

Annual Reports and the Public Finance Management Act

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The Public Finance Management Act, 1999 (Act 1 of 1999),¹ provides accounting officers with flexibility and autonomy to manage government departments. However to ensure accountability, the accounting officer is expected to report on the activities of the Department in an Annual Report. National Treasury has developed guidelines for annual reports.²⁻⁵



This chapter provides an overview of the Public Finance Management Act, 1999 (Act 1 of 1999) (PFMA)¹ with reference to annual reporting, the guidelines provided by national Treasury for annual reporting,²⁻⁵ the criteria for good reporting, monitoring and evaluation systems, and service delivery indicators. Finally, the Annual Reports of the 10 Departments of Health,^{6,7} national and provincial, are assessed to determine if these reports comply with Treasury Guidelines.





Introduction



The importance of public finance has been indicated by the promulgation of the PFMA. The over-arching aim of this Act is to enhance accountability in the utilisation of government resources and reform budgeting and financial management. The PFMA promotes the objective of good financial management in focusing on maximising service delivery through the use of efficient, effective and economic means. The PFMA shifts the emphasis away from a rule driven and highly centralised system of expenditure control, and places the management of financial resources in the hands of the head of the department (accounting officer).



Although the PFMA seeks to grant greater flexibility and autonomy to the area of accountability, the accounting officer is required to report on the activities of the Department. Reporting in the context of the PFMA forms part of their area of accountability. The accounting officer's accountability is given expression in reporting to the responsible executive authority (in this case the MEC for Health) and to the relevant Treasury (which in turn reports to the Minister of Finance or MEC for Finance) and finally to the Parliament/Provincial Legislature. The accounting officer is also required to report to Parliament through the Department's Annual Reports and financial statements. The information that the accounting officer presents in the reports is subject to confirmation by the Auditor General who also reports to Parliament/Legislature.



This chapter deals with the requirements as set out by the PFMA, Treasury Guidelines for Annual Reporting, Treasury Regulations, 2001 and the Public Service Regulations^{8,9} regarding annual reporting. The guidelines are of importance in determining whether annual reports comply with the requirements set out by the policy documents. Criteria for good reporting, to be kept in mind in preparing future annual reports, are outlined. The final part of the chapter deals with practical assessments of the Annual Reports of the national Department of Health and the provincial Departments of Health to determine compliance. (In the text reference will be made to the Department and this reference includes both national and provincial Departments). Finally recommendations are outlined to ensure that future Annual Reports comply fully with the guidelines as set out by the PFMA.



The Public Finance Management Act (PFMA), 1999 (Act 1 of 1999)



Section 216 of the Constitution of the Republic of South Africa, 1996 (Act 108 of 1996),¹⁰ required the national Treasury to establish and prescribe measures to ensure both transparency and expenditure control in each sphere of government by introducing:

- ◆ Generally recognised accounting practices

- ◆ Uniform expenditure classifications and uniform Treasury norms and standards.

The PFMA, and the Treasury Regulations were issued in terms of the Constitution of the Republic of South Africa and thus comply with the requirements as set out in the Act.

The over-arching purpose of the PFMA is to ensure sound financial management, which is essential for the successful implementation and sustainability of the many government programmes and projects necessary to transform South African society. It should be noted that financial management is an integral component of all management activities and not just the concern of a few specialists. All the managers in government departments are trustees of public resources and are accountable for the manner in which services are delivered in terms of the PFMA.


The PFMA is a key instrument in facilitating the reform of financial management in government. The PFMA gives effect to Sections 213, 215-218 of the Constitution of the Republic of South Africa, 1996. These Sections specifically require national legislation to:

- ◆ Introduce budgeting principles and standards, generally recognised accounting practices and uniform Treasury norms and standards for all spheres of government
- ◆ Prescribe measures to ensure transparency and expenditure control in all spheres of government
- ◆ Set the operational procedures for borrowing, guarantees, procurement and oversight over the various national and provincial Revenue Funds.

The PFMA adopts an approach to financial management that focuses on outputs and responsibilities rather than the rule-driven input approach as set out by the previous Exchequer Acts. The PFMA stipulates the broad management principles that must form the basis of sound financial management and should therefore not be regarded only as a finance act. The importance of the PFMA lies in the promotion of good financial management in order to maximise delivery through the efficient and effective use of limited financial resources.

The PFMA confers specific responsibilities on accounting officers. The Act vests four key responsibilities, which are to:

- ◆ Implement effective, efficient, economic and transparent systems for controls in the Department
- ◆ Eliminate unauthorised expenditure by ensuring that departments do not overspend their budget or a specific programme within the budget
- ◆ Report on expenditure and revenue against the budget on a monthly basis and submit annual financial statements two months after the end of a financial year

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- ◆ Introduce performance reporting against pre-determined measurable indicators on a quarterly basis and an Annual Report 5 months after the end of the financial year.

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. The Public Service Act, 1994 (Act 103 of 1994) and Public Service Regulations, 2001, and the trend towards performance contracts complement this approach.

The PFMA also requires Treasury to issue regulations. These regulations, implemented from 1 June 2000, provide for more flexibility in financial management by departments and place more responsibility for decision making in the hands of the accounting officer and line managers. The onus is therefore on the Department to develop effective internal controls that are applicable and relate specifically to the objectives and the functions of the Department, and decreasing the need for Treasury approval for various activities. The Department should therefore evaluate whether existing internal controls are appropriate, assess the risks facing the Department, and introduce the necessary changes to ensure sound financial management. It should be noted that a system of internal controls comprises not only the setting of control measures but also an evaluation process of internal auditing in order to determine whether the controls were effective and adhered to by the Department.

The PFMA and the regulations empower the Department to develop instructions, which are specific to the Department and should consist of developing an internal control system to assist personnel in achieving objectives within a framework of rules and procedures. Departmental instructions should be seen as the in-house rules setting out the detailed requirements of management to ensure sound implementation of all aspects of the Constitution of the Republic of South Africa, 1996, the responsibilities of the government structures at the various levels, the PFMA requirements, and regulations.

National Treasury Guidelines for Annual Reporting

The Department has an obligation to inform the citizens of what they intend to achieve against pre-determined objectives. These pre-determined objectives are reflected in the strategic plans and must be tabled in Parliament every year on the same day as the Minister of Finance's Budget speech. Published strategic plans within two weeks of the Budget Day will demonstrate to the legislatures and the public that the Department's operations are transparent.



Strategic planning

Strategic planning cannot be developed in isolation but should rather be the result of thorough consultation with all relevant stakeholders. The reporting cycle begins with the strategic plan of the Department. During the strategic planning process, strategic objectives must be determined which must be in line with the vision of the Department. These objectives are reflected in the annual budgets and the performance of the Department will be measured against these set objectives.



The strategic plans provide essential information for the legislatures to assess proposed programmes and funding. They also enable the legislatures to evaluate departmental performance when performance measures and indicators are published in annual reports.



Departmental strategic plans

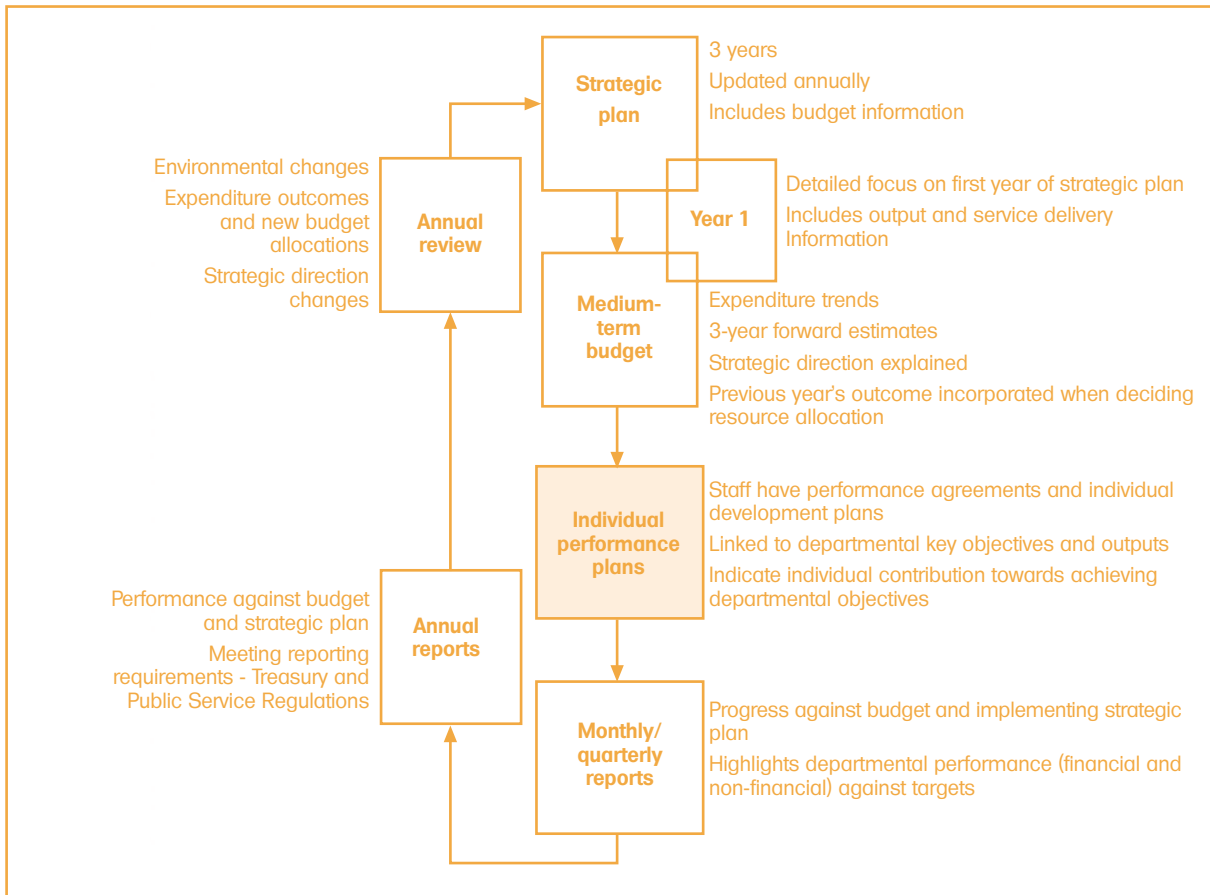
The strategic planning process is one of the key responsibilities of all senior managers in the Department. It is central to their responsibility in terms of Section 38 of the PFMA, relating to the effective, efficient, economical and transparent use of the resources of their departments. The accounting officers should drive the strategic planning process, with full participation by other senior managers. It should be noted that the strategic plan addresses the key areas on which the Department should focus in support of government’s policy priorities, as well as the strategies to achieve them. Furthermore, it is an essential tool, enabling accounting officers and managers to achieve government’s objectives, to address financial management and service delivery problems, and to ensure that services are delivered in the most economical, effective and efficient manner.



Strategic plans provide a sound framework for future improvements in the overall objectives of the Department. The strategic planning process further promotes communication between the accounting officer and the relevant Minister or Member of the Executive Council (MEC), ensuring commonality of understanding and purpose in the Department’s pursuit of government objectives and outcomes.



Figure 1: Planning, Budget and Reporting Cycle



Source: National Treasury: Guidelines for Annual Reporting, December 2000.

Minimum content requirements for a strategic plan

The Department may determine the format, presentation and contents of its strategic plan. However, the Department should adhere to the requirements of the Treasury Regulations, 2001 and the Public Service Regulations, 2001. National Treasury considers the following information to be important for scrutinising draft departmental strategic plans alongside budget submissions and departmental reports:

- ◆ Concise departmental aims, analogous to vision and mission statements
- ◆ An indication of the key departmental objectives, based on constitutional and legislative mandates, as determined by the responsible Minister or MEC, which are outcome related and support government's priorities
- ◆ The core and support activities (strategies and outputs) necessary to achieve each of these objectives
- ◆ Service delivery indicators and milestones or 'targets' to measure the achievement of departmental key objectives





- ◆ The resources needed for each departmental objective over a 3-year period, including investment capital and information technology expertise, special systems, skills development, a human resources strategy and the utilisation of fixed and moveable assets
- ◆ Information on interdepartmental linkages, where two or more departments contribute towards the delivery of the same objective or project
- ◆ Functions the Department will perform internally and those it may contract out
- ◆ Any other factors relevant to the achievement of the objectives approved by the executive authority.



Expenses, if any, which are not directly related to the achievement of a specific objective, must be specified separately in the strategic plan.

Public Service Regulations



To meet the requirements of the Public Service Regulations, a thorough assessment of the following important internal issues must form part of the Department's strategic plan:

- ◆ Human resource strategies (e.g. training, affirmative action and redundancy management)
- ◆ Job creation with the implementation of certain projects
- ◆ Information technology (e.g. upgrading of computer systems and management information systems) to enable the department to monitor and fulfil its core objectives.



Physical assets

Expenditure relating to the acquisition and maintenance of departmental assets may, under traditional cash accounting arrangements, significantly affect a department's contribution to the overall budget balance (surplus or deficit) for the year. Proper planning, especially multi-year planning, can mitigate these budgetary effects while accommodating the acquisition of important assets.



Due consideration and proper planning regarding the procurement, operation and maintenance, replacement and disposal of new and existing assets, are required to ensure effective utilisation and accountability within the department. Issues to consider include:



- ◆ Analysing the key issues that may influence the department's requirements for physical assets in the medium to long term
- ◆ Analysing the appropriateness of existing physical assets in relation to the department's strategic plan and the needs of its clients
- ◆ Identifying the need for new physical assets and developing strategies to meet this need



- ◆ Developing strategies for maintaining the appropriate level of service potential of existing physical assets
- ◆ Developing strategies for disposing of redundant, obsolete and unserviceable assets.

The Department must provide the Auditor General on an annual basis with an Asset Register.



Developing lower-level plans

To facilitate the proper implementation of the strategic plan, accounting officers should ensure that operational plans are developed for the units in their departments. These plans should be consistent with the strategic plan and budget of the department and extensions of the department's strategic plan but narrower in scope as they apply only to a specific part of the department's operations. These plans ensure that programme and output details stated in the Year 1 information of the strategic plan are linked to the relevant Chief Directorate or Directorate for which the operational plan is compiled. Operational planning also ensures that managers take a systematic approach to managing individual performance, by linking programmes and outputs to the development of individual workplans at each level. Operational plans must have quarterly targets that must be used for reporting purposes on a quarterly basis to the executive authority.



Criteria For Good Reporting

The information on performance provided in annual reports must be useful for the purpose of assessing the performance of the activities in the Department. The information contained in annual reports must be:

Comparable

To be of value for purposes of evaluation, performance data should be compared to:

- ◆ The Department's predetermined objectives and service standards, which are stated in measurable terms
- ◆ Needs of target populations
- ◆ The performance of similar organisations
- ◆ Performance during a previous period
- ◆ Other benchmarks.

Consistent

Performance measures should be consistent from one reporting period to the next, and the information should be prepared on the same basis in order to compare and assess performance adequately.





Explained

Each key performance measure should be explained and methodology outlined. The significance, limitations, reliability and relevance of the measures and indicators should be explained to each and every member of the Department.



Analysed

Significant variances must be analysed. The reasons for variances should be examined, analysed and explained. Periodic programme evaluations are therefore important to assess the relationship between anticipated outputs and actual achievements.



Range of measures

The information should reflect the key attributes of performance. For example focusing only on the cost of outputs is not sufficient to describe the quality of performance. If costs are decreasing, what about quality – is that also decreasing? If the quantity or volume of goods and services is staying constant, what about the population the programmes are servicing?



Verifiable

It must be possible for the report user to trace the sources and systems from which information is derived and, if necessary, information should be attested to by an independent third party to ensure its credibility.



Objective

Information should be provided in a balanced and objective way by keeping matters in perspective and presenting without bias the positive and the negative in whatever proportion they might present themselves.



Relevant

The information should pertain directly to the interests, concerns and expectations of the members of legislatures and other stakeholders.

Comprehensive

The information provided should be a concise and complete overview of the activities of the Department under review, including the identification of any areas deliberately left out.

Understandable

The readers for whom the report is intended should be able to clearly understand the contents of the report, which can be achieved by using terminology and reasoning that is comprehensible to any lay reader – especially when technical matters are discussed.



Monitoring and Evaluation Systems

For the Department to be able to report intelligently and systematically on performance instead of just on their activities, supporting monitoring and evaluation systems and information systems are a prerequisite. The following steps will be necessary:

- ◆ The clarification of goals in strategic and operational plans
- ◆ The development of measurable performance indicators and targets for all programmes
- ◆ The adaptation or development of information systems to capture appropriate performance data
- ◆ The introduction of a regular evaluation programme in respect of all major programmes
- ◆ The integration of the various planning and evaluation processes of government so that the information flow through the system is well co-ordinated.



Service Delivery Indicators

In terms of Section 27(4) of the PFMA, the Department is required to report on measurable service delivery objectives. In line with the PFMA, the revised budget format requires the Department to develop an indicator of service delivery for each output that is defined. It is important to distinguish between workload statistics and output or quantity measures. Workload statistics tell us about the inputs or activities of a programme. Output or quantity measures describe how well the programme is performing. This may refer to how much or how many of the output was achieved. It often includes criteria or benchmarks that may be used in measuring progress. Output or quantity indicators therefore are often expressed in terms of percentages, ratios and rates in certain cases, absolute numbers, and in many instances refer to a measurable time period.



Figure 2: Example of indicators

Workload statistics	Output or quantity measure
Number of enquiries processed	Average number of enquiries per month
Number of staff days spent	Average number processed per staff day
Number of patients attended to	Average number of patients attended to per day, per week, per month

Increased output does not always signal value for money. Other measures such as quality, efficiency, timeliness and sustainability are important. Indicators should be simple, clearly expressed and specific. The indicators should be able to communicate a message that is readily understood by policy



makers, decision-makers and the public. Developing service delivery indicators is not an end in itself. Setting targets and measuring progress towards those targets are the next steps in improving service delivery information in the budget. Service delivery indicators help the Department to set delivery levels and assess performance against the targets.

Service Delivery Innovation (SDI)



SDI can be described as an optimum mix of flexible service delivery mechanisms and tools that can be strategically utilised to achieve the Department's delivery objectives either directly or in collaboration with other sectors such as the private sector or Non-Governmental Organisations. SDI is aimed at creating a more accessible, responsive, customer-oriented and affordable service delivery environment.

Developing Performance Measures/Indicators



Performance measures can be defined as the aspects relating to an activity (a single activity, a project or all the activities of the Department). In order to make a meaningful evaluation of the performance with regard to a specific activity, appropriate performance measures need to be identified and developed. In developing a single performance measure, the following questions need to be addressed:

- ◆ What should be measured – economy, efficiency or effectiveness?
- ◆ On what basis should performance be measured?
- ◆ What should be used as the indicator of performance?



It is suggested that a number of performance measures should be developed for measuring the performance of an activity or project and should be communicated in workshops to all the employees in the Department.

What aspects of performance should be measured?



The first step in deciding what is to be measured is to identify the objectives of the enterprise concerned or the specific activity or project. Objectives should be SMART (Specific, Measurable, Attainable, Realistic and within a Timeframe). In the public sector, objectives can be complex. Sometimes the political intent may be different from the stated policy or the initial reason for the policy has been overtaken by changes in the political environment.



The second step is to define the appropriate standards and targets for each of these objectives. As a minimum there should be a defined measure of performance for each of the objectives. Targets represent a quantified step towards achieving an objective, and are usually specified as a planned output or level of performance to be achieved within a set time. Targets should include not only financial targets but also targets for other aspects of performance, e.g. to reduce the waiting time at the outpatients. In this regard time is a performance indicator. There is a worldwide trend to give greater



prominence to non-financial indicators, with particular emphasis in recent years on the volume and quality of service provided. After the clear, precise and measurable definition of the objectives, focus should be placed on the inputs required (economy) to achieve the objectives as well as relating the inputs used, to the outputs and outcomes realised (efficiency).

Basis of performance

The following provides the basis of performance:

- ◆ Quantity (how much)
- ◆ Quality (how well – referring to specific characteristics of quality)
- ◆ Cost – can be expressed in absolute terms or as an amount or value
- ◆ Time (by when)
- ◆ Location (where)
- ◆ Proxy basis – for example, customer satisfaction with banks are measured against certain standards e.g. number of faults on statements, queuing time, time waiting for appointments, time it takes to clear a cheque.



Indicators of performance.

Indicators of performance imply that standards are identified. Standards can be identified by referring to:

- ◆ Historical information – comparison over time
- ◆ Established standards – internationally acceptable standard, or a standard provided by an institute or similar body, or an acceptable standard within an industry
- ◆ Actual information on the performance of other similar organisations, departments or sections
- ◆ Budgets, forecasts and estimates based on the key objectives of the department.

It is important to realise that these performance indicators should be developed upfront, before an activity is undertaken, to be of any real use to management. There should be a clear understanding beforehand of how the activity or project will be evaluated. It is good practice that performance indicators should be agreed upon by management and auditors – both internal and external.



Attributes of performance measures

The performance measures developed should have the following attributes in order to be appropriate for purposes of evaluating a specific activity or project:





- ◆ The performance measures should be relevant to the activity being evaluated and to the information needs of management. Relevancy will be ensured by the proper development of performance measures, taking into account both appropriate basis of performance and appropriate indicators of performance.
- ◆ Performance measures should cover all dimensions of performance for each activity. These dimensions refer to economy, efficiency and effectiveness.
- ◆ Performance measures should be clear and specific, otherwise measurement will be subjective.
- ◆ Performance measures should be grouped in sets, as single measures rarely provide a complete picture of performance and often distort behaviour.

Performance measures must be published on Budget Day and be included in the strategic plan for submission to Parliament/Legislature within two weeks after Budget Day.



The actual measurement of performance



In essence the measurement of performance involves comparing the actual information pertaining to economy, efficiency and effectiveness to the different performance measures developed beforehand, and documenting the results. It is important not to stop at mere comparison; analysis of the underlying reasons and causes of any deviations is also required. Performance measurement is only likely to succeed if the systems that provide the necessary information leave an adequate audit trail. Steps should therefore be taken to ensure that the information system relating to the activity or project concerned will provide relevant and reliable information to be used for purposes of performance measurement. If it is known beforehand, from referring to the performance measures developed, what information is required, then it is necessary to ensure that the systems will record and report the information.



Performance reporting



Performance reporting may be defined as the communication of quantitative and qualitative information, against specified benchmarks. As a general principle, reports should communicate performance information that is relevant to the decision-making and accountability needs of users. Furthermore, the report and the information contained therein should be reliable, understandable and comparable. In terms of accountability, the objectives of performance reporting are to:

- ◆ Assist in the formulation and implementation of policy
- ◆ Assist in the planning of service provision and to monitor the implementation of planned change



- ◆ Monitor standards of service and organisational effectiveness and efficiency
- ◆ Monitor the extent to which resources are being used effectively and efficiently
- ◆ Ensure fair distribution and accessibility to potential users of the enterprise's services
- ◆ Improve accountability by increasing the information available to interested third parties.



Assessment of the Annual Reports

Departments should, after completion of the financial year, report on the actual performance of their activities as measured against pre-determined objectives. The report should indicate the funds utilised in accordance with the appropriations and priorities of Parliament/Provincial Legislature.

The format of the annual report is divided into four different parts and is discussed below. The format is prescribed by national Treasury Guidelines and the Department was required to prepare its Annual Reports for 2000/2001 according to these guidelines. This format is used to determine if the Annual Reports comply with the policy documents.



Part 1: General Information

- ◆ Submission of the annual report to the executive authority
- ◆ Introduction by the head of department summarising the institutions' highlights
- ◆ Information on the Ministry relating to the work involved in, and the institutions falling under, the executive authorities' control
- ◆ Mission statement of the institution indicating its fundamental purpose
- ◆ Legislative mandate indicating the legislation governing the institution and the trading entities and/or public entities controlled by the institution.



Box 1: Review of Annual Reports of the 10 Heath Departments

In terms of the General Information, the Annual Reports 2000/2001 cover all the key areas of the health services. However future reports can be improved:

- ◆ The introduction by the head of the Department should reflect the key strategic objectives and the degree to which the strategic objectives have been met.
- ◆ The heading: 'Mission Statement' should be as clear as possible as some of the Annual Reports dealt with it at a very late stage in the Annual Report.
- ◆ The Department is given a legislative mandate in Acts such as the Constitution, the Financial Management Act and Health related Acts.
- ◆ The transfer of main ideas should be more focused.





Part 2: Human Resources Management

Human resources constitute a large component in the composition of the Department and also consume a large amount of the budget. In this case the human resource management in the annual report should reflect the following:

- ◆ Public Service Regulations (Part III J) are applicable and must be presented in a graphic format.
- ◆ Planning and service delivery must address the aspects as required in the service delivery plans, i.e. the clients, the process for obtaining client complaints, the level and the cost of services.
- ◆ Organisational structure
 - Briefly indicating functions of each branch and approved establishment
 - Employment numbers and vacancies indicated by component, grade and nature of employment
 - Employment number of persons additional to approved establishment.
- ◆ Job evaluation
 - Number of posts evaluated, upgraded and downgraded
 - Number of employees promoted as a result of posts that were upgraded by race, gender and disability
 - Number of employees whose remuneration exceeds the grade determined by job evaluation.
- ◆ Remuneration in terms of percentage of the budget spent of personnel costs, administrative expenditure and professional and special services
- ◆ Affirmative action, recruitment, promotions and termination of services
 - Policy statement on commitments, implementation processes, targets and statistics on achievements.
- ◆ Performance management and skills development in terms of rewards made, number of employees in the various categories, targets in a training plan, actual amounts spent on training targets and the number of training programmes conducted
- ◆ Injury, illness and death in terms of numbers
- ◆ Collective agreements relating to numbers and subjects
- ◆ Sick leave statistics in terms of average numbers of days taken, the cost to the department and number of employees taking more than 15 days continuous sick leave
- ◆ Ill-health reflecting the number of employees discharged due to ill-health
- ◆ Disciplinary steps taken against employees.



Box 2: Review of the Annual Reports of the 10 Departments of Health

In assessing the Annual Reports of 2000/2001 there is a definite lack of compliance with the requirements under this section.

It would add value to the Annual Reports if a clear indication of the interpretations of the statistics were given, for example:

- ◆ Did the Department meet the targets as set out in the Affirmation Action Policy?
- ◆ What were the problems encountered if the requirements are not met?

It should be kept in mind that an annual report is an informative document, not only for the members of the Legislative Authority but also for the public. Other points set out in the national Treasury Guidelines should also receive attention such as sick leave, employee numbers, vacancies, and job evaluations.



Part 3: Programme Performance

National Treasury regards performance management as a cyclical process starting with strategic planning, moving through programme/project/output implementation to monitoring performance, to performance evaluation to objective reporting of findings. The need for performance reporting is also based on the requirements of Section 38(1)(b) of the PFMA. The aim of performance management is to enable informed decision-making and opinion forming as to whether the Department is delivering outputs that economically, efficiently, and effectively achieve the objectives/outcomes of the Department as identified in its strategic plan.

For the financial year 2001/2002 the framework must be in accordance with the National Medium Term Expenditure Estimates (NMTEE). For each programme in the budget the following must be provided:

- ◆ Aim
- ◆ Policies and developments
- ◆ Outputs and service delivery trends for each activity within sub-programmes indicating the outputs, the service delivery indicators and the actual performance
- ◆ Transfer payments to institutions indicating the institutions, the amounts transferred and a report on the institutions compliance with the PFMA.



Box 3: Review of the Annual Report of the 10 Departments of Health

With reference to this part of the Treasury Guideline, the 2000/2001 Annual Reports clearly set out the performance against objectives. The strategic goals with situational snapshots should set out the achievements for the Departments. The 2000/2001 Annual Reports only provide statistics in terms of the existing situation. Attention should be devoted to what the Department intends to do about reducing or changing the statistics to meet the specific goals.

The strategic objectives should state quantifiable performance measures that can be used to assess if the Department actually achieved its objectives. These objectives must also relate to the information that has been published during the Minister of Finances' Budget speech and relate to the information that has been published by the national Treasury on Budget Day in the National Medium Term Expenditure Estimates.

Example:

A programme on decreasing infant mortality rates. This should include the measurable objective that there would be a 5% reduction. The Annual Report would then contain a schedule of the previous year's deaths as compared to the current year's deaths. This would indicate if the target reduction has been achieved.

Part 4: Audit Reports, Financial Statements and other Financial Information

The annual report and audited financial statements must fairly present the state of affairs of the Department, its financial results, its performance against predetermined objectives, and its financial position as at the end of the financial year concerned. The Annual Report must include information regarding the Department's economy, efficiency, and effectiveness in delivering outputs and achieving its objectives/outcomes against the measures and indicators set out in the strategic plan for the year under consideration. The annual report must include any other additional financial information that may be required by Parliament/Provincial Legislature. The use of any foreign aid assistance (including aid-in-kind), the source of the assistance, the intended use of the assistance, performance information in relation to the Department's use of the assistance, and any pending applications for assistance must also be reported. The value of aid-in-kind must be reported in South African Rands.

The Treasury Regulations require that the Department include notes on the following in the annual report:

- ◆ Information on the tariffs policy, including any free service(s) that were rendered, but not taken into account in the budget and which could have yielded significant revenue
- ◆ All contingent liabilities incurred during the financial year
- ◆ Any material losses recovered or written off
- ◆ Any material losses through criminal conduct, and any unauthorised, irregular, fruitless and wasteful expenditure that occurred during the financial year

- ◆ The use of foreign aid assistance, detailing the source and intended use of the assistance, performance information on the Department's use of the assistance, and any pending applications for assistance.

An overview of all the Annual Reports indicates considerable variation, with only the Gauteng Department of Health meeting the majority of the requirements set by the national Treasury Guidelines.

Table 1: Annual Reports Meeting the Standard Requirements

	General Information	Human Resources Management	Programme Performance	Audit Reports Financial Statements
Eastern Cape	4	3	3	1
Free State	2	3	3	4
Gauteng	4	4	4	4
KwaZulu-Natal	4	3	3	4
Mpumalanga	2	2	3	3
Northern Cape	2	4	3	4
Northern Province	2	2	3	4
North West	4	4	3	4
Western Cape	3	4	3	4
National	3	3	3	4

Key

- 1 Does not comply at all
- 2 Limited compliance with requirements
- 3 Partly complies with requirements
- 4 Almost complies with requirements
- 5 Fully complies

Conclusion and Recommendations



Government Departments are becoming more accountable both to the government and to the public for meeting the objectives within their approved strategic plans and budget allocations. All Departments must prepare a strategic plan, which must include details of the Service Delivery Programme and measurable objectives and outcomes for the particular Medium Term Expenditure Framework period. The relevant Minister or MEC must approve this. The approved plan must be tabled at the legislative authority and this action makes the plans known to the public. The plans can be seen as a promise of achievement. It informs the taxpayer what the Department intends doing with its money.



The accounting officer must submit an annual report on the activities of the Department with the audited financial statements and the Auditor General's report on those statements, to the relevant Treasury and the relevant Executive

Authority. This report is required for the relevant legislature, the media and the public. The annual report and audited statements must fairly present the state of affairs of a department, its financial results, its performance against predetermined objectives, and its financial position as at the end of the financial year concerned. The annual report must include particulars of any material losses through criminal conduct and any unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure that occurred during the financial year.



It is required that the annual report include information regarding the Department's efficiency, economy and effectiveness in delivering outputs and achieving its objectives/outcomes against measures and indicators set out in the strategic plan for the year under consideration.

With the above paragraph in mind the following recommendations are proposed to enhance the economy, efficiency, and effectiveness of the Department:

1. The national Department of Health conducts a strategic planning session to determine a new 3-year (according to the PFMA) strategic planning process. The nine provincial Accounting Officers and/or Chief Financial Officers should attend this planning session. Each of the provinces should then conduct their own provincial strategic planning session in line with the national plans. This process should be aimed at standardising data, planning, quarterly reporting performance measures (each province uses the same indicator for the same function) and annual reporting. Also the data compilation and information on monthly budget reports from Vulindlela should be standardised in order to share information electronically.
2. Clearly defined strategic objectives be determined in the same format and measurements for comparisons.
3. The objectives must be reflected in the annual budget and reported on in the quarterly reports and be the basis for the annual reports.
4. Workshops should be conducted to determine meaningful, measurable performance measures/indicators that can be applied uniformly by all the Health Departments. This will assist in assessing the future reports for 2001/2002.
5. The successes or failures in meeting the strategic objectives should be highlighted in the annual report.
6. The national and provincial reports should be standardised using the format of the Gauteng Annual Report as the model.
7. Systems should be introduced in order to have the necessary information available for reporting without having to search at the end of financial year (effective database information) with monthly reports as the basis.



References

- 1 Republic of South Africa, Public Finance Management Act, 1999, Act 1 of 1999.
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