REPORT 7 OF 2017
SELECT COMMITTEE ON PUBLIC ACCOUNTS OF THE 5TH MPUMALANGA PROVINCIAL LEGISLATURE: MPUMALANGA REGIONAL TRAINING TRUST (2016/17)

1. INTRODUCTION

The Select Committee on Public Accounts (SCOPA) hereinafter referred to as 'the Committee', examined the annual report of Mpumalanga Regional Training Trust (MRTT); hereinafter referred to as 'the Entity'. The Considered reports includes the financial statements, report of the Auditor-General, report of the Accounting Authority and performance information for the financial year 2016/17.

The Committee sent preliminary questions to the Entity and received responses which were subsequently presented during a hearing. This transparent process of engagement was aimed at assisting and guiding the Entity on areas that require improvement and monitoring.

The Committee discharged its mandate of ensuring prudent financial management over the report of the Entity.

2. COMMITTEE PROCEDURES

The Committee met on 09 November 2017 to deliberate on the above reports.. Meetings of the Committee are open sessions for the public including the media as required by Standing Rule 123 and section 118 (1) (b) of the Constitution of the Republic of South Africa, Act No. 108 of 1996.

The Accounting Authority of the Entity and the delegation responded to various questions posed by the Committee during the hearing. The Committee was not satisfied with the responses by the Entity and agreed that the Entity will provide the progress on the implementation of the House resolutions not later than the 14 November 2017.

1. IMPLEMENTATION OF THE PREVIOUS SCOPA RESOLUTIONS

	HOUSE RESOLUTION	PROGRESS REPORT OF ENTITY	STATUS
	The Accounting Authority must ensure that on quarterly basis financial statement are produced and reviewed accordingly	• The Accounting Authority has ensured that full set of financial statements are prepared on a quarterly basis and submitted to the Audit Committee, Finance and Remuneration committee as well as the Board of Directors for reviewing and approval. The Accounting Authority further indicated that the full set of financial statements comprises the following: - Statement of financial position - Statement of financial performance - Cash-flow statement - Statement of changes in net assets - All accompanying accounting policies and notes to the financial statements.	Closed

3. COMMITTEE FINDINGS AND RECOMMENDATIONS

3.1 IMPLEMENTATION OF 2016/17 AUDIT ACTION PLAN

The Committee noted that the Accounting Authority did not provide the progress report on the implementation of 2016/17 audit plan.

The Committee engaged the Accounting Authority to provide the progress report on the implementation of the 2016/17 Audit Action plan.The Accounting Authority indicated that the Entity has developed an action plan on reported audit findings and is currently implementing recommendations of the Auditor General South Africa (AGSA); Internal Auditors and oversight bodies with a view to obtaining a clean audit opinion for the 2017/18 financial year.

3.1.1 RECOMMENDATIONS

The Committee recommends the House to resolve that:

The Accounting Authority must submit the progress report on the implementation of the Audit Action Plan 2016/17.

3.2 ANNUAL AUDIT FINDINGS 2016/17

The Committee noted that the entity received an unqualified audit opinion with findings for the 2016/17 financial year.

The Committee asked the Accounting Authority what plans does the Entity towards attaining a clean audit. The Accounting Authority indicated that in addition to the development and approved action plan on reported audit findings has duly developed and conducts risks assessment (Operational and strategic risks) on quarterly basis through the Entity's Internal Auditors and develops mitigation measures on every risk identified and also assess emerging risks.

The Committee noted the Commitment that the entity will thrive with a clean audit in 2017/18 and beyond.

4. MATERIAL IMPAIRMENTS

The Committee noted as disclosed in note 4 to the financial statements, material losses amounting to R1 968 765 were incurred as a result of write off of irrecoverable trade debtors due to poor collection practices.

The Accounting Authority indicated that the Entity has an approved finance policy which incorporates debt collection processes. In terms of the policy, learners who register for MRTT training programmes and not pay full tuition fee at once are not classified as trade debtors. He further indicated that these learners are required to pay a deposit and the initial instalments of the tuition fee at registration which should be followed by monthly instalments until their accounts are fully paid.

The Committee further enquired from the Entity if they had a debt recovery plan in place to collect the R1 968 765 and to what informed the write-off of R1 968 765. The Committee further indicated that the Entity has poor collection practices and the Entity fails to explain how the matter will be mitigated.

The Accounting Authority explained to the Committee the process of collection on monthly basis and further gave the Committee a breakdown of the written-off amount. He indicated that on the 07th of every month the Debtors' Clerks generate individual statements of account which are served to individual learner as a reminder for outstanding fees. The Accounting Authority indicated that it is a challenge to collect as most learners are no longer at the Entity and some are not employed. Letters of demand are issued to all learners who still fail to pay after the statements of accounts were served.

The Debt of R1 968 765 written off consist of:

- R1 139 800 – NYDA
- R459 936 – department of Education
- R327 778 – RS Radebe (Former MRTT employees)
- R41 286 – Learners

The Accounting Authority indicated that in respect of other debtors, the Debtors' Clerks continually engage with the debtors through telephonic and written communication as a means of reminder. In order to enhance the debt collection practice, the entity is considering imposing interest charges for long outstanding debtor (60 days above) non trade debtors whilst for trade debtors offer competitive discount rate on outstanding accounts.

The Accounting Authority explained that the R1 139 800 owed by NYDA was as a result of an error caused by system generated invoice. The Entity has a Service Level Agreement with NYDA to provide certain services but on this instance no service was rendered and the Entity has to make reversal entry to correct the error.

The Committee asked whether the Entity had dedicated official responsible to collect all the debts of the entity and what is their capacity level. The Accounting Authority indicated that they have dedicated officials responsible for debtors (debt collection) of the Entity and further listed their qualifications.

Mrs Lorna Shilongo – Debtors Clerk: MRTT Head Office

- Post Matriculation Qualification in Bookkeeping (Institute of Certified Bookkeepers, ICB)
- 22 years working experience in Finance

Mrs Iris Sambo – Debtors Clerk: MRTT Hospitality and Training Academy

- Post Matriculation qualification in Bookkeeping (Institute of Certified Bookkeepers, ICB)
- 10 years working experience as a debtor's clerk.

The Committee asked the Entity if they have a debt collection policy which serves as a guide in dealing with creditors and debtors for the institution. The Accounting Authority indicated that the Entity has a debt collection policy.

The Committee further enquired on whether the Entity had developed a plan to mitigate the non-collection of funds and what are the justification for writing were off an amount of R1 968 765 owed to the institution. The Accounting Authority indicated that the Entity has an approved plan and the plan comprises of the use of debtor collection companies and pledging the book to debt collectors. He further indicated that the writing off of an amount of R1 968 765 was based on the prudence concept in accounting.

The Committee asked whether there was a bursary benefit in place for the learners coming from impoverished communities. The Accounting Authority indicated that there was no bursary benefit to learners and further stated that the government grant allocation received from the parent department does not fully cover the training costs.

4.1RECOMMENDATIONS

The Committee recommends the House to resolve that:

(i) The Accounting Authority must take disciplinary actions against officials who failed caused the error and or acted in a manner that caused the system error that generated invoice to NYDA for the amount of R1 139 800

(ii) The Accounting Authority must recover the debt amounting R327 778 from RS Radebe (Former MRTT employees)

(iii) The Accounting Authority must submit a copy of the debt collection policy of the Entity.

5. PROCUREMENT AND CONTRACT MANAGEMENT

The Committee noted that goods and services with the transaction value above R500 00 were procured without inviting competitive bids, as required by Treasury Regulations 16A6.4

The Accounting Authority indicated that the Entity contravened Section 16A6.4 of the Treasury Regulation due to the Entity not being able to obtain three quotations and three bidders to supply goods and services to the Hospitality and Tourism Academy. It was related that management incorrectly applied section 16A6.4 when it was not impractical to apply competitive bidding processes and further indicated that unavailability of service provider that met the stringent specifications that needed to be adhered to in the hospitality environment was also amongst the reasons.

The Committee raised that it was evident that these was a reflection of poor planning as it was not impractical to invite competitive bids.

The Committee asked the Accounting Authority to provide a detailed report on which bids were awarded without inviting competitive bids.

The Accounting Authority indicated that the following service providers:

Service Provider	**Description of Irregular Expenditure**	**Amount as per 2016/7**	**Total**
1. Sunbake	Extension of Contract	R62 738.02	R 62 738.02
2. JLL Fresh Produce	Extension of Contract	R355 556.10	R355 556.10
3. Parks Butchery	Extension of Contract	R608 427.27	R608 427.27
4. Chipkins Catering Supplies	Extension of Contract	R1 640 750.42	R1 640 750.42
			R2 667 471.81

The Committee asked the Accounting Authority to provide a detailed report on which bids was awarded without inviting competitive bids , indicating the value of each company awarded and reasons for contravening Treasury Regulation 16A6.4.

The Accounting Authority indicated the following companies:

Contract	Nature
Parks Butchery	The Accounting Authority indicated that Parks Butchery was chosen because of the following reasons: - Complying with the basic microbiology and industry standard established by national, state and local agencies. - It a supplier that is able to prevent contamination of food during processing, transporting and storing to prevent food borne illness and food spoilage as their trucks are refrigerated. The food audit conducted quarterly has attested to this assertion that they have effective control of food temperature during storage and transport and that led to protecting food micro-organisms, roaches, flies and rodents. - They have good health and safe handling practices. - Other suppliers do not deliver, if we collect the stock with the company vehicle which is not cooled, the cold

	chain will be broken that will have a serious impact on Health and Safety Audit Outcome.
Chipkins Catering	The Accounting Authority indicated that Chipkins was bought by Bidvest, it is now called Bidvest Food serve. The Entity is using them because they can buy all the goods that supply dry goods as well as all hotel amenities e.g. Crockery, cutlery, guest supplies for the rooms (Shampoo, soap, coffee, tea etc), Kitchen equipment from one central supplier. Bidvest is a national company ensuring a consistent quality of products and service.
JLL Fresh Produce	The Accounting Authority indicated the following: - JLL Fresh Produce supplies fruits and vegetable and complies with the basic microbiology and industry standard established by national, state and local agencies. - It a supplier that is able to prevent contamination of food during processing, transporting and storing to prevent food borne illness and food spoilage as their trucks are refrigerated. The food audit conducted quarterly has attested to this assertion that they have effective control of food temperature during storage and transport and that led to protecting food micro-organisms, roaches, flies and rodents. - They have good health and safe handling practices. - Other suppliers do not deliver, if we collect the stock with the company vehicle which is not cooled, the cold chain will be broken that will have a serious impact on Health and Safety Audit Outcome.

The Committee asked the Accounting Authority if there were disciplinary action against officials who caused the entity to award bids without inviting competitive bidding and if yes provide documentary proof and if no state reasons why.

The Accounting Authority indicated that an investigation was done and no disciplinary actions were taken since the quotations were invited but there was no suitable service provider except once currently providing the services, hence the contracts were extended. This was out of control for the specific employees.

5.1RECOMMENDATIONS

The Committee recommends the House to resolve that:

i. The Accounting Authority must take disciplinary actions against relevant manager or those who caused the entity to procure goods and services without competitive bidding processes.
ii. The Accounting Authority must provide proof that only Parks Butchery can deliver meat in the province (market test),
iii. The Accounting Authority must take disciplinary actions against officials who extended contract for service providers without following the correct processes and costing the Entity an amount of R2 667 471.81.
iv. The Accounting Authority must submit the copy of the quarterly food audit conducted to attest that Park Butchery and JLL Fresh Produce comply with the microbiology and that there are the sole service providers who are in the market.

6. IRREGULAR EXPENDITURE

The Committee noted that the Entity incurred irregular expenditure of an amount of R6486 729 in the 2016/17 financial year. The irregular expenditure of 2016/17 increased by R4 621 657 (347.8%) compared to the previous financial year.

The Committee asked why did the Accounting Authority incur an irregular expenditure of R6 486 729 (347.8%) in the current year. The Accounting Authority indicated that the irregular expenditure amount is a cumulative figure from the previous financial year (2015/16: R1.75 million and 2016/17: R2.6 million).The irregular expenditure related to various compliance and transgressions within the Supply Chain Management whereby three (3) officials were subjected to disciplinary hearings after a Forensic Audit. The Outcomes of the hearings are still sub-judice. The irregular expenditure relating to extension of contracts amounting to R.6 million was for the hospitality operations of the entity.

The Committee advised that until the Entity implemented consequences management, it would be difficult to curb irregular expenditure without consequence management.

The Committee asked why the Accounting Authority contravened section 38 (1) (ii) of the PFMA and Treasury Regulation (TR) 9.1.1. The Accounting Authority indicated that disciplinary action by ordering a Forensic Audit was done upon detecting the irregular expenditure resulting from a litany of transgressions by officials within the procurement and contract management.

The Committee asked the Accounting Authority to provide a detailed breakdown of the irregular expenditure amounting R6 486 729 per incident.

The Accounting Authority indicated the breakdown as follows:

	Service Provider	**Type**	**Description of the irregular**	**Amount as per 2014/15 audited AFS**	**Amount per 2015/16**	**Amount as per 2016/17**	**Total**
1.	Ricoh	Irregular	Incorrect awarding based on tender calculations	11 533.79	1 137 898.00	1 493 795.08	2 643 226.87
2.	TM Silinda	Irregular	Tender awarded after disqualification	116 601.57	353 741.00	460 390.48	930 733.05
3.	JDR	Irregular	Tender not advertised for 21 days in the government tender bulletin	5 259 660.00	Full amount was condoned	Full amount was condoned	
4.	MEGA	Fruitless and Wasteful expenditure	Penalties and interest on account	1 683.00			1 683.00
5.	SARS	Fruitless and Wasteful expenditure	Penalties and interest		5 417.55	5 530.00	10 947.55

6.	Stadex stationery	Irregular	An award for an amount of R15 113.51 was given to Stadex instead of Nashua who had quoted an amount of R14 700.98 as per order number 2801 dated 22/06/2015. The reason for this deviation was not justified because it was based on the fact that Nashua had already been given an award.		15 113.51		15 113.51
7.	IE Communications	Irregular	An award for an amount of R179 791.34 was given to IE Communications instead of Owethu Communications who had quoted an amount of R141 097.21 as per order number 4643 dated 02/06/2015. The reason for this deviation was not justified because it was based on the fact that Owethu Communications had already been given an award		179 791.34		179 791.34
8.	Minuteman Press	Irregular	The provider with the lowest quotation (Emalahleni Printers with a quotation amounting to R2 238.60) was not selected for the following ward. The reasons for not selecting the lowest price quotation were not recorded and the deviation approved.		3 938.31		3 938.31
9.	Sycho Machinery	Irregular	Sycho Machinery was provided with an award to supply and deliver wheel alignment machinery for an amount of R46 455.00 as per invoice number 0103799101 did not provide tax clearance certificate.		46 455.00		46 455.00
10.	Sunbake		Extension of contract			62 738.02	62 738.02
11.	JLL Fresh Produce		Extension of Contract			355 556.10	355 556.10
12.	Parks Butchery		Extension of Contract			608 427.27	608 427.27
13.	Chipkins Catering Supplies		Extension of contract			1 640 750.42	1 640 750.42
				5 389 478.36	**1 742 354.71**	**4 627 187.37**	**6 499 360.44**

The Accounting Authority indicated that disciplinary actions were taken against some of the officials who caused the entity to incur part of the irregular expenditure amounting R3 819 257 and further indicated that the additional amount of R2 667 471 related to the extension of contracts where the entity was unable to invite competitive bids or three quotations.

The Committee asked what measures were put in place by the Accounting Authority to ensure that such expenditures do not re-occur after it was discovered by the Accounting Authority. The Accounting Authority indicated that the entity has developed comprehensive internal control process that will ensure that all applicable laws and regulations are complied with. Furthermore a checklist and other means of monitoring would be employed in order to ensure that there are no loose ends in processes namely, contracts without set limits (expiry dates) that are open ended.

The Committee asked the Accounting Authority to submit proof that the irregular expenditure was reported to the relevant Treasury for condonation and that a register was kept. The Accounting Authority indicated that the entity did not record and keep a register of incidents of irregular expenditure incurred for the financial year under review however efforts have been made in the current financial year that an irregular expenditure register is in place to record any incidents as and when they occur.

The Committee asked the Accounting Authority to explain why the investigations on irregular expenditure are taking so long. The Accounting Authority indicated that the delays in investigations of the irregular expenditure are taking long as a result of the processes that the appointed independent service provider for forensic audit had to follow by interviewing the alleged transgressors (MRTT officials), and also engagements of service providers who are allegedly implicated and corroborating the evidence gathered. The investigation also included physical site visits to the various places to gather concrete evidence.

The Accounting Authority indicated that no submissions were reported to the relevant Treasury as management had waited to quantify the extent of the irregular expenditure incurred before reporting it to the Provincial Treasury.

The Accounting Authority indicated that a process of recovering from responsible officials as stipulated has not yet commenced since the disciplinary processes have not been finalized but will be recovered from Provident and Pension Fund and leave pay-outs upon pronouncements of a guilty sanctions.

6.1RECOMMENDATIONS

The Committee recommends the House to resolve that:

(i) The Accounting Authority must take disciplinary actions against officials who failed to ensure that proper processes were followed before extension of contracts that cost the entity irregular expenditure.

(ii) The Accounting Authority must submit final report on the outcomes of the investigations implicating service providers.

(iii) The Accounting Authority must ensure that monies due to the Entity are recovered from responsible officials liable in law and provide progress report on concluded cases.

7. PAYABLES FROM EXCHANGE TRANSACTIONS

The Committee noted on page 131 of the Annual report that the Entity reflects an accrual amount of R2 180 634.

The Committee required the Accounting Authority to indicate what reasons which led the Entity to accrue R2 180 634; whether the accruals were cash backed or not and if not how did the Accounting Authority source funding to defray the accruals.

The Accounting Authority indicated that the accruals were as a result of various expenses that were payable for the following:

- Learner stipends
- Travelling and Subsistence

The Accounting Authority further indicated that the amounts were owed by the Entity at the end of financial year; however there was uncertainty with regards to the amounts hence estimates had to be accrued and furthermore all the accruals were cash backed.

7.1RECOMMENDATIONS

The Committee recommends the House to resolve that:

(i) The Accounting Authority must ensure that there are proper systems and tools to enable the Entity to pay creditors within 30 days.
(ii) The Accounting Authority must ensure that appropriated funds are spent for intended purpose and as appropriated by the Legislature.

8. CONCLUSION

The Committee has satisfied the requirements of the Mpumalanga Provincial Legislature Rules and Orders of conducting oversight over the financial statements of the Entity.

Unless otherwise stated a report detailing progress made in the implementation of all recommendations in this report should be forwarded to the Committee by 30 March 2018 and thereafter on quarterly basis.

9. ADOPTION OF THE REPORT

The Select Committee on Public Accounts recommends that the House adopt this report and its recommendations as House Resolutions.

15. 02. 2018

Hon. SI Malaza
Chairperson
Select Committee on Public Accounts
Mpumalanga Provincial Legislature

Date