

**LIMPOPO PROVINCIAL TREASURY (VOTE 5) BUDGET SPEECH  
2011/12 - DELIVERED BY ACTING MEC DIKELEDI MAGADZI OF  
PROVINCIAL TREASURY, LIMPOPO GOVERNMENT, TO THE  
SECOND SESSION OF THE FOURTH DEMOCRATIC LEGISLATURE,  
LEBOWAKGOMO**

**24 March 2011**

Honourable Speaker

Honourable Deputy Speaker of the Provincial Legislature

Honourable Premier

Honourable Members of the Provincial Legislature

Members of the Executive Council

Leaders of the Opposition Parties

Traditional Leaders Present

Director General and Heads of Departments

Distinguished Guests

Comrades, friends, ladies and gentlemen

## **Honourable Speaker**

In his State of the Province Address, Comrade Premier Cassel Mathale declared 2011 as “the year of job creation through meaningful economic transformation and inclusive growth”. The Provincial Treasury will contribute towards this vision through joint strategic allocation, management and monitoring of provincial finances.

The outcomes oriented approach introduced by our government requires of us to focus on achieving the expected real improvements in the lives of all South Africans. It has been recognized that in the past, we have made progress in various areas such as improved access to services and increased expenditure on service delivery.

The 2011/12 budget for Vote 5 can be summarized as “Budgeting for Outcomes” with the focus on, amongst others:

- Job creation through inclusive economic growth
- An efficient and responsive economic infrastructure network
- Skilled and capable workforce to support inclusive growth path
- Responsive, accountable, effective and efficient Local Government system
- An efficient, effective and development oriented public service and an empowered, fair and inclusive citizenship

In addition, Provincial Treasury has further identified six key focus areas against which our resources would be prioritised. These are:

- Good Corporate Governance
  - This will include positioning risk management to add value as well as the priority of achieving Clean Audit by 2014
- Financial management competency and skills
- Implementation of Integrated Financial Management Systems (IFMS)
- Alignment of provincial budget to LEGDP - including procurement policy reforms
- Mitigation of risk in the reduction of the Provincial Equitable Share
- Building stake holder relationships

Our planning and resource allocation are therefore aligned to the outcomes oriented approach, guided by national and provincial priorities, and the six key focus areas, in order for us to achieve these real improvements in the lives of all our citizens. It is within this context that the 2011/12 budget of Provincial Treasury was compiled and allocated amongst the Four Programmes.

### **Honourable Speaker**

During the 2010/11 financial year, Provincial Treasury provided 52 bursaries to youth of our Province to pursue careers in both financial and humanities fields of study. The Department also provided internship opportunities to thirty-five (35) graduates and eleven (11) of these graduates subsequently secured permanent employment in both the public

and private sectors. A further twenty (20) graduates participated in the Internal Audit Technician Learnership programme, and of which 16 have already secured permanent employment in the public and private sectors.

It is worth mentioning that in 2009/10 the audited performance of the department indicated the following:

- 95% of payments to suppliers were made within 30days from receipt of invoice
- 98% of the budget was successfully spent and
- The department received an unqualified audit opinion.

### **Honourable Speaker**

Since 2006/07 there has been a constant improvement in the number of audit outcomes for provincial departments. The most recent Auditor General's report indicates that at 2009/10, the provincial departments received nine unqualified audit opinions, a notable achievement considering that in 2006/07 all provincial departments were qualified. Provincial Public Entities also showed improvement namely; 7 unqualified audit opinions in 2009/10, up from 6 in 2008/09.

Limpopo Provincial Treasury and the Provincial Department of Local Government and Housing entered into a Memorandum of Understanding (MoU) in 2010. The fundamental purpose of the MoU is to provide support and assistance to municipalities to progressively improve their governance, planning, budgeting, monitoring and reporting processes and practices.

In respect of Municipalities, although there has been no improvement in the number of financially unqualified audit opinions compared to the prior year, namely 8 unqualified audit opinions; there has been a notable improvement in the overall audit outcomes for the province as a whole, with the overall number of disclaimers having reduced from 14 to 9, noting that 3 audit reports were still outstanding at 28 February 2011.

### **Honourable Speaker**

I am pleased to report that the Integrated Financial Management System (IFMS) - asset management module has been successfully implemented in the Provincial Treasury. Implementation of IFMS – Asset Module in the three departments of Roads and Transport, Agriculture and Local Government and Housing was finalized on the 1<sup>st</sup> of March 2011. This therefore means that these departments will be managing assets using IFMS – Asset Module as from 1 April 2011.

In consultation with National Treasury, Provincial Treasury also plans to implement the IFMS - Asset Module to a further four departments in the 2011/12 financial year. There are however, discussions at national level to implement Health nationally because of the diversity of assets that are found in this sector.

Discussions are also on the table, for Limpopo to be the lead site for the IFMS - Procurement Module. Provincial Treasury is waiting for confirmation on these above mentioned issues from National Treasury.

## **Honourable Speaker**

Provincial Treasury has also conducted Supply Chain Management compliance assessments at various departments. The following were the major findings from the assessments:

- High vacancy rate on key Supply Chain Management positions
- Absence of demand management and a disintegrated Supply Chain Management functions, namely; acquisition not linked to logistics
- Lack of credible supplier database which leaves room for manipulation
- Lack of appropriate procurement planning leading to uneconomic procurement, delays in infrastructure project implementation and unnecessary cancellation of bids

As stated in the 2011/12 budget speech, the Provincial Treasury is in the process of reviewing the provincial Supply Chain Management policy. The policy review will go a long way in mitigating risks associated with Supply Chain Management and to ensure that government procurement is maximized towards achieving the goals of government, amongst others namely job creation, the promotion of local spend and empowerment of youth, women and SMME's.

## **Honourable Speaker**

Since the dawn of democracy, the provincial budget allocation has increased to R43.84 billion in the 2011/12 financial year. The Provincial Treasury was and remains an integral part of the budget process.

The preparation of a credible and legitimate budget is indeed an arduous task requiring several trade-offs that has to be made and necessitated by hard choices in resource allocation, facilitated by the Provincial Treasury.

In this regard, the role of the Provincial Treasury is to support and monitor departments in the implementation of the budget with focus on service delivery and cost efficiency and effectiveness.

The budget monitoring processes recognizes our ability as a province to manage expenditure effectively and efficiently, thus allocating the savings realized to departments which experiences budgetary constraints during the adjustment estimates.

The need to mitigate the reduction in our provincial equitable share cannot be over emphasized, and to this end the, Provincial Treasury will lead the process in debates and social sector data collection in its mitigation thereof.

Integral in the implementation of the 2011/12 provincial budget, is the focus on forward planning by provincial departments and the role of the Provincial Treasury, in ensuring that 2011/12 budget is expended effectively and efficiently thus ensuring transparency, accountability and good corporate governance in achieving service delivery that benefits the citizens of Limpopo.

### **Honourable Speaker**

Provincial Treasury (Vote 5) has been allocated a budget of **R308.9 million** for the 2011/12 financial year.

The estimated receipts of **R308.9 million** consist of:

- Provincial Equitable Share – **R205.4 million**
- Own Revenue – **R103.5 million**

Let me bring to the attention of this honourable house that the own revenue consists mainly of interest revenue and is not sustainable due to low cash reserves and low interest rates, both factors which are external to the Provincial Treasury and subject to prevailing market conditions.

The budget allocation of **R308.9 million** represents a decrease of 20.5% when compared to the adjusted appropriation as tabled in November 2010, in this honourable house. The decreased allocation is as a result of decentralization of SITA and audit fees to provincial departments.

The departmental economic classification is as follows:

- Compensation of employees           **R187.9 million**
- Goods and services                   **R113.4 million**
- Transfers & subsidies               **R 3.0 million**
- Payments for capital assets       **R 4.5 million**

### **Honourable Speaker**

I now turn my attention to the allocations of each programme within Vote 5.

**Programme 1: Administration** receives an allocation of **R116 million**.

The purpose of the programme is to provide effective and efficient Strategic management, administrative support and sound financial management to the Provincial Treasury.

The programme has the following sub-programmes namely:

- MEC Support Services with an allocation of **R4.8 million**
- Management Services with an allocation of **R3.3 million**
- Corporate Services with an allocation of **R76.1 million**
- Financial Management with an allocation of **R24.7 million**

The sub-programme MEC Support Services renders administrative and parliamentary support to the Member of the Executive Council.

The sub-programme Management Services is to provide strategic leadership and administrative support to the Head of Department.

The sub-programme Corporate Services is responsible for providing departmental support services that includes information management, human resource management and development; legal services, transformation service, security and investigation service as well as enterprise risk management.

Corporate Services undertakes to provide, amongst others, the following:

- 30 job creation opportunities with minimum 50% being youth
- Internship programmes for graduates
- Provisioning of bursaries for the 2012 academic year

- Compliance with the occupational Health and Safety act through the implementation of findings from risk assessment
- Review and implementation of the HR strategy to develop skilled and capable workforce and to improve SMS female representation
- Facilitate and monitor the identification and addressing of risks in the department
- The provisioning of records management and auxiliary services

The sub-programme Financial Management services to ensure proper control and management of financial resources, monitoring and evaluation, coordination of strategic and annual performance plans (APP).

Integral to Financial Management are the following:

- Adherence to Supply Chain Management prescripts,
- Monitoring of expenditure aligned to annual performance plans
- Enhance internal controls to mitigate audit queries
- Unqualified Audit Opinion
- Monitoring and evaluation of department's performance against the APP and Strategic Plans

**Honourable Speaker**

**Programme 2: Sustainable Resource Management** receives an allocation of **R46.4 million**.

The purpose of the programme is to inform financial resource allocation, manage the provincial budget and to support and monitor provincial departments, municipalities and public entities for efficient and effective use of the province's fiscal resources.

The programme has the following sub-programmes:

- Fiscal Policy
- Economic Analysis
- Infrastructure Management and PPPs
- Municipal Finance

Sustainable Resource Management (SRM) is responsible for analyzing key economic variables within the Province through economic research and their inter-relations and relevance to the budget. This analysis assists in identifying alternative budgeting, revenue and expenditure scenarios on selected key economic growth and social development indicators.

As previously indicated, there is a need to improve on our data collection and analysis on the Social Sector Cluster and devise mechanisms to mitigate the risk of the decreasing provincial equitable share. This programme would look into strategies of how our data collection can be improved in this regard.

The programme SRM, is also responsible for providing advice and monitoring of municipalities and their entities in the implementation of the Municipal Finance Management Act.

Financial management in municipalities continues to be a challenge in the province and therefore this area requires adequate capacity to make inroads in dealing with this challenge. Progress has been made in increasing capacity in this area where three senior manager and three manager positions were filled in this regard.

Key focus area in supporting municipalities will be on internal audit, implementation of risk management, application of GRAP by all municipalities, implementation of municipal budget reporting regulation which involves improvement of budget documentation and in-year monitoring reports; implementation of supply chain management regulations and implementation of the internship programme guidelines.

### **Honourable Speaker**

**Programme 3: Assets, Liabilities and Provincial Supply Chain Management (ALSCM)** receives an allocation of **R75.8 million**.

The role of Programme 3 is to provide policy direction and facilitate the effective and efficient management of assets, liabilities, financial systems and provincial supply chain management processes.

The programme consists of the following sub-programmes:

- Asset and Liabilities Management
- Provincial Supply Chain Management
- Support & Interlinked Financial Systems

The implementation and monitoring of the provincial inventory and asset management policies in the province is crucial to obtaining an unqualified audit opinion. The common denominator in departments that are qualified is Asset Management.

The shift from an excel based asset register to an electronic asset register (IFMS) has materialized in 4 departments namely Provincial Treasury, Agriculture, Local Government and Housing, and Roads and Transport.

Cash Flow management remains a challenge as departments are unable to project accurately on monthly spending and thereby compromise the availability of cash resources. Closer monitoring by provincial treasury and the alignment of expenditure with cash flow by departments, through proper planning will enable our administration to spend correctly and within our budget allocations.

Provincial Treasury strives to communicate business opportunities within government to the business community. To date, we have published forty-five (45) editions of the provincial tender bulletin which are available at no cost and are available at Provincial Treasury District offices and the departmental website. A total of 1057 SMMEs have been trained on the completion of Standard Bidding Documents. This is an ongoing feature of the provincial treasury and will continue well into the 2011/12 financial year.

Through its transversal arm, the Provincial Supply Chain Management Office will try to achieve economies of scale for the provincial government

through transversal contracts, thus creating value for money in certain categories of expenditure.

## **Honourable Speaker**

**Programme 4: Financial Governance** receives an allocation of **R70.5 million**.

The purpose of the programme 4 is to:

- Ensure sound financial management and financial accountability in the province through capacity building, financial reporting, financial management policies development and support of oversight structures/bodies.
- Ensure that all Departments and public entities have implemented effective risk management and internal control processes.
- Provide internal audit services to all Limpopo provincial departments in compliance with the approved internal audit plan.

The programme consists of the following sub-programmes:

- Accounting Services
- Internal Control and Risk Management
- Internal Audit services

Plans are in place to restructure departments in each Audit Committee cluster in order to focus attention on departments that obtained qualified audit opinion in 2009/10 financial year. Duration of Audit Committee

meetings with departments will also be increased to ensure meaningful and thorough discussions.

A skilled and capable work force is a key responsibility of the programme. One of the endeavours for 2011/12 in this regard is to conduct feasibility studies to identify the most suitable long term Financial Management programme. This initiative is undertaken to ensure that specific capacity building needs are addressed and that real outcomes of the capacity building can be realised. The Limpopo Provincial Treasury will work in close collaboration with the University of Limpopo, School of Accounting.

The internal audit unit continues to be faced with capacity constraints due to staff turnover. In order to limit the impact on the effectiveness of the internal audit service, the Provincial Treasury has appointed thirty three internal audit staff members, who will commence their duties with effect from 1 April 2011. Further an employee retention strategy, for internal audit, has been developed and Treasury is investigating the possibility of starting a new 24 month internal audit learnership programme which will offer opportunities to the current internal audit interns and unemployed graduates to gain valuable internal audit experience and increase the pool of experienced internal auditors in the Limpopo Province.

From the various internal audit reports it has been identified and reported that the implementation and monitoring of internal controls and the control environment, within the provincial departments, is not effective. To improve the governance process and effectiveness of controls a combined

assurance model, in terms of King III, will be developed and be implemented within the administration in 2011/12. Provincial Treasury has also strengthened the follow up reviews for prior Internal Audit and Auditor General, findings.

### **Honourable Speaker**

The tabling of the department's budget speech for Vote 5, signals that the journey ahead is indeed an arduous one that require sheer determination, commitment and a sense of urgency by all.

The Limpopo Provincial Treasury remains steadfast in its resolve to service delivery through disciplined financial management and allocation of resources.

Public Sector Financial Management is a collective approach in which all stakeholders play a crucial role in ensuring that financial discipline and good corporate governance is upheld in the public sector.

To this end I say **Thank You** to you all.

**Ndaa !**

**Re a leboga !**

**Inkomu !**

**Baie Dankie !**