



FINANCIAL
AND FISCAL
COMMISSION

ANNUAL REPORT

2000-2001

FINANCIAL AND
FISCAL COMMISSION

ANNUAL REPORT

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In this era when service delivery has become the watchword of our political landscape, the biggest challenge for democratic South Africa is that of ensuring that the impetus in governments' developmental and economic strategy is not lost. To this extent, the FFC remains acutely aware that improving ordinary people's access to basic services is a fundamental aspect of deepening human rights. Given our country's history, this must after all be a defining feature of good governance today.

But, as experience has already shown, there are no magic, instant solutions. While desirous of stability and certainty, the processes that the FFC is a part of necessarily require that we provide for constant review and assessment. It is indeed this perspective which informed the FFC's approach in articulating further refinements for the intergovernmental fiscal relations system in its 2000/01 submission.

Intended among other things as a contribution to debate and reflection, the FFC Submission for the MTEF Cycle 2001-2004 highlighted some key provisions in the Bill of Rights which placed an imperative on government with respect to the provision of basic services to all South Africans. An obvious challenge to any government, especially if such provision has to be considered against the backdrop of a constrained economic and budgeting environment. Even as the Commission dealt extensively with this subject, it remained appreciative and keenly aware of the complexity of establishing a rapport between the imperatives of fiscal prudence and the urgent developmental objectives that the South African government has to satisfy.

The FFC Submission for the MTEF Cycle 2001-2004 has, once again, been the outcome of extensive interaction and engagement with the relevant stakeholders, international and local expertise. The Commission's engagement with all three spheres of government brought out valuable and critical insights adding great value to the final Submission of the Commission. The interactions with, in particular, the Parliamentary Portfolio Committees, the various legislative bodies of the provinces, the national departments and especially the National Treasury, continues to highlight the useful, ongoing and constructive relationship the Commission has enjoyed with stakeholders.

The Commission has, as a result, been extremely encouraged by their appreciation of its role as a key agent in facilitating the pursuit of equity in the sharing of nationally collected revenues. This has been underscored by the enthusiastic and favourable response with which its recommendations for the 2001 – 2004 MTEF cycle 2001-2004 have been received. However, given the milieu of interlinking policy objectives of government, we cannot emphasise enough the need to concretise a long term, all embracing fiscal framework. While seeking to embrace these contending policy options, it must at the same time provide an environment for greater synergy and coherence in fiscal policy execution while remaining at all times cognisant of Constitutional obligations.



"When service delivery has become the watchword of our political landscape, the biggest challenge for democratic South Africa is that of ensuring that the impetus in governments' developmental and economic strategy is not lost."



In presenting this report, I wish to thank the Commissioners and staff for their support and dedication given the intricacy and complexity of the fiscal issues and the normal transformational difficulties associated with an institution such as the FFC. This report presents a fair reflection of the their contributions to the development of an equitable financial and fiscal system for South Africa.



Murphy Morobe
Chairperson



1. MANAGEMENT REPORT

1.1 COMMISSIONERS

1.1.1 The FFC is structured according to the Constitution. The President appoints 22 Commissioners to the FFC, each for a term not exceeding five years (though the Commissioners may be re-appointed at the end of their term):

- A chairperson and a deputy chairperson who may be full time members;
- One person nominated by the executive councils of each of the nine provinces;
- Two persons nominated by organised local government in the form of the South African Local Government Association (SALGA); and
- Nine other persons.

1.2 MEMBERS OF THE COMMISSION AS OF 31 MARCH 2001



Murphy Morobe has served as chairperson of the FFC since its inception in 1994. He is a National nominee.



Jaya Josie is Acting Deputy chairperson of the FFC while a formal appointment by the President is awaited. He is a nominee of Gauteng.



Mustaq Brey is the chairperson of Brimstone, a well known black empowerment corporation based in Cape Town. He is a nominee of the Northern Cape and is a member of the FFC Audit Committee.



John Douw is an executive member of the North West Local Government Association and serves as the chairperson of its finance working group. He is a nominee of SALGA and serves on the Local Government task group.





Mandla Gantsho was, during the period under review, an executive manager at the Development Bank of Southern Africa (DBSA). He is a National nominee.



Philip Hourquebie is the CEO of Ernst & Young (Southern Africa) and is a member of the Ernst & Young International Council. He is the chairperson of the FFC Audit Committee and was nominated to the FFC by KwaZulu-Natal. He serves on the FFC Steering Committee.



Francois le Roux is currently deputy director-general in the Department of Finance responsible for international development finance, pensions administration, the Public Investment Commissioners, and corporate services. He is a National nominee.



Monde Limekhaya is the deputy permanent secretary, accountant general, in the Eastern Cape Province Department of Finance. He serves on the task group on Budget Analysis and was nominated to the FFC by the Eastern Cape.



Lieb Loots is Director of the Economic Policy Research Project at the University of the Western Cape. He is Director of the Sekunjalo Investments Limited and serves on the FFC Steering Committee. He is a National nominee.



Louis Kathan was nominated by the Western Cape and is a member of the FFC task group on Health, Education and Welfare.





Renosi Mokate was Executive Director (economic and social analysis) at the Human Sciences Research Council (HSRC). She is a National nominee and serves on the FFC Steering Committee and its task group on Health, Education and Welfare.



Ebrahim Patel is the Deputy General Secretary of the Southern African Clothing and Textile Workers Union (SACTWU) and serves on the National Executive Committee of the Congress of South African Trade Unions (Cosatu). He is a National nominee.



Jerry Sithole is a chartered accountant and has been Director of his own auditing and accounting practice since 1984. He was nominated by the Northern Province and is a member of the FFC Audit Committee and the task group on Budget Analysis.



Marius van Blerck was, during the period under review, Executive Vice-President: Tax with Anglo American plc. and is a member of the Income Tax Special Court. He is a National nominee and serves on the FFC task group on Tax Policy.



Philip van Ryneveld is Executive Director (Corporate Finance), City of Cape Town. He is a National nominee and serves on the FFC Local Government task group.



1.2.1 COMMISSION VACANCIES

During the period covered by this report, a number of vacancies occurred in the Commission. The President's decision on the replacements was still awaited. Procedures for such replacements are laid down in the FFC Act. The following vacancies were still to be filled:

- | | | |
|-----------------------|---|--------------------|
| 1) Deputy Chairperson | – | National Nominee |
| 2) Mpumalanga | – | Provincial Nominee |
| 3) Free State | – | Provincial Nominee |
| 4) North West | – | Provincial Nominee |
| 5) Local Government | – | SALGA |
| 6) Two other | – | National Nominee |

1.3 FINANCES

1.3.1 Financial framework

1.3.1.1 The FFC is funded through the national budget. On an annual basis, and as part of the MTEF, the funds so appropriated reside generally in the budget of the Department of Finance, which the FFC then accesses unconditionally on the basis of its own plans.

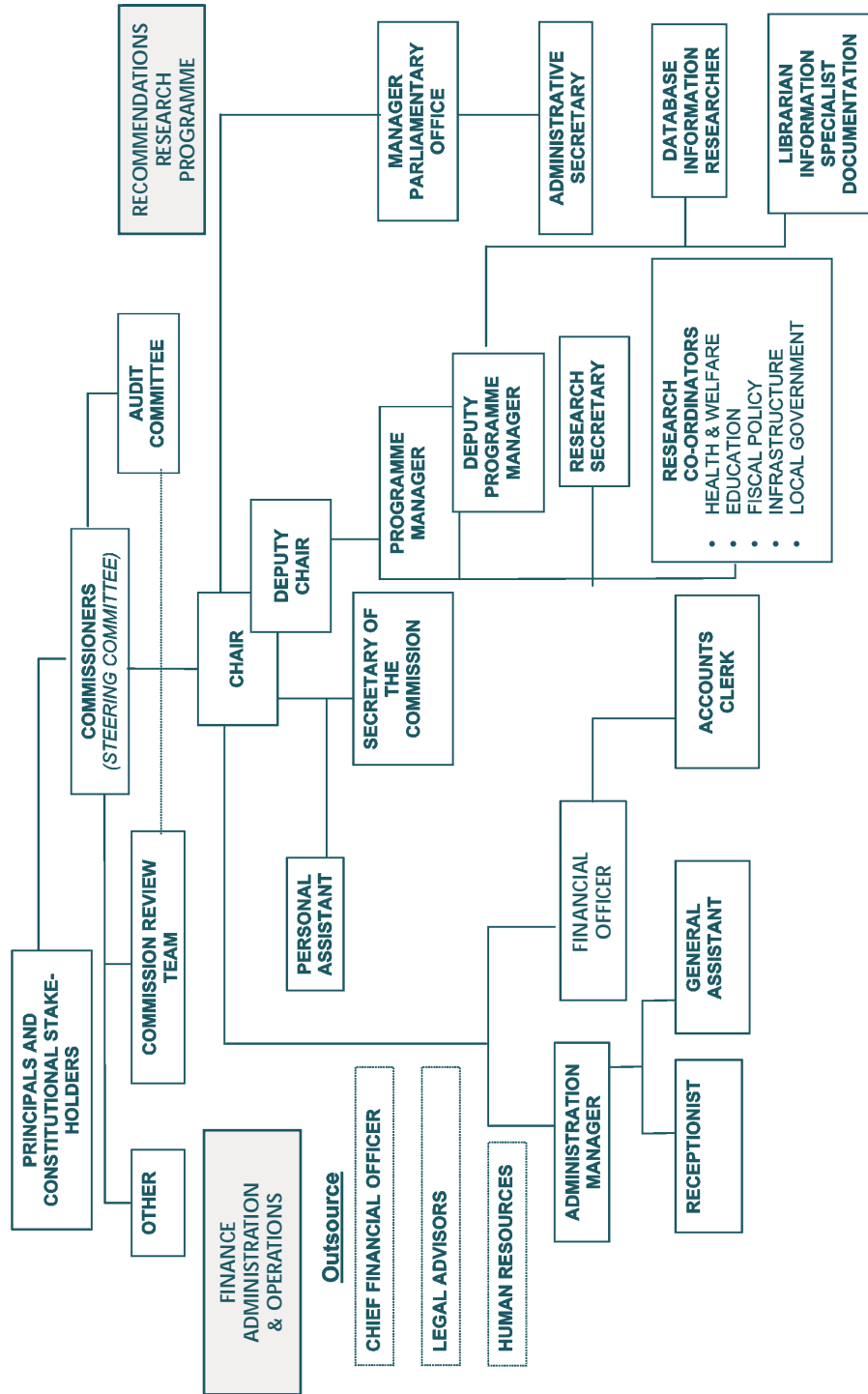
1.3.1.2 A budget of R 7 994 000.00 was allocated to the FFC for the financial year 2000-2001. Total expenditure as per total budget provision was R7 555 786.00. Unspent funds amounted to R235 959.00.

1.3.2 Financial Statements and Auditor's Report

The audited financial statements for the year, together with the Auditor-General's report, are presented in Section 4 of the annual report.



1.4 STRUCTURE OF THE FFC AS AT 1 APRIL 2001



1.4.1 THE FFC SECRETARIAT

1.4.1.1 The FFC Secretariat is currently housed in Midrand, providing research, analytical and administrative support to the Commission. All staff listed below were employed by the Commission during the period covered by this report.

STAFF:

Murphy Morobe	Chairperson
Jaya Josie	Acting Deputy Chairperson
Myron Peter	Secretary of the Commission
Nkem Abonta	Programme Manager, Recommendations and Research Programme
Conrad van Gass	Deputy Programme Manager, Recommendations and Research Programme
Hildegarde Fast	Parliamentary Manager, Acting Research Coordinator, Cape Town
Betty Kaseke	Research Co-ordinator
Rosanna Achterberg	Research Co-ordinator
Bongani Khumalo	Research Co-ordinator
Patrick Mabuza	Research Co-ordinator
Vincent Makinta	Database Information Researcher
Gabriel Jamo	Intern researcher
Cindy Bruce	Admin/Network Manager
Antonette Smit	Librarian/Information Technologist
Lyn Desai	PA to the Chairperson and Deputy Chairperson



Annaleeze Prosee Secretary (Recommendations and Research Programme)

Annah Mosiane Receptionist

Deliswa Schoeman Accounts Clerk

Outsourced Functions:

- Chief Financial Officer: Safeea Rahiman, partner of Pierce and Gampel
- Human Resources: Andre Michaux
- Legal Counsel: Cheadle, Thompson, and Haysom

1.4.2 TECHNICAL ADVISORY GROUP

Ron Newman Manitoba (Canada). Sponsored by CIDA (Canadian International Development Agency).

Andrew Reschovsky (USA) Social Policy

Howard Chernick (USA) Social Policy

Raja Chelliah (India) Fiscal Policy

Jeff Petchey (Australia) Capital Expenditure

Guy Gilbert (France) IGFR

Mark Blecher (South Africa) Health

Rosalind Mowat (South Africa) Infrastructure

Lu Heideman (South Africa) Local Government

1.5 HUMAN RESOURCES AND CAPACITY BUILDING

1.5.1 A comprehensive set of HR Policies and Procedures were developed and implemented at the FFC during the reporting period. These policies have enabled the provision of clear and consistent guidelines for the organisation, as well as ensuring that employment practice at the FFC is compliant with the relevant legislative requirements.



- 1.5.2 The FFC has introduced a formal Induction Programme for all new employees. In addition, the organisation held a two-day orientation workshop designed to provide input and discussion on the roles and responsibilities of the FFC, review past and future plans and provide a forum within which to consult with staff on HR issues. It is envisaged that this will be conducted as an annual event.
- 1.5.3 During the reporting period Job profiles and Performance Contracts were drawn up and agreed with all FFC employees. These documents have assisted the organisation in clarifying roles and responsibilities and form the basis for the management of performance at the FFC.
- 1.5.4 The FFC has also developed and implemented a Performance Management System and completed two rounds of performance reviews with all staff during the reporting period. This system has provided the organisation with a structured environment within which to systematically assess and rate performance and establish and monitor employee training and development needs. The system has been closely monitored throughout its implementation and various enhancements have been adopted, in consultation with staff, during the process.
- 1.5.5 The Performance Management System provided a basis from which to conduct a focused identification of employee training and development needs. This information has been collated and, in conjunction with the 2001/2 Budget provisions, forms the basis of the organisations current Training and Development Plan.
- 1.5.6 The FFC submitted its first Employment Equity Report to the Department of Labour on 1st December 2000. Organisational policies and practices have been updated to ensure compliance with legislative requirements and the recruitment process has taken into account affirmative action considerations regarding the workforce profile of the organisation. A consultative equity programme has been devised for the next reporting period.



1.5.7 The Recruitment and Selection process of the FFC was reviewed and a more coordinated approach has been agreed and implemented. This approach has resulted in the successful sourcing and appointment of nine current members of staff, including key managerial portfolios within the secretariat. This has met the requirement for a wider skills base and improved technical and research capacity at the FFC.

1.5.8 The FFC has implemented a formal Probation Review system for the monitoring and confirmation of all new staff serving contractual probation periods.

1.6 INFORMATION TECHNOLOGY

1.6.1 The Commission is acutely aware of the challenge to improve information gathering and communication through constantly enhancing its technological capability for data collection and analysis, administrative planning, and its communication with the public at large.

1.6.2 The FFC website has played a crucial role in interfacing with stakeholders and the public and interested parties. The website is being reviewed as part of the restructuring the FFC information technology programme and infrastructure.

1.7 LEGAL COMPLIANCE

1.7.1 INTERNAL COMPLIANCE

1.7.1.1 Given its evolving nature, some procedures for recruitment and procurement have been implemented in compliance with legal recruitment practices and as a function of the financial management of resources of the Commission.

1.7.1.2 Monthly reviews of the use of resources according to standard procedures for ensuring accountability have been conducted by the Executive of the Commission in terms of current legal requirements.

1.7.1.3 The Commission devoted 2000 to finalising, operationalising and implementing all procedural and structural issues to enhance capacity.



1.7.1.4 During 2000-2001 the Commission engaged the services of a consultant to assist in a review of its Human Resource and financial procedures and to redraft a more comprehensive set of procedures in keeping with new legislation.

1.7.2 EXTERNAL COMPLIANCE

1.7.2.1 The activities and finances of the Commission are subject to scrutiny by bodies such as the Office of the Auditor-General and the relevant Parliamentary committees.

1.7.2.2 The Commission's financial management practices were conducted within the provisions of the legal prescripts of the regulations promulgated by the Departments of Finance and State Expenditure. This included treasury regulations as applicable to the fiscal year.

1.7.2.3 The Commission exists and acts in terms of Chapter 13 of the Constitution of the Republic of South Africa, 1996. The provisions of the Constitution provide the mandate and scope of the Commission within the intergovernmental fiscal system.

1.7.2.4 Flowing from the relevant provisions of the Constitution, the Commission's activities are further regulated by the Financial and Fiscal Commission Act, 1997.

1.7.2.5 In its role in the national budget process, the Commission strongly adheres to the mandate and process set out in the Intergovernmental Fiscal Relations Act, 1997. The Act provides for recommendations to be submitted by the FFC, ten months before the introduction of the Division of Revenue Bill in Parliament by the Minister of Finance. It also provides a process of consultation between the Commission and the Minister of Finance, at least 14 days before the Bill is introduced into the Parliamentary process.



FINANCIAL AND FISCAL COMMISSION ACT (Act No. 99, 1997)



ACT

To give effect to the constitutional requirements relating to the Financial and Fiscal Commission; and to provide for matters in connection therewith.

(English text signed by the President.)
(Assented to 26 November 1997.)

BE IT ENACTED by the Parliament of the Republic of South Africa, as follows:—

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1. In this Act, unless the context indicates otherwise—

“Commission” means the Financial and Fiscal Commission referred to in section;

“employee”, except in sections 20(1), 21 and 33, includes a member of the public service seconded to the Commission; **25**

“financial year” means the financial year of the Commission, which is the same as that of state departments;

“Minister” means the Minister of Finance;

“organ of state” means the same as in section 239 of the Constitution;

“President” means the President acting as head of the national executive in terms of section 85 of the Constitution; **30**

“state department” means a department, administration or office listed in Schedule 1 or 2 of the Public Service Act, 1994 (Proclamation No. 103 of 1994);

“this Act” includes any regulations made in terms of section 30.

PART 1 **35****STATUS, FUNCTIONS AND POWERS OF COMMISSION****Status**

2. The Financial and Fiscal Commission established by section 220 of the Constitution is a juristic person, independent and subject only to the Constitution, this Act and the law. **40**

Functions

3. (1) The Commission acts as a consultative body for, and makes recommendations and gives advice to, organs of state in the national, provincial and local spheres of government on financial and fiscal matters.

(2) The Commission— **45**

(a) must perform the functions mentioned in subsection (1) to the extent that its performance of those functions are envisaged in the Constitution or required by national legislation; and



- (b) may perform those functions—
 - (i) on its own initiative; or
 - (ii) on request of an organ of state.
- (3) The Commission must be impartial.
- (4) No person or organ of state may interfere with the functioning of the Commission. 5
- (5) All organs of state, when appropriate, must assist the Commission to perform its functions effectively.
- (6) The Commission must submit for tabling copies of all its recommendations made in terms of a provision of the Constitution to both Houses of Parliament and to the provincial legislatures. 10

Powers

- 4. (1) The Commission may do all that is necessary or expedient to perform its functions effectively, which includes the power to—
 - (a) determine its own staff establishment and appoint employees in posts on the staff establishment 15
 - (b) obtain the services of any person, including any organ of state or institution to perform any specific act or function;
 - (c) confer with any person or organ of state;
 - (d) acquire or dispose of any right in or to property, but ownership in immovable property may be acquired or disposed of only with the consent of the Minister; 20
 - (e) open, and operate on, its own bank accounts; insure itself against any loss, damage, risk or liability;
 - (g) perform legal acts, or institute or defend any legal action in its own name;
 - (h) do research and publish reports; and
 - (i) do anything that is incidental to the exercise of any of its powers. 25
- (2) The Commission may not borrow money or overdraw its bank accounts.

PART 2

MEMBERSHIP OF COMMISSION

Composition

- 5. In terms of section 221(1) of the Constitution, the Commission consists of the following women and men appointed by the President: 30
 - (a) A chairperson and a deputy chairperson;
 - (b) nine persons, each of whom is nominated by the Executive Council of a province, with each province nominating only one person after nominations have been invited in the provincial gazette and in at least two newspapers circulating in the province; 35
 - (c) two persons nominated by organised local government in accordance with the Organised Local Government Act, 1997; and
 - (d) nine other persons.

Chairpersons

40

- 6. The Chairperson and Deputy Chairperson of the Commission are appointed in terms of section 221(1)(a) of the Constitution.

Qualifications

- 7. A member of the Commission must have appropriate expertise

Terms of office

45

- 8. (1) The members of the Commission must be appointed for a term not exceeding five years.



(2) A member may be reappointed when that member's term expires.

Remuneration, allowances and benefits

9. (1) The remuneration, allowances and other benefits of members of the Commission must be determined by the President, taking into account—

- (a) the recommendations of the Minister; 5
- (b) the remuneration, allowances and other benefits of members of other commissions established by the Constitution;
- (c) the role, duties and responsibilities of a member of the Commission;
- (d) affordability in relation to the responsibilities of the Commission;
- (e) the level of expertise and experience required of a member of the Commission; and; 10
- (f) any relevant recommendations of the independent commission referred to in section 219(2) of the Constitution.

(2) The remuneration of a member may not be reduced during the term of the member.

Resignations 15

10. A member of the Commission may resign by giving at least three months' written notice to the President, but the President may accept a shorter notice period in a specific case.

Removal from office

11. (1) The President may remove a member of the Commission from office, but only on the ground of misconduct, incapacity or incompetence. 20

(2) A decision to remove a member on the ground of misconduct or incompetence must be based on a finding to that effect by a tribunal appointed by the President.

(3) The President may suspend a member of the Commission from office while awaiting the finding of the tribunal concerning that member. 25

(4) The President must consult—

- (a) the Premier of a province before removing from office a member nominated by that province in terms of section 5(b); or
- (b) organised local government before removing from office a member nominated in terms of section 5(c). 30

Vacancies

12. As soon as practical after a vacancy has occurred in the Commission, the President must appoint another person in accordance with section 5 to fill the vacancy.

Acting Chairperson

13. If the Chairperson of the Commission is absent from office or otherwise unable to perform the functions of office, or during a vacancy in the office of Chairperson, the Deputy Chairperson acts as Chairperson. 35

PART 3

OPERATING PROCEDURE OF COMMISSION

Meetings 40

14. (1) The Commission decides when and where it meets, or may authorise the Chairperson to decide on its behalf.

(2) At least four meetings must be held each year.

(3) The Chairperson or the Deputy Chairperson presides at meetings of the Commission. but if both are absent from a meeting, the members present must elect another member to preside at that meeting. 45



(4) A member who has a personal or financial interest in any matter before the Commission, must disclose that interest and withdraw from the proceedings of the Commission when that matter is considered.

Quorums

15. (1) The majority of the members of the Commission constitutes a quorum for a meeting of the Commission., 5

(2) A question before the Commission is decided with a supporting vote of at least two thirds of the members present.

Rules of procedure

16. The Commission must— 10
 (a) determine rules of procedure for the conduct of its business; and
 (b) keep minutes of its proceedings and decisions.

Committees

17. (1) The Commission may— 15
 (a) appoint one or more committees to assist the Commission in the performance of any of its functions or the exercise of any of its powers; or
 (b) dissolve a committee at any time
 (2) A committee consists of—
 (a) two or more Commission members; or
 (b) at least one Commission member and at least one other person. 20
 (3) The Commission—
 (a) must determine the functions of a committee;
 (b) must appoint the chairperson and, members of a committee, but only a Commission member may be appointed as the chairperson;
 (c) may dismiss a member of a committee at any time; 25
 (d) may determine a committee's procedure; and
 (e) must determine, after consulting the Minister, the remuneration, allowances and other benefits of office of members of a committee who are not Commission members or employees.

Assignment of powers and duties 30

18. (1) The Commission may—
 (a) delegate any of the Commission's powers to a Commission member, committee or employee; or
 (b) instruct any Commission member, committee or employee to perform any of the Commission's duties. 35
 (2) A delegation instruction in terms of subsection (1)—
 (a) is subject to any conditions the Commission may impose; and
 (b) does not divest the Commission of the responsibility concerning the exercise of the power or the performance of the duty.
 (3) The Commission may confirm, vary or revoke any decision taken by a Commission member, committee or employee in consequence of a delegation or instruction. 40

PART 4

ADMINISTRATION AND STAFF MATTERS

Administrative responsibilities of Chairperson 45

19. (1) The Chairperson of the Commission is the chief-executive officer and also the accounting officer of the Commission.

(2) As chief-executive officer the Chairperson is responsible for— 50
 (a) the formation and development of an efficient administration;
 (b) the organisation, control and management of the staff;
 (c) the maintenance of discipline; and



- (d) the carrying out of the decisions of the Commission.
- (3) As accounting officer the Chairperson is responsible for—
- (a) all income and expenditure of the Commission;
 - (b) all assets and the discharge of all liabilities of the Commission; and
 - (c) the proper and diligent implementation of Part 5. 5

Terms and conditions of employment

20. (1) An employee of the Commission is employed subject to the terms and conditions of employment determined by the Commission.
- (2) Persons in the public service seconded to the Commission perform their duties subject to the control and discipline of the Chairperson of the Commission. 10

Pension benefits

21. (1) A person appointed as an employee of the Commission may become a member of the Government Employees' Pension Fund mentioned in section 2 of the Government Employees' Pension Law, 1996 (Proclamation No. 21 of 1996).
- (2) An employee of the Commission who becomes a member of that pension fund, is entitled to pension and retirement benefits as if that person is an official in the public service. 15

Services of non-employees

22. If the Commission contracts for the services of any person, other than an employee, to perform any specific act or function, the Commission may remunerate that person, and may reimburse that person for expenses. 20

PART 5

FINANCES OF COMMISSION

Funding

23. (1) The Commission is entitled to money appropriated annually by Parliament to enable it to perform its functions effectively. 25
- (2) For the purposes of subsection (1) the Chairperson of the Commission—
- (a) must submit to the Minister during each financial year, but before a date set by the Minister, estimates of the Commission's income and expenditure for the next financial year; and 30
 - (b) may submit to the Minister at any time during a financial year estimates of the Commission's income and expenditure supplementary to those mentioned in paragraph (a).
- (3) When submitting estimates the Chairperson must disclose full particulars of any income which has accrued, or is expected to accrue, to the Commission from a source other than an appropriation by Parliament. 35
- (4) The Commission must refund to the National Revenue Fund any money paid to the Commission in terms of subsection (1) that has not been used at the end of a financial year, unless the Minister agrees that the Commission may retain the money.

Accountability 40

24. As accounting officer of the Commission, the Chairperson must—
- (a) keep full and proper records of—
 - (i) all income and expenditure of the Commission; and
 - (ii) all the Commission's assets, liabilities and financial transactions;
 - (b) ensure that the Commission's available resources are properly safeguarded and used in the most efficient and effective way; 45
 - (c) ensure that all statutory measures applicable to the Commission are complied with; and



- (d) within three months after the end of each financial year, prepare annual financial statements in accordance with generally accepted accounting practice.

Audits

25. The Auditor-General must audit the accounts and financial records of the Commission. 5

PART 6

MISCELLANEOUS

Annual report

26. (1) The Commission must annually submit to both Houses of Parliament, to each provincial legislature and to the national organisation representing organised local government recognised in terms of the Organised Local Government Act, 1997, a report on the activities of the Commission during a financial year. 10
- (2) The report must be submitted within six months after the end of the financial year to which it relates, and must include— 15
- (a) a summary of all recommendations made by the Commission in terms of a requirement of the Constitution; and
 - (b) audited financial statements reflecting the Commission's financial affairs during the year, consisting of at least— 20
 - (i) a balance sheet;
 - (ii) an income statement;
 - (iii) a cash flow statement; and
 - (iv) a report of the auditors.

Information required by Commission

27. (1) The Commission may obtain information it requires for the performance of its 25 functions from the Central Statistical Service.
- (2) Any information which the Commission requires for the performance of its functions and which is available to an organ of state or to any institution that derives any funds from the National Revenue Fund, a Provincial Revenue Fund or a municipality, must be supplied free of charge to the Commission, on the Commission's request, by that organ of state or institution. 30

Liability of Commission

28. (1) The State Liability Act, 1957 (Act No. 20 of 1957), applies, with the necessary changes, in respect of the Commission, and in such application a reference in that Act to the Minister of a department concerned must be construed as a reference to the Chairperson of the Commission. 35
- (2) No person, including the Commission, is liable for anything done or omitted in good faith when performing a function or exercising a power in terms of this Act.

Protection of confidential information

29. (1) No person may disclose any information acquired on a confidential basis in the course of the application of this Act, except when— 40
- (a) necessary for the purposes of this Act;
 - (b) required in terms of other legislation or the law;
 - (c) required in the course of legal proceedings; or
 - (d) a court so orders. 45
- (2) A person who contravenes subsection (1) is guilty of an offence and on conviction liable to a fine or to imprisonment not exceeding one year or to a fine and imprisonment.



Regulations

30. The Minister, with the concurrence of the Commission, may make regulations, not inconsistent with this Act or any other Act of Parliament, prescribing procedures to facilitate the performance by the Commission of its functions.

PART 7

5

TRANSITIONAL ARRANGEMENTS**Definitions**

31. In this Part—

- “new Commission” means the Commission referred to in section 2;
- “previous Commission” means the Financial and Fiscal Commission established by section 198 of the previous Constitution; 10
- “previous Constitution” means the Constitution of the Republic of South Africa, 1993 (Act No. 200 of 1993).

Members of previous Commission

32. (1) A person who held office in the previous Commission immediately before this Act took effect:— 15

- (a) as the Chairperson or Deputy Chairperson, is regarded as having been appointed as the Chairperson or the Deputy Chairperson of the new Commission in terms of section 5(a) of this Act;
- (b) as a member designated by a provincial Executive Council in terms of section 200(1)(b) of the previous Constitution, is regarded as having been nominated by that Council and appointed to the new Commission in terms of section 5(b) of this Act; and 20
- (c) as a member appointed in terms of section 200(1)(c) of the previous Constitution, is regarded as having been appointed to the new Commission in terms of section 5(d) of this Act. 25

(2) The Chairperson and Deputy Chairperson are regarded as having been appointed to the new Commission for a term of five years as from the date this Act took effect.

(3) The members referred to in subsection (1)(b) and (c) are regarded as having been appointed to the new Commission for a term of four years as from the date this Act took effect. 30

Transfer of assets, liabilities, staff, etc.

33. When this Act takes effect—

- (a) all assets, liabilities, rights and obligations of the previous Commission are vested in the new Commission; 35
- (b) an employee of the previous Commission becomes an employee of the new Commission—
 - (i) subject to the terms and conditions of employment that were applicable to that person as an employee of the previous Commission, until altered in terms of section 20; and 40
 - (ii) with retention of all accrued pensionable service, leave and other benefits: and
- (c) anything done by or on behalf of the previous Commission is regarded as having been done by or on behalf of the new Commission.

Financial and administrative records

45

34. The new Commission is entitled to all financial, administrative and other records of the previous Commission.



Short title and commencement

35. This Act is called the Financial and Fiscal Commission Act, 1997, and takes effect on 1 January 1998.



**THE FINANCIAL AND FISCAL COMMISSION
ANNUAL FINANCIAL STATEMENTS
31 MARCH 2001**



**FINANCIAL AND FISCAL COMMISSION
ANNUAL FINANCIAL STATEMENTS
31 MARCH 2001**

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APPROVAL

The annual financial statements, set out on pages 35 to 46, for the year ended 31 March 2001 as approved by the Chairperson:



M. MOROBE
Chairperson



FINANCIAL AND FISCAL COMMISSION

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2001

	Notes	2001 R	2000 R
ASSETS			
Non-current assets			
Plant and equipment	11	1 082 366	439 435
Current assets			
Accounts receivable	3	16 968	1 086
Cash and cash equivalents	2	235 959	15 979
Total assets		<u>1 335 293</u>	<u>456 500</u>
RESERVES AND LIABILITIES			
Capital and reserves			
Capital contribution	1	918 752	918 752
Accumulated surplus/(deficit)		(51 545)	(548 695)
Current liabilities			
Accounts payable	4	396 086	56 443
Provisions	5	72 000	30 000
Total reserves and liabilities		<u>1 335 293</u>	<u>456 500</u>



FINANCIAL AND FISCAL COMMISSION
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 31 MARCH 2001

	Notes	2001 R	2000 R
Operating income			
Transfers from National Treasury	10	7 994 000	5 850 000
Other income			
Interest received		58 936	40 830
Total income		<u>8 052 936</u>	<u>5 890 830</u>
Operating expenses			
Staff costs		(3 927 242)	(2 044 091)
Depreciation	11	(211 816)	(233 011)
Professional services		(1 048 668)	(567 864)
Other operating expenses		(2 366 808)	(3 177 364)
Total operating expenses		<u>(7 554 534)</u>	<u>(6 022 330)</u>
Surplus/(deficit) from operating activities		498 402	(131 500)
Interest paid		(1 252)	–
Net surplus/(deficit) for the year	6	<u>497 150</u>	<u>(131 500)</u>



FINANCIAL AND FISCAL COMMISSION

STATEMENT OF CHANGES IN RESERVES FOR THE YEAR ENDED 31 MARCH 2001

	2001 R	2000 R
Capital and reserves at beginning of year	370 057	501 557
Capital contribution	918 752	918 752
Accumulated surplus/(deficit)	(548 695)	(417 195)
Changes in reserves		
Net surplus/(deficit) for the year	497 150	(131 500)
Capital and reserves at end of year	867 207	370 057
Capital contribution	918 752	918 752
Accumulated surplus/(deficit)	(51 545)	(548 695)
	867 207	370 057



FINANCIAL AND FISCAL COMMISSION

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2001

	NOTES	2001 R	2000 R
Cash received from Government		7 994 000	5 850 000
Cash paid to suppliers and employees		(6 976 957)	(5 862 865)
Cash generated by operations	7	1 017 043	(12 865)
Interest received		58 936	40 830
Interest paid		(1 252)	-
Cash flows from operating activities		1 074 727	27 965
Cash flows from investing activities		(854 747)	(308 238)
Purchase of furniture and equipment		(66 752)	(325)
Purchase of computer equipment		(684 393)	(91 486)
Purchase of office equipment		(77 066)	(199 537)
Purchase of computer software		(26 536)	(16 890)
Net increase/(decrease) in cash and cash equivalents for the year		219 980	(280 273)
Cash and cash equivalents at beginning of year		15 979	296 252
Cash and cash equivalents at end of year	2	235 959	15 979



FINANCIAL AND FISCAL COMMISSION STATEMENT OF ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2001

The financial statements have been prepared in accordance with the statements of generally accepted accounting practice. The following are the principal accounting policies of the Commission which are consistent in all material respects with those applied in the previous year, except as otherwise indicated.

1. Basis of presentation

The financial statements have been prepared on the historical cost basis.

2. Plant and equipment

Plant and equipment (owned or leased) is stated at historical cost less accumulated depreciation. Depreciation is calculated on the straight-line method to write off the cost of each asset (less its residual value) over its estimated useful life as follows:

Computer equipment	33,33%
Computer software	50%
Furniture and fittings	20%
Motor vehicles	20%
Office equipment	20%

No depreciation is written off on paintings, which are considered investment assets.

3. Income recognition

Income from government grants is recognised when it is received by the Commission.

Interest is recognised on a time proportion basis, taking account of the principal outstanding or invested and the effective rate over the period to maturity.

4. Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, receivables and creditors. These instruments are generally carried at their estimated fair value.

5. Cash flows

For the purposes of the cash flow statement, cash includes cash on hand and where relevant, deposits held on call with banks, investments in money market instruments and bank overdrafts.

6. Post employment benefit costs

The Commission's contributions to a defined contribution plan in respect of services in a particular period are recognized as an expense in that period.

7. Comparative figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.



FINANCIAL AND FISCAL COMMISSION

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2001 (Contd.)

	2001 R	2000 R
1. Capital contribution		
Value of assets acquired from National Treasury	<u>918 752</u>	<u>918 752</u>
2. Cash and cash equivalents		
Cash and cash equivalents consist of cash on hand and balances with banks. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:		
Cash on hand	500	500
Cash in bank	<u>235 459</u>	<u>15 479</u>
	<u>235 959</u>	<u>15 979</u>
3. Accounts receivable		
Staff loans	16 696	1 086
Amount paid in advance	<u>272</u>	<u>-</u>
	<u>16 968</u>	<u>1 086</u>
The accounts receivable are of a sundry nature and the Commission is not exposed to any significant credit risks.		
4. Accounts payable		
Trade creditors	18 904	-
Provident Fund contributions	127 739	-
Accruals	<u>249 443</u>	<u>56 443</u>
	<u>396 086</u>	<u>56 443</u>
5. Provisions		
Auditor General – audit fees	<u>72 000</u>	<u>30 000</u>



FINANCIAL AND FISCAL COMMISSION

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2001 (Contd.)

	2001 R	2000 R
6. Net surplus/(deficit) for the year		
<i>Net surplus/(deficit) for the year has been arrived at after debiting:</i>		
Audit fees:		
Current year	72 000	30 000
Prior year under-provision	111 828	–
Commissioners' expenses	90 177	535 332
Depreciation:		
Computer hardware	101 293	57 844
Computer software	13 632	49 354
Furniture and fittings	21 208	71 256
Motor vehicles	11 615	12 966
Office equipment	64 068	41 591
Staff costs		
<i>Included in staff costs are:</i>		
Defined contribution plan expense	452 225	275 542
<i>And after crediting:</i>		
<i>Interest received:</i>		
Current account	58 454	40 830
Staff loans	482	–
	58 936	40 830



FINANCIAL AND FISCAL COMMISSION

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2001 (Contd.)

	2001 R	2000 R
7. Cash generated by operations		
<i>Reconciliation of surplus/(deficit) from ordinary activities to cash generated by operations:</i>		
Surplus/(deficit) from ordinary activities	497 150	(131 500)
Adjusted for:		
Depreciation	211 816	233 011
Interest paid	1 252	-
Interest received	(58 936)	(40 830)
Surplus/(deficit) before working capital changes	651 282	60 681
Working capital changes:		
Increase/(decrease) in accounts payable	381 643	(78 259)
(Increase)/decrease in accounts receivable	(15 882)	4 713
	1 017 043	(12 865)

8. Financial instruments

Credit risk

Financial assets which potentially subject the Commission to concentrations of credit risk consist principally of cash and receivables. The Commission's cash equivalents are placed with high credit quality financial institutions. Receivables are of a sundry nature and the credit risk is therefore limited. Accordingly the Commission has no significant concentration of credit risk.

The carrying amounts of financial assets included in the balance sheet represent the Commission's exposure to credit risk in relation to these assets.

Interest rate risk

The Commission has cash and cash equivalents and is therefore exposed to interest rate risk.



FINANCIAL AND FISCAL COMMISSION

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2001 (Contd.)

Fair values

At 31 March 2001 the carrying amounts of cash and cash equivalents, accounts payable and accounts receivable approximated their fair values due to the short term maturities of these assets and liabilities.

9. Post employment benefit information

The Financial and Fiscal Commission Provident Fund, which is governed by the Pension Funds Act of 1956, is a defined contribution plan for employees. All employees are members of the provident fund.

10. Income

Income comprises grants received from Government and interest on available funds held in current accounts with financial institutions.



FINANCIAL AND FISCAL COMMISSION

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2001 (Contd.)

11. Plant and equipment

	Computer Hardware R	Computer software R	Furniture & fittings R	Motor vehicles R	Office equipment R	Paintings R	Total R
2001							
<i>Balance at beginning of year</i>							
Cost	896 138	575 547	356 607	64 828	407 487	38 805	2 339 412
Accumulated depreciation	(806 040)	(562 193)	(336 394)	(53 212)	(142 138)	-	(1 899 977)
Net book value	90 098	13 354	20 213	11 616	265 349	38 805	439 435
<i>Movements for the year</i>							
Additions	684 393	26 536	66 752	-	77 066	-	854 747
Depreciation	(101 293)	(13 632)	(21 208)	(11 615)	(64 068)	-	(211 816)
<i>Balance at end of year</i>	<u>673 198</u>	<u>26 258</u>	<u>65 757</u>	<u>1</u>	<u>278 347</u>	<u>38 805</u>	<u>1 082 366</u>
<i>Made up as follows:</i>							
Cost	1 580 531	602 083	423 359	64 828	484 553	38 805	3 194 159
Less: Accumulated depreciation	(907 333)	(575 825)	(357 602)	(64 827)	(206 206)	-	(2 111 793)
Net book value	<u>673 198</u>	<u>26 258</u>	<u>65 757</u>	<u>1</u>	<u>278 347</u>	<u>38 805</u>	<u>1 082 366</u>



FINANCIAL AND FISCAL COMMISSION

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2001 (Contd.)

11. Plant and equipment (Contd.)

	Computer Hardware R	Computer software R	Furniture & fittings R	Motor vehicles R	Office equipment R	Paintings R	Total R
2000							
<i>Balance at beginning of year</i>							
Cost	804 651	558 654	356 282	64 828	207 954	38 805	2 031 174
Accumulated depreciation	(748 196)	(512 835)	(265 138)	(40 247)	(100 550)	–	(1 666 966)
Net book value	56 455	45 819	91 144	24 581	107 404	38 805	364 208
<i>Movements for the year</i>							
Additions	91 486	16 890	325	–	199 537	–	308 238
Depreciation	(57 844)	(49 354)	(71 256)	(12 966)	(41 591)	–	(233 011)
<i>Balance at end of year</i>	<u>90 097</u>	<u>13 355</u>	<u>20 213</u>	<u>11 615</u>	<u>265 350</u>	<u>38 805</u>	<u>439 435</u>
<i>Made up as follows:</i>							
Cost	896 137	575 544	356 607	64 828	407 491	38 805	2 339 412
Less: Accumulated depreciation	(806 040)	(562 189)	(336 394)	(53 213)	(142 141)	–	(1 899 977)
Net book value	<u>90 097</u>	<u>13 355</u>	<u>20 213</u>	<u>11 615</u>	<u>265 350</u>	<u>38 805</u>	<u>439 435</u>



FINANCIAL AND FISCAL COMMISSION SCHEDULE OF EXPENDITURE FOR THE YEAR ENDED 31 MARCH 2001

	2001 R	2000 R
Advertising	31 433	88 937
Bank charges	9 071	5 110
Commissioners' expenses	90 177	535 332
Computer maintenance	109 783	83 523
Courier expenses	26 634	32 290
Depreciation	211 816	233 011
Diginet lines rental	34 046	125 613
Entertainment	14 939	6 563
Fines and penalties	3 620	–
General repairs and office maintenance	162 683	76 573
Interest paid	1 252	–
Meetings and conferences	44 455	44 046
Motor vehicle expenses	21 574	16 487
Postage, printing and stationery	190 617	76 515
Professional services	1 048 668	567 864
Research costs	890 441	1 661 011
Rsc levies	10 890	7 233
Rental of office equipment	18 156	41 854
Staff costs	3 927 242	2 044 091
Skills development	52 963	–
Telephone and fax	188 063	126 997
Travel and accommodation	467 263	249 280
	<u>7 555 786</u>	<u>6 022 330</u>



**FINANCIAL AND FISCAL COMMISSION
MANAGEMENT REPORT FOR THE YEAR ENDED
31 MARCH 2001**



MANAGEMENT REPORT for the year ended 31 MARCH 2001

Report by the Accounting Officer to the Executive Authority and Parliament of the Republic of South Africa.

1. General review of the state of financial affairs

The financial situation of the FFC is best understood in context. From inception, the Commission has had to contend with a budget predating its establishment in 1994. As a new institution, established then in terms of the Interim Constitution, there was no precedent from which a realistic benchmark for its budget allocation could be set.

The Commission had to allow for practice over time to develop patterns of expenditure from which more realistic benchmarks could be established. Through prudent, and somewhat conservative management, the Commission has had no instance of overspending on its budget. That is still reflected in these financial statements.

What is however notable this year, is that the under spending has been reduced significantly reflecting the degree to which programs and related projects come close to matching the overall allocation. Fortunately as we move towards balancing our budget, we're doing so from a positive direction, rather from a deficit situation.

It should be mentioned that, given the role of the Commission, as per the Constitution, and as further elaborated in the Financial and Fiscal Commission Act, it is projected that a more sustainable budget level would be in the region of R10m per annum. This level will obviously be a function of both the Commission's obligations in terms of the Constitution and that of various interventions required of it by various organs of state, from time to time. These cannot always be predicted.

It is worth noting that a greater part of the expenditure is that of personnel together with the contracting in of various expertise. It cannot be otherwise as Researchers, Analysts and various experts are the most essential input requirements for the Commission.

As of this year, a "cost center" budgeting regime is being instituted. Whilst giving cost center managers greater leeway in spending decisions on their cost center allocations, it has the added benefit of devolving budget responsibility and accountability to all levels of the organization. Of even greater significance, especially when viewed against the entrenchment of the PFMA, is that it promotes greater transparency within the organization in the utilization of the budget.



2. Services rendered by the department

Not applicable.

3. Trading activities

Not applicable.

4. Trading entities

Not applicable.

5. Public entities

Not applicable.

6. Public/private partnerships

Not applicable.

7. Risk management and fraud prevention

Notwithstanding the fact that the FFC has a rather small staff complement compared to other institutions with a similar budget, the management of risk has always been taken seriously.

Managing the personnel side of the equation has been a key facet of the strategy from the beginning. This was especially so in the early years when indiscretion could easily have resulted in the Commission employing more and more people just so as to be able to use up the entire allocation. To this day, staffing remains somewhat modest.

The risk now is in the other direction. As the Commission puts out more and more reports, and as stakeholders begin to master the intergovernmental fiscal relations system, increasingly more demands are being placed on the Commission to shorten its response time to issues of relevance to the budget process. This obviously implies greater pressure on the existing staff complement. In fact, it is quite clear that over the next 12 months the Commission has to increase its research capacity. Though the plan is to employ additional in-house research capacity, other creative and more flexible arrangements will be pursued.

The Financial Year under consideration has seen the Commission invest significantly in Human Resources, and Financial Management Systems. This has been done so as to ensure that a stimulating and more productive environment for staff is created, and to ensure that all systems are compliant and consistent with all current labour relations, financial management and employment equity laws of the country.



There is an Audit Committee in place. A financial policies and procedures manual has been instituted in terms of which all financial transactions of the Commission are regulated. The control measures codified therein have been a major tool at the Commissions disposal for the prevention of fraud. There has up to thus far been no incident of fraud as far as the financial affairs of the Commission are concerned. The employment of a financial officer in the next financial year will indeed facilitate the strengthening of our controls even further.

8. Discontinued activities/activities to be discontinued

Not applicable.

9. New/proposed new activities

In the course of the year, the consultations with various stakeholders, among other, Departments of Health, Education, Welfare and the Minister of Finance and National Treasury and provinces have identified priority areas from their perspective which the Commission has decided do warrant some greater attention by itself. These, however, have financial implications which the Commission is still assessing. This will obviously place pressure on existing allocations. However, thanks to the foresight of the Financial and Fiscal Commission Act, this situation was anticipated in its Section 23 (2) (b) of the Act of 1997.

10. Events after the accounting date

See 7 above with respect appointment of a financial officer.

11. Other

None

Approval

The attached annual financial statements set out on pages 35 to 46 have been approved by the Accounting Officer.



MURPHY MOROBE
CHAIRPERSON 16 July 2001



STATEMENT OF FOREIGN AID ASSISTANCE RECEIVED: for the year ended 31 MARCH 2001 (all figures R 000 unless otherwise indicated)

Source of funds	Intended use	Amount received	Amount spent	Balance unspent/ (over spent)
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Not applicable

VALUE RECEIVED IN KIND

Source of foreign aid	Intended use	Value
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Total

The following international partners or agencies provided assistance to the Commission by funding part of the expenses of international technical experts to advise the Commission on various matters: CIDA and AUSAID. At the time of submitting this statement actual values were not available.

PERFORMANCE INFORMATION ON USE OF ASSISTANCE

None

PENDING APPLICATIONS FOR ASSISTANCE

Source of assistance	Intended use	Amount
The French Embassy (for fiscal year 2001/02)	Research on local government issues	87 912,08
AusAid (for fiscal year 2001/02)	Research on local govt and study visit to Australia for Commissioners	actual value still to be determined
Total		<u>R87 912,08</u>

Date: 16 July 2001



AUDITED FINANCIAL STATEMENTS





A U D I T O R - G E N E R A L

REPORT

OF THE

AUDITOR-GENERAL

ON THE

FINANCIAL STATEMENTS OF THE FINANCIAL AND FISCAL COMMISSION

FOR

THE YEAR ENDED 31 MARCH 2001

PUBLISHED BY AUTHORITY





A U D I T O R - G E N E R A L

REPORT

OF THE

AUDITOR-GENERAL

ON THE

FINANCIAL STATEMENTS OF THE FINANCIAL AND FISCAL COMMISSION

FOR

THE YEAR ENDED 31 MARCH 2001

PUBLISHED BY AUTHORITY



REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF THE FINANCIAL AND FISCAL COMMISSION FOR THE YEAR ENDED 31 MARCH 2001

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 35 to 46, for the year ended 31 March 2001, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 3 and 5 of the Auditor-General Act, 1995 (Act No. 12 of 1995) and section 25 of the Financial and Fiscal Commission Act, 1997 (Act No. 99 of 1997). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements and the compliance with relevant laws and regulations, applicable to financial matters, based on the audit.

2. REGULARITY AUDIT

2.1 Nature and scope

2.1.1 Financial audit

The audit was conducted in accordance with generally accepted government auditing standards, which incorporate generally accepted auditing standards. These standards require the audit to be planned and performed to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.

2.1.2 Compliance audit

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations, which came to my attention and are applicable to financial matters.

I believe that the audit provides a reasonable basis for my opinion.



2.2 Audit opinion

2.2.1 Financial audit

In my opinion, the financial statements fairly present, in all material respects, the financial position of the Financial and Fiscal Commission at 31 March 2001 and the results of its operations and cash flows for the year then ended in accordance with the South African Statements of Generally Accepted Accounting Practice.

2.2.2 Compliance audit

Based on the audit work performed, nothing has come to my attention that causes me to believe that material non-compliance with laws and regulations, applicable to financial matters, has occurred.

3. EMPHASIS OF MATTER

Without qualifying the audit opinion expressed above, attention is drawn to the following matters:

3.1 Internal audit

An internal audit function had not been established by the Commission as required by section 38(1)(a)(ii) of the Public Finance Management Act, 1999 (Act No. 1 of 1999). However, the Commission indicated that corrective steps are being taken.

3.2 Fraud prevention plan

A fraud prevention plan had not been developed by the Commission as required by section 3.2.1 of the Treasury Regulations. However, the Commission indicated that an internal control system is being implemented that includes procedures to prevent and detect fraudulent activities.

3.3 Financial statements

Section 40(1)(c)(i) of the PFMA requires financial statements to be submitted to the Auditor-General within two months (by 31 May) after the end of the financial year. The financial statements were signed by the accounting officer on 22 May 2001 and submitted for audit purposes on 31 May 2001. These financial statements required changes to be acceptable for audit purposes and were handed back to the accounting officer to effect those changes. The corrected financial statements were signed by the accounting



officer on 24 July 2001 and resubmitted for audit purposes on 25 July 2001. The resubmission date has been recognised as the submission date. Therefore, this is considered to be a late submission and technically in non-compliance with the requirements of the PFMA.

4. APPRECIATION

The assistance rendered by the staff of the Commission during the audit is sincerely appreciated.



WG Oppermann
for Auditor-General

Pretoria
30/07/2001



3. COMMISSION ACTIVITIES

3.1 RECOMMENDATIONS FOR 2001-2004 MTEF

3.1.1 Overview of FFC Recommendations for MTEF 2001-2004

- 3.1.1.1 After considerable research, input from technical advisors, and stakeholder consultations, the FFC tabled its recommendations for MTEF 2001-2004 in May 2000.
- 3.1.1.2 The FFC's first recommendation noted that provincial governments are mandated by the Bill of Rights (Chapter 2) of the Constitution to provide basic services and suggested that the process start with defining basic education, primary health care and social security.
- 3.1.1.3 A methodology for calculating the Provincial Equitable Share (PES) was proposed in the FFC's second recommendation. The approach suggested that basic services be defined in terms of cost per beneficiary, with allowances made for variations in the cost of delivery for different target groups and the inclusion of policy parameters determined by Government.
- 3.1.1.4 The FFC's third recommendation noted the trade-offs in the provincial budget allocation process between providing for basic services (the S-Element), fixed institutional costs (the I-Element) and other provincial functions (the B-Element).
- 3.1.1.5 The FFC's fourth recommendation was that the tax capacity (T-Element) measure be retained within the Provincial Equitable Share formula, but that it be set at zero for the medium-term.
- 3.1.1.6 The Commission's fifth recommendation was that, over the medium-term, provincial infrastructure backlogs should be funded through conditional grants from national government.

3.1.2 Government response

- 3.1.2.1 While recognising the importance of the FFC's



first recommendation, Government has noted that sufficient data on desired output measures, input costs and policy parameters would not be available over the medium-term (see Annexure E of the Budget Review 2001). In addition, the use of national norms and standards to determine functional allocations for provinces could overstep the boundaries of provincial budgetary autonomy, and a partial application of the costed norms approach could bias allocations between departments, provinces or spheres of government and destabilize the revenue allocation process. With respect to capital expenditure, the FFC welcomed the significant projected increases in the National Treasury's Provincial Infrastructure Grant over the medium-term, and notes that Government acknowledged the Commission's recommendation in this regard.

3.1.2.2 Notwithstanding the issues raised by Government, the Commission noted that litigation such as the Grootboom case points to the need to chart the progressive realisation of basic rights within available resources. Furthermore, the FFC believes that its approach facilitates decisions around the trade-offs between basic services and other constitutional functions assigned to provinces by the Constitution.

3.1.2.3 The Commission is pleased that Government has recognised the importance of the FFC's first recommendation, and that the usefulness of the costed norms approach as an analytical tool has been supported. The Commission also acknowledges the concerns expressed by Government, and recognises that changes to provincial allocations could be detrimental to the development of predictable allocations to provinces in the short-term.

3.1.3 Stakeholder consultation process

3.1.3.1 The development of the FFC's submission for the MTEF cycle 2001-2004 included extensive consultation with stakeholders. The first set of



consultations with provincial governments and legislatures took place between the period December 1999 to February 2000. Following the publication of the revised FFC submission in May 2000, a further set of consultations with provinces was undertaken between June 2000 and February 2001.

3.1.3.2 These consultations were conducted alongside consultations with other key stakeholders such as the Department of Education, Department of Health, Department of Welfare, the respective MinMECs for education, health and welfare, the relevant Parliamentary Committees, and National Treasury.

3.1.3.3 These consultations proved to be a valuable exchange of views on the problems associated with equitable share allocations and added value to the FFC's submission for the MTEF cycle 2001-2004. They have also been useful in informing the Commission's preparation for the Submission for 2002-2003.

3.2 RESEARCH ACTIVITIES: FFC SUBMISSION FOR 2002/03

3.2.1 Provincial Government

3.2.1.1 In light of concerns expressed by Government on the application of its methodology only to health, education, and welfare, the Commission proposes to identify and investigate other components such as provincial infrastructure, early childhood development, adult basic education and training, secondary health care and welfare services.

3.2.1.2 Further research into the allowed list of provincial taxes and incentives to encourage own revenue collection will be undertaken by the FFC.

3.2.1.3 The FFC is further developing its capital grant model, which will be used as a tool to assess the impact of this grant on infrastructure backlogs.



3.2.2 Local Government

3.2.2.1 In the context of significant changes in the local government sphere, research was carried out on local government during 1999/2000, but this was not incorporated into the FFC's Recommendations for the 2001-2004 MTEF Cycle.

3.2.2.2 With the finalisation of the new municipal boundaries, enactment of key legislation, and the holding of municipal elections in December 2000, the FFC has had a sufficient basis to embark upon a comprehensive local government research programme. The research comprises the following components:

- Review of the local government equitable share: this comprises an evaluation of the constitutional requirements of the equitable share, the identification of "basic municipal services," an evaluation of current equitable share grants, and proposals to revise the current equitable share formula;
- Review of fiscal issues affecting non-metropolitan local government: outside of the metros, there is still a two-tier system of local government. The FFC has sought to identify various financing arrangements for the delivery of municipal services;
- Review of the decentralisation of health services to local government;
- Review of infrastructure and borrowing.

3.2.2.3 In addition to this research programme, the Commission has been required to consider legislation relating to the restructuring of the electricity distribution industry, the reform of the property rating system, and the reform of the municipal finance management system. Extensive research has been conducted into the impact of the electricity restructuring on local government, and a draft submission on the issue will soon be considered by the Commission.

3.2.2.4 The reform of property rates and the municipal finance systems has also been examined, and



submissions will be finalised and presented to Parliament when the legislation is tabled in the latter half of 2001.

3.3 Parliamentary Liaison

3.3.1 In order to strengthen its relationship with Parliament, the Commission established an office in Cape Town in September 1999 and appointed a Parliamentary Liaison Officer. Over the past year, the office has been involved in the following activities:

- Dissemination of documents to the relevant Committee Members;
- Monitoring of Parliamentary meetings, and reporting of relevant issues to the Commission;
- Analysis of policy and legislation in Parliament, and communication of financial and fiscal issues to the Commission;
- Liaison with Members of Parliament to identify their concerns and communicate them to the Commission;
- Co-ordination of all FFC presentations to Parliament, including presentations to the Portfolio and Select Committees on Finance and the Portfolio and Select Committees on Local Government;
- Co-ordination of other Parliamentary activities, including press conferences and workshops; and
- Preparation of the FFC annual submission to Parliament.

3.3.2 Considerable progress has been made in developing protocols to clarify the relationship between Parliament and the Commission. The protocols are being expanded to include the FFC's relationship with other Government stakeholders.



2. THE FFC IN A SYSTEM OF INTERGOVERNMENTAL RELATIONS

2.1 CONSTITUTIONAL AND LEGISLATIVE MANDATE

- 2.1.1 The relevant Provisions of the South African Constitution provide the mandate for the FFC within the intergovernmental fiscal relations system in South Africa.
- 2.1.2 Chapter 3 of the Constitution provides for three spheres of government and requires adherence to principles of co-operative governance and intergovernmental relations.
- 2.1.3 The equitable division of national revenue lies at the heart of the function of the Financial and Fiscal Commission (FFC). Section 214 states that an Act of Parliament must provide for the equitable division of revenue raised nationally among the national, provincial, and local spheres of government, and that the FFC should be consulted in this regard.
- 2.1.4 Since 1998, the process for the establishment of the equitable division of revenue has been governed by the Intergovernmental Fiscal Relations Act. This Act outlines the roles of various parties including the Minister of Finance, the Financial and Fiscal Commission, Parliament, the Budget Council, the Budget Forum, and provincial and organised local governments.
- 2.1.5 Part 3 of the Intergovernmental Fiscal Relations Act also establishes a process extending over a period of ten months, preceding the tabling in Parliament of the Annual Budget by the Minister of Finance. The Financial and Fiscal Commission is called upon to put forward recommendations with respect to the development of the framework for the division of revenue and must be consulted before the Division of Revenue Bill is introduced in the National Assembly.
- 2.1.6 While adhering to the formal requirements of this legislation, the FFC is prepared to participate in other intergovernmental forums. Within the past year, a number of opportunities arose for the FFC to enter into discussions with national, provincial and local government officials. The FFC's consultative process is conducted in the spirit of Chapter 3 (Co-operative Governance) of the Constitution.



2.2 THE ROLE OF THE FFC

- 2.2.1 The FFC is keenly aware that it is a part of an elaborate mechanism for establishing policy and balancing the myriad interests of a modern, democratic and progressive nation.
- 2.2.2 Given its unique position and the role assigned to it in the Constitution and legislation, the FFC is expected to be a key participant in the unfolding debate on the equitable sharing of national revenue. Therefore, FFC has to consider the interests of each of the national, provincial and local government spheres with equal objectivity.
- 2.2.3 In order to prepare for this leadership role, the FFC relies on a number of key reference points:
- There is a heavy onus on the FFC to respect the constitutional status of each sphere and to ensure that the letter and spirit of the Constitutional principles guide its recommendations.
 - The Constitution's Bill of Rights mandates the provision of basic services.
 - Other principles for good intergovernmental relations are studied, considered and balanced within the FFC recommendations. These were outlined in detail in the FFC documents published last year.
 - The FFC has to undertake extensive research activities to better inform the basis for decisions.
 - Over the past year, the FFC has undertaken to strengthen its processes for consultations with stakeholders.
- 2.2.4 An independent and impartial FFC has to study and prepare recommendations based on a transparent relationship among principles, stated program objectives, examination of facts and analytical development.
- 2.2.5 The FFC appreciates that, in this role, it may often make recommendations which depart from the current framework for intergovernmental fiscal relations as outlined in the Division of Revenue Bill proposed by the Department of Finance. Indeed, it is incumbent upon the FFC to advocate change whenever it determines that it is necessary or desirable. The processes outlined in the Constitution and the Intergovernmental Fiscal Relations Act provide for a reasoned debate around the issues raised. In this regard, the FFC believes that it is particularly important to work co-operatively with the Department of Finance and to respect the political processes that ultimately establish the policies of governments in the three spheres.

