the audit committee has adopted formal terms of reference and if so, whether the committee satisfied its responsibilities for the year in compliance with its terms of reference (Governance in Public Entities, 2002: 15-16).

▪ **Board and Directors**

Within the province, board members of public entities are appointed by the relevant MEC. This is in terms of the enabling/relevant legislation applicable to that entity. At a national level, the appointment of board members is required to be endorsed by Cabinet in certain instances. In terms of DPSA guide for the appointment of board members, the appointment of persons to boards of public sector institutions must be referred to Cabinet if the appointment in question will be of such significant nature that the collective accountability of the Minister, in terms of the Constitution, requires some form of approval of, or consultation with the Cabinet.

The board is responsible for ensuring the continued success of the company and is guided by its charter. It is the link between management and stakeholders and should meet at least four times per year. The board should inform and approve the company's strategy and satisfy itself that business plans are not encumbered by unexamined risks. In doing so it identifies key performance and risk areas and also ensures that the strategy will result in sustainable outcomes and considers sustainability to be a business opportunity. The board should elect a chairman of the board who is an independent non-executive director. The role of the chairman should be formalized and assessed annually and a succession plan put in place.

Annual evaluations of the board, its committees and directors, CEO and other executive directors should be performed by the chairman or an independent service provider. The overview of the process should be disclosed in the integrated report. Committees should be appropriately constituted and should formulate terms of reference that are reviewed annually. Committees (with the exception of risk committee) should comprise a majority of non-executive directors of which the majority should be independent (King's Counsel, 2010:12-23)

- **Committee Independence:** Each of the committees shall consist solely of independent directors satisfying applicable legal, regulatory and stock exchange requirements necessary for an assignment to any such committee.
- **Assignment and Rotation of Committee Members:** As a general rule, independent directors shall serve on at least two committees. Membership on committees shall be rotated as appropriate to provide directors experience on committees; however, this principle of rotation should not deprive a committee of expertise that a director possesses.
- **Committee Chairs:** In the interest of rotating committee leadership as determined by the Board to be appropriate (taking into account all relevant circumstances), the Board shall consider rotation of committee chairs after a chairman has served for five successive years.

2.8.3 Board Performance and Operations

Attendance at meetings- Directors are expected to attend all Board meetings and meetings of Board committees on which they serve, as well as the annual meeting of shareholders, absent exigent circumstances.

Agenda for Board Meetings- the Chairman of the Board and the Lead Independent Director or the CEO, if the CEO is not also the Chairman of the Board, shall prepare an agenda for Board meetings. Directors may request that additional subjects be placed on the agenda.

Board Materials Distributed in Advance- Information and materials that are important to the Board's understanding of the agenda items and other topics to be considered at a Board meeting should, to the extent practicable, be distributed sufficiently in advance of the meeting to permit prior review by the directors. In the event of a pressing need for the Board to meet on short notice or if such materials would otherwise contain highly confidential or sensitive information, it is recognized that written materials may not be available in advance of the meeting.

Executive Sessions on Non-Management Directors- The non-management directors meet in executive session without management present at each regularly scheduled Board meeting. If the non-management directors include directors who are not independent directors, the independent directors shall meet in executive session at least annually. The Lead Independent Director, or the

CEO, if the CEO is not also the Chairman of the Board, presides at these sessions of non-management directors and independent directors. Members of the Board's standing committees meet in executive session without management present at each committee meeting.

Director access to management, employees and advisors- Directors should have full and free access to members of management and employees of the Company. The Board and each of its standing committees has the authority to engage outside counsel, accountants, experts and other advisors as it determines appropriate to assist it in the performance of its functions.

Annual Performance Evaluation- the Board should conduct an annual self-evaluation to assess its performance. Each of the standing committees should conduct an annual self-evaluation.

2.8.4 Director Compensation and Stock Ownership

Director Compensation- the Board, considering the recommendations of the Nominating and Corporate Governance Committee, should review and determine the philosophy underlying director's compensation. The Nominating and Corporate Governance Committee should review and establish the components of compensation for directors and recommend changes in compensation to the Board. A director who is an officer should not receive additional compensation for such service as a director.

Stock Ownership or Retention Guidelines- Directors should own stock as provided in stock ownership or retention guidelines adopted by the Board from time to time. The Nominating and Corporate Governance Committee should review and establish the stock ownership guidelines for directors and recommends changes to the Board.

2.8.5 Executive Development

Management Evaluation- the Board should conduct an annual review of the performance of the CEO and senior management. The results of the reviews must be shared with the CEO and the Compensation Committee, which considers the evaluation and establishes the compensation of the CEO and other senior management based on this evaluation.

Succession Planning- the Board should ensure that successors are identified or that a plan is in place to identify successors for the CEO and for the top management positions. The Board should also periodically review the succession plans for senior management.

Principal Duties of the Chairman of the Board- Board Meetings- Chair all meetings of the Board in a manner which utilizes the time of the Board effectively and which takes full advantage of the expertise and experience that each director has to offer. In consultation with the Lead Independent Director, establish an agenda for each Board meeting which covers all matters which should come before the Board in the proper exercise of its duties.

- **Corporate Governance**

Provide input and support to the Lead Independent Director on:

Selection of committee chairs and membership on Board committees; establishment of the agendas for the Nominating and Corporate Governance Committee meetings; compensation philosophy for the Board and candidates for Board membership; be accountable to and provide leadership for all issues of corporate governance which should come to the attention of the Board and the Nominating and Corporate Governance Committee.

- **Communication**

Ensure that the Board is provided with full information on the condition of the Company, its business and the environment in which they operate; facilitate and encourage constructive and useful communication between the management and the Board.

Shareholder's Meetings

Recommend to the Board for its approval an agenda for each shareholder's meeting which covers all matters which should come before the shareholders. Provide leadership to the Board in the establishment of positions which the Board should take on issues to come before the annual meetings of shareholders. Preside at shareholder's meetings.

Principal Duties of the Lead Independent Director

1. Chair all executive sessions of non-management or independent directors and any Board meetings where the Chairman of the Board is not present.
2. Call meetings of the independent directors when necessary.
3. Lead the Board in its plans for succession of the CEO.
4. In collaboration with the Chairman and CEO, and considering any input from other directors, recommend committee chairs and members of Board committees to the Nominating and Corporate Governance Committee.
5. Work with the Chairman to develop agendas for the Board and committee meetings.
6. Be available to act as the liaison to the Board and advisor to the Chairman and CEO (and others designated as members of the office of the CEO).

Act as the focal point on the Board for all issues of corporate governance; facilitation of communication between the Board and the CEO; suggestions from non-management directors, especially on sensitive issues that they feel need to be resolved; fostering effective discussions and debate of the Board; review and approval of Board agendas; preside over the Board's annual self-evaluation; provide counsel to the other directors in the performance of their duties.

2.9 Reporting requirements

The directors of a public entity are required to keep full and proper records of the financial affairs of the public entity and to provide an annual report and financial statement, to the Executive Authority within 5 months of the end of the financial year. In terms of section 55 of the PFMA, the accounting authority must: keep full and proper records of the financial affairs; prepare annual financial statements; submit these financial statements within two months after the financial year to the auditors and the designated government department.

(i) Monthly financial reports

Monthly financial reports provide the executive authority and the relevant treasury with information on the department's / entities performance against plans; and provides the

accounting officer with an opportunity to indicate measures that will be taken to ensure that implementation of the plans are on track (PFMA: S32(2) and S40(4)(b)).

(ii) Annual report

All national and provincial departments and public entities are required to prepare annual reports that will be tabled in the relevant legislature according to section 40 and 55 of the PFMA. Annual reports are the main reporting instruments for departments and entities to report against the performance targets outlined in their Annual Performance Plans (APPs), which are tabled along with the budget. Annual reports therefore must contain non-financial service delivery information in addition to financial statements and the audit report. The challenge facing government is to ensure that departments provide good quality non-financial service delivery information in their APPs with tight performance targets, and to ensure that such departments report against those targets in their annual reports. Reforms since 2000, based in the PFMA and Public Service Act, now require accounting officers to table performance targets for each main division of the vote before the start of the financial year. For the provincial sphere, these performance targets are presented in the Estimates of Provincial Expenditure (previously Budget Statement 2) and in departments 'strategic plans).

Annual reports are prepared in accordance with The Guide for Preparation of Annual Reports by National and Provincial Departments, issued by the National Treasury and supplemented by other guides that focus on non-financial performance and human resource information. This standardised approach ensures that information is comparable between provinces. While legislatures may request further information from their departments care should be taken not to duplicate reporting provisions. Annual reports are another key tool for departments to provide oversight information, and the provincial treasury must monitor whether departments and provincial entities develop and deliver their annual reports in time according to the Municipal Finance Management Act MFMA section 18(2)(b).

(iii) Financial Statements

Annual reports include financial statements. The primary aim of the financial statements is to report on the departments / entities' use of funds which the legislature appropriated from the

relevant revenue fund. Further aims of the financial statement are to report on the department's / entities management of income, expenditure, transfers, cash and assets, as well as the state of its financial management system. Any overspending of a vote or the main division within a vote must be defined as "unauthorized expenditure" and must be investigated, to see if charges of financial misconduct should be raised according to section 81 of the PFMA. The notes of the financial statement are often the most important part as they provide the context and detailed information to the numbers in the financial statement. The main aim of the financial statement is to report on the department's / entities' use of funds that was made available by the legislature through the budget. (Induction Manual: Heads of Provincial Treasuries; 2009:59-60).

The annual financial statement consists of an appropriate statement, which includes the funds appropriated for the various programmes, shifting and virement of funds and the actual expenditure. A statement of financial performance provides overview of the total performance and the surplus or deficit for the year. The statement of the financial position shows the assets and liabilities at the end of the financial year. The cash flow statement shows the movements of cash during the year, for operations, investments and financing.

The notes to the financial statement contain additional detailed information to the main statement and accounting policies, which are crucial to understand the basis for the statement. (Induction Manual for Heads of Provincial Treasuries; 2009:66).

The accounting authority for a public entity- must keep full and proper records of the financial affairs of the public entity; prepare financial statements for each financial year in accordance with generally accepted accounting practice, unless the Accounting Standards Board approves the application of generally recognised accounting practice for that public entity; must submit those financial statements within two months after the end of the financial year to the auditors of the public entity for auditing; and if it is a business enterprise or other public entity under the ownership control of the national or a provincial government, to the relevant treasury; and must submit within five months of the end of a financial year to the relevant treasury, to the executive authority responsible for that public entity and, if the Auditor-General did not perform the audit of the financial statements to the Auditor-General- An annual report on the activities of that public entity during that financial year; the financial statements for that financial year after the

statements have been audited; and the report of the auditors on those statements. The annual report and financial statements referred to in subsection (1)(d) must fairly present the state of affairs of the public entity, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned must:

- Include particulars of the public entity's strategic objectives and outcomes as identified and agreed on by the executive authority, the key performance measures and indicators for assessing the entity's performance in delivering the desired outcomes and objectives and the entity's actual performance against the strategic objectives and outcomes, must be disclosed in the annual report of the public entity.
- For purposes of material section 55(2) of the Act and significant section 54(2), the accounting authority must develop and agree a framework of acceptable levels of materiality and significance with the relevant executive authority.
- An accounting authority must submit the report and statements for tabling in Parliament or the provincial legislature, to the relevant executive authority through the accounting officer of a department designated by the executive authority.
- The relevant treasury may direct that, instead of a separate report, the audited financial statements of a Schedule 3 public entity which is not a government business enterprise must be incorporated in those of a department designated by that treasury (PFMA s55).

2.9.1 Information on programme and service delivery

Legislatures are increasingly concerned with non-financial performance aspects of the annual reports in their oversight function. This kind of information has been weak, but departments are required to pay attention to this aspect of oversight. The information on programme performance basically concerns the degree to which the department has delivered on its strategic plan and budget specifically has achieved the expected outcomes, i.e. progress in reaching stated goals and objectives; delivered the planned outputs, i.e. performance against performance measures and targets in the strategic plan and Estimates for Provincial Expenditure (Budget 2 Statement) and the Estimates of National Expenditure for national departments; reports on all capital projects that are completed; use of inputs, i.e. the expenditure related to each programme with focus on efficiency and economy, and relating expenditure to delivery. The analysis should also

focus on specific types of expenditure, e.g. the use of consultants, revenue gathering activities, asset management and financial management systems. The need for performance information is integral to determine value for money (Induction Manual: Heads of Provincial Treasuries; 2009: 61).

2.9.2 Monitoring and Compliance

Monitoring is a key tool for accounting officers and provincial treasuries to know whether investments in programmes are delivering the expected results, and if the province is getting value for money. Monitoring also assists treasuries in benchmarking programmes and enables provincial government to meet their responsibility to provide oversight information for the provincial legislature. The PFMA and Treasury Regulations prescribe certain monitoring and reporting mechanisms between a department (MEC/HOD) and their public entities.

These include financial and non-financial information. Reports should be provided at least on a quarterly basis. Before transferring any funds to a public entity, the accounting officer is required to ensure that the entity utilizes such funds for their intended purpose. The department is also required to provide sufficient information on the budget of their entities. As managers, accounting officers and accounting authorities need to know whether programmes of their institutions are delivering the expected results. This is a key imperative for any manager in any form of institution. Monitoring of the performance of programmes is a key management tool, which is indispensable for managers in both the public and private sector. Provincial MECs are accountable to their legislatures and have to the case of annual plans, the baseline will shift each year and the first year's performance will become the following year's baseline.

A further requirement for performance information stems from the responsibility of public institutions to publish administrative and performance information, to account to Parliament and provincial legislatures as outlined in the Constitution sections 92 and 114.

Performance standards- express the minimum acceptable level of performance, or the level of performance that is generally expected. These should be informed by legislative requirements, departmental policies and service-level agreements. They can also be benchmarked against performance levels in other institutions or according to accepted best practices.

Performance targets – express the specific level of performance that the institution or programme is aiming to achieve within a given time period. Whether to express the desired level of performance in terms of a target or a standard depends on the nature of the performance indicators. A good monitoring system indicates how the data it provides will feed into planning and reporting by technical department or entity, and establishes processes and mechanisms to facilitate corrective action. In other words, it indicates who will do what in case of faltering performance. Performance information should be integrated into existing management systems and processes. It is the accounting officer who has the responsibility to make sure that the department or institution has appropriate capacity and systems to collect and manage performance information, and that the performance information is used (Induction Manual: Heads of Provincial Treasuries; 2009: 104-105).

2.10 The role of departments with regard to public entities

All departments should be required to produce an overview of the performance of the various public entities within the Ministers/MECs portfolio. This should be presented to the relevant portfolio committee at the start of the oversight hearing. Forthcoming financial reforms may include the requirement that all departments also provide a consolidated financial statement incorporating the activities of the department and all entities reporting to that department (or its Minister/MEC). The National Treasury is considering making the preparation of such consolidated financial statements compulsory for all departments. In terms of section 38(1) (i) to (k), departments are required to:

Comply with provisions of the annual division of revenue act when transferring funds. Obtain written assurance from the public entity, before transferring any funds (other than grants), that the public entity has implemented effective, efficient and transparent financial management and internal control systems. Enforce compliance with any prescribed conditions if the department gives financial assistance to any entity. In terms of Treasury Regulation 26.1.1, the designated accounting officer must ensure that within thirty days of the end of each quarter, the public entity submits information on its actual revenue and expenditure up to the end of that quarter, a projection of expenditure and revenue for the remainder of the current financial year.

The information on actual revenue and expenditure shall be determined after taking accruals into account. Treasury Regulation 8.4.1 further expands the statutory provision referred to in Section 39(1) (j) of the PFMA.

2.10.1 Oversight of entities' performance

The portfolio committee's core responsibility in the oversight process is to review the performance of departments, constitutional institutions and public entities as reported in their annual report. The aim of overseeing the performance of entities is to test whether the annual report is an accurate record of the entity's performance; to evaluate whether the reported performance is in line with entity's strategic plans and budgets, and acceptable given the operating environment; and to assess how the entity might improve on its performance in future as stated below:

2.10.1.1 The entity's strategic plan for the year to which the annual report applies

It is absolutely essential that members have access to the entity's strategic plan against which it is reporting in the annual report under review. Members need to make sure they do indeed have the correct strategic plan document, and not the one for the current financial year. Members should be thoroughly familiar with the contents of the strategic plan, before they read the annual report, as these will greatly facilitate their ability to assess the entity's performance. The strategic plan sets out the performance objectives and targets against which the entity should be reporting on its annual report. In some instances members may have to refer to other documents in addition to the entities' strategic plans, or in certain instances the relevant planning document may not be called a strategic plan, but an annual performance plan, a corporate plan or a business plan. In the case of national departments, members should also refer to the relevant Vote in the Estimates of National Expenditure applicable to the financial year under review, as this document sets out clear measurable objectives against which the departments have to report in their annual reports. For provincial departments the 'strategic and performance plans' are the authoritative documents setting out measurable objectives. Certain of these measurable objectives are repeated in Budget Statement Two of the provincial budgets.

2.10.1.2 Information on the external and internal challenges faced by the entity

Entities often blame external circumstances (circumstances beyond their control) for shortcomings in their performance and it is therefore important to determine to what extent this is justified. Or did the management fail to show the necessary initiative to keep service delivery on track despite the circumstances?

2.10.1.3 Information from clients

Departments and other public bodies should conduct routine client surveys as part of their service delivery improvement programme and they should be encouraged to report such information in their annual reports. However, it may be useful in particular circumstances for the portfolio committee to gather client information from independent sources, for instance from organizations working in the particular functional area. This can be done through the oversight hearings or by way of a call for written submissions.

2.9.1.4 Need to be familiar with the particular entity

To exercise oversight most effectively, members need to be fully familiar with the particular entity. They need to have a clear understanding of its mandate, its structure, and its way of operating, its strengths and also its weaknesses. Members should endeavour to keep track of its performance in a range of areas – possible by referring back to previous annual reports and other information published by the entity. Another way of becoming familiar with an entity and its activities is through site visits. These can be very productive, but can also be misleading, depending on whether the visit is ‘staged’ or transparent. In becoming familiar with an entity, members need to be careful that they maintain their independence, and do not allow themselves to be co-opted to the particular entities point of view. Members should seek to maintain cordial relationships with the managements of entities, but it should always be clear that the relationship is an arms-length relationship, subject to the oversight responsibilities that the member has by virtue of being a public representative (Guideline for legislative oversight through annual reports 2005:38-40).

2.10 Responsibilities of Accounting Authority for a Public Entity

- Accounting authority

Every public entity must have an accounting authority. Accounting authorities are responsible for notifying National Treasury, in writing if the public entity is not listed; overall strategic management of the public entity, ensuring that it meets its mandate; submission of reports, returns, notices and other information to Provincial Legislature, the relevant executive authority and relevant treasury.

- (i) An accounting authority for a public entity must ensure that that public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control. A system of internal audit under the control and direction of an audit committee complying with and operating in accordance with regulations and instructions.
- (ii) Must take effective and appropriate steps to collect all revenue due to the public entity concerned; and prevent irregular expenditure, fruitless and wasteful expenditure, losses resulting from criminal conduct, and expenditure not complying with the operational policies of the public entity;
- (iii) Is responsible for the management, including the safeguarding of the assets and for the management of the revenue, expenditure and liabilities of the public entity;
- (iv) Is responsible for the submission by the public entity of all reports, returns, notices and other information to Parliament or the relevant provincial legislature and to the relevant executive authority or treasury, as may be required by the Act 29 of 1999.
- (v) Must promptly inform the Treasury on any new entity which that public entity intends to establish or in the establishment of which it takes the initiative, and allow the National Treasury a reasonable time to submit its decision prior to formal establishment;
- (vi) Must comply and ensure compliance by the public entity, with the provisions of the Act and any other legislation applicable to the public entity.

If an accounting authority is unable to comply with any of the responsibilities determined for an accounting authority, the accounting must promptly report the inability together with reasons to the relevant executive authority and treasury.

2.10.1 Compliance with laws and regulation

The PFMA give effect to sections 213-219 of the Constitution of the Republic of South Africa. Within the public sector environment, the PFMA and Municipal Finance Management Act (MFMA) supersede all other Acts as they relate to public sector institutions. Institutions must comply with all applicable laws. Laws should be understood not only in terms of the obligations they create, but also for the rights and protection they afford. The leadership is responsible for the institution's compliance with applicable laws and with those non-binding rules, codes and standards with which the institution has to comply. One of the most important responsibilities of the leadership is to monitor the institution's compliance with all applicable laws, rules, codes and standards.

2.10.1.1 Penalties for non-compliance

Section 81(1) (a) of the PFMA states that “an accounting officer for a department commits an act of financial misconduct if that accounting officer willfully or negligently fails to comply with a requirement of section 38, 39, 40, 41 or 42”.

Section 86(1) states that “an accounting officer is guilty of an offence and liable to a fine or to imprisonment for a period not exceeding five years, if that accounting officer willfully or in a grossly negligent way fails to comply with a provision of section 38, 39 and 40”.

Section 83 states that “an accounting authority of a public entity commits an act of financial misconduct if that accounting authority willfully or negligently fails to comply with a requirement of sections 50, 51, 52, 53, 54 or 55 or makes or permits an irregular expenditure or a fruitless and wasteful expenditure”. If the accounting authority is a board, every member of the board is individually and severally liable for any financial misconduct of the accounting authority – section 83(2). Section 86(2) states that “an accounting authority is guilty of an offence and liable on convictions to a fine or to imprisonment for a period not exceeding five years, if that accounting authority willfully or in a grossly negligent way fails to comply with a provision of section 50, 51 and 55”. These penalties are harsh therefore accounting officers of departments and accounting authorities of public entities must work in harmony and to ensure that the objectives of the relevant provisions of the PFMA applicable to public entities are complied with diligently and truthfully. Chapter 6 of the PFMA and Part 9 of the Treasury

Regulations must always serve as the handbook for the management of public entities by accounting authorities of public entities.

2.10.1.2 Banking and cash management

The treasury is vested with the responsibility for the effective and efficient management of the public money. The treasury must ensure that its revenue fund always has sufficient money to fund the departments so that services to the public can be expedited. In terms of paragraph 15.13 Treasury Regulations, 2002:39), each revenue fund consists, at any point in time, of all cash balances of the fund, derived from the relevant treasury's operating, investing and financing activities. The objectives of cash management, according to Gildenhuis (1993:545), are to ensure the safety of public resources; to maintain liquidity when needed; to increase funds available for investment; and to obtain the highest feasible yield on public funds. Mikesell (1986:469) continues by outlining the process of cash management as "controlling the cash collection and disbursement process, managing the available cash balances, and short-term investment of those balances". Cash management deals with the flow of cash and the investment of surplus funds. It encompasses the collection and disbursement of public money and the use of those funds between the time of receipt and disbursement in a manner consistent with the public interest. These funds are valuable public resources which should work for the community.

For effective cash management, the most important requirement is for all taxes and other revenue to be promptly collected and deposited in a bank account as soon as they become due (Gildenhuis, 1993:555).

2.10.1.3 Eastern Cape Listed Public Entities

Schedule 3C

- EC Appropriate Technology Unit
- EC Socio Economic Consultative Council
- EC Rural Finance Corporation
- EC Parks & Tourism Agency
- EC Gambling & Betting Board
- EC Liquor Board
- EC Provincial Arts & Culture Council

Schedule 3D

- EL Investment Development Zone (Pty) Ltd
- EC Development Corporation
- Coega Development Corporation (Pty) Ltd
- Mayibuye Transport Corporation

Unlisted entities

- AsgiSA-EC (Pty) Ltd

2.10.1.4 Surrender of surplus funds

In terms of section 53(3) of the PFMA, a 3C public entity may not budget for a deficit or accumulate surplus funds without the approval of National Treasury. The PFMA or Treasury Regulations, do not, however, explain how this surplus is defined. As a result, the public entities unit developed an instruction note which would have provided a framework for the determination and surrender of surplus funds. The draft instruction note was forwarded to National Treasury for comment, but none were received. National Treasury, was however, in the

process of developing their own instruction note on the matter, and therefore the issuing of Provincial Treasury's framework was put in abeyance (Eastern Cape Provincial Treasury Briefing Memo: 2011).

2.10.1.5 The Eastern Cape Development Corporation (ECDC)

The Eastern Cape Development Corporation is a provincial business enterprise established in terms of section 2 of the Eastern Cape Development Corporation Act, 1997 (Act No. 2 of 1997) (the ECDC Act). It is the official economic development agency for the Eastern Cape Province which reports to its board of directors, which represents government, business and labour, as appointed by the Provincial MEC for Economic Development and Environmental Affairs.

The corporation has the mandate of, among others, planning, financing, coordinating, marketing, promoting and implementing the development of the province and its people in the fields of industry, commerce, agriculture, transport and finance.

2.10.1.6 Corporate governance approach

ECDC endorses the code of corporate practices and conduct as contained in the King Reports on Corporate Governance, and affirms its commitment to comply in all material respects with the principles incorporated in these reports. The corporation further subscribes to the corporate governance principles set out in the Public Finance Management Act, 1999 (Act No.1 of 1999, as amended) (the PFMA). ECDC is committed to good corporate citizenship and organizational integrity in the running of its affairs. The commitment provides the shareholder(s), customers and stakeholders with the comfort that ECDC are being managed in ethical and disciplined manner. ECDC's philosophy is founded on principles of service delivery, trust, integrity, transparency, accessibility, redress and ethics.

2.10.1.7 Board Structure

The board is the supreme decision-making unit in the company. The board of directors, therefore, has responsibility to safeguard and maximize shareholders wealth, oversee firm performance, and assess managerial efficiency. Fama and Jensen (1983) pointed out four actions of initiation, ratification, implementation and monitoring, undertaken by board in the decision-making processes. Therefore, the main role of the board is seen as the ratification and monitoring of decisions, overseeing the actions of managers/executives. However, Chaganti et al., (1985) indicated that corporate board plays control function and services function. Whenever the board fails in one function or in both, firm performance would become deficient. Literature on corporate governance recognizes the board structure to encompass the board size (Dalton et al., 1999); Singh & Harianto, 1989), board composition (Baysinger et al., 1991; Kosnik, 1987; and board independence (Fama & Jensen, 1983).

2.10.1.8 Performance of Public Sector Entities

Generally, performance shows the achievement of objectives. Whilst in the private sector entities the objective of profit maximization defines performance, its absence in the public sector entities generates difficulties, even paradoxes, in explaining this concept. Bouckaert and Balk (1991), state that the opportunity and necessity of performance measurement in the public sector entities rise questions. For Meyer and Gupta (1994), performance in the public sector entities is a paradox. Performance is what contributes to the improvement of the couple cost-value, and not only what contributes to the diminution of cost or increase of value. This approach concerns three directions of action for the public sector entities; implementation of strategies allotted to the entities by political authorities, value infusion for the public, users whom the entity addresses to and control of resources that were allotted in order to accomplish their mission. From managerial perspective, performance, the attribute of managerial control is defined upon the effectiveness and efficiency relation with the output. Performance is the competitive state of the entity, achieved on the basis of its two components, effectiveness and efficiency, elements ensuring for the entity a sustainable presence on the market.

2.10.1.9 Ownership Structure and Performance of Public Sector Entities

Demsetz and Villlonga (2001), argue that the ownership structure of a corporation should be thought of as an endogenous outcome of decision that reflects the influence of shareholders. Shleifer and Vishny (1997), point out, while they are technically “controlled by the public”, they are run by bureaucrats who can be thought of as having “extremely concentrated control rights, but no significant cash flow rights”. Additionally, political bureaucrats have goals that are often in conflict with social welfare improvements and are dictated by political interests. In mutual firms, ownership cannot be concentrated (Fama & Jensen, 1983). This may cause inefficiency as the benefits of concentrated ownership are forgone.

Majumdar (1998), compared the financial performance of state owned, private owned, and mixed state-private ownership firms and found that the most profitable firms were the private owned, followed by mixed ownership. State owned enterprises had the worst performance. Majority of other studies (see Ramaswamy, 2001; Shleifer & Vishny, 1997; Shleifer, 1998) draw similar conclusions. The major reasons, they attribute to this trend, are that the government is guided by social altruism, which may not be in line with the profit motive. Secondly, the government is not the ultimate owner, but the agent of the real owners, the citizens and it is not the real owners who exercise governance, but the bureaucrats. There is no personal interest that bureaucrats have to ensure that an organization is run efficiently or governed well since they do not have any benefits from good governance. Bureaucrats and government respond to various interest groups (such as trade unions) as part of their social agenda (Lopez-de-Salines et al., 1997). Finally, even if the public can exercise control directly, it is unlikely to be effective because of the extreme dispersion of the principals. Any social or non-social benefits are likely to be so diffused among the electorate that it is unlikely that there will be much of an incentive to exercise any governance over the organization to ensure it performs effectively (Andrews & Dowling, 1998).

2.10.1.10 Board Structure and Performance of Public Sector Entities

The board size, composition and independence to be the board structure attributes that determine the effectiveness of a board in monitoring management to enhance proper firm performance. Board composition refers to the number of independent non-executive directors on the board relative to the total number of directors. An independent non-executive director is defined as independent directors who have no affiliation with the firm except for their directorship (Clifford & Evans, 1997). There is an apparent presumption that boards with significant outside directors will make different and perhaps better decisions than boards dominated by insiders. The argument for the need of independent non-executive directors on the board substantiated from the agency theory which states that due to the separation between ownership and control, managers tend to pursue their own goals at the expense of the shareholders (Jensen & Meckling, 1976). Hence, by having independent non-executive directors on the board, these directors would help to monitor and control the opportunistic behavior of management, and assist in evaluating the management more objectively. Outside directors also contribute to reduce management consumption of perquisites. In the absence of such monitoring by outside directors, managers might have the incentive to manage earnings in order to project better performance results and hence increase their compensation.

Fama (1980) and Fama and Jensen (1983), suggest that boards that are composed of a higher proportion of outside directors have greater monitoring ability over management. However, with regard to outside or non-executive directors, a distinction between those who are affiliated with management through family or business relations (“grey” directors) and those who are truly independent (no relationship with management) is necessary. Although there is no existing theory pertaining to the role of grey directors on the monitoring effectiveness of the board. This result supports the intuition that the board’s monitoring effectiveness should increase with the proportion of independent (grey) outside directors.

The board effectiveness in protecting the shareholders and other stakeholders is associated with independence and composition (insiders versus outsiders), for example, (see Baysinger & Butler, 1985; Kosnik, 1987; Hermalin & Weisbach, 1988; Weisbach, 1988). Having outside directors is vital as they can act as providers of relevant complementary knowledge to the management, (Fama & Jensen, 1983). However, evidence of non-executive directors ineffectiveness or even

their adverse impacts on the board's monitoring incentives has also been documented with the main concern on the issue of non-executive directors, who are not be truly independent of management. Empirically, independent directors are found to impact a range of board decisions, such as the firing of non-performing CEOs (Weisbach, 1988), resistance to greenmail payments (Kosnik, 1987) and the negotiation of tender offers. The role of independent directors on the board of directors is to effectively monitor and control firm activities in reducing opportunistic managerial behaviors and expropriation of firm resources (Fama & Jensen, 1983). However, independent directors face difficulties in discharging their duties as they are not directly affiliated with the management (Weisbach, 1988). There is evidence to show that independent directors are valued for their ability to advice, to solidify business and personal relationships, and to send a signal that the company is doing well rather than for their ability to monitor.

Therefore, Fama (1980) indicated that the presence of non-executive directors is an important mechanism to oversee executive activities and ensure that those activities are based on the best interests of stakeholders. The presence of non-executives should be effective in improving board independence and firm performance and thus, reduce financial fraud. The Code of Best Practice recommended that the board of directors should include non-executive directors of sufficient number and caliber in order to give non-executive directors significant weight in the board's decisions. In contrast, Agrawal and Knoeber (1996) and Yermarck (1996), found that a higher proportion of outside directors on board is unfavorable to firm performance and that, there is a significant negative relationship between board outsider and firm performance. Bhagat and Black (1999), established that firms with majority outside directors perform worse than other firms. These studies show that independent non-executive directors do not necessarily have positive impact on firm performance, implying that in these cases perhaps the independent non-executive directors do not play their roles effectively. Many researchers question the ability of independent directors to exercise effective oversight of the activities of executive managers. Managers are inherently trustworthy and not prone to misappropriate corporate resources. A large number of outsiders representing diverse interests may even reduce the economic flexibility of a firm, and result in conflicts between the board and the top management.

2.10.1.11 Eastern Cape Development Corporate Governance Structures

- Board of Directors

The accounting authority of the corporation is the Board of Directors, the majority of who are appointed by the Member of the Executive Council of the Eastern Cape responsible for Economic Development, Environmental Affairs and Tourism in the province. The Board is comprised mainly of independent non-executive directors in line with the guidelines set out in the King Reports of Corporate Governance. The Board held nine (9) meetings during the period under review. During the year under review, the Board continued to render its corporate governance oversight and strategic direction role in the corporation and the following corporate governance systems are in place and implemented:

- (a) **Corporate Governance Framework** – the Board continued to implement the Corporate Governance Framework, which consolidates the corporate governance procedure, practices and rules applied by the corporation. These are in line with best practice guidelines as contained in the King Reports on Corporate Governance and other good governance prescripts and guidelines.
- (b) **Board Charter** – the Board Charter sets out the roles, powers and functions of the Board individual directors and ECDC officials, as well as for the delegation of powers to the Board committees. The Board continues to implement its comprehensive delegations matrix aimed at clarifying the various roles and limits of authority within ECDC.
- (c) **Board development** – the Board implemented the director development policy in terms of which ECDC directors are entitled to continued professional development at ECDC's expense.
- (d) **Board and committee evaluation** – on an annual basis the Board and its committees evaluate their performance with a view to identification of weaknesses and achievement of optimum performance levels by the Board and its committees. During the period under review, the Board conducted the self-evaluation including committee activities.
- (e) **Shareholders compact** – a shareholder's compact was concluded between the ECDC and the Eastern Cape Provincial Government as a shareholder, represented by the Member of

the Executive Council responsible for Economic Development, Environmental Affairs and Tourism. The shareholder's compact serves as a framework to effectively govern the relationship between the corporation and the shareholder. The compact further secures transparency, accountability and sound management of the revenue, expenditure, assets and liabilities of the corporation.

- (f) **Audit Committee** – the Audit Committee, in accordance with good governance principles, is chaired by an independent chairperson. It provides oversight on governance, control and risk management processes. This committee also reviews internal and external audit feedback on the status of risk management, internal control and governance; and provides objective advice to the Board on the status thereof with suggested corrective actions relating to audit findings. The Audit Committee met four times during the year under review 2011/12).
- (g) **Human Resource and Remunerations Committee** – the Human Resources and Remunerations Committee considers and makes recommendations on human resource policies and principles. It also evaluates the performance of Chief Executive Officer and executive management in the discharge of their duties. The committee met eight times during the financial year under review.
- (h) **Funding and investment Committee** – the Board established the Funding and Investment Committee to deal with matters relating to the core business of the corporation as a development finance institution. Its role includes matters relating to the Eastern Cape Provincial Investment Fund until the fund is institutionalized and listed as a subsidiary in compliance with the Public Finance Management Act. The committee met once during the year under review.
- (i) **Eastern Cape Provincial Investment Fund Task Team** – the Eastern Cape Provincial Investment Fund Task Team was established to ensure institutionalization and approval of the fund in accordance with section 51 (g) of the Public Finance Management Act No. 1 of 1999. The task team met seven times during the year under review. The task team has been since been consolidated within the Funding and Investment Committee that has oversight on the funding and investment matters of both the fund and the corporation.

- (j) **Property Task Team** – the Property Task Team was established to speed up the preparation process for the disposal of ECDC non-core assets in particular properties. The task team met six times during the year under review.
- (k) **Funding and Viability Model Task Team** – the Funding and Viability Model Task Team was established to beef up the corporation’s funding and viability model submission to ensure amongst others viability and recapitalization. The task team met twice during the year under review and has since been dissolved (ECDC Governance Structures; 2011/12).

2.10.1.12 Internal Financial Controls

Internal financial controls provide a framework for financial management functions that includes internal controls, policies and procedures to ensure sound financial management; and serves to guide officials on how to perform their financial management responsibilities efficiently, effectively, economically and consistently. In line with the PFMA and the King III Report on Corporate Governance requirement, Internal Audit provides the Audit Committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of a risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. In order to align recommendations with global best practice principles, King III requires:

A statement from the leadership on the effectiveness of internal controls to be included in the integrated report; a statement from the audit committee, also included in the integrated report, on the effectiveness of internal financial controls; the statement made by the audit committee should be supported by a formally documented annual review of the design, implementation and effectiveness of the institution’s system of internal financial controls following suitable testing performed by internal audit; the nature and extent of weaknesses in financial control that are resulted in actual material financial loss, fraud or material errors, should be reported to the board and the stakeholders; and the audit committee should determine the nature and extent of the formal documented review of internal financial controls. No external attestation is required to be made on the audit committee’s statement on internal financial control.

2.10.1.13 Internal Audit

The internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. Protocol on Corporate Governance, (September 2002). According to Marshall (1976:173), "internal auditing is a control instrument..." This instrument can be used to check the regularity and legitimacy of the financial administration of the department. Internal auditing is necessary for the continuous checking of all financial transactions. In order to ensure that all moneys are duly accounted for, it is essential to conduct a day-to-day check or audit of the numerous transactions involved (Cowden, 1969:343).

In terms of sub-regulation 3.2 (3.2.8), an internal audit function must assess the operational procedure and monitoring mechanisms over all transfers made and received, including transfers in terms of the annual Division of Revenue Act. The Institute of Internal auditors include these two roles in its definition of auditing by describing internal auditing as an assurance and consulting activity designed to add value and improve an organization's operations. Internal auditors also have two sets of customers, management and those to whom management is accountable. The assistance role is served when auditors report to management and the accountability role is served when auditors report on the performance of management to an oversight body. Gildenhuis (1993:173) contends that the latest perception is that internal auditors should not only check the financial transactions for regularity and legitimacy, but should also be more constructive by investigating the results of the expended resources.

Sawyer described the role of internal auditors as being related to performance information. For Sawyer information about goals is critical and an internal audit that does not report the extent to which objectives and goals have been met does not measure up to an effective management oriented audit. When goals and standards have not been set the auditor must recognize that a primary management function has not been fulfilled. The controls should be concerned with and tested by the internal auditor to ensure information complies with the required standards (Sawyer, Dittenhofer & Schiener 2003:198-199).

2.10.1.14 Auditor-General / External Auditor

The Auditor-General is a state institution by Chapter Nine of the Constitution. As such the Auditor-General is independent, subject only to the Constitution and the law, is accountable to the National Assembly, and it is incumbent on all other organs of state to ensure the independence, impartiality, dignity and effectiveness of the Auditor-General. The mandate and functions of the external auditors are clearly embodied in legislation including section 188 of the Constitution and in the Public Audit Act No. 25 of 2004 (The Presidency 2004). The Public Audit Act, No.25 is the national statute that prescribes further powers and functions of the Auditor-General South Africa.

The Auditor-General SA must also audit any other institution or accounting entity stipulated by national or provincial legislation to be audited by the Auditor-General SA. The auditing task of the Auditor-General is thus not a prerogative, but a legal and constitutional obligation. The Auditor-General Act, 1995 (Act 12 of 1995) establishes the requirement to appoint an Auditor-General, who has the authority to audit and report on all financial accounts of national, provincial and local governments, entities and any other person, who deals with public funds (Madue & Mahwai, 2008:367).

The objective of an audit of financial statements is to enable the auditor to express an opinion as to whether or not the financial statements fairly present, in all material respects, the financial position of the entity at a specific date, and the results of its operations and cash flow information for the period ended on that date, in accordance with an identified financial reporting framework and/or statutory requirements. The auditor's opinion enhances the credibility of financial statements by providing a high, but not absolute, level of assurance to the users of the financial statements. In addition, the Office of the Auditor-General provides extensive support to the public accounts committees in the form of briefings, report writing and training, as well as acting as an expert witness during hearings. The Auditor-General is also required to reasonably satisfy himself that receipts, payments and other transactions made by the departments, authorities or public entities take place in accordance with the relevant laws and regulations.

The audit therefore includes an examination of evidence supporting compliance in all material respects with the relevant laws and regulations, which came to the auditor's attention and are applicable to financial matters. In terms of section 20 of the Division of Revenue Act, 2004, the Auditor-General may, in the audit of financial statements on the allocations set out in Chapter 3 or in a special report to be submitted to Parliament, report on the extent of compliance with this Act by transferring national officers, transferring provincial officers and receiving officers. The Auditor-General undertakes a limited number of performance audits.

A performance audit is an independent audit process to evaluate the measures or the lack thereof instituted by management to ensure that resources have been procured economically and are utilized by management to ensure if necessary, report to the legislative body concerned in the prescribed manner. The reports emanating from these performance audits are considered by either the national or relevant provincial public accounts committee. These reports should be considered by the relevant portfolio committee, since they focus primarily on service delivery issues. One of the critical challenges faced by the Auditor-General is to find ways to ensure that audits conducted in departments within a particular functional area are comparable, in the sense that the scope and focus of the audits are the same or at least similar (Guideline for legislative oversight through annual reports 2005:19-20).

The following are audit opinions used by the external auditors in terms of international standards of auditing and give an explanation of the different opinions.

Table 2.10.1.15 Audit opinions used by Auditor-General - Adapted from MPA Public Finance Manual

	AUDIT OPINION	EXPLANATION
1	Unqualified audit opinion	Good opinion: the financial statements may be regarded as fairly reflecting financial status of the department or entity
2	Unqualified audit opinion with emphasis of matter	Least severe opinion: the financial statements may be regarded as fairly representing financial status of the department or entity, but there are issues of concern raised in the emphasis of matter.
3	Qualified opinion	Severe opinion: When the auditor concludes that an unqualified opinion cannot be expressed, but disagreements are so material or fundamental as to warrant adverse opinion or disclaimer.
4	Adverse opinion	Most severe opinion: Effect of disagreements is so fundamental that auditor decides that a qualification of the report is not adequate to disclose the misleading or incomplete financial statements.
5	Disclaimer	Very severe: When there is no appropriate audit evidence and auditor is unable to express an opinion on the financial statements.

Qualified, adverse or disclaimed audit opinions are a cause for great concern as they could point to serious financial mismanagement.

The objective of an audit of financial statements is to enable the auditor to express an opinion as to whether or not the financial statements fairly present, in all material respects, the financial position of the entity at a specific date, and the results of its operations and cash flow information for the period ended on that date, in accordance with an identified financial reporting framework. The auditor's opinion enhances the credibility of financial statements by providing a high, but not absolute, level of assurance to the users of the financial statements (Guideline for legislative oversight through annual reports 2005:18).

The Auditor-General uses the norms and standards derived from the Public Finance Management Act and other financial legislation to audit compliance by accounting officers/authorities. Audits are conducted in accordance with the Statements of South African Auditing Standards, which require the Auditor-General to plan and perform audits to obtain reasonable assurance that departments' financial statements are free of any material misstatement.

An audit includes (a) an examination, on a test basis, of the evidence supporting the amounts and disclosures in the financial statements, (b) an assessment of the accounting principles used and significant estimates made by management, and (c) an evaluation of the overall financial statement presentation. An audit also includes an examination, on a test basis, of the evidence supporting compliance in all material respects with the relevant laws and regulations applicable to financial matters.

2.10.1.16 Auditor-General (AG) Terence Nombembe on PFMA audit outcomes 2011/12

Announcing the 2011/12 audit results of national and provincial government at a media briefing with high-ranking government and parliamentary leaders as guests, Nombembe said although the set of audit outcomes for the period under review showed slow progress towards total clean administration, he was encouraged and convinced that the tangible remedial measures recently announced by the government would go a long way in addressing the public sector's current administrative and governance deficiencies. While commending both national and provincial government's recent pronouncements towards improving governance, Nombembe painted a general trend of stagnant results for both national and provincial departments, with fewer than a

quarter of those audited receiving clean audit opinions and 50 unable to maintain the clean reports they received in the previous year.

Out of the 536 audited entities, only 117 (22%) have received clean audit opinions. The majority of auditees are still experiencing challenges, with 297 (55%) receiving financially unqualified audit opinions with findings compared to 279 (53%) in the previous year. Seventy-four (14%) received qualified opinions, whilst an adverse opinion or disclaimer was expressed on 17 (3%) audits. Thirty-one (6%) of the audits are outstanding, mainly due to the non-submission of financial statements by the relevant entities.

2.10.1.17 Leadership must put concerted effort into implementing and monitoring audit recommendations

The AG said his office's assessment was that stagnation and regression occurred mainly where leadership did not set the right tone in leading change in their respective portfolios. Reflecting on the commitments made by government leadership and oversight structures after the previous year's report was shared with the national and provincial office bearers; Nombembe said he was pleased that there were now concerted government efforts aimed at addressing and implementing the audit recommendations that leadership had committed to. Nombembe said in response to the previous year's audit outcomes, there were encouraging undertakings and commitments by both the executive and legislative undertakings and commitments by both the executive and legislative arms of government to intensify their efforts to bring about positive change within the administration. However, the latest results indicated that many government leaders did not own and drive these commitments, thus leaving implementation of these undertakings to flounder until the next audit starts. Their assessment of the commitments indicates that they were not followed up sufficiently to monitor their implementation effectively through periodic review and monitoring of the status of key controls. It is evident that audit outcomes only improved in areas where the leadership adopted a hands-on approach to addressing shortcomings in their respective portfolios. Leadership in these portfolios personally took on the oversight role of their control environments and this led to a remarkable improvement in outcomes. The AG said governments

recent pronouncements on clean administration were pleasing, as they were an emphatic call to all public servants to take the drive towards overall clean administration seriously (Auditor-General; Audit outcomes 2011/12).

2.10.1.18 Government commits to implementing strict measures to ensure overall good governance in the public sector

During this year's addresses on the State of the Nation and Provinces, the national and provincial governments committed to accelerating the good governance drive in the public sector by implementing key control measures that will ensure clean administration. These are just some of government's recent key announcements aimed at bolstering the public sector's clean administration drive:

- Unpacking the workings of the mooted National Development Plan (NDP), Minister in the Presidency for National Planning Trevor Manuel said government will shortly put in place measures to re-skill and re-orientate public servants on the basics of key legislation such as the Public Service Act (PSA) and the Public Finance Management Act (PFMA). He also said government will be strict in ensuring that there are consequences for those public servants who fail to do the work that is required to improve public administration.
- Public Service and Administration Minister Lindiwe Sisulu announced that her department would soon introduce legislation that will prohibit public servants from doing business with government. She said there should be consequences for those civil servants who benefit from state contracts.
- During a parliamentary debate on his State of the Nation Address, President Jacob Zuma said government was concerned about the over-reliance on consultants to do what the state is supposed to do. He said this goes to the core of what the NDP says about creating capacity for the state to ensure that state machinery functions efficiently and effectively.
- In his Budget Speech, Finance Minister Pravin Gordhan said the state had given assurances that a chief procurement officer would be announced as part of combating corruption and aligning supply chain and procurement processes. Such central coordination would change the current situation where state procurement took place across too many localities, while there is very little visibility of all these transactions.

- Endorsing Minister Sisulu's call to curb public servants' doing business with government, Minister Gordhan said Treasury would align the Public Finance Management Act with the provisions of the Public Service Act to complement Minister Sisulu's efforts.
- Most premiers used their 2013 addresses on the State of the Province to announce remedial plans aimed at improving their internal governance systems; filling critical vacancies by recruiting suitably qualified officials; up-skilling their workforce; ensuring there were consequences for those who failed to perform to agreed standards or breached/transgressed laws that govern their business environments; and combating corruption.

Government moves to address some of the Auditor-General South Africa (AGSA) recently released a report calling on government to implement stricter controls to get the best value for money for services provided by external consultants to the public sector. Three years ago, through a special report, the AGSA also highlighted the conflict of interest when public servants, and at times their relatives, do business with government. Nombembe says he is pleased that government, through its recent pronouncements, is finally putting tangible measures in place to deal not only with these conflicts, but also with a number of administrative issues highlighted by his office at various intervals that would result in a great surge towards clean administration. He believe that government's recent pronouncements and other mooted measures, when implemented, will go a long way in instilling a sense of pride in those charged with the big responsibility of being the custodians of our public administration. Such commitment will have a direct and far-reaching positive impact on future audit outcomes. Those who achieve improved audit results have proven beyond doubt that this is possible. They ensured that all basic internal control systems for their respective portfolios were in place and rigorously monitored to avoid administrative relapses or governance regressions, said Nombembe.

2.10.1.19 Government also needs to factor in basic control measures flagged by the Auditor-General's office

In addition to government's intended good governance measures, the AG urged government leadership to factor in the basic internal control measures his office has constantly flagged as requirements for clean administration. To this effect, Nombembe said he was still concerned about the increase in the number of auditees (at 74%) that received poor audit results because they failed to comply with basic laws applicable to the running of their administration.

2.10.1.20 Performance reports show noticeable progress, but there is still room for improvement

The AG is pleased, however, with the continued improvement in the usefulness and reliability of the annual performance reports. Three hundred and three (60%) auditees do not have any material findings on the usefulness and reliability of their annual performance reports improving from 266 (54%) in the previous year. For the year under review, annual performance reports indicate that about 42% of auditees (102 departments and 112 public entities) achieved 80% or fewer of their planned service delivery targets, while the remaining 58% achieved more than 80% of their targets. The AG's general report also highlights risks to the financial health of national and provincial government flowing from poor budget management, cash and debtors management by departments and financial management by some public entities. These indicators reflect that the fiscus could be placed under further pressure if such risks are not addressed.

It is important that government should implement the recommendations in the AG's general report. The national Parliament and legislatures have embraced the report as a valuable strategic tool that will assist them in their task of evaluating or approving provincial and national government performance plans (Auditor-General South Africa, 12 March, 2013).

2.11 Audit Committee

The Companies Act 2008 has transformed the audit committee from being a committee of the board to a separate committee that is appointed by the shareholders. However, the audit committee still forms part of a unitary board even though it has specific statutory responsibilities over and above responsibilities assigned to it by the board. An audit committee must be

established by a public or state-owned company, and should be established by all other companies through incorporation in the Memorandum of Incorporation (King III Summary, Audit, Tax, and Advisory: 6).

In terms of section 51(1)(a)(ii) of the PFMA and Treasury Regulations 27 all schedule 3C and 3D public entities are required to have a functioning audit committee as part of internal control and corporate management. The King III also sets out the corporate governance requirements of audit committees. In order to carry out the mandate of the audit committee to the full extent, audit committees should be suitably qualified and skilled to deal with their responsibilities of reporting and coordinating the activities of the internal audit and external auditors.

All public entities have audit committees structures in place; however, the assessment of the effectiveness and efficiency of the audit committee has never been performed for all public entities and it is the intention of the Public Entities Unit (PEGU) to perform such a review. This review will also take into consideration the provisions of the PFMA, Treasury Regulations, King III report on Corporate Governance and the protocol on corporate governance. Provincial Treasury has representation of some of the public entities audit committees, and has attempted to provide inputs and guidance on a number of issues relating to public entity governance including the development of audit committee and internal audit charters (State of Governance of Eastern Cape, Provincial Public Entities, June, 2012).

The audit committee is vital to, among other things, ensure the integrity of integrated reporting and internal financial controls and identity and manage financial risks. In order to carry out their mandate to the full extent, audit committees should be suitably skilled and qualified to deal with their responsibilities of overseeing integrated reporting and coordinating the activities of the various assurance providers. Audit committees have been mandated in the public sector through the PFMA since 1999, and the MFMA since 2003. Treasury regulations issued in terms of the PFMA also give effect to provisions of the Act dealing with audit committees (King's Counsel 2010:29).

Each committee must ensure that systems of accounting and financial control are established and maintained to manage financial risk and that effective internal monitoring systems are in place so that the objectives of the organization are achieved without unacceptable risk. The committees must also ensure that laws, regulations, treasury instructions and policy statements are complied with and that appropriate procedures are in place to address any fraudulent or corrupt activities affecting the organization. The committees investigate any matters referred to it by the provincial Cabinet. In doing so, the committees must maintain free and open means of communication between the Auditor-General, Internal Audit and provincial management (Provincial Cabinet Resolution 274/2002: 68).

Section 3.1.9 of Treasury Regulations states that audit committee and the accounting officer must facilitate a risk assessment to determine the material risks to which the institution may be exposed and to evaluate the strategy for managing those risks. The strategy must be used to direct audit effort and priority, and to determine the skills required to manage these risks. Weaknesses in internal controls can cause many problems, including fraudulent activities, errors, and noncompliance with laws and regulations. An audit committee should understand an entity's internal controls and ensure that the five components of internal controls – control environment, risk assessment, control activities, information and communication and monitoring are present (The CPA Journal, August 2005).

Each committee must ensure that systems of accounting and financial control are established and maintained to manage financial risk and that effective internal monitoring systems are in place so that the objectives of the organization are achieved without unacceptable risk. The committees must also ensure that laws, regulations, treasury instructions and policy statements are complied with and that appropriate procedures are in place to address any fraudulent or corrupt activities affecting the organization. The committees investigate any matters referred to it by the provincial Cabinet. In doing so, the committees must maintain free and open means of communication between the Auditor-General, Internal Audit and provincial management (Provincial Cabinet Resolution 274/2002:68-69).

2.11.1 Objective of the audit committee

The objective of the audit committee is to assist management in carrying out its accountability responsibilities to safeguard assets, operate adequate systems and controls, and prepare annual financial statements. The audit committee can do this by: Improving communication and increasing contact, understanding and confidence between management and internal and external auditors, which may result in a more cost-effective external audit, to benefit both the organization and the auditors; scrutinizing the performance of internal and external auditors, thus increasing accountability; facilitating the imposition of discipline and control, thus reducing the opportunity for fraud and strengthening the objectivity and credibility of financial reporting.

The audit committee is expected to play a proactive role, and its members should have a sound understanding of the complexities involved, and a good understanding of the department and entity's activities. At least one member should have the necessary financial and auditing expertise to advise the committee in the execution of its duties and responsibilities. Members should rotate on a regular basis, to ensure a mix of experience and new members. Common sense and objectivity are essential criteria. The audit committee should meet before the annual external audit to consider its scope and approximate timing, as well as the audit fee. It should also meet on completion of the audit to review the audit and all significant matters arising from it, in addition to the performance of the auditors. The audit committee and the accounting officer must facilitate the risk assessment to determine the material risks to which the department may be exposed and to evaluate the strategy for managing those risks. The strategy must be used to direct audit effort and priority, and to determine the skills required for managing these risks.

The audit committee must report and make recommendations to the accounting officer, but the accounting officer retains responsibility for implementing such recommendation. The committee may communicate any concerns it deems necessary to the executive authority, the relevant treasury and the Auditor-General. The PFMA, and Guide for Accounting Officers (to the) Public Finance Management Act” provides more information about internal control systems (Induction Manual: Heads of Provincial Treasuries 2009:74-75).

2.11.1 Audit Committee Report for the year ended 31 March 2012

The Audit Committee is a committee of the Board and has discharged its responsibilities accordingly in terms of section 51 (1) a (ii) of the PFMA and 27.1.8 of the Treasury Regulations. The Audit Committee has formal terms of reference; has regulated its affairs in compliance with these terms of reference; and has discharged its responsibilities contained therein.

2.11.1.2 Effectiveness of internal control

Internal control provide a framework for financial management functions that includes internal controls, policies and procedures to ensure sound financial management; and serves to guide officials on how to perform their financial management responsibilities efficiently, effectively, economically and consistently (Treasury Regulations: 2 and 3.2).

During the year various reports of the internal auditors as well as the Audit Report on the Annual Financial Statements and Management Letter of the Auditor General indicated that the system of internal control has shortcomings. The Audit Committee has noted these and based on the outcome of such reviews and the information provided by management, the Audit Committee is of the opinion that the internal controls of the corporation operated effectively throughout the year under review (2012).

The risk management practices and mitigation are consistently being developed and improved upon within the corporation. A risk appetite and tolerance framework was recently developed and approved by the Board during 2011 and is being monitored on a quarterly basis. There are five risk areas namely financial, development, strategic, operational and compliance and information technology. Each area has a selection of key risk indicators with appetite, tolerance and avoidance levels. A process of enterprise-wide risk management was also implemented where risks were identified at operational levels and mitigation and management of these were reported. During the year the corporation adopted and approved various policies and procedures to strengthen the control environment of which also was the implementation of the various credit risk policies and processes.

2.11.1.3 Risk management

King III positions risk as a cornerstone of governance and risk governance is substantially different to the requirement to implement risk management. Greater emphasis is placed on the accountable leadership structure to ensure that it is satisfied with the management of risk. The PFMA clearly establish the responsibility for risk management to the accounting officer. The Risk Management Framework establishes the role of the risk management committee, with a mandate to make recommendations to the accounting officer on how to improve management of the institution's risks. Directors must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control. Directors should keep the Executive Authority informed of risk management strategies by outlining them in corporate plans and progress reports, and other reports when necessary. The Treasury, as a shareholder, is sensitive to commercial risk. In some circumstances, it may therefore choose to set limits on the activities of particular entity: for example on liabilities, financial exposures, use of derivative instruments, etc.

2.11.1.4 Monthly and quarterly performance information

The Audit Committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued by the corporation during the year under review.

2.11.1.5 External auditors

The Auditor-General acted as the external auditors throughout the year. The Audit Committee reviewed the external auditors' scope and work plan to ensure that key risk areas of the business were addressed during the audit process. Consolidated annual financial statements: The Audit Committee reviewed and discussed with the Auditor-General and the Accounting Authority the audited annual financial statements to be included in the annual report; reviewed the Auditor-General's audit report, the management letter and management responses thereto; and reviewed the significant adjustments resulting from the audit. The Auditor Committee concurs and accepts the conclusions of the Auditor-General on the annual financial and is of the opinion that the audited financial statement be accepted and read together with the report of the Auditor-General and the Directors' Report. The Audit Committee agrees that the adoption of the going concern premise is appropriate in preparing the consolidated annual financial statements (Chairman Audit Committee: 2012).

2.12 Directors' Report

The directors, as the accounting authority of the ECDC, presented their report and the audited consolidated annual financial statements for the year ended 31 March 2012. The corporation was established by the Eastern Cape Development Corporation Act, 1997 (Act No. 2 of 1997) (ECDC Act). It was listed in Schedule 3 D of the Public Finance Management Act, 1999 (Act No.1 of 1999) (the PFMA) as a Provincial Government Business Enterprise.

2.12.1 Nature of business

The corporation has the mandate of, among others, planning, financing, coordinating, marketing, promoting and implementing the development of the province and its people in the fields of industry, commerce, agriculture, transport and finance. The following corporate strategic architecture was implemented during the period under review as part of ECDC's strategic drive to transform itself into a development finance institution. ECDC was established to address prevailing socio-economic challenges and market failures within the Eastern Cape. An act of Parliament, ECDC Act 2 of 1997, legislates the creation of a corporation to be the vehicle to support the policy intervention. Therefore the purpose of ECDC is to be a development finance corporation for the promotion of economic growth in the Eastern Cape.

Its focus is on assisting enterprises (emerging and existing), investors (local and international) and government. Its customer value proposition is to offer business finance to emerging and existing enterprises; relevant market information and finance to local and international investors; act as an agency for implementation of government special projects and contribute to research and policy innovation. The underpinning corporate values are integrity, professionalism, accountability and teamwork.

Vision – to be an innovative leader for promoting sustainable economic growth and development of the Eastern Cape.

The corporate mission – its mission is to promote sustainable economic development in the Eastern Cape through focused: provision of innovative development finance; leveraging of resources, strategic alliances, investment and partnerships.

ECDC strategic goals:

- Stimulate economic activity through focused investment in vital sectors of the Eastern Cape economy; invest in intellectual leadership; optimize all resources so as to maximize investment returns and attain financial sustainability; build a strong brand; establish integrated partnerships with stakeholders to ensure maximum leverage of resources and development outcomes.

2.12.1.1 Director's responsibilities for the consolidated annual financial statements for the year ended 31 March 2012

In terms of the PFMA and the ECDC Act the Board of directors has the responsibility to maintain adequate accounting records and also responsible for the content and integrity of the annual financial statements and related financial information included in this report. The directors are further responsible to ensure that the consolidated annual financial statements fairly represent the state of affairs of the Corporation as at the end of the financial year, and the results of its operations and cash flows for the period then ended, in conformity with South African Statements of Generally Accepted Accounting Practice for Small and Medium -sized Entities.

The external auditors are engaged to express an independent opinion on the consolidated annual financial statements. The consolidated annual financial statements of the Corporation are prepared in accordance with South African Statements of Generally Accepted Accounting Practice for Small and Medium -sized Entities and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The directors place considerable importance on maintaining a strong control environment. To this end the directors set standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. These standards include proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. During the year under review such controls were monitored as far as reasonable possible throughout the Corporation and all employees are required to maintain high ethical standards in ensuring the Corporation's business is conducted in a manner that is above reproach in all reasonable circumstances. The risk management focus in the Corporation is on identifying, assessing, managing and monitoring all known forms of risk across the Corporation. While it is acknowledged that operating risk cannot be fully eliminated, the Corporation however endeavours to minimize it by ensuring that appropriate infrastructures, controls, systems and ethical behavior are applied within predetermined procedures and constraints. The directors are of the opinion that the system of internal control provides reasonable assurance that the financial records may be relied upon for the preparation of consolidated annual financial statements. Any system of internal control can, however. Provide only reasonable and not absolute, assurance against material misstatement or loss.

2.12.1.2 Directors and secretary

The details of the corporation's directors and secretary are reflected in the Corporate Governance section of this Annual Report. (Extracted from the ECDC Annual Report 2011/12:86).

The directors and sub-committee fees were paid as follows:

	FEES	FEES
	Sub-Committees	Board Meeting
Adv. O. Mabandla	90 000	125 000
Dr. S. Fikeni	107 500	72 500
Prof. S. Buthelezi	25 000	67 500
Mr P. Silinga	20 000	37 500
Mr J. Cerff – (Resigned 26/05/2011)	15 000	-
Ms N. Mlonzi – (Resigned 19/10/2011)	10 000	22 500
Ms Y. Tyantsi	62 500	60 000
Mr R. Nicholls	15 000	-
Mr J. Njeke	60 000	77 500
Ms N. Mteto	65 000	60 000
Prof. M. Mazibuko	105 000	77 500
Mr S. Somyo	30 000	60 000
Mr L. Jiya – (Appointed 19/10/2011)	22 500	30 000
Mr M. Rayi – (Appointed 19/10/2011)	15 000	30 000
Ms N. Magwentshu	<u>20 000</u>	<u>52 500</u>
	<u>662 500</u>	<u>700 000</u>

2.12.1.3 Audit outcomes

For the financial year under review, eleven of the twelve public entities in the province received unqualified audit outcomes. The only entity to receive a qualified audit outcome was Mayibuye Transport Corporation (MTC). The following are some of the transversal issues raised:

1. The internal audit function not being effective as some audit committees did not function in terms of the requirements of the PFMA as the terms of reference were not reviewed at least annually. In addition, some internal audit functions did not have an approved three year or annual internal audit plan.
2. Some entities did not perform a risk assessment prior to the start of the financial year, nor were the risks identified by management matched with appropriate internal control measures.
3. Some entities fraud prevention plan and risk assessment plans were both not implemented.
4. Non-compliance with laws and regulations regarding Supply Chain Management (SCM).

Through the representation of some audit committees, Provincial Treasury has attempted to provide inputs and guidance on many of these matters, with specific inputs on audit committee and internal audit charters; reviewing risk assessment matrixes for progress in implementation of risk plans and, reviewing fraud and risk plans, and assisting in their development where required with the support of the Risk Management Unit; reviewing SCM policies with the support of the SCMO. The support and assistance in this regard has been welcomed by both the entity and audit committees. (State of Governance of Eastern Cape, Provincial Public Entities, June 2012).

2.12.1.4 Surrender of surplus funds

In terms of section 53(3) of the PFMA, a 3C public entity may not budget for a deficit or accumulate surplus funds without the approval of National Treasury. The PFMA or Treasury Regulations, do not, however, explain how this surplus is defined. As a result, the Public Entities Unit developed an instruction note which would have provided a framework for the determination and surrender of surplus funds. The draft instruction note was forwarded to National Treasury for comment, but none were received. National Treasury was, however, in the process of developing their own instruction note on the matter, and therefore the issuing of Provincial Treasury's framework was put in abeyance. With regard to the financial year under review, no entities submitted a request for the retention of surplus funds for that year.

2.13 Memorandum of Agreement between the Department of Economic Development and Environmental Affairs (DEDEA) and Eastern Cape Development Corporation Act, 2 of 1997 (herein referred to as the ECDC).

The parties to this Agreement are the Eastern Cape Department of Economic Development and Environmental Affairs (referred to as the 'Department') and the Eastern Cape Development Corporation (ECDC).

2.13.1 Duration of the Agreement

Subject to the clause relating to breach, the duration of the contract shall be for a period of one year, renewable at the end of each financial year and shall be subject to either party terminating the agreement by giving six (6) months written notice of such termination. In the event that this agreement is terminated as aforementioned by the Department, the Department undertakes responsibility for any long term contractual obligations/agreements which ECDC may have entered into, in terms of this agreement and provided that these obligations were undertaken to support the objectives and core functions of the ECDC and fall within the approved budget.

2.13.1.1 Transfer of funds

The Department agrees, in terms of the agreement, to transfer on a monthly basis approved funds to ECDC for the 2011/12 financial year on a requisition basis and subject to cash flow analysis. The amounts as well as the release of funds to ECDC will be specified in writing and annexed to this agreement from time to time. Any transfer payments to ECDC shall be subject to budgetary allocations by Provincial Legislature, as well as approval from Provincial Treasury and the Department's responsible Programme Manager.

2.13.1.2 Purpose of funding

The funds with interest may only be appropriated and utilized for the purposes as set out in the budget and operational plans of ECDC, which has been approved by the Board of ECDC and submitted to the Department; or any alternative use as agreed to and approved by the Department from time to time. The draft ECDC budget for the year is annexed to this agreement and any

future funding to ECDC in terms of this agreement will be advanced subject to budget approval by the Department in which event the provisions will become applicable to such future funding. ECDC agrees and undertakes that the funds or any portion thereof may not be allocated or disbursed for any other purposes than specifically provided for in this agreement. Any amendment to this paragraph must be recorded in writing and signed and accepted by duly authorised representatives of ECDC and the Department.

2.14 Services and obligations of the ECDC

The ECDC undertakes to fulfil its functions in accordance with the strategic, annual performance and operational plan agreed to with the Department. In addition it undertakes to fulfil its functions in terms of Sections 3 and 4 of the Act. The main tasks of ECDC will be to facilitate and promote private sector development in the Province of the Eastern Cape through:

Business support; creating opportunities for capital investment and new business; contributing to sustenance and growth of markets; improving access to business finance and micro lending; supporting skills development for SMME; project development; property development and management.

In addition to the above the ECDC agrees to take possession of the funds transferred to it, and to invest such funds in an interest bearing account pending disbursement. Put in place appropriate financial controls as part of the payment authorisation process and to keep proper books of account. Submit quarterly progress reports and financial reports at the end of each quarter to the Department. Co-operate with any reasonable project evaluation or inspection that may be initiated and or commissioned by the Department only, provided that these evaluations and inspections shall not be conducted in any way which disrupts the efficient functioning of the ECDC. Ensure that the advanced funds are applied solely for the purpose for which they are envisaged under this agreement. The Head of Department or his delegate shall meet with the Chief Executive Officer quarterly or as and when requested by either party, to discuss managerial and financial matters and progress in terms of the strategic plan submitted by the ECDC. ECDC shall provide quarterly reports on progress it has made in terms of the strategic plan and any aspects within the ambit of the agreement as reasonably requested by the Head of Department. The Department shall provide the ECDC with a schedule of dates on which reports

need to be submitted and the prescribed format for reporting within 30 days from date of signature hereof.

Subject to the provisions of the Promotion of Access to Information Act of 2000 the Head of Department or her delegate shall on reasonable notice and at reasonable times be allowed access to ECDC documentation, equipment, premises, or any other relevant information which may be required in order to satisfy him/herself that services are duly provided in terms of this agreement. ECDC undertakes to submit to the office of the Executive Authority such information as may be reasonable requested and required for monitoring and evaluation purposes and to comply with the requirements of the Public Finance Management Act. ECDC undertakes to submit, within two (2) months after closing of its financial year, audited Annual Financial Statements; an annual report on the activities of the ECDC during the financial year. A report by its Board of Directors on the state of affairs, and the financial position of the ECDC and the degree in which its objectives have been attained together with such factors limiting the effective functioning of the Board. The Board's reports shall deal with the matters as prescribed in the PFMA (MOA DEDEA & ECDC 2011/12).

The Board's report shall also set out the functions and objectives of ECDC as determined by law or otherwise; state the extent to which ECDC has achieved its set of objectives for the financial year concerned; contain relevant performance information regarding the economic, efficient and effective application of resources; and indicate the amount of money, if any, received from the State and any other commitment furnished by the State. The Department shall advise the ECDC of any additional requirements if may have for reporting purposes within 30 days from date of signature hereof. To submit, within five (5) months of the closing of its respective financial year, an Auditor's report as required by Section 55 of the PFMA and an Auditor's report on the annual financial statement shall be prepared in respect of the ECDC by the auditors in terms of the PFMA. A report in terms of subsection (a) shall be addressed to the Department and shall state separately in respect of each of the following matters whether in the Auditor's opinion:-

- i. The annual financial statements fairly present the financial position and the results obtained by ECDC in accordance with generally accepted accounting practice applied on a basis consistent with that of the preceding year;

- ii. The information furnished in terms of Section 55 of the PFMA is fair in all material respects and, if applicable, on a basis consistent with that of the preceding year;
- iii. The transactions of ECDC that had come to the auditor's notice in the course of his examination were made in accordance with the applicable regulations and instructions; and
- iv. The transactions that had come to his attention during auditing were in all material respects in accordance with the mandatory functions of ECDC as determined by law or otherwise.
- v. The auditor shall report to the Department the results of any audit carried out.

The auditor shall draw attention to any other matters falling within the scope of the Auditor's examination which, in his opinion, should in the public interest be brought to the notice of the Legislature. The safeguarding and control of the assets of the ECDC; compliance with the PFMA or any other Act of Parliament governing the activities of ECDC; and the economical and efficient management of the resources of the ECDC and the effective performance of the functions of the ECDC. The Department reserves the right to amend or withdraw from this agreement and not make any further transfer payments in its sole discretion if the Treasury Instructions concerning Transfer Payments is altered and affects all Public Entities and is of general application to them, and subject further to the Department notifying the ECDC in advance prior to the amendment or withdrawal of the clause, by informing the Board in writing of the altered Treasury instruction and the altered requirements thereof. No further payments will be made until such time as the ECDC, formally in writing, accepts the altered requirements in such a case (Memorandum of Agreement between DEDEA & ECDC 2011/12).

2.14.1 Further conditions

ECDC shall submit an Annual Performance Plan and implementation plans on or before the end of February each year for the approval of the responsible Member of the Executive Council for the next financial year unless an application is brought under Section 52 of the PFMA. Transfer payments shall always be subject to the Legislature allocating budgeted amounts for the financial support of ECDC, Treasury approval and approval of the Budget Program Manager of the Department. The implementation plan shall contain measurable annual milestones. The strategic

program shall contain measurable annual milestones. Payment shall be made either quarterly or monthly subject to cash flow requirements of the ECDC and within the discretion of the Head of Department. The ECDC shall submit monthly cash flow and quarterly activity reports to the Head of Department for the processing of transfer payments, which payments shall be made directly into ECDC's account. A management structure shall set up between the Head of Department and Chief Executive Officer to convene prior to any engagement between the Shareholder and the Board of ECDC.

2.14.1.1 Breach

In the event of breach by either party, the party alleging the breach shall notify the other of this breach in writing and call on such party to remedy this breach within 14 days from date of official receipt of a notice to this effect. Should either party fail to remedy any alleged breach within 14 days shall be deemed to be a dispute. In the event of breach by the department reserves the right to withhold transfer payments to the ECDC and shall fulfil all the financial commitments of the ECDC until such time that transfer payments are made to the ECDC.

2.14.1.2 Mutual Support

The parties hereto undertake to support each other in achieving the strategic objectives of the ECDC and the Department and shall in securing this support provide each other. Share as much information as is possible as may be requested and reasonable required. Convene meetings between the Head of Department and the Chief Executive Officer to address specific operational challenges faced by the ECDC and the Department.

Convene meetings between the MEC and the Chairperson of the Board on a quarterly basis to address specific strategic challenges faced by the Board and MEC's office. Endeavour to process all MEC and Executive Council approvals within 30 days from date of submission of a request for approval. This agreement constitutes the entire agreement between the Parties (Memorandum of Agreement; DEDEA & ECDC 2011/12).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The word methodology comes from the word method, which refers to procedures or ways of doing things in an orderly manner. Mahlase (2000:1) suggested that method is a way followed by a scientific inquiry in order to reach a valid and reliable conclusion. It explains and gains insight into understanding intensive collection of narrative data. In the study in question, there are certain procedures to follow, i.e. indicate that any academic subject requires a methodology to reach its conclusions. It must have ways of producing and analyzing data so that theories can be tested, accepted or rejected. Mouton (1993:380) argues that the methodological dimension refers to “the knowledge of how” or knows how to do things or the total set of “means” those scientists employ in reaching their goal of valid knowledge. The researcher applied both quantitative and qualitative approaches in order to ensure reliability and validity of the research findings.

The objectives of the study as indicated in chapter one is to assess the role of Eastern Cape Provincial Treasury in enforcing compliance with Public Finance Management Act for public entities. To achieve the main objective of the study, the secondary objectives of the study were to: Firstly assess the roles and responsibilities of all key stakeholders in the oversight and governance of provincial public entities; secondly assess the compliance of PFMA by the public entities in the province; thirdly have a closer look at the Eastern Cape Provincial Treasury support strategies in enforcing compliance of PFMA in improving financial management within the framework of legislation including, inter alia, the Constitution, PFMA, Treasury Regulations and the King Code of Governance for South Africa 2009 (King III) and lastly assess the challenges encountered by the Eastern Cape Provincial Treasury with public entities that contributes to the inefficiency as they are not complying fully with the Act.

3.2 Defining Mixed Methods Research Design

Cresswell (2008) defines mixed methods research design as the procedure for collecting, analyzing, and “mixing” both quantitative and qualitative research and methods in a single study to understand a research problem. It involves philosophical assumptions, and the mixing of qualitative and quantitative approaches in tandem so that the overall strength of a study is greater than either qualitative or quantitative methods. (Barbour, 1998); mixing may also occur across different disciplinary traditions, for example, in social history, or when scientists engage in social research to evaluate the impact of their work. It becomes necessary, therefore, to clarify just what is being mixed – and how it is being mixed. The “mixing” may be nothing more than a side-by-side or sequential use of different methods, or it may be that different methods are being fully integrated in a single analysis (Caracelli & Greene, 1997).

This study is using a mixed methods design, which is a relatively new approach to research, it has been defined as “a research in which the investigator collects and analyzes data, integrates the findings, and draws inferences using program of inquiry” (Tashakkori & Creswell, 2007:4). It is a procedure for collecting, analyzing and mixing both quantitative and qualitative data at some stage of the research process within a single study, to understand a research problem more completely. A mixed method design can be described as a kind of research in which a researcher combines quantitative and qualitative research techniques, methods, approaches, concepts, or language into a single study (Johnson & Onwuegbuzie, 2004:17).

As such, in order to conduct a mixed methods research, there is a need to collect, analyse, and interpret quantitative and qualitative data in one study, or a number of studies, where an investigation of the same phenomenon is under consideration. Johnson and Onwuegbuzie (2004), further noted that the logic of inquiry encompasses the use of “induction (or discovery of patterns), deduction (testing of theories and hypotheses), and abduction (uncovering and relying on the best of a set of explanations for understanding one’s results)”. A mixed method approach, therefore, presents a logical and intuitive appeal hence provides a platform for bridging the divide between qualitative and quantitative paradigms. This attribute, consequently, makes an increasing number of researchers to utilize mixed method designs in undertaking their studies (Onwuegbuzie & Leech, 2005). As already pointed out, a mixed method design combines the strength of both quantitative and qualitative research approached. On their own though,

quantitative and qualitative methods have some strengths, but more benefits are realized when they are brought together. The goal of mixed methods research is to draw on the strengths and minimize the weaknesses of both types of research (Connely 2009:31).

Fundamentally, it is important that the researcher be able to choose a research design that would better address the research questions posed. And, if the realization is that mixing methods is the right choice, then there should be no restrictions as to the use of research instruments, which draw on the desirable attributes of different research designs. Connely (2009) also asserts that: a mixed method design is better since it is based on a pragmatic philosophy that states that a researcher ought to use an approach or combination of approaches, which would appropriately address research questions. Quantitative research, often, improves on the validity of research instruments as well as the provision of a numerical dimension to analysis when addressing phenomena. In addition, quantitative studies can simplify human experience, statistically, making the analysis of research findings easier. Qualitative studies, on the other hand, take into account the lived experiences hence enabling contextualization of the analysis of phenomena and, they allow for an in-depth understanding of phenomenon since they are often structures to collect data over an extended period of time.

Some research assignments are not definite in terms of prescribing whether a quantitative or a qualitative approach is required since the study might require desirable attributes from both approaches. This could, therefore, provide a reason for employing a mixed method approach in order to harness the power of both methods. However, Yin (2006) argues that mixed method research does not, necessarily, have to combine quantitative and qualitative approaches all the time. That is, there is a possibility of having a mixed method approach even in a case where two quantitative approaches have been exclusively used. The author goes on to give an example of a study combining experimentation and surveys, which are both quantitative in design. He indicates that mixing them helps in enhancing internal and external validity, than either method used on its own. Equally, it is possible to mix a qualitative approach with another qualitative approach. Yin (2006) also indicates that depending on the objective, many distinct designs are a reality under a mixed method study. The author also posits that various types of mixed methods designs are possible, depending on the importance accorded the qualitative and quantitative portions.

Mixed methods also enable researchers to address a wide and a more defined range of research questions since they are not confined to one approach. And, as already pointed earlier, (Yin 2006), a researcher can use one method to overcome weaknesses in another method and hence have stronger evidence for a conclusion. Using both qualitative and quantitative data in a study can, therefore, produce a more comprehensive understanding required to inform decision making. This, therefore, means that the researcher collected the data that occurs sequentially. In the sequential approach, the quantitative (or qualitative) data is collected first, and the results inform the second (quantitative or qualitative) form of data collection.

Furthermore, (Rocco, et. al., 2003), states that a mixed method approach might be used for purposes of achieving triangulation, complementarity, development, initiation and expansion. Triangulation is necessary in order to increase a study's validity and interpretability by effectively managing overlapping, but different aspects of a phenomenon. Development, on the other hand, uses results from one method to develop the other method. To add depth and breadth to inquiry mixed methods uses initiation to deal with inconsistent results from qualitative and quantitative research findings. And, to extend the scope of the study an expansion approach comes in handy. Above all, a mixed approach enriches studies in the sense that it promotes clarity, accuracy and nuancy. In the final analysis, the underlying assumption is that: research is more robust when it combines research paradigms in order to promote a fuller comprehension of human phenomena. Last but not least, dialectical researchers posit that it is more ethical to mix methods so that plurality of interests, voices, and perspectives could be represented (Rocco, et.al, 2003).

According to Cresswell (2002) when used in combination, quantitative and qualitative methods complement each other and allow for more complete analysis. Mixed methods research therefore is designed to utilize the strengths of two approaches to research, the gathering and analyzing both qualitative and quantitative data by combining them in one study. While designing a mixed methods study, three issues need consideration: priority, implementation, and integration (Creswell, J.W. et al., 2003:209-240).

Priority refers to which method, either quantitative or qualitative, is given more emphasis in the study. Implementation refers to whether the quantitative and qualitative data collection and

analysis comes in sequence or in chronological stages, one following another, or in parallel or concurrently. Integration refers to the phase in the research process where the mixing or connecting of quantitative and qualitative data occurs.

The mixed methods approach to research provides a number of challenges for the researcher. These include the need to analyze both sets of data and the researcher need to be familiar with quantitative and qualitative research. A concurrent embedded strategy of mixed methods use one primary method of data collection that guides the project and a secondary set of data that provides a supporting role in the data gathering. Hence, one type of data is embedded in the other, and both types of data are collected simultaneously. In a mixed methods approach, the researcher build the knowledge of pragmatic grounds asserting truth “what works” and chooses approaches, as well as variables and units of analysis, which are most appropriate for finding an answer to the research question (Howe, K.R. 1998: 17,10-16). Thus, both numerical and text data, collected sequentially or concurrently, can help better understand the research problem (Tashakkori & Teddlie 1998: 209-240). The key characteristics of mixed methods designs: Rationale – is to test findings of first phase, explain results of first phase in more detail, provide a more complete understanding than either quantitative or qualitative alone, collecting both quantitative and qualitative data- numeric data and text data.

Figure 3.3: Mixed methods legend

Mixed Methods Legend	
Notation	Defined
QUAN	Quantitatively driven study
QUAL	Qualitatively driven study
quan	Quantitative data is secondary to qualitative data
qual	Qualitative data is secondary to quantitative data
+	Indicates that quantitative and qualitative data are collected concurrently.
→	Indicates that quantitative and qualitative data are collected sequentially.

3.4 Population and Sample

Population is a term that sets boundaries on the study units. Bless and Higson-Smith (1995:87) defines a target population as a set of elements that the researcher focuses upon and to which results obtained by testing the sample should be generalized. Polit and Hungler (1995:43) define population as the totality of all subjects that conform to a set of specifications. Population, on the other hand, is a term that sets boundaries on the study units. Babbie (2004:110) writes that a target population is that group, usually people, from which the researchers require to draw conclusions. In other words, it is that entire group of items or cases about which you want to

gather data. The target population for the study was 395 employees and number of sampling was 15.

Sampling is the process of selecting “a portion, piece, or segment that is representative of a whole” (The American Heritage College Dictionary, 1993:1206), is an important step in the research process because it helps to inform the quality of inferences made by the researcher that stem from the underlying findings. According to Spector (1981:2), a sample is a “subgroup of the total population, specifically those individuals chosen from the population that will be involved in an experiment or are to be respondents in a survey”. Struwing and Stead (2003:109) note that obtaining information from a sample is often more practical and accurate than obtaining the same information from an entire universe or population. The choice of sampling design helps to determine the extent to which researchers can generalize their findings and make what Tashakkori and Teddlie (2003c:687) refer to as “meta-inferences;” namely the integration of generalizable inferences that are derived on the basis of findings stemming from the qualitative and qualitative components of a mixed methods study.

Careful sampling have been done in this study for the following reasons: Sampling enables the researcher to study a relatively small section of the population and still be able to gather data representative of the whole. It was feasible to use a sample because a complete coverage of the total population was seldom possible and members of the population cannot be reached all. The sample used in this study included the employees occupying the following positions: Portfolio members from the Legislature, the Auditor-General, Chairperson of the Board and its Directors acting in the best interest of public entity, Audit Committee members, Chief Executive Officer, Executive Manager, Assistant Financial Officer from public entity, Accounting Officer from the department, Deputy Director General and Director for financial management and Internal Auditors.

For the purpose of the first, quantitative phase of the study the random sampling (Dillman, 2000) was selected; for the purpose of the second phase, qualitative phase of the study, the purposeful sample was used. The idea was to purposefully select informants, who were best answering the research questions and who were information rich (Patton 1990:169).

Due to the nature of the sequential design of the study, the selection of the participants for the second, qualitative phase were depended on the results from the first, quantitative phase. The sample size was enough for statistical procedures to be used that made it possible for the researcher to draw inferences with some confidence that the sample reflected the characteristics of the population.

3.5 Defining Quantitative and Qualitative

When thinking mixed methods, most social scientists think in terms of some combination of quantitative and qualitative approaches to research, and these kinds of combinations are the focus of this study. Quantitative and qualitative approaches are distinguished on the basis of the type of data used (numeric or textual; structured or unstructured), the logic employed (inductive or deductive), the type of investigation (exploratory or confirmatory), the method of analysis (interpretive or statistical), the approach to explanation (variance theory or process theory), and for some, on the basis of the presumed underlying paradigm (positivist or interpretive/critical; rationalistic or naturalistic). Perhaps our inability to clearly specify what all of us have a general sense of is indicative of the lack of a clear distinction- that what we are talking about is a continuum with a number of independent dimensions along which any particular research may be placed. If one uses numbers, interpretation is still involved. If one's data are texts, counting may still be appropriate. Variables do not necessarily have clear-cut meanings; processes can be revealed through numeric analysis as well as through narrative. This inability to definitively distinguish one approach from another has implications for the acceptability of mixing methods in that "lines of conflict" cannot be clearly drawn. Because there is no necessary congruence between the different dimensions of the quantitative qualitative distinction, the terms themselves are most useful either for giving a sense of overall direction in a study (use of the term approaches), or simply as descriptors of the type of data being used (numeric or textual).

3.6 Quantitative Research Method

Quantitative research is a research that generally collecting numerical data that can be subjected to numerical analysis. This approach reduces the data into numbers. According to Bless and Higson (2002:86) quantitative research method uses quantifying data to record aspects of

society. It makes collected data to be reduced to some numerical representation of what is being measured. Babbie and Mouton (2001:49) points out that the best way to measure the properties of phenomena is through quantitative measurement, which is by assigning numbers to the perceived qualities of things. In this quantitative approach the researcher utilized questionnaire in which closed ended questions were computed and graphically analyzed. In quantitative research, the intent of sampling individuals is to choose individuals that are representative of a population so that the results can be generalized to a population. In this way, the investigator first selected their population and defined it carefully. Then random choice of individuals for the sample was attempted so that each person in the population had an equal chance of being selected.

According to (Cresswell 2012); quantitative research is a type of educational research in which the research decides what to study; asks specific, narrow questions, collects quantifiable data from participants; analyzes these numbers using statistics; and conducts the inquiry in an unbiased, objective manner.

3.7 Qualitative Research Method

The study also used the qualitative approach since there some kinds of information or data that cannot be quantified, but expressed only by words to describe social phenomenon. Lewis, Taylor, and Gibbs (2005) write that qualitative data is the information gathered in a non-numeric form. It is a way of collecting information on the knowledge, values, feelings, attitudes, beliefs and behaviours of the target population. It is a type of educational research in which the researcher relies on the views of participants; asks broad, general questions; collects data consisting largely of words (or text) from participants; describes and analyzes these words for themes; and conducts the inquiry in a subjective, biased manner. It generally involves listening to the participants' voice and subjecting the data to analytic induction (e.g., finding common themes). The research method is of a qualitative nature it has the ability to interpret or understand human and organizational behaviour (Welman,et.al., 2005:6) because of its suitability to attend to the holistic nature of knowledge building and to produce knowledge through an ongoing interplay between theory and methods, researcher and researched (Hesse-Biber, 2006: 5). It is more exploratory in nature. The qualitative method of research is like working through a qualitative window into knowledge construction and is aimed at gaining complex knowledge directly from people with certain attributes or life experiences (Hesse-Biber & Leavy, 2006:4).

The number of observations is limited compared to quantitative research, and concern the analysis of words rather than numbers (Gerring, 2007:216). Qualitative research is a descriptive form of research useful in describing, amongst others, institutions (Welman, 2005:188 and 193) and is therefore well suited to describing the what, why and how of the Eastern Cape Provincial Treasury institution. Finally, the qualitative method is often associated with case studies (Gerring, 2007:10) and therefore is suitable to the approach adopted for this research. Alternatively, qualitative research is “an inquiry process of understanding” where the research develops a “complex, holistic picture, analyzes words, reports detailed views of informants, and conducts the study in a natural setting (Cresswell, 1998:15). In the qualitative research, data is collected from those immersed in everyday life of the setting in which the study is framed.

In qualitative research the inquirer purposefully selected individuals and sites that have provided the necessary information. Purposeful sampling means that researchers intentionally select participants who have experience with the central phenomenon. The central idea was that if participants were purposefully chosen to be different in the first place, then their views will reflect this difference. In terms of numbers, rather than selecting a large number of people or sites, the qualitative researcher identified a small number that provided in-depth information about each person. The larger the number of people, the less the amount of detail typically emerging from any one individual and a key idea of qualitative research was to provide detailed views of individuals and the specific contexts in which they hold these views (Cresswell, J.W. 1988).

3.8 Research instrument

The main research instruments used was the semi-structured in-depth interviews. It was anticipated that important new and relevant questions could arise during earlier interviews and such questions, according to Baily, could be asked of all subsequent interviewees (2007:103). The need for flexibility in qualitative research interviewing was taken note of and sometime(s) questions in the interview (were) dropped on the basis of ongoing analysis and information received from earlier interviewees (Baily, 2007:103). Care was then taken to ensure a high level of correspondence between the research questions and the questions in the interview guide so that the questions might “elicit enough useful information” for answering the research questions (Baily, 2007:104).

3.9 Recording the Data

For qualitative data collection, forms for recording the information have been developed. In the case of interview that was collected, the interview protocol has been considered. The researcher used audiotapes for qualitative interviews and later transcribed the interviews. Having an interview protocol helped by keeping the researcher organized and it provides a record of information in the event that the recording devices do not work. An observational protocol provides a useful way of organizing an observation. In quantitative research, the investigator developed an instrument to use. The instrument that was used was an attitudinal scale which shows high reliability and validity. For documents with numeric data, the researcher often composed a form that summarizes the data. In choosing an instrument, the researcher was concerned about the validity and reliability, whether the questions fit the research questions in the study and adequate scale was used to report the information.

3.10 Data collection in Mixed Methods Designs

According to Cresswell (2008), to use mixed methods designs is when both quantitative and qualitative data, together, provide a better understanding of the research problem than either type by itself. Mixed methods research is the type of research in which a researcher combines elements of qualitative and quantitative approaches (e.g., use of qualitative and quantitative viewpoints, data collection, analysis, inference techniques) for the purpose of breadth and depth of understanding and corroboration. It is essential to have the general procedures of collecting data in qualitative and quantitative research because mixed methods research involves collecting both forms of data. Qualitative (QUAL) component and Quantitative (QUAN) component are often referred to as strands.

The researcher has selected the mixed method study as it provide a basis for triangulation but, more often, it become the source of different ways of conceptualizing the problem. It set out to look at the same things from different points of view, but it often turns out that the viewpoint implies such different ways of seeing that the lines of sight do not converge.

3.10. 1 Phase 1 Quantitative

Sequential data involves different procedures than concurrent data collection. Several guidelines apply to the sequential approach to data collection. It involves collecting the data in stages: One

data collection is followed by a second collection. These procedures are included in the Explanatory and the Exploratory Designs, as well as the sequential forms of the Embedded Design. In this type of data collection, the quantitative and qualitative data collections are related to each other and not independent. One builds on the other. The first data collection, quantitative, has been weighted more heavily; this means it is a top priority data collection.

Survey Polit and Hungler (1991:189) defined the survey as designating any research activity in which data is obtained from a specific population for the purpose of examining characteristics, opinions or intentions of that population. According to Polit and Hungler (1991:193), the advantages of using the survey method is that it is flexible, is useful for the discovery of new insights as well as for pointing out typical responses, can be applied to many people, and provides data about the present and what people are thinking, doing and anticipating. The views, opinions and responses obtained from the participants or respondents in this study are generalized with the percept of evaluating compliance of the PFMA as a tool or instrument to promote sound financial management by the public entities.

It is essential to know the general procedures of collecting data in quantitative and qualitative research because mixed methods research involves collecting both forms of data. The data collection procedures differ depending on the type of mixed methods design. A helpful way to conceptualize data collection among the designs is to consider data collection as occurring concurrently or sequentially. In concurrent data collection, the quantitative and qualitative data are collected at roughly the same time (as in the Triangulation and Embedded Designs).

In the sequential approach, the quantitative (or qualitative) data is collected first, and the results inform the second (quantitative or qualitative) form of data collection as in the Explanatory, Exploratory, and Embedded Designs). The researcher identified sequentially data collection approach. When data are collected concurrently, the two forms (quantitative and qualitative) of data are independent of each other; when collected sequentially, the two forms of data are related or connected. In the concurrent approaches, both forms of data collection can be described at the outset; in the sequential forms, only the initial phase of data collection can be identified with any certainty.

In the first phase, the primary technique for collecting the data and analysis of quantitative (for the Explanatory Design) was a self-developed questionnaire, containing answers like “Yes” and “No”, and open-ended questions, using on line survey to elicit responses from the participants, measured on the Likert-type. The first section of the survey asks questions related to the role played by Provincial Treasury in enforcing compliance with PFMA for public entities. Quantitative data includes closed-ended information that found on attitude, behavior, or performance instruments. The survey instrument had pilot tested. The goal for using a survey is to generalize from randomly selected sample of fifteen participants out of the sample size of 395 staff and employees of the Eastern Cape Provincial Treasury Department in order to validate the instrument and to test its reliability. As noted by Onwuegbuzie and Leech (2005b), random sampling tends to be associated with quantitative research, whereas non-random sampling typically is linked to qualitative research. Authors have identified factors that determine the format of surveys and interviews, they recommend that the survey contain “properly phrased and administered questions” (Berdie et al.; 1986:3). According to Creswell (2009) suggests the rapid turnaround that can be part of a survey is one advantage of using this method to collect data, in addition to the convenience and the ability to enlist participants who are wide-spread. He also suggests that survey results enable the researcher to make generalizations about the population that was sampled. Surveys has been chosen by the investigator, it provide a high level of general capability in representing a large population. Due to the usual huge number of people who answers survey, the data being gathered possess a better description of the relative characteristics of the general population involved in the study. The challenge of the survey is that when it was used by the researcher from the very beginning, as well as the method of administering it, cannot be changed all throughout the process of data gathering. Although this inflexibility can be viewed as a weakness of the survey method, this can also be a strength considering the fact that preciseness and fairness can both be exercised in the study.

3.10.2 Phase II Qualitative data

The second, qualitative phase in the study has focused on explaining the results of the statistical tests, obtained on the first, quantitative phase. Qualitative data consists of open-ended information that the researcher conducted through in-depth semi-structured interviews with participants. The open-ended questions asked during interviews allowed the participants to supply answers in their own words. For the purpose of the second, qualitative phase of the study,

the purposeful sample has been used. The idea was to purposefully select informants, who were best answering the research questions and who are information rich (Patton 1990:169). Due to the nature of the sequential design of this study, the selection of the participants for the second, qualitative phase has depended on the results from the first, quantitative phase. Grounded theory has been used for collecting and analyzing the quantitative and qualitative data.

3.11 Strengths and Weaknesses of Mixed Method

3.11.1 Strengths

Words, pictures, and narrative can be used to add meaning to numbers._ Numbers can be used to add precision to words, pictures, and narrative; can provide quantitative and qualitative research strengths. Researcher can generate and test a grounded theory; can answer a broader and more complete range of research questions because the researcher is not confined to a single method or approach. The specific mixed research designs discussed in this chapter have specific strengths and weaknesses that should be considered (e.g., in a two-phase sequential design, the phase one results can be used to develop and inform the purpose and design of the phase two component). A researcher can use the strengths of an additional method to overcome the weaknesses in another method by using both in a research study (this is the principle of complementarity). It provides stronger evidence for a conclusion through convergence and corroboration of findings (this is the principle of triangulation). It add insights and understanding that might be missed when only a single method is used and can also be used to increase the generalizability of the results. Qualitative and quantitative research used together produces more complete knowledge necessary to inform theory and practice.

3.11.2 Weaknesses

It can be difficult for a single researcher to carry out both qualitative and quantitative research, especially if two or more approaches are expected to be done concurrently (i.e., it might require a research team). The researcher has to learn about multiple methods and approaches and understand how to appropriately mix them. Methodological purists contend that one should always work within either a qualitative or a quantitative paradigm. It is more expensive. It is more time consuming. Some of the details of mixed research remain to be fully worked out by

research methodologists (e.g., problems of paradigm mixing, how to qualitatively analyse quantitative data, how to interpret conflicting results).

3.12 Comparing Qualitative, Quantitative, and Mixed methods research

Gaining an understanding of the strengths and weaknesses of quantitative and qualitative research puts a researcher in a position to mix or combine strategies and to use what Johnson and Turner (2003:297-319) call the fundamental principle of mixed research. According to this principle, researchers should collect multiple data using different strategies, approaches, and methods in such a way that the resulting mixture or combination is likely to result in complementary strengths and non-overlapping weaknesses. Effective use of this principle is a major source of justification for mixed methods research because the product will be superior to mono-method studies. For example, adding qualitative interviews to experiments as a manipulation check and perhaps as a way to discuss directly the issues under investigation and tap into participants' perspectives and meanings will help avoid some potential problems with the experimental method.

As another example, in a qualitative research study the researcher might want to qualitatively observe and interview, but supplement this with a closed-ended instrument to systematically measure certain factors considered important in the relevant research literature. Both of these examples could be improved by adding a component that surveys a randomly selected sample from the population of interest to improve generalizability. If findings are corroborated across different approaches then greater confidence can be held in the singular conclusion; if the findings conflict then the researcher have greater knowledge and can modify interpretations and conclusions accordingly.

In findings are corroborated across different approaches then greater confidence can be held in the singular conclusion; if the findings conflict then the researcher has greater knowledge and can modify interpretations and conclusions accordingly. In many cases the goal of mixing is not search for corroboration but rather to expand one's understanding (Onwuegbuzie & Leech, 2004b).

3.13 Mixing the Data

By mixing the datasets, the researcher provided a better understanding of the problem than if either dataset had been used alone. It is not enough to simply collect and analyze quantitative and qualitative data; they need to be “mixed” in some way so that together they form a more complete picture of the problem than they do when standing alone.

3.13.1 The value that mixed methods research adds: Quantitative or Qualitative approaches

Mixed methods research provides strengths that offset the weakness of both quantitative and qualitative research. The argument goes that quantitative research is weak in understanding the context or setting in which people talk. Also, the voices of participants are not directly heard in quantitative research. Further, quantitative researchers are in the background, and their own personal biases and interpretations are seldom. Qualitative research makes up for these weaknesses. On the other hand, qualitative research is seen as deficient because of the personal interpretations made by the researcher, the ensuing bias created by this, and the difficulty in generalizing findings to a large group because of the limited number of participants studied. Quantitative research, detail the elements of both quantitative and qualitative research, but, clearly, the combination of both approaches can offset the weaknesses of either approach used by itself.

Mixed methods research provides more comprehensive evidence for studying a research problem than either quantitative or qualitative research alone. Researchers are given permission to use all of the tools of data collection available than being restricted to the types of data collection typically associated with qualitative research or quantitative research. Mixed methods research helps answer questions that cannot be answered by qualitative or quantitative approaches alone.

A mixed method encourages researchers to collaborate across the sometimes adversarial relationship between quantitative and qualitative researchers. Dividing between quantitative and qualitative only serves to narrow the approaches and collaboration to inquiry. Mixed methods research encourages the use of multiple worldviews or paradigms rather than the typical association of certain paradigms of quantitative researchers and others for qualitative researchers.

It also encourages thinking about a paradigm that might encompass all of quantitative and qualitative research, such as pragmatism, or using multiple paradigms in research. Mixed methods research is “practical” in the sense that the researcher is free to use all methods possible to address a research problem. It is also “practical” because individuals tend to solve problems using both numbers and words, they combine inductive and deductive thinking, and they employ skills in observing people as well as recording behavior. It is natural, then for individuals to employ mixed methods research as the preferred mode of understanding the world.

Despite its value, conducting mixed methods research is not easy. It takes time and resources to collect and analyze both quantitative and qualitative data. It complicates the procedures of research and requires clear presentation if the reader is going to be able to sort out the different procedures. Further, investigators are often trained in only one form of inquiry (quantitative or qualitative), and mixed methods requires that they know both forms of data (Creswell, J.W. 1994: 12).

3.14 Research Permission and Ethical Considerations

The permission for conducting the research has been obtained from the Provincial Treasury, Head of the department (HoD). Ethical guidelines serve as standards and as basis on which the researcher ought to evaluate his/her own conduct. Ethics in research means an investigator has a moral obligation to protect the participants from harm, unnecessary invasion of their privacy, and the promotion of their well-being. Bak (2004:28) explains that any research that involves people must show an awareness of the ethical awareness considerations and an agreement to conduct the research in accordance with ethical procedures

In qualitative research, procedures has been stated in detail, because the research often involves asking personal questions and collecting data in places where individuals live or work. In quantitative research, individuals have provided the researcher with permission to complete instruments. Ethical issues apply to both quantitative and qualitative research. Administering the data collection in quantitative research involves attending to these ethical issues. The procedures of data collection need to be administered with as little variation as possible so that bias is not introduced into the process. Standardized procedures should exist for collecting data on instruments, on checklists, and from public documents. Ethical issues have been addressed at

each phase in the study. The following standards have been applied in order to help protect the privacy of research participants:

- (a) **Confidentiality**- identifying information has not been made available to anyone who was not directly involved. Respondents have been assured of confidentiality in the treatment of information. Confidentiality is extremely important; the researcher has protected the privacy of the subject and respondents have been assured that research has been carried out in a professional and ethical manner. Because if the subject identities are exposed, it could cause harm the lives of the respondents.
- (b) **Anonymity** – the researcher has made sure that the information provided by respondents has been kept anonymous the source of information that has been collected as the anonymity standard is a stronger guarantee of privacy.
- (c) **Informed consent** – ensures that each participant has a complete understanding of the purpose and methods use in the study, the risks involved, and the demands of the study. According to Kumar (2005:212) in every discipline it is considered unethical to collect information without the knowledge of participants and their expressed willingness and informed consent. The authorities and respondents involved have been clearly and fully informed about the study and how the intended data has been collected. An explanation has been provided on what the information has been used for and how it will be handled. The researcher obtained the informed consent from the authorities within the Eastern Cape Provincial Treasury.
- (d) **Voluntary participation** – (not to be forced). According to De Vos et al (2005:59) nobody should be forced into participating in a research project because participation should always be voluntary.
- (e) **Avoidance from harm** – the responsibility for protecting the respondents against harm reaches further than mere efforts to repair or minimize such harm afterwards. According to De Vos et al (2005:56) subjects can be harmed in a physical or emotional manner. In

this study harm has been minimized by avoiding the violation of the rights to which every respondent has entitled.

All study data was kept locked in metal file cabinets in the researcher's office and will be destroyed after a reasonable period of time.

3.15 Data Analysis

Before the statistical analysis of the quantitative survey results, the screening of the data was conducted. Data screening help to identify potential multicollinearity in the data, because multivariate tests are sensitive to extremely high correlations among predictor variables. A data analysis is a process of interpreting and making sense of what respondents would have said about the topic under investigation. Data analysis is also the process of bringing order, structure and meaning to the mass of collected data. Mouton (1996:108) describes data analysis as involving 'breaking up' the data into manageable themes, patterns, trends and relationships. In this study both quantitative and qualitative data analysis methods were used. Content analysis was used to analyze the data. Denzin and Lincoln (2000:15) explain that content analysis allows for thick description in the analysis of data. This can be facilitating through thematic organization. The themes then ground the arguments presented in the discussion. Hence, De Vos et al (2005:218) point out that the relations of research problems can be studied tested and conclusions drawn. The data collected was coded and categorized in order to see their patterns and interrelatedness. This allowed for a comprehensive analysis, interpretation and discussion of collected data.

Without computerization, the researcher's capacity to integrate different data types in an analysis is limited. Statistical data have been analysed by the researcher using a computer, "in-depth" text data have been analysed without. Sources of data were used: in-depth interviews and secondary documentary sources. The transcripts of the interviews were typed out by the researcher herself so that she would be able to note subtle aspects such as pauses or hesitation in answering certain questions. The notes made by the researcher were typed out so that as much detail as possible of the meeting could be captured. The data sets were then reviewed in order to identify themes relevant to the research questions. Data display formats are always driven by explorative research questions or the development of concepts which are often in the form of codes. This was done mainly by word analyses, i.e. identifying words that were used repeatedly, or key

words in the context of the research topic and by coding. Through the process, the themes, words and codes were identified.

Another step was taken by comparing the sets of findings with one another in order to determine the degree to which the findings coincided. The analysis of data enabled the researcher to display data in chapter four. According to Kruger (2005:219) a data display is a systematic visual representation of information which enables the user to draw conclusions about qualitative analysis which aim to provide a descriptive explanatory framework of the investigation. In line with Leedy and Ormrod (2001:290) data was presented in terms of the research problem. According to O'Sullivan and Rassel (1989:295) collected data must be organized and presented in a way that will be most useful to the intended audience. Similarly, Kumar (2005:248) contends that the main purpose of using data-display techniques is to make the findings clear and easily understood. Therefore, and to this end, in this study text, tabular and graphic presentations were used to present data. Graphical presentation was chosen since it made it easier to see the pertinent features of a set of data and graphs could be constructed for every type of data, that is, qualitative and quantitative. As such, graphs were used in this study because they presented data in a way that was easy to understand, interpret and interesting to look at (Kumar, 2005:252-253).

3.16 The use of Codes

Coding or categorizing of data was undertaken to facilitate understanding and retrieval of information in almost any approach to analysis. Whether they are called variables, themes, concepts, categories or values, responses were coded. Codes are the means by which data are transferred from one format into another. The kind of codes can stand for are similar in the different software's, but the way they are generated and the way they are used are often quite different, making for potential complication of interpretation when they are read in a different context. A code in a statistical data set has to totally represent the category or concept it stands for. Unlike a qualitative data set, there is no recourse to the original source to check what was meant by it or to review different interpretations of it. Codes are the only medium for communicating information in a quantitative data set, they are necessarily precise in what they are conveying, are single-dimensional (Sivesind, 1999) and directional. With qualitative data the text supporting a code is always available for review, and dimensions within it (which may not

have been initially apparent to the coder) may become obvious through that review, or may be revealed through pattern or comparative analyses.

3.17 Reliability and Validity

(i) Reliability

Reliability and validity of the instrument are very important for decreasing errors that might arise from measurement problems in the research study. Reliability refers to the accuracy and precision of a measurement procedure. The stability or test-retest reliability of the survey instrument has been obtained through the pilot testing of the instrument. Test-retest reliability show if the same results are obtained with repeated administering of the same survey to the similar study participants. Results of the actual survey has been compared and correlated with the initial results in the pilot study (Instrument reliability, 2001). Joppe (2000:1) defines reliability as the extent to which results are consistent over time and an accurate representation of the total population under study is referred to as reliability and if the results of a study can be reproduced under a similar methodology, then the research instrument is considered to be reliable.

Kirk and Miller (1986:41-42) identify three types of reliability referred to in quantitative research, which relate to: (1) the degree to which a measurement, given repeatedly, remains the same (2) the stability of a measurement over time; and (3) the similarity of measurements within a given time period. Charles (1995:13) adheres to the notions that consistency with which questionnaire (test) items are answered or individual's scores remain relatively the same can be determined through the test-retest method at two different times. This attribute of the instrument is actually referred to as stability. If we are dealing with a stable measure, then the results should be similar. A high degree of stability indicates a high degree of reliability, which means the results are repeatable. Joppe, (2000) detects a problem with the test-retest method which can make the instrument, to a certain degree, unreliable. She explains that test-retest method may sensitize the respondent to the subject matter, and hence influence the responses given.

(ii) Validity

Validity refers to the degree to which a study accurately reflects or assesses the specific concept or construct that the researcher is attempting to measure. Content, criterion-related, and construct validity of the survey instrument has been established. Content validity shows the extent to which the survey items and the scores from these questions are representative of all the possible questions. The traditional criteria for validity find their roots in a positivist tradition, and to an extent, positivism has been defined by a systematic theory of validity. Within the positivist terminology, validity resided amongst, and was the result and culmination of other empirical conceptions: universal laws, evidence, objectivity, truth, actuality, deduction, reason, fact and mathematical data to name just a few (Winter, 2000:1). Criterion-related validity, also referred to as instrumental or predictive validity, is used to demonstrate the accuracy of a measure or procedure by comparing it with another measure or procedure, which has been demonstrated to be valid (Overview: Reliability and Validity,2001). For this purpose, the self-designed questionnaire for this study has been compared on the consistency of the results with existing instruments.

Joppe (2000:1) provides the following explanation of what validity is in quantitative research:

Validity determines whether the research truly measures that which it was intended to measure or how truthful the research results are. In other words, does the research instrument allow you to hit "the bull's eye" of your research object? Researchers generally determine validity by asking a series of questions, and will often look for the answers in the research of others. Wainer and Braun (1998) describe the validity in quantitative research as "construct validity". The construct is the initial concept, notion, question or hypothesis that determines which data is to be gathered and how it is to be gathered. They also assert that quantitative researchers actively cause or affect the interplay between construct and data in order to validate their investigation, usually by the application of a test or other process. In this sense, the involvement of the researchers in the research process would greatly reduce the validity of a test. Mixed methods are used to enrich understanding of an experience or issue through confirmation of conclusions, extension of knowledge or by initiating new ways of thinking about the subject of the research. Mixed methods are inherently either more or less valid than specific approached to research. As with any research, validity stems more from the appropriateness, thoroughness and effectiveness with

which those methods are applied and the care given to thoughtful weighing of the evidence than from the application of a particular set of rules or adherence to an established tradition.

The main limitation experienced during the research was the limited time available to the researcher, given her full-time career commitments. This was compounded by the time-consuming nature of semi-structured interviewing techniques. However, the results of the interviews provided very and useful information.

3.18 CONCLUSION

The chapter has provided an account of the methodology used in this study. Both quantitative and qualitative methods were used. The chapter further described the sampling procedures used to select the respondents and to ensure representativeness, dependability and relevance of the target group for this study. In this study questionnaires and interviews were used as data collection tools. Ethical issues observed in the study were highlighted and justified and how data was analyzed was also discussed. The next chapter four will focus on the presentation, analysis and interpretation of the research data which was collected using the methodology described in this chapter.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

The first chapter introduced the study, its background and context, the research problem, the research questions, research objectives and the significance of investigating a role of Eastern Cape Provincial Treasury in enforcing compliance with Public Finance Management Act for public entities. Chapter one concluded by delimiting the study and clarifying concepts by defining them within the context of this study. The second chapter focused on the literature review on compliance with PFMA for public entities. The third chapter dealt with the research design and methodology which made it possible to collect.

This chapter deals with the processing of collected data into an acceptable form, that is analyzing and interpretation of collected data. According to Mouton (1996:108) data analysis is the process of bringing order, structure and meaning to the mass of collected data, making sense of what respondents would have said. In this chapter, both qualitative and quantitative data analysis methods were used. The data was analyzed and interpreted concurrently. In this study the coding procedure was used to reduce the information into different themes. Hence Bless and Higson-Smith (2002:137) are of view that the data analysis process allows the researcher to generalize the findings from the sample used in the research, to the larger population in which the researcher is interested in. To that end, the purpose of this chapter is to present, analyze, and interpret the data collected from the respondents. The researcher compared the responses of the participants with the literature findings with an aim to investigate the respondents understanding of the role played by Eastern Cape Provincial Treasury in enforcing compliance with PFMA for public entities.

4.2 Data analysis

The previous chapter (chapter 3) showed that self-administered questionnaires were distributed to the respondents at the provincial treasury. The respondents consisted of the management officials from Legislature, Auditor-General, Chairperson of the board, Director of the board, Audit Committee, Chief Executive Officer, Executive manager and Assistant financial officer. The selected respondents were used by the researcher to represent the larger population. Not all

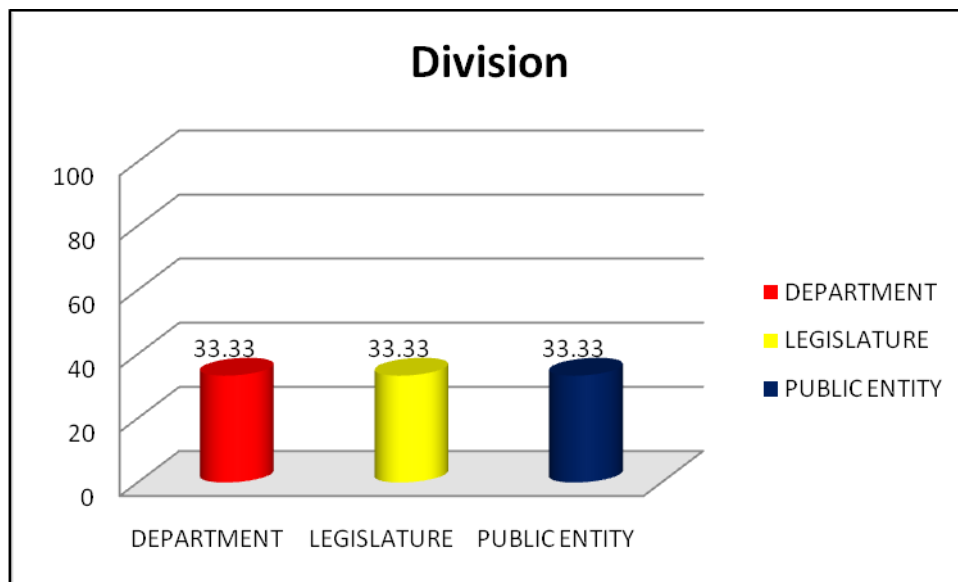
respondents returned their filled questionnaires. According to Bailey (1982:165) a response figure of at least fifty percent (50%) should be sufficient for analysis of the data, a figure of sixty percent (60%) can be seen as “good” and a figure of seventy (70%) can be seen as “very good”. It is clear that the research had a very good response rate result for interpretation.

4.3 DEMOGRAPHIC DETAILS OF THE RESPONDENTS

The demographic profile reflects the personal data of the participants. The quantitative collected data of the participants are numerically refluxed and presented in figures. The following diagrams below show the gender, age, ethnic group, level of education and the position of the respondents.

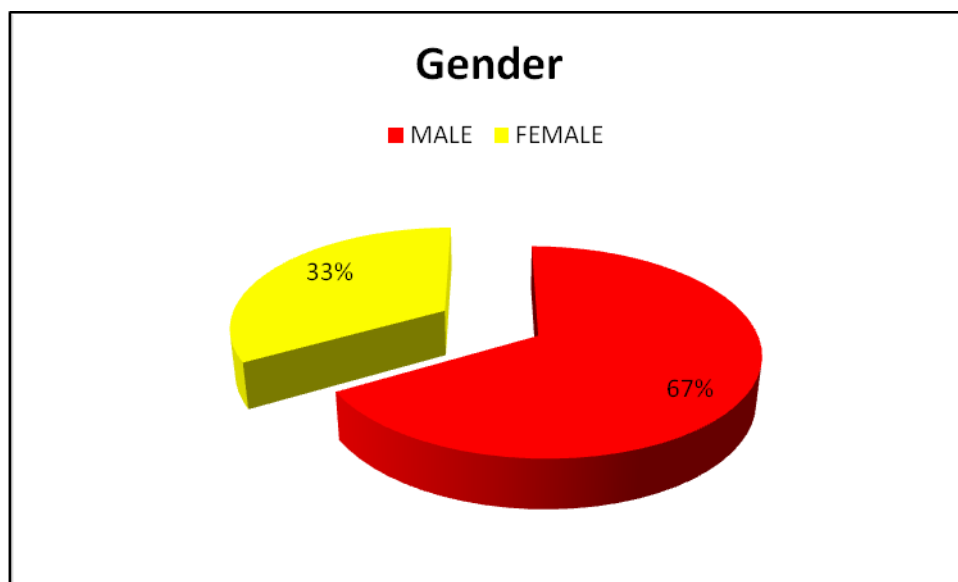
Figure 4.3.1 Descriptive

The sample consisted of 15 respondents constituting of 5 (33%) of departmental, 5 (33%) legislature and 5 (33%) public entities.



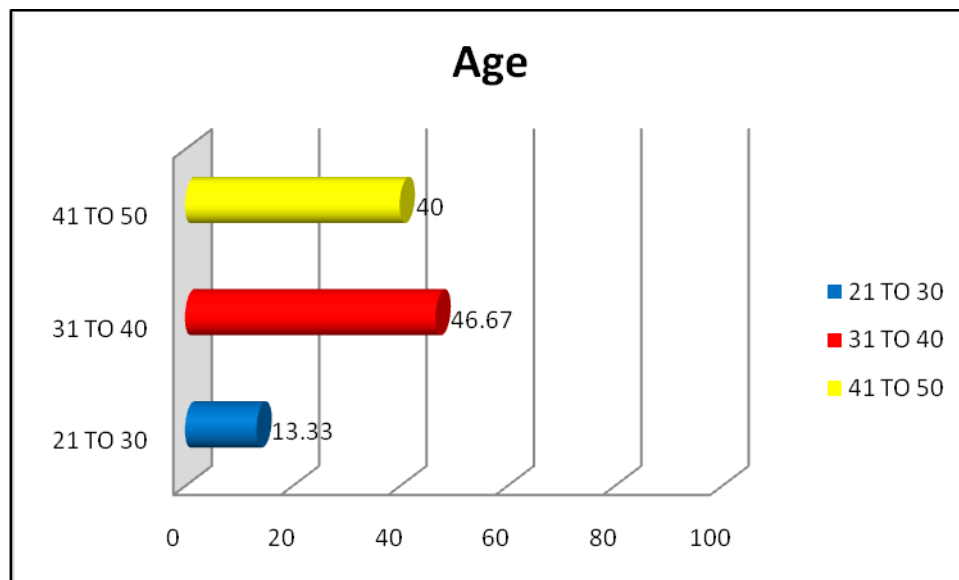
There were more males 66.67% as compared to females 33.33% of all respondents.

Figure 4.3.2 Gender distribution



The respondents used by the researcher consisted of both males and females. Within the respondents that returned their filled questionnaires, a great gender disparity was observed. During the data collection, a total of 15 participants completed questionnaires were responded and returned. Representation of the respondent's sexes was taken into cognizance. The extent of determining reliability of the instrument used to collect data was evaluated on the basis of sex to see if it yields the same results under comparable conditions. Figure 4.1 note the participants in accordance of gender. It transpired in Figure 4.3.1 that females participated in large quantity than males. Out of 15 respondents, percent (33%) were males and (67%) were females. It is significant to note that males in the public sector are disadvantaged in a narrow scale by the implementation of the Employment Equity Act that promotes a balance of sex in all the levels and categories of the institution or organization.

Figure 4.3.3 Age distribution

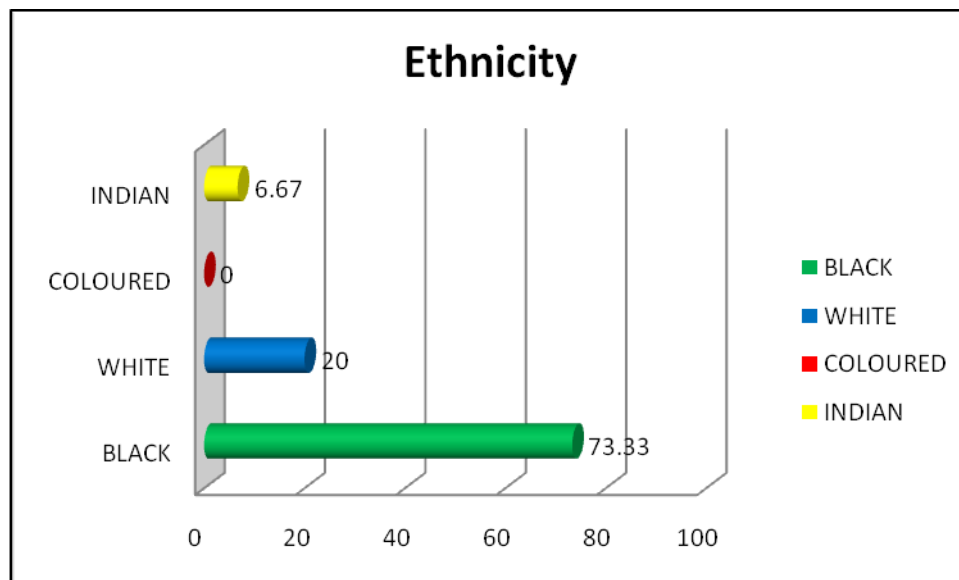


The majority were aged 31 to 40, 46.67% followed by the age group 41 to 50, and 40%.

Black Africans dominated the sample with a total of 73.33% of the sample followed by Whites (20%) and lastly Indians which had only 6.67% of the total sample.

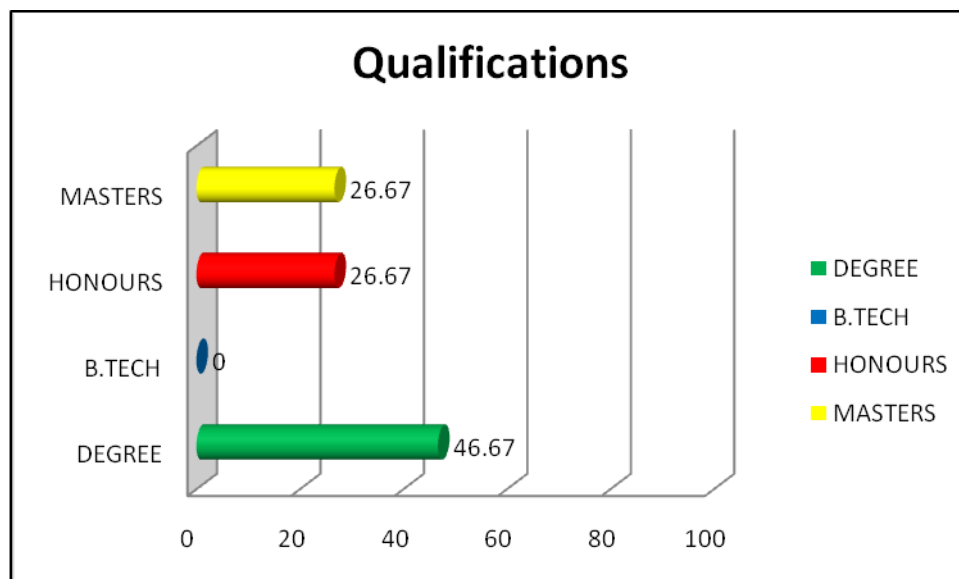
Maturity of a person is determined by his/her age level. As the study in assessing the compliance of Public Finance Management Act, age plays an important role as the respondents must be in a statutory working age. Therefore, it is empirical to investigate the age of the respondents in order to determine their growth, maturity and experience. Observations of the officials who are statutorily of the required age reckon data as valid information.

Figure 4.3.4 Ethnicity



Nearly half of the respondents 46.67% had a bachelor's degree whilst the remaining had an honours degree (26.67%) or a master's degree (26.67%).

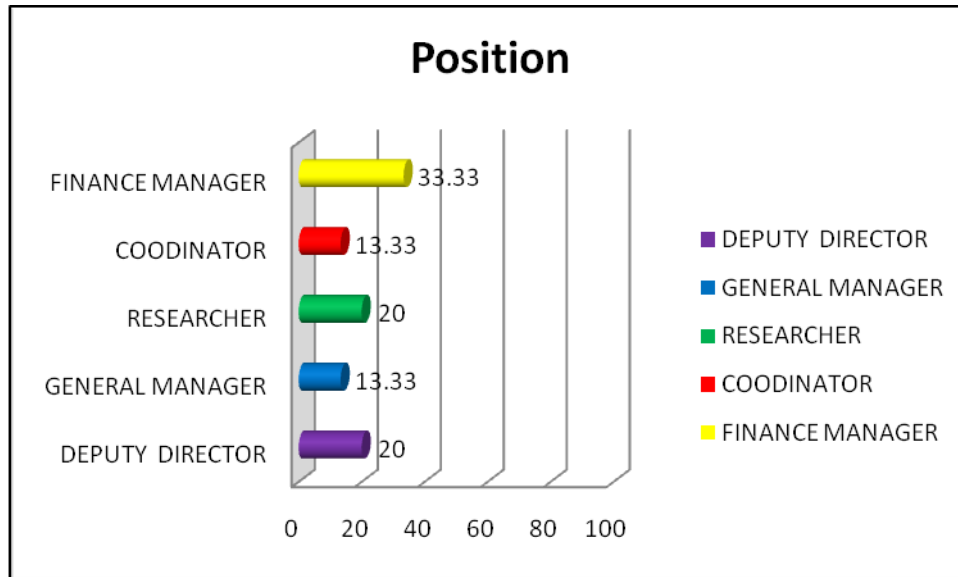
Figure 4.3.5 Educational Qualifications



The education levels of the respondents ranged from matriculation (matric) to PhD. degree level. The educational qualifications of the respondents can be graphically presented as shown in figure 4.3.5 above.

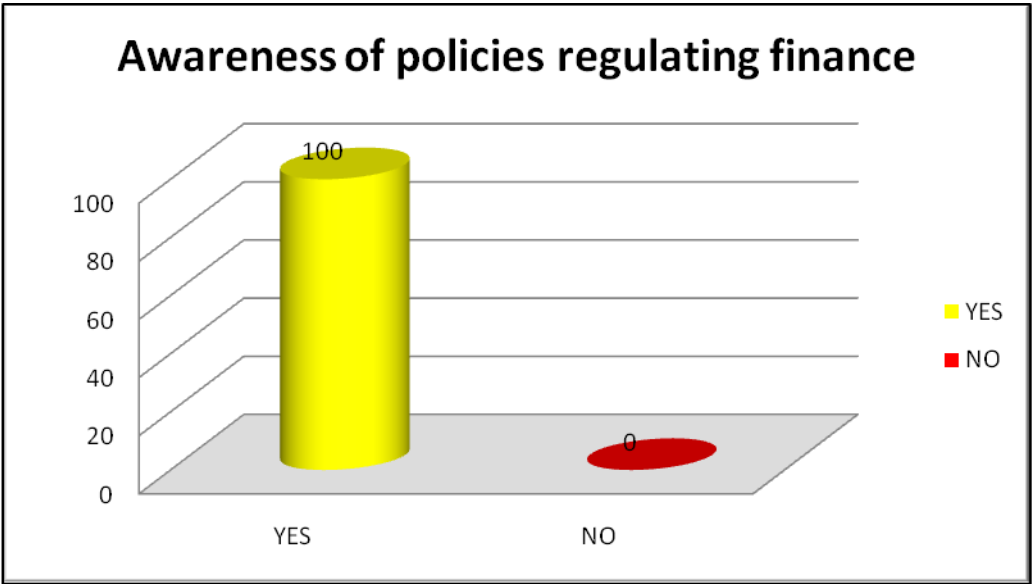
Finance managers contributed a larger portion of the sample 33.33% whilst coordinators and general managers had the few portion having 13.33% in each.

Figure 4.3.6 Position



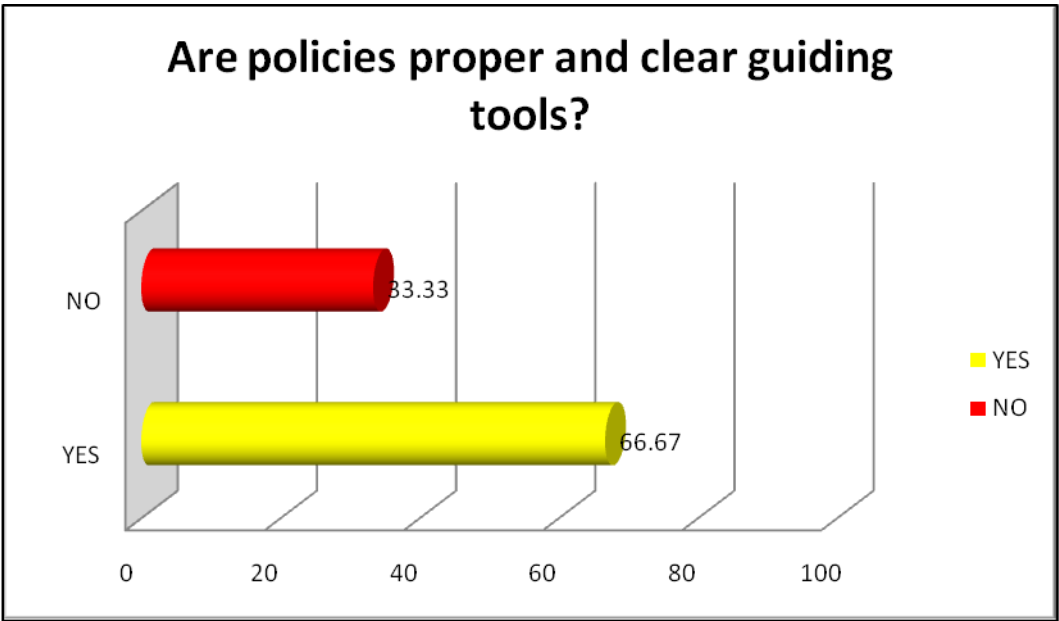
According to the respondent's views on awareness of policies in regulating finance, all respondents were very much aware.

Figure 4.3.7 Awareness of policies regulating finance



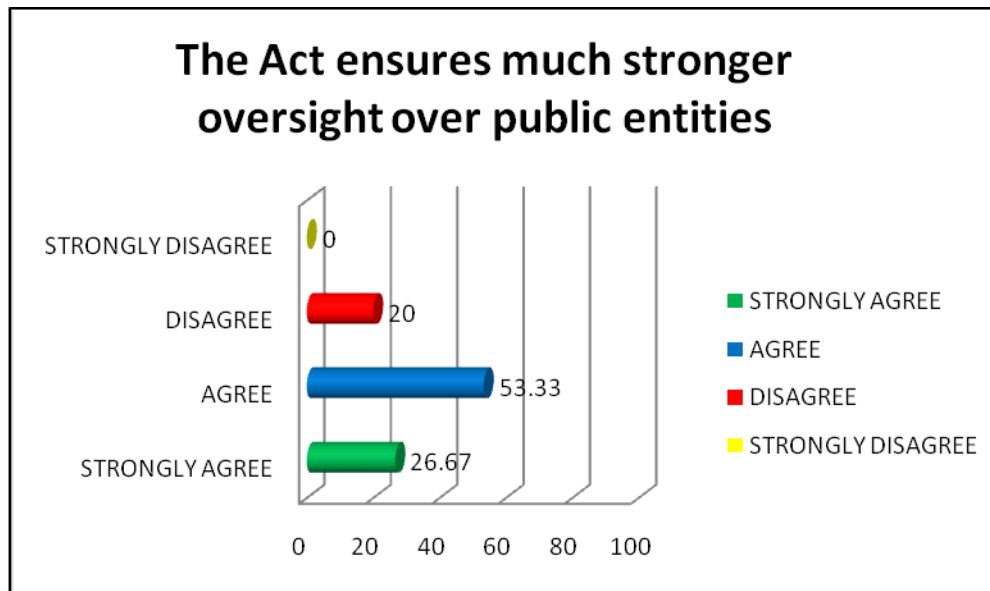
A total of 66.67% had the view that policies were proper and clear guiding tools in regulating finance.

Figure 4.3.8 shows how policies are proper and clear guiding tools



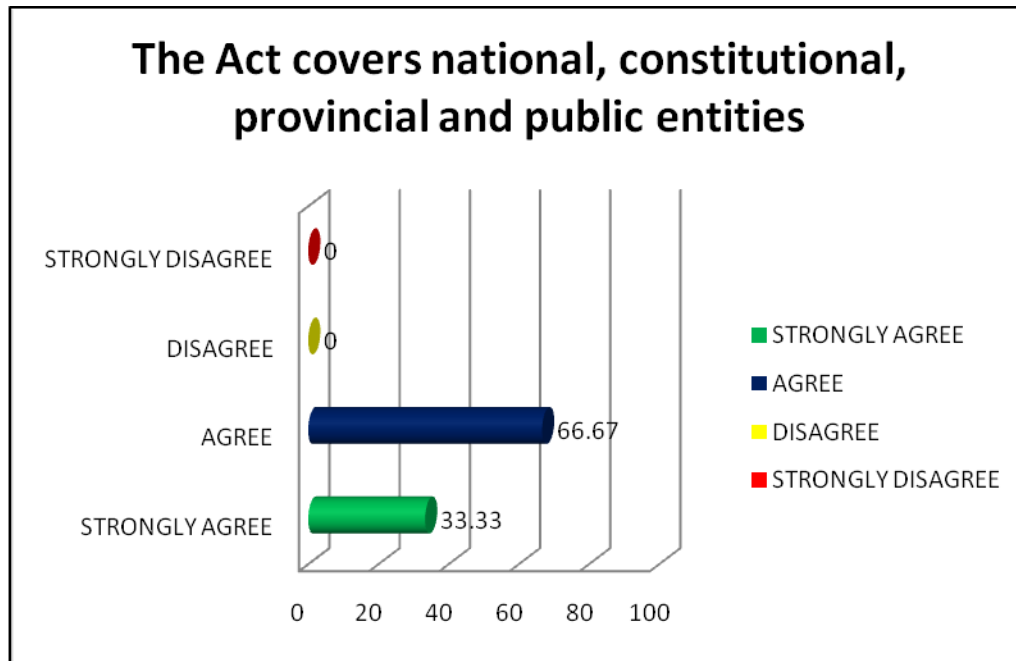
The majority of the respondents agreed 53.33%, that the Act ensures much stronger oversight over public entities. Very few disagreed to this notion, 20%.

Figure 4.3.9 Demonstrates how the Act ensures much stronger oversight over public entities



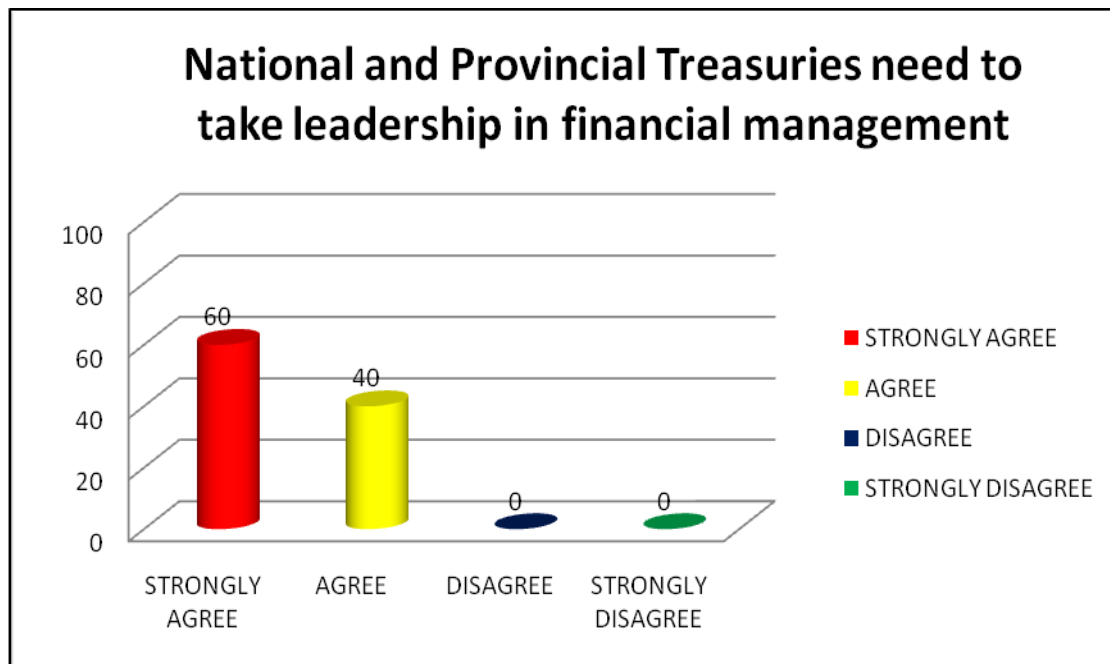
No one strongly disagreed or disagreed to the Act covering national, constitutional, provincial and public entities. The majority agreed, 66.67% and 33.33% strongly agreed.

Figure 4.3.10 Demonstrates how the Act covers National, Constitutional, provincial and public entities.



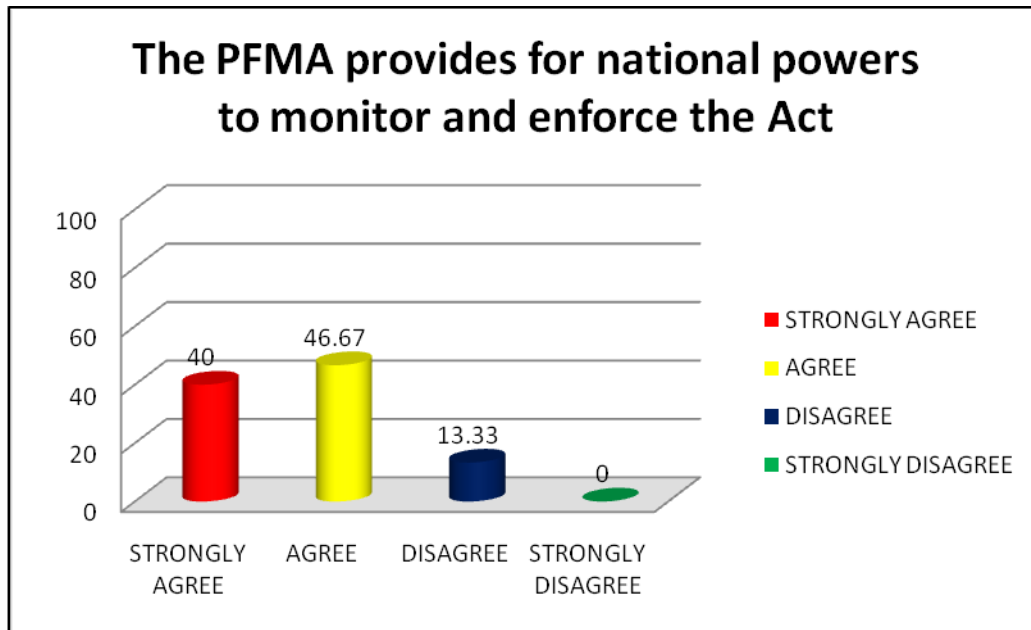
In terms of National and Provincial Treasuries need to take leadership in financial management, 60% strongly agree and 40% agreed.

Figure 4.3.11 Demonstrates National and provincial Treasuries need to take leadership in financial Management:



The majority of the respondents strongly agreed and agreed to the fact that PFMA provides for national powers to monitor and enforce the Act. Only 13.33% disagreed.

Figure 4.3.12 Demonstrates that PFMA provides for national powers to monitor and enforce the Act



60% agreed and 40% disagreed that the Minister's statutory responsibilities are set out in the Act. This was the same view to the opinion that all departments and constitutions must have an accounting officer

Figure 4.3.13 Demonstrates clearly how the ministers' statutory responsibilities are set out in the Act.

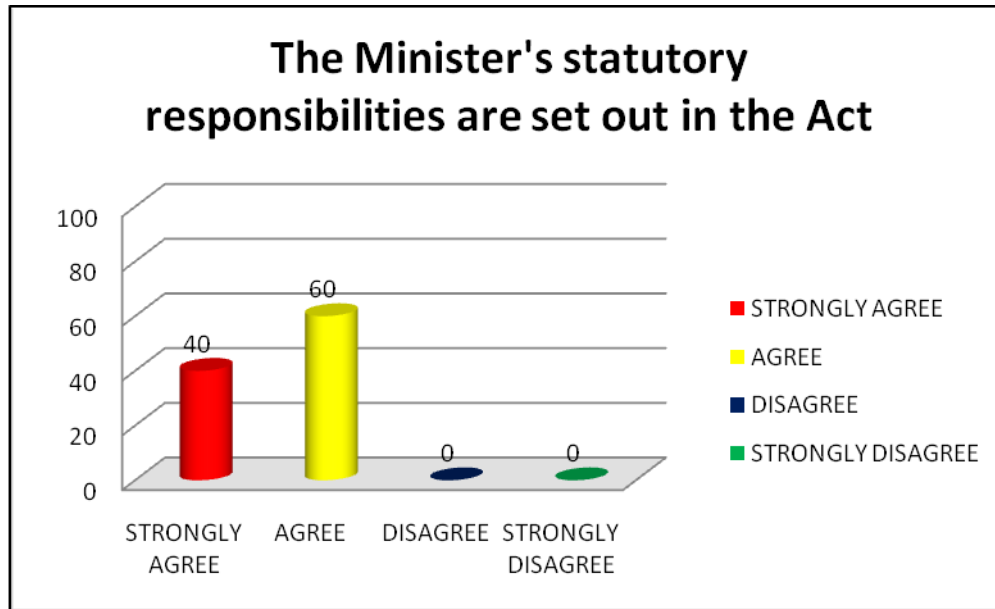


Figure 4.3.14 Demonstrates that all departments and constitutions must have an accounting officer.

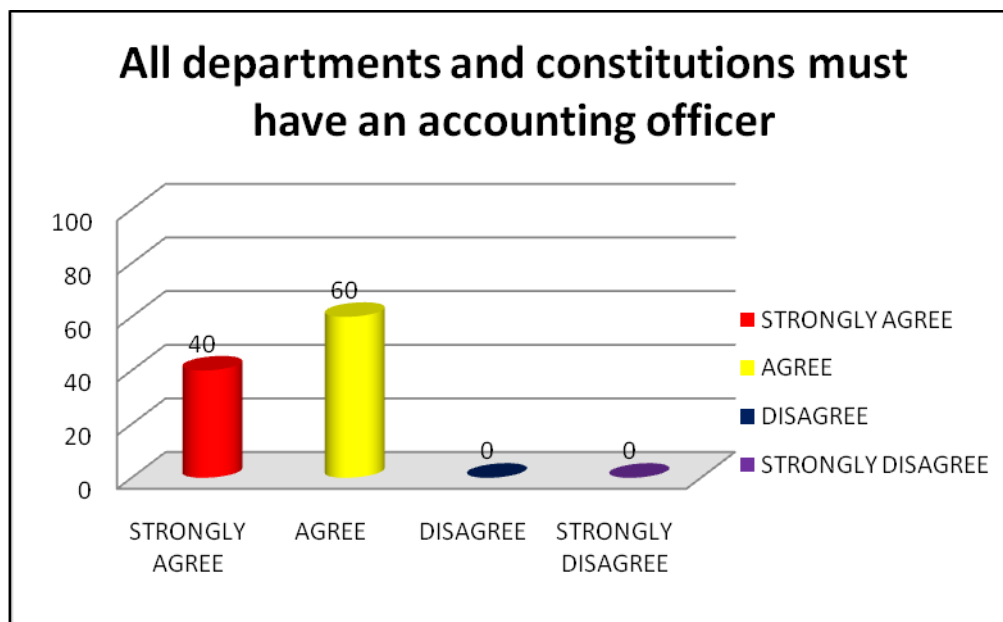


Figure 4.3.15 Demonstrates Schedule 2 entities report directly to parliament via the Minister .They must provide information on budget and corporate plans.

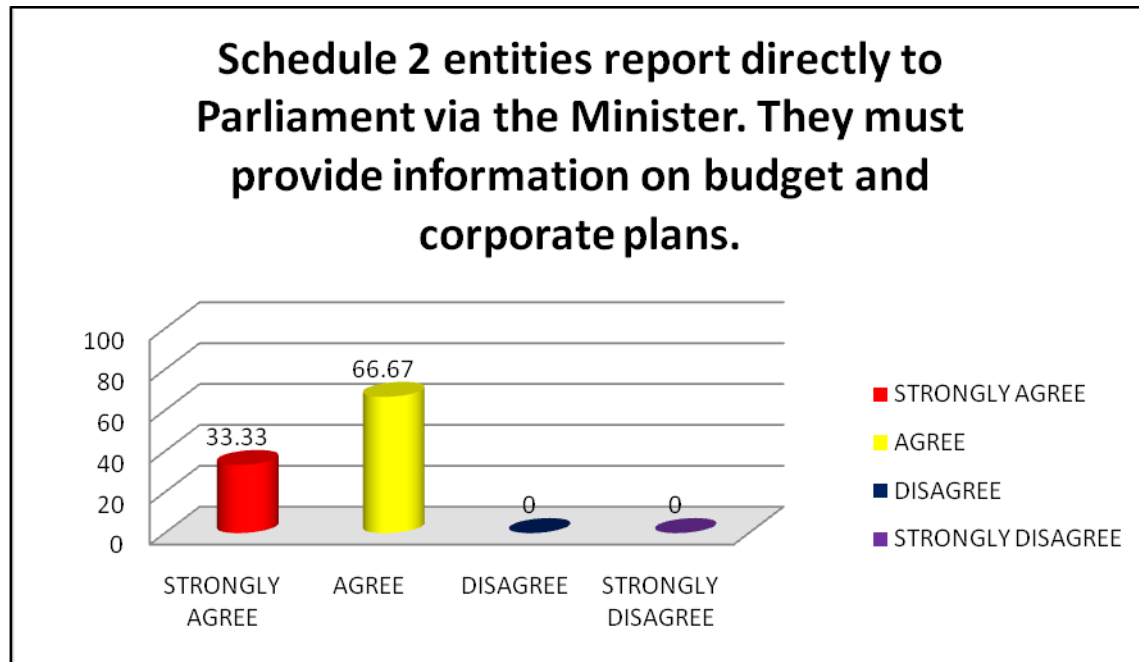


Figure 4.3.16 Demonstrates Schedule 2 public entities manage their day to day affairs without the interference of the Minister.

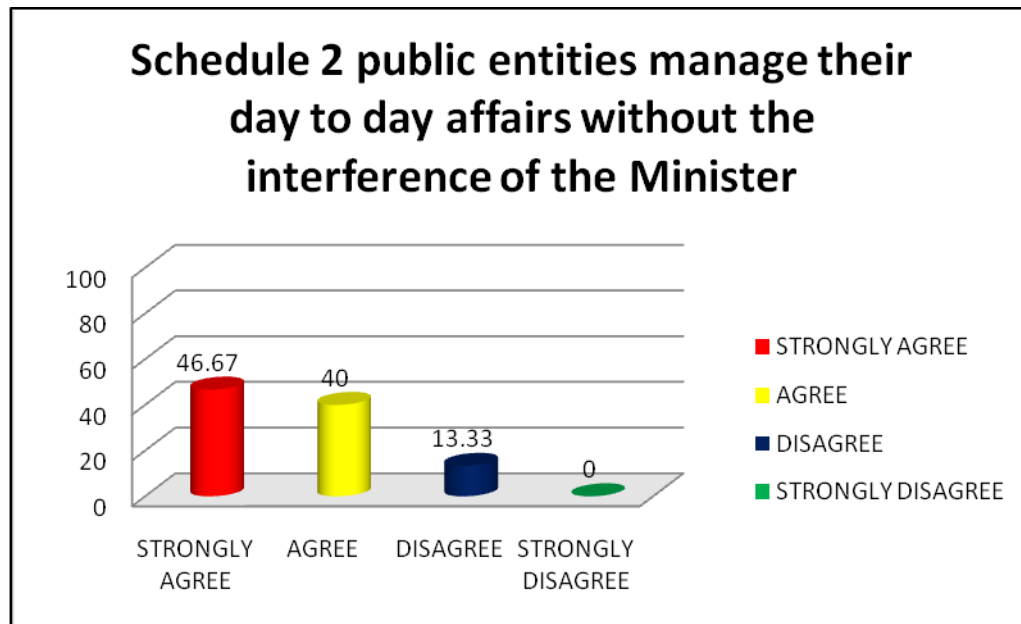
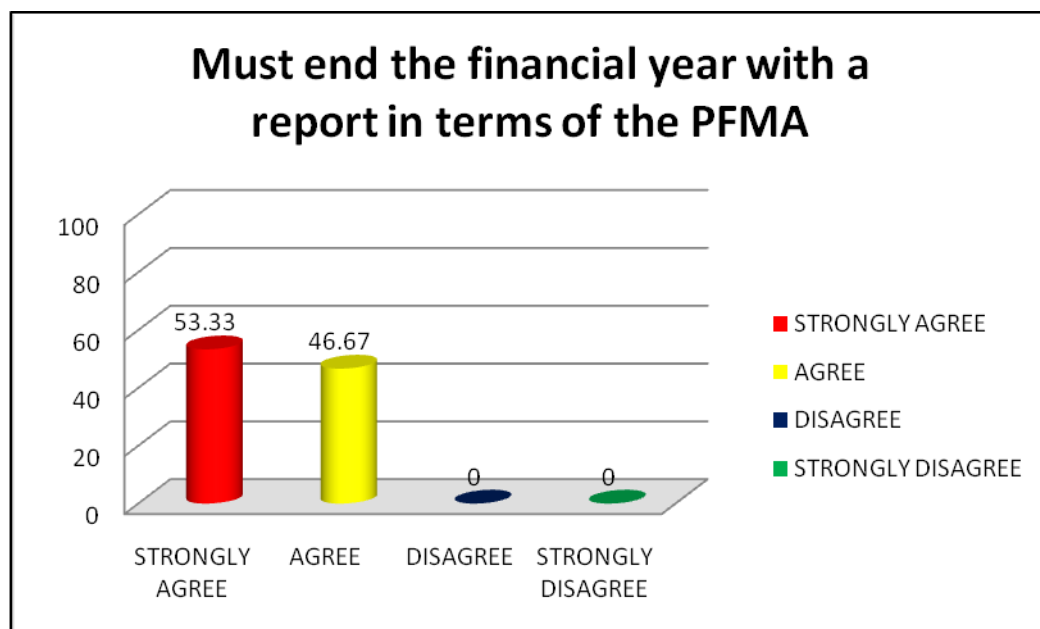
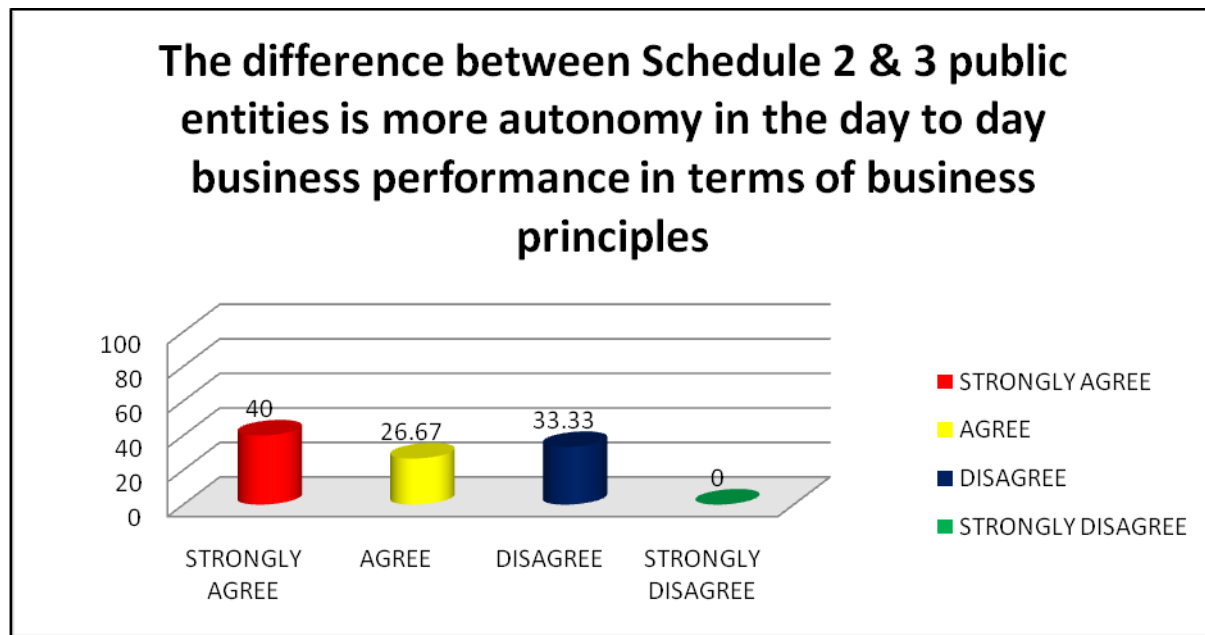


Figure 4.3.17 Demonstrates the importance of the ACT to every public entity and end with a report and the end of the financial year in terms of PFMA.



According to the difference between Schedule 2 & 3 public entities is more autonomy in the day to day business performance in terms of business principles, the majority strongly agreed, whilst 33.33% disagreed and 26.67% agreed.

Figure 4.3.18 Schedule 2&3 Public entities as more autonomy in day today business performance



4.4 Qualitative data analysis

De Vos et al (2005:33) write that the purpose of conducting a qualitative study is to produce findings. Patton (2002:432) further states that qualitative analysis transforms data into findings. This involves reducing the volume of raw information, sifting significance from trivia, identifying significant patterns and constructing a framework for communicating the essence of what the data reveals. Hence, De Vos et al (2005:33) views qualitative data analysis as a search for general statements about relationships among categories of data.

This section of the analysis outlines the views of the management officials represented by the Accounting officer, Internal Auditor, Deputy Director General and Director for financial management from department of Provincial Treasury in Bhisho. The respondents within the department of Provincial Treasury had same set of the similar questions and were summarized according to similarity of opinions. A questionnaire with slightly different questions was distributed to the officials within the department to gain more information on the compliance of PFMA.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The previous chapter focused on the analysis, presentation and interpretation of the data collected using questionnaires from the management officials, stakeholders and the administrative employees. The purpose of this chapter is to summarize the study, draw conclusions and make recommendations for the improvement of compliance with PFMA for public entities.

5.2 Findings of the study

This dissertation consists of five chapters.

Financial management concerns more than budgeting and compliance issues as value for money and oversight of performance are equally important. This means that Provincial Treasuries can play a key role by supporting the technical departments and public entities as required to meet the required standards in terms of financial management and information. With this in mind, and to ensure good use resources resulting in efficient service delivery and value for money for the Province.

This study focuses on the effectiveness of Provincial Treasury's role to attain the required objectives and goals in guiding the implementation of processes by public entities. The Constitution vests the National Assembly and provincial legislatures with the power to exercise oversight of their respective executives in addition to their legislative and other powers. In order to facilitate Parliament's oversight of the national executive organs of state, section 92(3)(b) of the Constitution requires of members of the Cabinet to provide Parliament with full and regular reports concerning matters under their control. The challenge facing Eastern Cape Provincial Treasury is that public entities are not fully complying with PFMA, and therefore, this calls for an effective monitoring and evaluation mechanism to determine the objectives of the Eastern Cape Provincial Treasury to be met. Before the monitoring process can commence, effective financial management and reporting systems should be put in place to ensure that the delivery of essential services can be correctly accounted for.

General findings indicated that there is lack of training for junior staff or operational level officials in Public Finance Management Act. Through PFMA is availed to the officials, nothing has been done to ensure that it becomes part of a working manual for all employees since all officials are accountable and responsible for their actions.

It has also found that Provincial Treasury has been experiencing challenges with all entities with regards to the submission of reliable and complete financial and performance information, the Public Entities Governance should continue to ensure that all public entities submit financial and performance information in order to ensure that the respective controlling departments and public entities comply with relevant sections of the PFMA and Treasury Regulations.

Provincial Treasury, have never performed any assessment with regards to the existence of the enabling acts and regulation to the larger extent, the alignment of the mandate to the government objectives and policy priorities have been reviewed. It is the intention of the Public Entities Unit (PEGU) to facilitate the development of the enabling acts for those entities that need one, also develop the related regulations with the assistance of the Fiscal Policy within Provincial Treasury and perform the assessment on the legislative mandate of each Public Entity to ensure its alignment to the government objectives and policy priorities. It has been found that the exercise was never performed before, but based on the policy speech by the Honourable Phumulo Musualle, which was tabled at Provincial Legislature on the 20th of March 2012, emphasizing the enhancement of public entity oversight over the medium term policy priorities. It is of vital importance that this exercise be performed with due care.

Through the oversight role that Provincial Treasury undertakes, it has become evident that many department's do not effectively manage and oversight the entities under their control. This is evident through: Department's not being readily able to provide information on the financial and non-financial performance of their entities; many entities in the province continuing to sustain losses in their financial performance; budgeted transfers to entities showing merely inflationary increases year-on-year and not taking into account any discontinued or new projects. Entities also complain about not being included in their department's planning processes. This casts doubt over the entire budgeted transfers and the credibility of entity budgets; annual Performance Plans of entities not aligning to those of their departments and budgeted transfers.

5.2.1 Overall compliance to PFMA and Treasury Regulations (governance checklist)

From the PFMA checklist it is evident that entities are compliant in most cases, with key areas of non-compliance relating to the appointment of Chief Financial Officer, submission of corporate plan, accumulation of surpluses without approval of the National Treasury, all 3C entities, annual report not providing of the materiality/significant framework applied during the financial year. The areas of non-compliance are few and can be addressed relatively easily by Provincial Treasury. In many areas, entities would register partial compliance. Such areas include the following:

An effective, efficient and transparent system of financial and risk management and internal control. This area has been rated as partial compliance because none of the entities received clean audit reports and there are matters of emphasis relating to general financial management and reporting on predetermined objectives. The quality of the corporate plan remains a challenge although these plans are generally compliant to the prescripts (in terms of sections to include), they lack necessary details in some areas. Shareholder agreements are not concluded with all public entities before the start of the financial year (or at least before the end of April of each year). Annual budgets for public entities are submitted to their controlling departments; however, they are generally not submitted within six months of the start of the following financial year (for 3C entities). Furthermore, challenges are experienced by the entities in preparing their budgets because they are not included in the budgeting process of their controlling department. There are many instances where the budgeted transfer to an entity is revised from the indicative allocation without the entity being informed until the tabling of the Medium Term Expenditure Framework (MTEF) budget by the MEC for Finance. Also, the budgets allocated to entities appear to increase incrementally in line with inflations, but do not take into account procurement plans, HR plans and cash flows.

The strategic plans and Annual Performance Plans (APP's) for public entities are submitted to their controlling departments, however they are generally not submitted within six months of the start of the following financial year (for 3C entities).

It has been found that, with regards to entities having appropriate procurement and provisioning administration systems, which are fair, equitable, transparent, competitive and cost-effective; this area is partially compliant in almost all of the entities due to the entities still having audit findings to Supply Chain Management.

5.3 Recommendations

Compliance with the national and provincial norms and standards will result in sound financial management through the effective and efficient utilization of resources of provincial departments and provincial public entities. This will also result in unqualified consolidated financial statements for the provincial government (accrual basis); unqualified financial statements for provincial departments (accrual basis); provincial public entities being regulated; sound financial management systems and processes; timely provision of quality management information. The benefits offered by the Public Finance Management Act, are dependent on the will and ability of accounting officers/authorities to comply properly (substantive compliance) with its requirements. The combined successes of the various oversight bodies in ensuring that accounting officers bring this about are equally important. The challenge thus is for each relevant functionary (whether an accounting officer, an official utilizing the resources of a department/public entity or an oversight body performing its relevant functions) to fully comprehend the importance of their particular role in ensuring substantive compliance with the norms and standards. For example, oversight bodies should reflect on whether they are making a real and noticeable difference in improving service delivery and ensuring the more efficient utilization of limited resources. Where this is found lacking, it should be addressed urgently. Dedicated focus by all relevant role players is required over the next few years for a marked improvement.

Provincial Treasury has a critical role to play in overseeing effective performance by organs of state. Political leadership, through Parliament, ensures that the objectives of the state are always at the forefront of any activities that government departments and public entities engage in. The delivery of services by the government and the reporting of any achievements are also crucial and ensure that citizens know what services the government is delivering. It is the responsibility of the Executive Authorities to ensure implementation of framework by the public entities are adhered thereof. Treasury must continue with its regular assessment and oversight, especially on the effectiveness and efficiency of the board of directors, and apply certain provisions of the PFMA No.1 of 1999 where necessary, e.g., Section 18.2 (g) of the PFMA No.1 of 1999 (withholding of funds). Through the review performed, it was established that the quality of the

corporate plan remains a challenge in ECDC. Although the plan is compliant to the prescripts (in terms of sections to include), they lack necessary details in a number of areas, including that the financial plan does not include all relevant financial projections. As part of the corporate plans, entities were required to provide a dividend policy describing how and when they will remit dividends back to the province. Section 53 of the PFMA contains the requirements for the submission of annual budgets for Schedule 3C Public Entities, both the PFMA and the Treasury Regulations do not indicate the relevant sections to be included as part of a service level agreement which should be concluded on an annual basis between the respective entity and its controlling department. The service level agreement (SLA) should annually conclude in order to establish procedures for quarterly reporting, and to facilitate effective performance monitoring, evaluation and corrective action. As a matter of good governance, these agreements should be finalized by the 30th of April of each year, or before any transfers are made in terms of the department's cash flow projections. In addition, a public entity must establish procedures for quarterly reporting to the executive authority in order to facilitate effective performance monitoring, evaluation and corrective action. Furthermore, it is recommended that the HOD should note the governance status of public entities after the first three months of the financial year; must support the withholding of transfer payments to entities that have not yet concluded a shareholder agreement with their controlling department and support the development of a provincial policy on the appointment of board members for provincial public entities.

5.4 Conclusion

Chapter one dealt with the introduction, background, research problem, objectives, purpose and significance of the study. The objectives of the study were to assess the role played by Eastern Cape Provincial Treasury in enforcing compliance with PFMA for public entities; to determine the employees' perceptions on the methods used to enforce compliance and to determine the extent to which the methods used to develop acquaint them and which may lead to effective service delivery.

Chapter two provided a detailed discussion of literature review and outlined a theoretical framework of the roles and responsibilities and other key legal documents outline the most important responsibilities for the head of Provincial Treasury as its accounting officer and

stakeholders. The underlying tenet is that successful financial management requires much more than budgeting and compliance with rules. An overview of literature on the legislative framework of sound financial management in South African government institutions with specific reference to the Constitution, 1996, Public Finance Management Act, 1999, Treasury Regulations and policies were provided. Various concepts and processes of sound financial management were clarified. Aspects of internal control, internal auditing, budgeting, accounting and reporting were highlighted.

Chapter three provided an account of the methodology used in this study. Both quantitative and qualitative methods were applicable research models to this study. The procedure that was followed when data was collected and analyzed was highlighted. The chapter further described the sampling procedures used to select the respondents and to ensure representativeness. The questionnaires were used to collect data for analysis; its validity and reliability were discussed. Confidentiality and consent were observed as ethical issues amongst others.

Chapter four, consideration was given to the analysis and interpretation of data. Both quantitative and qualitative analysis methods were used. The coding procedure was used to reduce the data into different themes. In the analysis process the researcher made use of a technique called graphical analysis for the purpose of displaying numerical data. The main objective of graphical analysis was to present data in a way that was easy to understand and interpret.

In Chapter 5 the research results are outlined by means of summarizing and discussing the significant findings in the context of the literature, and conclusions and recommendations are provided.

The core function of the Eastern Cape Provincial Treasury is to provide a predictable financial management environment that sustains sound financial and economic fundamentals whilst supporting the delivery of quality services. Over and above meeting the government objectives, the primary focus is to satisfy the departments, municipalities and public entities that the Department is supporting, thereby satisfying the members of the public with access to quality services and a better life for all.

From the foregoing examination of enforcing compliance with PFMA for public entities a number of conclusions can be reached. It is clear and certain that public entities do not follow the prescripts fully of the PFMA as intended. Compliance with PFMA by public entities needs to be improved to promote effective service delivery. Top managers who are supposed to transcribe PFMA as a working manual are occasionally perusing the Act when a need arise. In conclusion, this chapter dealt with the summary of the study, findings and recommendations. Suggestions for further study were also highlighted. The advancement of the socio-economic transformation agenda of the government could improve the quality of life of the citizenry which will be achieved through active stakeholder participation. The Eastern Cape Provincial Treasury is committed to provide services that meet the needs and expectations of the recipients in respect of quality.

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**EASTERN CAPE DEVELOPMENT
CORPORATION**

**FINANCIAL REPORTS & ANNUAL FINANCIAL
PERFORMANCE**



FINANCIAL REPORTS & ANNUAL FINANCIAL PERFORMANCE

Eastern Cape Development Corporation
Consolidated Annual Financial Statements for the year ended 31 March 2012

Statement of Financial Position

Figures in Rand thousand	Note(s)	Group			Company		
		2012	2011	2010	2012	2011	2010
Assets							
Non-Current Assets							
Investment property	2	1 441 903	1 428 271	1 396 797	604 602	568 812	533 957
Property, plant and equipment	3	469 062	400 247	377 128	26 907	21 853	22 837
Intangible assets	38	76	17	36	-	-	-
Investments in subsidiaries	4	-	-	-	23 002	26 120	26 120
Investments in associates	5	54 213	51 402	49 474	38 779	38 779	38 779
Loans to group companies	6	-	-	-	28 121	26 740	23 656
Investments	7	46 465	96 137	107 849	44 822	94 820	106 659
Deferred tax	8	-	-	65	-	-	-
Loans advanced	9	74 392	101 586	135 688	73 457	101 568	135 673
		2 086 111	2 077 660	2 067 037	839 690	878 692	887 681
Current Assets							
Current tax receivable		-	-	1 887	-	-	-
Trade and other receivables	10	81 443	51 520	47 113	46 229	32 262	29 699
Loans advanced	9	55 251	40 935	50 955	54 048	40 935	50 955
Cash and cash equivalents	11	792 650	702 514	625 708	359 116	309 646	281 508
		929 344	794 969	725 663	459 393	382 843	362 162
Non-current assets held for sale		11 192	7 136	8 773	11 192	7 136	8 773
Total Assets		3 026 647	2 879 765	2 801 473	1 310 275	1 268 671	1 258 616
Equity and Liabilities							
Equity							
Equity Attributable to Equity							
Holders of Parent							
Share capital	12	421 375	383 548	347 398	421 375	383 548	347 398
Reserves	13	579 543	672 100	745 103	802 198	757 354	715 172
Accumulated loss		9 707	26 646	29 077	(252 933)	(158 333)	(112 281)
		1 010 625	1 082 294	1 121 578	970 640	982 569	950 289
Non-controlling interest		(14 351)	10 942	4 202	-	-	-
		996 274	1 093 236	1 125 780	970 640	982 569	950 289
Liabilities							
Non-Current Liabilities							
Loans from group companies	6	-	-	-	38 928	34 644	30 898
Interest bearing borrowings	14	3 889	2 867	14 429	1 611	2 847	14 429
Retirement benefit obligation	15	27 620	23 308	20 452	27 620	23 308	20 452
Deferred income	16	1 259 855	1 114 375	1 025 749	-	-	-
Deferred tax	8	-	439	-	-	-	-
		1 291 364	1 140 989	1 060 630	68 159	60 799	65 779

Eastern Cape Development Corporation
Consolidated Annual Financial Statements for the year ended 31 March 2012

Statement of Financial Position

Figures in Rand thousand	Note(s)	Group			Company		
		2012	2011	2010	2012	2011	2010
Current Liabilities							
Interest bearing borrowings	14	1 288	11 519	1 544	1 220	11 496	1 483
Current tax payable		841	144	108	-	-	-
Finance lease obligation		132	-	-	-	-	-
Trade and other payables	17	260 381	221 817	295 968	166 333	179 609	207 287
Deferred income	16	476 367	412 060	317 443	103 923	34 198	33 778
		739 009	645 540	615 063	271 476	225 303	242 548
Total Liabilities		2 030 373	1 786 529	1 675 693	339 635	286 102	308 327
Total Equity and Liabilities		3 026 647	2 879 765	2 801 473	1 310 275	1 268 671	1 258 616

Eastern Cape Development Corporation
Consolidated Annual Financial Statements for the year ended 31 March 2012

Statement of Financial Performance

Figures in Rand thousand	Note(s)	Group			Company		
		2012	2011	2010	2012	2011	2010
Revenue	18	141 795	132 447	124 590	83 518	82 142	87 608
Other income		833	9 242	8 284	4 777	7 729	9 376
Government grants		252 921	216 146	218 126	92 157	84 709	80 749
Operating expenses		(457 065)	(382 887)	(384 342)	(292 489)	(243 298)	(259 150)
Operating loss	19	(61 516)	(25 052)	(33 342)	(112 037)	(68 718)	(81 417)
Investment revenue	21	17 268	24 001	22 987	17 905	24 261	23 470
Fair value adjustments	22	325	127	496	-	-	-
Income from equity accounted investments		2 811	1 929	1 898	-	-	-
Finance costs	23	(502)	(1 604)	(1 628)	(468)	(1 595)	(1 608)
Loss before taxation		(41 614)	(599)	(9 589)	(94 600)	(46 052)	(59 555)
Taxation	24	(618)	(1 268)	(1 163)	-	-	-
Loss for the year		(42 232)	(1 867)	(10 752)	(94 600)	(46 052)	(59 555)
Loss attributable to:							
Owners of the parent		(16 939)	(8 608)	(10 806)	(94 600)	(46 052)	(59 555)
Non-controlling interest		(25 293)	6 741	54	-	-	-
		(42 232)	(1 867)	(10 752)	(94 600)	(46 052)	(59 555)

Eastern Cape Development Corporation
Consolidated Annual Financial Statements for the year ended 31 March 2012

Statement of Financial Performance

Figures in Rand thousand	Note(s)	Group			Company		
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		(42 232)	(1 867)	(10 752)	(94 600)	(46 052)	(59 555)

Eastern Cape Development Corporation
Consolidated Annual Financial Statements for the year ended 31 March 2012

Statement of Comprehensive Income

Figures in Rand thousand	Note(s)	Group			Company		
		2012	2011	2010	2012	2011	2010
Loss for the year		(42 232)	(1 867)	(10 752)	(94 600)	(46 052)	(59 555)
Other comprehensive income:							
Available-for-sale financial assets adjustments		-	-	(50 000)	-	-	(50 000)
Gains and losses on property revaluation		(92 557)	(73 186)	54 603	44 844	42 182	42 757
Other comprehensive income for the year net of taxation	36	(92 557)	(73 186)	4 603	44 844	42 182	(7 243)
Total comprehensive loss		(134 789)	(75 053)	(6 149)	(49 756)	(3 870)	(66 798)
Total comprehensive loss attributable to:							
Owners of the parent		(109 496)	(81 794)	(6 203)	(49 756)	(3 870)	(66 798)
Non-controlling interest		(25 293)	6 741	54	-	-	-
		(134 789)	(75 053)	(6 149)	(49 756)	(3 870)	(66 798)

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Statement of Changes in Equity

	Share capital	Revaluation reserve	Fair value adjustment assets-available-for-sale reserve	Other NDR	Total reserves	Accumulated loss	Total attributable to equity holders of the group/ company	Non-controlling interest	Total equity
Figures in Rand thousand									
Group									
Opening balance as previously reported	347 398	327 108	24 173	394 673	745 954	26 361	1 119 713	4 202	1 123 915
Adjustments									
Prior year adjustments	-	(851)	-	-	(851)	2 716	1 865	-	1 865
Balance at 01 April 2010 as restated	347 398	326 257	24 173	394 673	745 103	29 077	1 121 578	4 202	1 125 780
Fair value gains transferred/ Profit or (Loss)	-	(73 186)	-	-	(73 186)	(8 608)	(81 794)	6 741	(75 053)
Issue of shares	36 150	-	-	-	-	-	36 150	-	36 150
Cimec reserve written off	-	-	-	-	-	6 177	6 177	-	6 177
Vat recovered	-	-	-	183	183	-	183	-	183
Changes in ownership interest - control not lost									
Total changes	36 150	(73 186)	-	183	(73 003)	(2 431)	(39 284)	6 740	(32 544)
Opening balance as previously reported	383 548	254 142	24 173	394 856	673 171	31 993	1 088 712	4 811	1 093 523
Adjustment									
Prior year adjustments (refer to Note 38)	-	(1 071)	-	-	(1 071)	(4 604)	(5 675)	6 131	456
Balance at 01 April 2011 as restated	383 548	253 071	24 173	394 856	672 100	26 646	1 082 294	10 942	1 093 236
Changes in equity									
Fair value gains/ Profit or (Loss)	-	(92 557)	-	-	(92 557)	(16 939)	(109 496)	(25 293)	(134 789)
Issues of shares	37 827	-	-	-	-	-	37 827	-	37 827
Total changes	37 827	(92 557)	-	-	(92 557)	(16 939)	(71 669)	(25 293)	(96 962)
Balance at 31 March 2012	421 375	160 514	24 173	394 856	579 543	9 707	1 010 625	(14 351)	996 274
Note(s)	12	13 & 36	36						

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Statement of Cash Flows

Figures in Rand thousand	Note(s)	Group			Company		
		2012	2011	2010	2012	2011	2010
Cash flows from operating activities							
Cash from/ (used) in operations	25	236 199	144 351	379 914	(7 715)	(58 997)	(33 155)
Interest income		13 818	19 731	17 410	16 199	20 157	17 918
Dividends received		55	39	125	-	-	100
Finance costs		(502)	(1 604)	(1 628)	(468)	(1 595)	(1 608)
Tax (paid) received	26	(360)	1 342	26	-	-	-
Net cash from/(used) in operating activities		249 210	163 859	395 847	8 016	(40 435)	(16 745)
Cash flows from investing activities							
Purchase of property, plant and equipment	3	(85 853)	(66 309)	(185 499)	(6 425)	(797)	(1 354)
Sale of property, plant and equipment	3	9	502	20	-	60	-
Purchase of investment property	2	(131 776)	(89 702)	(77 049)	(3 204)	(1 110)	-
Sale of investment property	2	17 022	5 869	14 422	7 107	5 869	10 421
Purchase of other intangible assets	38	(85)	(45)	(6)	-	-	-
Loans to group companies repaid		-	-	-	2 345	1 898	5 434
Purchase of financial assets		-	(1 619)	(5 295)	-	(1 619)	(4 951)
Sale of financial assets/withdrawal from investments		7 547	13 062	1	7 547	13 062	1
Loans disbursed		(83 535)	(112 677)	(235 510)	(83 533)	(112 674)	(232 501)
Loans collected		91 302	129 303	219 639	91 302	129 303	219 639
Net cash (from)/generated from investing activities		(185 369)	(121 616)	(269 277)	15 139	33 992	(3 311)
Cash flows from financing activities							
Proceeds on share issue	12	37 827	36 150	48 715	37 827	36 150	48 715
Repayment of interest bearing borrowings		(11 532)	(1 587)	(1 661)	(11 512)	(1 569)	(1 651)
Net cash from financing activities		26 295	34 563	47 054	26 315	34 581	47 064
Total cash movement for the year		90 136	76 806	173 624	49 470	28 138	27 008
Cash and cash equivalents at the beginning of the year		702 514	625 708	452 084	309 646	281 508	254 500
Cash and cash equivalents at the end of the year	11	792 650	702 514	625 708	359 116	309 646	281 508

Accounting Policies

1. Presentation of Consolidated Annual Financial Statements

The consolidated annual financial statements of the Eastern Cape Development Corporation have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice for Small and Medium - sized Entities and in the manner required by the Public Finance Management Act (Act No. 1 of 1999, as amended) and the Eastern Cape Development Corporation Act. The consolidated annual financial statements have been prepared on the historical cost basis as modified by the revaluations of certain land and buildings, investment properties, available for sale financial assets and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of consolidated annual financial statements in conformity with South African Statements of Generally Accepted Accounting Practice for Small and Medium - sized Entities requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated annual financial statements are disclosed in note 1.15.

The consolidated annual financial statements have been prepared in the Corporation's functional currency, the South African Rand.

These accounting policies are consistent with the previous financial year.

Underlying assumptions

The consolidated annual financial statements are prepared on the going concern basis, which assumes that the Corporation will continue in operation for the foreseeable future. The consolidated annual financial statements are prepared using accrual accounting whereby the effects of transactions and other events are recognised when they occur rather than when the cash is received or paid.

Assets and liabilities and income and expenses are not offset unless specifically permitted by an accounting standard. Financial assets and financial liabilities are offset and the net amount reported only when a current legally enforceable right to set off the amounts exists and the intention is either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Changes in accounting policies are accounted for in accordance with the transitional provisions in the applicable standard. If no such guidance is given, they are applied retrospectively unless it is impracticable to do so, in which case the change is applied prospectively. Changes in accounting estimates are recognised in profit or loss in the period they occur. Prior period errors are retrospectively restated unless it is impracticable to do so, in which case they are applied prospectively.

Recognition of Assets and Liabilities

An asset, being a resource controlled by the corporation as a result of a past event from which future economic benefits are expected to flow, is recognised when it is probable that the future economic benefits associated with it will flow to the Group and its cost or fair value can be measured reliably. A liability, being a present obligation of the Group arising from a past event the settlement of which is expected to result in an outflow of resources embodying economic resources from the Group, is recognised when it is probable that future economic benefits associated with it will flow from the Group and its cost or fair value can be measured reliably.

Derecognition of assets and liabilities

Financial assets or parts thereof are derecognised, i.e. removed from the balance sheet, when the contractual rights to receive the cash flows have been transferred or have expired or if substantially all the risks and rewards of ownership have passed. Where substantially all the risks and rewards of ownership have not been transferred or retained, the financial assets are derecognised if they are no longer controlled by the Group. However, if control is retained, financial assets are recognised only to the extent of the Group's continuing involvement in those assets.

All other assets are derecognised on disposal or when no future economic benefits are expected to flow to the Group from their use or disposal. Financial liabilities are derecognised when the relevant obligation has either been discharged or cancelled or has expired.

Post-balance sheet events

Recognised amounts in the consolidated annual financial statements are adjusted to reflect events arising after the balance sheet date that provide evidence of conditions that existed at the balance sheet date. Events after the balance sheet date that are indicative of conditions that arose after the balance sheet date are dealt with by way of a note.

Accounting Policies

1.1 Investment property

Investment property is held for long-term rental yields or for capital appreciation or both and comprises properties not occupied by the Group. Hotel buildings held by the Group are classified as investment property as the group is not involved in the hotel operations. Investment properties are initially measured at cost, including transaction costs, and are subsequently stated at fair value determined by an independent sworn appraiser, every third year. Management reviews these valuations for reasonability and adjustments are made where it is deemed to be necessary.

Fair value

Subsequent to initial measurement investment property is measured at fair value. Fair value gains and losses are recognised in the non-distributable reserves.

1.2 Property, plant and equipment

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits associated with the item will flow to the corporation; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land and buildings which is carried at fair value, determined by a sworn appraiser, every third year. Subsequent to initial measurement, land and buildings are carried at fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

Property, plant and equipment are depreciated over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	Indefinite
Buildings and infrastructure	25 - 50 years
Finance lease asset	5 years
Plant and machinery	4 years
Furniture and fixtures	6 - 10 years
Motor vehicles	4 - 5 years
Office equipment	4 - 5 years
IT equipment	3 years
Computer software	3 years
Other property, plant and equipment	5 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting period. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

The depreciation charge for each period is recognised in profit or loss unless it is included in the carrying amount of another asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Accounting Policies

1.3 Investments in subsidiaries

Subsidiaries are entities, including unincorporated partnerships and companies without a share capital, that are controlled by the Group. Control exists where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Consolidated annual financial statements

The consolidated annual financial statements incorporate the assets, liabilities, income, expenses and cash flows of the corporation and its subsidiaries. The results of the subsidiaries acquired or disposed during the year are included from the date of acquisition or up to the date of disposal. Inter-company transactions and balances are eliminated on consolidation.

Corporation annual financial statements

In the Corporation's separate annual financial statements, investments in subsidiaries are carried at cost less any accumulated impairment.

The cost of an investment in a subsidiary is the aggregate of:

- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the corporation; plus
- any costs directly attributable to the purchase of the subsidiary.

An adjustment to the cost of a business combination contingent on future events is included in the cost of the combination if the adjustment is probable and can be measured reliably.

1.4 Investments in associates

Associates are entities, including unincorporated partnerships and companies without a share capital, over which the Group exercises significant influence.

Consolidated annual financial statements

An investment in an associate is accounted for using the equity method, except when the asset is classified as held-for-sale in accordance with IFRS 5: Non-current assets held for sale and discontinued operations. Under the equity method, the investment is initially recognised at cost and the carrying amount is increased or decreased to recognise the group's share of the profits or losses of the investee after acquisition date. The use of the equity method is discontinued from the date the group ceases to have significant influence over an associate.

Any impairment losses are deducted from the carrying amount of the investment in associate.

Distributions received from the associate reduce the carrying amount of the investment.

Profits and losses resulting from transactions with associates are recognised only to the extent of unrelated investors' interests in the associate.

The excess of cost of acquisition over the group's interest in the net fair value of an associate's identifiable assets, liabilities and contingent liabilities is accounted for as goodwill, and is included in the carrying amount of the associate.

The excess of the group's share of the net fair value of an associate's identifiable assets, liabilities and contingent liabilities over the cost is excluded from the carrying amount of the investment and is instead included as income in the period in which the investment is acquired.

Corporation annual financial statements

Associate companies are those companies in which the Corporation holds a long-term equity interest and over which it exercises a significant influence over its financial and operating policies, other than investments in companies acquired to protect advances or as a conduit for advances.

The investments in associate companies are initially recorded at cost. Subsequent to initial recognition, the investment in the associate is carried at fair value as an available for sale financial asset in accordance with the accounting policy on financial assets. If fair value cannot be measured reliably, the investment is carried at cost. An appropriate provision is made where there is considered to be a permanent diminution in the value of the investment.

Accounting Policies

1.5 Impairment of assets

An impairment loss on an asset or cash-generating unit is the amount by which the carrying amount, i.e. the amount recognised on the balance sheet after deducting any accumulated depreciation and accumulated impairment losses, exceeds its recoverable amount. The recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Value in use is the present value of future cash flows expected to be derived from an asset or cash-generating unit.

At each reporting date the carrying amount of the tangible and intangible assets are assessed to determine whether there is any indication that those assets may have suffered an impairment loss. If any such indication exists, the recoverable amount of the cash-generating unit to which the asset belongs is estimated. Value in use is estimated taking into account future cash flows, forecast market conditions and the expected useful lives of the assets.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount is reduced to the higher of its recoverable amount and zero. Impairment losses are recognised in profit or loss. The loss is first allocated to reduce the carrying amount of goodwill and then to the other assets of the cash-generating unit. Subsequent to the recognition of an impairment loss, the depreciation or amortisation charge for the asset is adjusted to allocate its remaining carrying value, less any residual value, over its remaining useful life.

If an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, limited to the carrying amount that would have been recognised had no impairment loss been recognised in prior years. A reversal of an impairment loss is recognised in profit or loss. Impairments to goodwill are not reversed in subsequent accounting periods.

1.6 Financial instruments

Classification

The group classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through profit or loss - designated
- Held-to-maturity investment
- Loans and receivables
- Available-for-sale financial assets

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except financial assets designated as at fair value through profit or loss, which shall not be classified out of the fair value through profit or loss category.

Initial recognition and measurement

Financial instruments are recognised initially when the group becomes a party to the contractual provisions of the instruments.

The group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available for sale financial assets.

For financial instruments which are not at fair value through profit or loss, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through profit or loss are recognised in profit or loss.

Subsequent measurement

Financial instruments at fair value through profit or loss are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in profit or loss for the period.

Net gains or losses on the financial instruments at fair value through profit or loss include interest.

Dividend income is recognised in profit or loss as part of other income when the group's right to receive payment is established.

Accounting Policies

1.6 Financial instruments (continued)

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available for sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised directly in equity until the asset is disposed of or determined to be impaired. Interest on available for sale financial assets calculated using the effective interest method is recognised in profit or loss as part of other income. Dividends received on available for sale equity instruments are recognised in profit or loss as part of other income when the group's right to receive payment is established.

Impairment of financial assets

At each statement of financial position date the group assesses all financial assets, other than those at fair value through profit or loss, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the group, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in profit or loss, except for available-for-sale equity investments.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in profit or loss except for equity investments classified as available for sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Loans to (from) group companies

These include loans to and from holding companies, fellow subsidiaries, subsidiaries, joint ventures and associates and are recognised initially at fair value plus direct transaction costs.

Loans to group companies are classified as loans and receivables.

Loans from group companies are classified as financial liabilities measured at amortised cost.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the income statement.

Trade and other receivables are classified as loans and receivables.

Accounting Policies

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Derivatives

Derivative financial instruments, which are not designated as hedging instruments, consisting of foreign exchange contracts and interest rate swaps, are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in profit or loss.

Changes in the fair value of derivative financial instruments are recognised in profit or loss as they arise.

Derivatives are classified as financial assets at fair value through profit or loss - held for trading.

1.7 Share capital and equity

Ordinary share capital, preference share capital or any financial instrument issued by the group is classified as equity when:

- Payment of cash, in the form of a dividend or redemption, is at the discretion of the group;
- The instrument does not provide for the exchange of financial instruments under conditions that are potentially unfavourable to the group;
- Settlement in the group's own equity instruments is for a fixed number of equity instruments at a fixed price; and
- The instrument represents a residual interest in the assets of the group after deducting all of its liabilities.

The group's ordinary share capital is classified as equity.

Consideration paid or received for equity instruments is recognized directly in equity. Equity instruments are initially measured at the proceeds received less incremental directly attributable issue costs. No gain is recognised in profit or loss on the purchase, sale, issue or cancellation of the group's equity instruments.

When the group issues a compound instrument, i.e. an instrument that contains both a liability and equity component, the equity component is initially measured at the residual amount after deducting from the fair value of the compound instrument the amount separately determined for the liability component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components of the instrument in proportion to the allocation of proceeds.

Distributions to holders of equity instruments are recognised as dividends within equity in the period in which they are payable. Dividends for the year that are declared after the balance sheet date are disclosed in the notes.

1.8 Government grants and deferred income

Government includes government agencies and similar bodies whether local, national or international. Government assistance is action by government designed to provide an economic benefit specific to an entity or range of entities qualifying under certain criteria. A government grant is assistance by government in the form of transfers of resources.

When the conditions attaching to government grants have been met and the grants have been received, they are recognised in profit or loss on a systematic basis over the periods necessary to match them with the related costs. When they are for expenses or losses already incurred, they are recognised in profit or loss immediately. The unrecognised portion of project spend at the balance sheet date is presented as deferred income. No value is recognised for other government assistance.

Accounting Policies

Government grants are recognised when there is reasonable assurance that:

- the group will comply with the conditions attaching to them; and
- the grants will be received.

Government grants are recognised as income over the periods necessary to match them with the related costs that they are intended to compensate.

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised as income of the period in which it becomes receivable.

Government grants related to assets, including non-monetary grants at fair value, are presented in the statement of financial position by setting up the grant as deferred income.

1.9 Project grants

The grants received and associated expenditure are not included in the income statement of the Group but transferred directly to individual project fund accounts, which are reflected as a current liability. Interest received on the funds is accounted for in the fund account unless the Group is entitled thereto according to the agreement. The funds are applied to either specific expenditure as directed by the funder or in terms of the agreement with the funder.

1.10 Provisions

Provisions are recognised when:

- the group has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

Provisions are not recognised for future operating losses.

When the Group has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in a note 27.

1.11 Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods, services and operating lease income provided in the normal course of business, net of value added tax.

Interest is recognised, in profit or loss, using the effective interest rate method.

Operating lease income is recognised as income on a straight-line basis over the lease term or another systematic basis, if more representative of the time pattern of the user's benefit.

Dividends are recognised, in profit or loss, when the Group's right to receive payment has been established.

1.12 Employee benefits

Short-term employee benefits

Employee benefits cost include all forms of consideration given in exchange for services rendered by employees. The cost of providing employee benefits is recognised in profit or loss in the period they are earned by employees. The cost of short-term employee benefits is recognised in the period in which the service is rendered and is not discounted.

Accounting Policies

The expected cost of short-term accumulating compensated absences is recognised as an expense as the employees render service that increases their entitlement or, in the case of non-accumulating absences, when the absences occur. The expected cost of performance bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Post-employment benefit obligations

The cost of providing defined benefits is determined using the projected unit credit method. Valuations are conducted annually. The amount recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the group's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected unit credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to the end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial year, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in profit or loss over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Actuarial gains and losses are recognised in the year in which they arise, in other comprehensive income.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the group is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In profit or loss, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

1.13 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Operating leases - lessee

Rentals payable under operating leases are recognised in profit or loss on a straight-line basis over the term of the relevant lease, or another basis if more representative of the time pattern of the Group's benefit. Any contingent rents are expensed in the period they are incurred.

Accounting Policies

1.14 Tax

Current tax

The charge for current tax is based on the results for the year as adjusted for income that is exempt and expenses that are not deductible using tax rates that are applicable to the taxable income.

Deferred tax

A deferred tax asset is the amount of income taxes recoverable in future periods in respect of deductible temporary differences, the carry forward of unused tax losses and the carry forward of unused tax credits.

A deferred tax asset is only recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised, unless specifically exempt. It is measured at the tax rates that have been enacted or substantially enacted at the statement of financial position and is not discounted.

A deferred tax liability is recognised for taxable temporary differences, unless specifically exempt, at the tax rates that have been enacted or substantially enacted at the statement of financial position date and is not discounted. A deferred tax liability is the amount of income taxes payable in future periods in respect of taxable temporary differences. Temporary differences are differences between the carrying amount of an asset or liability and its tax base.

Deferred tax arising on investments in subsidiaries, associates and joint ventures is recognised except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised for the carry forward of unused tax losses and unused STC credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused STC credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the statement of financial position date.

1.15 Key assumptions concerning the future and key sources of estimation

The consolidated annual financial statements are prepared in accordance with and comply with SA GAAP for SME's and its interpretations adopted by the Accounting Practices Board. In the preparation of the consolidated annual financial statements the corporation has assumed certain key sources of estimation in recording various assets and liabilities, as set out below.

Credit impairment of loans and advances

The Group adopted an incurred-loss approach to impairment in accordance with accounting policy 1.5. Impairment losses are incurred only if there is objective evidence of impairment as a result of one or more past events that has occurred since initial recognition. This necessitates the establishment of 'impairment triggers' on the occurrence of which an impairment loss may be recognised.

Credit impairment is based on discounted estimated future cashflows on an asset or group of assets, where such objective evidence of impairment exists. The discount rates used to calculate the recoverable amount exclude consideration of any anticipated future credit losses.

The group has created a portfolio provision for incurred but not reported (IBNR) losses. The purpose of the IBNR provision is to allow for latent losses on a portfolio of loans and advances that have not yet been individually evidenced. Generally, a period of time will elapse between the occurrence of an impairment event and objective evidence of the impairment becoming evident, which is known as the 'emergence period'. The IBNR provision is based on the probability that loans that are ostensibly performing at the calculation date are impaired, and objective evidence of that impairment becomes evident during the emergence period.

The implementation of these principles is at a corporation level and will be specific to the nature of their individual loan portfolios and the loan loss data available to the lending division.

Provisions, contingent liabilities and contingent assets

The group, in the ordinary course of business, enters into transactions that expose the group to tax, legal and business risks. Refer to notes 27 and 28 for further information on provisions, contingent liabilities and contingent assets.

Notes to the Consolidated Annual Financial Statement

2. Investment property

Group	2012			2011		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	1 441 903	-	1 441 903	1 428 271	-	1 428 271

Group	2010		
	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	1 396 797	-	1 396 797

Company	2012			2011		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	604 602	-	604 602	568 812	-	568 812

Company	2010		
	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	533 957	-	533 957

Reconciliation of investment property - Group - 2012

	Opening balance	Additions	Disposals	Transfers and other movements	Fair value adjustment	Total
Investment property	1 428 271	131 776	(17 352)	(7 469)	(93 323)	1 441 903

Reconciliation of investment property - Group - 2011

	Opening balance	Additions	Disposals	Transfers and other movements	Fair value adjustment	Total
Investment property	1 396 797	89 702	(5 972)	24 889	(77 145)	1 428 271

Reconciliation of investment property - Group - 2010

	Opening balance	Additions	Disposals	Transfers and other movements	Fair value adjustment	Total
Investment property	927 336	77 049	(16 082)	361 499	46 995	1 396 797

ANNEXURE 'B'

REQUEST TO CONDUCT AN ACADEMIC RESEARCH

UNIVERSITY OF FORT HARE

FACULTY OF MANAGEMENT AND COMMERCE

SCHOOL OF PUBLIC MANAGEMENT AND DEVELOPMENT

DEPARTMENT OF PUBLIC ADMINISTRATION

The Head of the Department

P/Bag X0029

BHISHO

5605

22 November 2012

Dear Sir / Madam

Re: Request to conduct an academic research

I am Pozisa Libala, studying towards a Master's degree in Public Administration at Fort Hare University. I kindly request a permission to conduct an academic research in the department of Provincial Treasury in Bhisho. My research topic is: **“A critical assessment of the role of Eastern Cape Provincial Treasury in enforcing compliance with Public Finance Management Act (PFMA) for public entities.”**

In conducting this study, I have an obligation to adhere to strict ethical principles governing research conduct at the University. The department and the respondents to this study are assured that their privacy, anonymity and confidentiality will be strictly observed and guaranteed.

Your co-operation and assistance in this academic endeavour will be greatly appreciated.

Yours sincerely

Ms P. Libala

ANNEXURE 'C'

PERMISSION LETTER TO CONDUCT A RESEARCH FOR THE PURPOSE OF STUDY



Province of the
EASTERN CAPE
PROVINCIAL PLANNING AND
TREASURY

Private Bag X0029 • Bhisho • 5605 • REPUBLIC OF SOUTH AFRICA
Tel: +27 (0)40 609 4842 • Fax: +27 (0)40 635 0021 • www.ectreasury.gov.za

Umhla Date: Datum	28 NOVEMBER 2012	Ifoni Telephone: Telefoon	040 609 4888
Ireferensi Ref No: Verwysings	3/9/17	Ifaxi Facsimile: Faksimile:	040 635 0021
Imibuzo Enquines: Navrae	S M BADENHORST	Amakhasi: Pages: Bladsye:	1
Iposi E-mail: E-pos	Marion.mbina@ectreasury.gov.za Sanmari.badenhorst@ectreasury.gov.za		

Ms. P. Libala
Administrative Support: TSU
Provincial Treasury
BHISHO
5605

REQUEST TO CONDUCT AN ACADEMIC RESEARCH

1. Your letter dated 22nd November 2012 on the above subject matter bears reference.
2. The department has no objection to your request, however we wish to emphasize that the confidentiality of the information should be strictly observed and guaranteed.
3. We wish you well in your endeavors.

Ikhwezi Lomso greetings: Serving with Honesty, Humility and Integrity


M MBINA-MTHEMBU
SUPERINTENDENT-GENERAL &
HEAD OFFICIAL OF TREASURY

DATE: 28/11/2012

CC: MR. M. NTSWAHALNA
PROF. D.R. THAKHATHI



Libala P ltr. TSU Support 01.02.12
"A quality Treasury leading in Service Excellence"





**LETTER TO GUARANTEE CONFIDENTIALITY
AND ANONYMITY**

UNIVERSITY OF FORT HARE
FACULTY OF MANAGEMENT AND COMMERCE
SCHOOL OF PUBLIC MANAGEMENT AND DEVELOPMENT
DEPARTMENT OF PUBLIC ADMINISTRATION

To: All participants or respondents

My name is Pozisa Libala. I am currently studying towards a Master's degree in Administration at the University of Fort Hare. As part of the requirements for this degree, I am undertaking a research study on, "A critical assessment of the role of Eastern Cape Provincial Treasury in enforcing compliance with Public Finance Management Act for public entities".

I kindly request your cooperation in completing this questionnaire. Your contribution to this academic endeavour will be greatly appreciated as it will assist the researcher in reaching the objectives of this research study.

Please be fully assured that, the information collected through this questionnaire will **ONLY** be used for the purposes of this study. Your privacy, anonymity and confidentiality will be strictly observed, guaranteed and protected, as you are not expected to reveal your names or any personal information that may identify you as a respondent in this study.

Please answer all questions as clearly and honestly as you can.

If you have any comments or questions, please contact me at this number provided below.

I thank you in advance for your time, assistance and cooperation in this study.

Yours sincerely

P. Libala (Researcher)

ANNEXURE 'E'

QUESTIONNAIRE

INTERVIEWS

(Closed and open-ended questions)

QUESTIONNAIRE 1: AUDITORS

DEMOGRAPHIC PROFILE AND RELATED INFORMATION

Please answer all items completely and honestly as you can.

1. Gender

Male		Female	
------	--	--------	--

2. Age

21-30		31-40		41-50		51-60		60+	
-------	--	-------	--	-------	--	-------	--	-----	--

3. To which ethnic group do you belong

Black African		White		Coloured		Indian	
------------------	--	-------	--	----------	--	--------	--

4. Highest qualifications obtained

Matric		Diploma		Degree		B.Tech		Honours		Masters		PhD	
--------	--	---------	--	--------	--	--------	--	---------	--	---------	--	-----	--

5. Position

(Please specify your job title)

.....

1.1 Should you have an Internal Audit function?

.....

.....

1.2 What should your Internal Audit function do?

.....

.....

1.3 What is the mandate of the Internal function?

.....

.....

1.4 What is the relationship between Internal Audit and the Audit Committee?

.....

.....

1.5 To whom does Internal Audit report administratively?

.....

.....

1.6 How is the Internal Audit function staffed?

.....

.....

1.7 How does Internal Audit get and maintain the expertise it needs to conduct its
assignment?

.....

.....

1.8 Are the activities of Internal Audit appropriately coordinated with those of the external auditors?

.....

.....

1.9 How is the Internal Audit plan developed?

.....

.....

1.10 What does the Internal Audit plan not cover?

.....

.....

1.11 How are Internal Audit findings reported?

.....

.....

1.12 How are corporate managers required to respond to Internal Audit findings and recommended?

.....

.....

1.13 What services does Internal Audit provide in connection with fraud?

.....

.....

1.14 How do you assess the effectiveness of your Internal Audit function?

.....

.....

1.15 Does Internal Audit have sufficient resources?

.....

.....

1.16 Does the Internal Audit function get appropriate support from the CEO and senior management team?

.....

.....

1.17 Are you satisfied that the organizations you audit has adequate internal controls over its major risks?

.....

.....

1.18 Are there any other matters that you wish to bring to the Audit Committee's attention?

.....

.....

1.19 Are there other ways in which Internal Audit and the Audit Committee could support each other?

.....

.....

1.20 Are you satisfied with your Internal Audit function?

.....

.....

QUESTIONNAIRE 2: DEPARTMENT

DEMOGRAPHIC PROFILE AND RELATED INFORMATION

Please answer all items completely and honestly as you can.

1. Gender

Male		Female	
------	--	--------	--

2. Age

21-30		31-40		41-50		51-60		60+	
-------	--	-------	--	-------	--	-------	--	-----	--

3. To which ethnic group do you belong

Black African		White		Coloured		Indian	
------------------	--	-------	--	----------	--	--------	--

4. Highest qualifications obtained

Matric		Diploma		Degree		B.Tech		Honours		Masters		PhD	
--------	--	---------	--	--------	--	--------	--	---------	--	---------	--	-----	--

5. Position

(Please specify your job title)

.....

2.1 Are you aware of any guidelines or policies regulating the finances of your organization?

Yes	
No	

2.2 Are those policies proper and clear guiding tools regulating the finances of the organization?

Yes	
No	

2.3 How does Provincial Treasury undertake its mandate to ensure effectiveness in the compliance of PFMA for public entities?

.....

.....

2.4 Which control measures are used to help and ensure that management directives are carried out and risks are addressed?

.....

.....

2.5 How do you contribute to sound financial management?

.....

.....

2.6 How do you ensure that the value of report on Financial Statements is accurate?

.....

.....

2.7 What is the role of Auditor-General with regard to public entities?

.....

.....

2.8 What consultation process is required in terms of budget preparation in the department regarding public entities?

.....

.....

2.9 What is the correct budgetary and reporting process for public entities?

.....

.....

2.10 The portfolio committee's core responsibility in the oversight process is to review the performance of departments, constitutional institutions and public entities as reported in their annual report. If **NO**, what is your opinion?

Yes	
No	

Please provide suitable mark on the following statements

Overview of the Act	Strongly Agree	Agree	Disagree	Strongly Disagree
1. This is a framework within which the accounting officer must manage his department. The Act also ensures much stronger oversight over public entities				
2. The Act covers national departments, constitutional institutions, provincial departments and public entities.				
3. The PFMA provides for broad national powers to monitor and enforce the implementation of the Act in departments. National and Provincial Treasuries need to take leadership in financial management.				
4. The PFMA provides for national powers to monitor and enforce the implementation of the Act in departments provides for the National Treasury to issue frameworks.				

Overview of the Act				
5. The Minister's statutory responsibilities are set out in the Act, e.g. considering financial reports and reporting to Cabinet and Executive Council.				
6. All departments and constitutions must have an accounting officer who is usually the head of department.				
7. Schedule 2 entities report directly to Parliament via the Minister. They must provide information on budget and corporate plans.				
8. Schedule 2 public entities manage their day to day affairs without the interference of the Minister.				
9. In terms of the strategic plan they must also at the end of the financial year report in terms of the financial report required in terms of the PFMA.				
10. The difference between Schedule 2 and 3 public entities is more autonomy in the day to day business, are performing in terms of business principles.				

Please mark Yes or No on the following statements:

Description	Yes/No
1. Does the public entity have an effective, efficient and transparent system of financial and risk management and internal control?	
2. Does the audit committee report and make recommendations to the accounting authority?	
3. Is internal audit conducted in accordance with standards set by the Institute of Internal Auditors?	
4. Has the internal audit function prepared a three year strategic internal audit plan based on the risks facing the public entity?	
5. Does the public entity conclude a shareholder's compact with the executive authority on an annual basis?	
6. Did the accounting authority submit a budget to the executive authority for his or her approval at least six months prior to the start of the financial year of the department designated by the executive authority?	
7. Did the public entity submit a corporate plan and borrowing programme to the relevant treasury?	
8. Does the public entity report quarterly to the executive authority on the extent of compliance with the PFMA and Treasury Regulations?	
9. Did the audit committee comment on its evaluation of the public entity's financial statements?	
10. Are systems, procedures and processes in place in the public entity to ensure efficient and effective banking and cash management?	

QUESTIONNAIRE 3: LEGISLATURE

DEMOGRAPHIC PROFILE AND RELATED INFORMATION

Please answer all items completely and honestly as you can.

1. Gender

Male		Female	
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2. Age

21-30		31-40		41-50		51-60		60+	
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3. To which ethnic group do you belong

Black African		White		Coloured		Indian	
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4. Highest qualifications obtained

Matric		Diploma		Degree		B.Tech		Honours		Masters		PhD	
--------	--	---------	--	--------	--	--------	--	---------	--	---------	--	-----	--

5. Position

(Please specify your job title)

.....

3.1 How does the legislature ensure that the implementation of the policy is effective and in accordance with congregational standards?

.....

.....

3.2 Describe in detail the mandate of the legislature to ensure effectiveness in enforcing compliance of Public Finance Management Act by departments and entities.

.....

.....

3.3 How does it analyze and interpret annual financial statements and annual reports?

.....

.....

3.4 What is the aim of portfolio committee in overseeing the performance?

.....

.....

3.5 Which tools that are used to monitor departments and public entities regarding the submission of reports?

.....

.....

3.6 How does the legislature assist the departments and entities in building their capacity for efficient, effective and transparent financial management within the framework of legislation.

.....

.....

3.7 What is the role of Public Accounts Committee to ensure that the government is accountable to the public?

.....

.....

3.8 Tools and measurement that is used to measure budgeting performance.

.....

.....

3.9 Which tools that need to be created or further developed for legislative oversight?

.....

.....

3.10 Which challenges are encountered by the legislature in enforcing compliance of the Act and strategies to overcome when the entities are not fully complying?

.....

.....

QUESTIONNAIRE 4: PUBLIC ENTITIES

DEMOGRAPHIC PROFILE AND RELATED INFORMATION

Please answer all items completely and honestly as you can.

1. Gender

Male		Female	
------	--	--------	--

2. Age

21-30		31-40		41-50		51-60		60+	
-------	--	-------	--	-------	--	-------	--	-----	--

3. To which ethnic group do you belong

Black African		White		Coloured		Indian	
------------------	--	-------	--	----------	--	--------	--

4. Highest qualifications obtained

Matric		Diploma		Degree		B.Tech		Honours		Masters		PhD	
--------	--	---------	--	--------	--	--------	--	---------	--	---------	--	-----	--

5. Position

(Please specify your job title)

.....

4.1 How does Provincial Treasury undertake its mandate to ensure effectiveness in the compliance of PFMA?

.....

.....

4.2 Which management control measures are used to help and ensure that management directives carried out and risks are addressed?

.....

.....

4.3 How do you ensure that the value of report on Financial Statements is accurate?

.....

.....

4.4 What is the role of Auditor-General with regard to public entities?

.....

.....

4.5 What consultation process is required in terms of budget preparation between the department and the public entities?

.....

.....

4.6 What is the correct budgetary and reporting process for public entities?

.....

.....

4.7 Which control measures are used to help and ensure that management directives are carried out and risks are addressed?

.....

.....

4.8 Did the accounting authority submit a budget to the executive authority for his or her approval at least six months prior to the start of the financial year of the department designated?

.....

.....

4.9 How do you contribute to sound financial management?

.....

.....

4.10 What challenges are encountered by the public entities and how have these challenges been addressed or how could they be addressed?

.....

.....

GENERAL COMMENTS (if any)

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