MPUMALANGA
PROVINCIAL LEGISLATURE

REPORT 14 OF 2015
SELECT COMMITTEE ON PUBLIC ACCOUNTS OF THE 5TH MPUMALANGA PROVINCIAL LEGISLATURE: DEPARTMENT OF MPUMALANGA ECONOMIC GROWTH AGENCY (2013/14)

1. INTRODUCTION

The Select Committee on Public Accounts (SCOPA) hereinafter referred to as a Committee, examined the annual report of the Mpumalanga Economic Growth Agency; hereinafter referred to as the Entity, which includes the financial statements, report of the Auditor-General, report of the Accounting Authority and performance information.

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 reports of the entity.

2. COMMITTEE PROCEDURES

The Committee met on 25 February 2015 to deliberate on the above reports. The Entity was requested to rework its document. The Committee reconvened the meeting on 11 June 2015. Meetings of the Committee were open sessions for the public including the media as required by Standing Rule 116 and section 118 (1) (b) of the Constitution of the Republic of South Africa, Act No. 108 of 1996. The report was eventually adopted on 20 August 2015.

The Accounting Officer and his delegation responded to various questions posed by the Committee during the hearing. Some of the responses were not responded to correctly, the committee request the Entity to re-submit some of the responses to the preliminary questions

IMPLEMENTATION OF 2012/13 SELECT COMMITTEE ON PUBLIC ACCOUNTS HOUSE RESOLUTIONS

House Resolution		Progress	Status
1.1	The Accounting Authority must develop a record management system and procedures and report to the committee on a quarterly basis.	The department reported that the process to develop the record management system is at finalisation stage. The only outstanding process is the completion of a file Plan and the appointment of a records Manager. The policy and procedures have been approved by the provincial archivist and endorsed by the Board. The registry layout has been designed, central registry has been established and registry staff has been placed.	CLOSED
1.2.	The Accounting Authority must collect all monies due to Mega and report to the committee by 12	The department reported that the collection of revenue has increased by 81% from April to October 2014 and by 92% from November to December 2014. The department	ON-GOING

	December 1014.	stated that the increase of revenue collection is a result of the enhancement of the entity's debt collection strategy techniques which include the establishment of call centres, monthly site visitation by debt collectors and by disconnecting clients that does not pay rent.	
1.3	The Accounting Authority must furnish a report on current and noncurrent assets of MEGA by 12 December 2014 and consequently on 20 February 2015.	The department reported that the classification of non-current assets was disclosed in the 2013/14 financial statements, no audit finding was raised. Disclosure is attached as Annexure A.	CLOSED
1.4	The Accounting Authority must capacitate assets management unit with available pool of employees and re-skill those lacking adequate skills. A progress report on placement of officials in assets management must be forwarded to the committee on the 12 of December 2014.	The department reported that an assets officer has been appointed and the senior Accountant has been seconded to assist in the responsibilities of an asset manager.	ON-GOING
1.5	The Accounting Authority must submit	The department reported that the fixed assets register is attached as	CLOSED.

	its assets registers to the committee by 20 February 2015.	Annexure B, D and E.	
1.6	The Accounting Authority must put measures to improve the deficiencies on assets in the entity.	The department reported that an asset management system has been purchased and implemented to assist the entity with the management and accounting of assets.	CLOSED.
1.7	The Accounting Authority must submit a report on the review of VAT returns conducted by the specialist and cost analysis of the exercise to the committee by December 2014.	The department reported that the VAT specialist provided guidance in the treatment of VAT on grants and the implementation of apportionment in terms of output tax as per the VAT Act. As more than 5% of MEGA total revenue is exempt from tax, an appointment ratio is applied to the total input tax deduction. R184 262 62 was paid towards the Services from the specialist and a report is attached as Annexure C.	ON-GOING
1.8	The Accounting Authority must place employees accordingly and a progress report	The department reported that the process of placing employees has not yet been absorbed is still not completed. The MEC has	ON-GOING

	must be forwarded to the committee on the 12 of December 2014.	directed MEGA to do skills profiling to determine if they can't be absorbed within the department of economic development and tourism.	
1.9	The Accounting Authority must consider reskilling employees prior to recruiting new staff at same level of available unplaced employees.	The department reported that the entity has considered the recommendation and this will inform the process of filling vacancies as when this process is undertaken.	ON-GOING
1.10	The Accounting Authority must strive to create sustainable administrative stability in the entity without limiting obligations to procedurally get rid of those who hinder service delivery or progress.	The department reported that the entity has considered the recommendation. Performance management system is being implemented to ensure consequences for non-performers.	ON-GOING
1.11	The Accounting Authority must take disciplinary actions against officials who contravened section (40)(1)(b) of the PFMA during the preparations of the annual financial statements.	The department reported that disciplinary action was taken against the responsible official. MEGA is in a process of securing a professionally skilled Chief Financial Officer to take full responsibility of MEGA's finances.	ON-GOING

1.12	The Accounting Authority must take disciplinary actions against officials who fail to comply with section 51(1)(c) of the PFMA.	The department reported that it was the responsibility of the CEO, thus the CEO and the board members have agreed to allow the CEO to terminate his services with MEGA and a new CEO with appropriate professional skills and relevant experience has been appointed.	CLOSED
1.13	The Accounting Authority must develop a tool for monitoring of compliance with applicable legislations. The toll must register instances of non-compliance per quarter and remedial actions.	The department reported that the entity has adopted the PFMA compliance checklist for public entities for public entities. The entity reported that compliance reports are done on a quarterly basis and submitted to the Executive Authority during the submission of quarterly reports.	CLOSED
1.14	The Accounting Authority must collect all monies due to MEGA, as required by section 51(1)(b) of the PFMA and Treasury Regulation 31.1.2 (a) and (e). a progress report must be submitted to the committee on 20 February 2015.	The department reported that the collection of revenue has increased by 81% from April to October 2014 and by 92% from November to December 2014. The department stated that the increase of revenue collection is a result of the enhancement of the entity's debt collection strategy techniques which include	ON-GOING

		the establishment of call centres, monthly site visitation by debt collectors and by disconnecting clients that does not pay rent.	
1.15	The accounting Authority must take disciplinary action against the Executive officer for contravening section 51(1)(b)(ii) and section 51(1)(e)(iii) of the PFMA.	The department reported that the former CEO and the board members have agreed to allow the CEO to terminate his services with MEGA and a new CEO with appropriate professional skills and relevant experience has been appointed.	CLOSED
1.16	The Accounting Authority must recover the fruitless and wasteful expenditure incurred in 2012/13 financial year from the responsible officials. A repot must be submitted to the committee by the 12 of December 2014.	The department reported that irregular expenditure was as a result of the moratorium placed on new contracts until the finalisation of the merger. Consequently most contrast ran on a month to month basis for a prolonged period thereby incurring irregular expenditure. Thus, the entity could not hold any official accountable as this came as a result of the implementation of the Board's resolution.	CLOSED.
1.17	The Accounting Authority must ensure that MEGA develops	The entity reported that MEGA operates with approved policies and are	CLOSED.

	and operates with approved, reviewed policies and procedures.	reviewed accordingly.	
1.18	The Accounting Authority must hold quarterly reviews on programme performance and Budget expenditure.	The entity reported that programme performance and budget expenditure are reviewed though, they are not held by the Accounting Authority but by Exco, Audit Committee and board members	CLOSED
1.19	The committee decided that the Accounting Authority must use its internal capacity to source a legal opinion on whether the service provider Wezile Phaphama did not breach his or her contract with MEGA in that its employee committed an act of fraud which had direct effect on MEGA.	The entity reported that upon investigation on the matter, it was discovered that the guilty party was not an employee of Wezile Phaphama and that no connection could be traced between the party and Wezile Phaphama. The department responded to the question, however, the response raised many questions. For instance, upon investigation on the matter, who was found to be the perpetrator?	ON-GOING
1.20	The Accounting Authority must submit a copy of the contract	The entity reported that the contract was attached on the progress report on	ON-GOING

	between MEGA and Wenzile Phaphama for scrutiny by the committee on or before 30 November 2014.	the implementation of the 2012\13 house resolutions.	
1.21	The Accounting Authority must ensure that there are plans to deal with prior year findings, issue raised by Audit committee, programme performance reviews, budget expenditure reviews, compliance with legislations and unwanted expenditure.	The entity reported that prior year findings are dealt with through the Audit Committee remedial Action Plan. Furthermore, performance and budget reviews are dealt with through Exco, Audit Committee and board members. Lastly, MEGA has adopted the PFMA compliance checklist for public entities. Compliance reports are done quarterly and submitted to the Executive Authority during submission of quarterly report.	CLOSED
1.22	The Accounting Authority must ensure that disciplinary actions are promptly taken against officials who fail to perform as required by their performance agreement.	Performance system is being implemented to ensure consequences for non-performance.	ON-GOING

3. COMMITTEE FINDINGS AND RECOMMENDATIONS

3.1 BASIS FOR QUALIFIED OPINION

3.1.1 INVESTMENT PROPERTIES

The Committee noted that the Auditor General reported that residential properties were included in investment properties statements. Tthe Auditor General could not obtain appropriate audit evidence to confirm whether the properties had been transferred to the buyer or whether they were transferred to MEGA as part of a repossession process. The Committee further noted that properties amounting to **R5 053 000** reflect MEGA and a third party as the owners of the property at the deeds office. The reported estimate of properties not confirmed by the Auditor General amount to **R99 157 000**.

The Accounting Officer indicated that this was as a result of extra security measures implemented by the former KwaNdebele to safeguard its financial interest i.e. money advanced against bond registration on the properties. The former KwaNdebele entity would register itself as a title holder to prevent clients from disposing the property or raising more debt against the property without the entity knowing about it. It was noted that under "normal" circumstances the financial institution would only register a bond against the money advanced.

The Accounting Officer further indicated that these properties were not recorded as assets in the books of the former KwaNdebele entity as it did not comply with the definition of an asset according to the Accounting Standards. However, when the three entities merged the properties were incorrectly recognized as assets in MEGA's books. The entity indicated that Properties with dual ownership will therefore, as part of the finalization of the 2014/15 annual financial statements, be derecognized via a retrospective restatement of results, i.e. this will be disclosed as a "prior period error".

The Accounting Officer indicated that the Auditor General encountered the following main challenges regarding the completeness and accuracy (including the appropriate classification) of MEGA's assets during the execution of the 2013/1 4 audit:

- Residential houses that are not owned by MEGA were included as part of MEGA's assets;
- Rental agreements could not be submitted for properties classified as Investment Property;
- Properties with dual ownership resulting in the same property being accounted for as a "housing loan" and as "investment property" in the accounting records of MEGA

The Accounting Officer further indicated that the management team will review the results of the preliminary investigation and to ensure that appropriate audit evidence is put on file to support the recognition and classification of items recognized as assets by MEGA. This process is likely to be a time consuming and expensive exercise to complete. Management will engage the relevant Deeds Offices to see how best the process can be fast tracked and cost can be minimized.

The Accounting Officer indicated that a decision was taken by the Board to transfer properties with dual ownership to the registered bondholder unless the account is in arrears and a decision has been taken to repossess the property. The procurement process for the appointment of conveyance attorneys to transfer these properties to the clients had started.

The Committee was not satisfied with the answers received from MEGA and noted that there were families occupying the listed houses. The Committee agreed to conduct a visit to the identified properties.

3.1.1.1 OVERSIGHT FINDINGS (VERIFICATION OF PROPERTIES)

The Committee conducted oversight visits to verify projects at eKangala on 05 August 2015. The purpose of the visit was to view and engage with beneficiaries that benefited from MEGA, a sample of properties was taken from eKangala A and Dark City location. The Committee observed that there was a Housing Committee in the area which was introduced as the people responsible for the Houses.

In Nkangala A the Committee also observed that in one of the Houses the owner Mr Godfrey Motsepe had purchased the House from Mr Ngubane in Midrand of which he owed Mpumalanga Housing R58000. Mr Ngubane passed on and Mr Matsepe was paying for the House at the KUC offices. In 2006 Mr Motsepe decided to involve his Lawyer Mr Govender from Bronkorspruit, instead of paying for the House at the KUC office they decided to put the money on a trust fund up until they could register the House under Mr Motsepe's name. The occupant is currently paying a lawyer instead of MEGA.

The Committee also observed that in one of the Houses the Owner of the house had passed away in 2009 (Mrs Mabizela), the children are left with the House as beneficiaries and also received an Authority from the Court as rightful owners of the property. Statements are received from KUC through the brother's name, a title deeds was received on the Mothers name.

In Dark City the Committee was not allowed to perform their oversight. The Community raised an issue that they were not informed prior on the Committee's oversight. The Community raised a concern that MEGA had promised to vacate the residences from the houses due to non-payments of the Bond and not being the rightful owners of the houses.

3.1.2 RECOMMENDATIONS

The Committee recommends that the House resolve that:

(i) The Accounting Officer must investigate on the properties having dual ownership and the whole asset portfolio with MEGA and submit a report to the Committee in this regard

3.2. OTHER FINANCIAL ASSETS

The Committee noted that the Auditor General reported that that it was difficult or challenging to obtain sufficient appropriate audit evidence to confirm that management had properly accounted for housing loans and related interest due to the unavailability of loans agreements. Furthermore, interest income was misstated as MEGA charged interest rates that are different to those stated in the contracts. The misstatements could not be quantified to unavailability of some contracts. The Committee further noted that the

Entity failed to ensure proper control systems to safeguard and maintain assets as required by section 51 (c) of the PFMA.

The Committee asked the Accounting Officer why the Entity contravened sectioned 51 (c) of the PFMA. The Accounting Officer indicated that the contravention was as a result of the unavailability of loan agreements due to poor record keeping and failure to demand loan agreements from the attorneys after bond registration and transfer of title deeds. This is a historical challenge inherited during the merger process; the Accounting Officer further indicated that the management will further, in terms of its document management system, investigate the possibility of retaining both a hard copy and an electronic copy of the supporting documentation for record and audit purposes.

The Committee probed why the entity had failed to provide the loan agreements to the Auditor General during audit and the Accounting Officer, indicated that the Entity did not always ensure that loan agreements were returned by the attorneys once the bond registration process was completed. The attorneys, in terms of their document retention period, also only kept the loan agreements for 5 years before destroying them. Further, management was of the view that the bond documents contained sufficient information (e.g. start date, end date, amount advanced and applicable interest rate) to confirm the accuracy of loan amounts recognised by the Entity and therefore did not insist on the return of loan agreements.

The Committee raised a concern on what led the Entity in charging different interest rate to those stated in the contracts. The Accounting Officer indicated that in prior years, there was a Board resolution to charge a fixed interest rate of 12% for loans. Clients who previously obtained loans at an interest rate of 16% were adjusted to 12%. Those clients who initially elected to link their loan agreements to the prime interest rate opted to retain the existing conditions of their loan agreements, i.e. these contracts continued to be charged interest based on a variable interest rate linked to the prime overdraft rate and consequently the 12% fixed interest rate was never implemented in respect of these contracts

The Committee further wanted to know what impact does this have on the Entity and the applicants concerned, especially those who had inflated interest rate. The Accounting Officer indicated that clients whose interest rate was adjusted downwards from 16% to 12% have benefited in the reduction of interest. Management is currently not able to quantify the rand value of this adjustment and the resultant loss in revenue to MEGA. Please further bear in mind that the final loss in revenue to MEGA should be calculated after taking any write offs and/ or debt impairment (provision for bad debts) have been taken into account. The Committee further asked why did the Entity failed to have effective and efficient record keeping system to avoid the misplacement of t Loan contracts.

The Accounting Officer indicated that this is a challenge the new "MEGA" inherited and can mainly be attributed to the various merger and unbundling processes of the former entities

3.2.1 RECOMMENDATIONS

The Committee recommends that the House resolve that:

(i) The Accounting Authority must take action against the Former Accounting Officer and officials who were responsible Managers for failure to ensure proper control systems to safeguard and maintain assets as required by section 51 (c) of the PFMA during the 2013/14 financial year.

3.3 MATERIAL IMPAIRMENTS

The Committee noted that the Auditor General reported that material impairments of R121 078 754 were incurred as a result of the provision for doubtful debts. The Committee also noted that the Entity has reported that effective and appropriate steps were not taken to collect all money due to the Entity as required by section 51 (1) (b) (i) of the PFMA. The Committee asked why did the Entity contravened section 51(1)(b)(i) of the PFMA. The Accounting Officer indicated that the contravention was due to capacity challenges within the finance division during the merger process and the fact that the debtors management unit was not in place. The Accounting Authority had taken effective and appropriate steps to collect all revenue due to the public entity, including legacy debts. A call center was setup with the responsibility of collecting debts, updating of clients information and agreeing on new repayment terms. The average monthly collection increased by 16.5% from R11.45 million during the period April 2014 – October 2014 to R13.34 million during November and December 2014, in the 2013/14 debt impairment of R121 million, an unrecoverable debt amounting to R 11, 314,144 was identified and written off since the debtors concerned had passed on. This was disclosed in the Annual Report in accordance with the International Accounting Standards (IAS) 36 - Impairment of Assets, which seeks to ensure that an entity's assets are not carried at more than their recoverable amount.

The Committee asked the Entity to clarify what led to the increase in material impairment from the previous financial year. The Accounting Officer indicated that the increase was as a result of an effective and efficient impairment exercise undertaken during the 2013/14 financial year in compliance with the relevant Accounting Standards. The approach adopted to determine the debt impairment amount for the 2013/14 financial year was calculated differently to the impairment method used previously resulting in a prior period error being recognised in the 2013/14 annual financial statements. Also according to IAS 36 in identifying an asset that may be impaired, at the end of each reporting period, an entity is required to assess whether there is any indication that an asset may be impaired. The Committee further asked the Entity whether this has anything to do with the ability of MEGA not being able to collect its debt efficiently. The Accounting Officer indicated that this has nothing to do with MEGA bot being able to collects its debt efficiently this is a result of the non-performing debt books of the three merged entities which were fully provided for in previous years and never considered for write-off. Some of these loans were approved in 1987 and the balances continued to be carried forward throughout the years.

The Committee also wanted to know how confident is MEGA that outstanding debt will be reduced in the next financial year. The Accounting Officer indicated that management will perform a comprehensive review of the collectability of its loan book with specific reference to legacy debt. A report of amounts to be written off will be tabled for consideration by the Board. Steps taken by management to recover the outstanding debt and/ or reasons why the debt is regarded as irrecoverable will be detailed in the submission to the Board.

The Committee asked whether the Entity has measures that are put in place to ensure that this does not occur in the next financial year. The Accounting Officer indicated that the following measures have been put in place to prevent debts from increasing in the next financial year:

- Proper impairment exercise;
- Reduce arrears as a percentage of the total loan book;
- Effective management of active debt book;
- Continuous communication with clients to resolve queries timeously;
- Letters of demand are issued to non-paying debtors;
- Disconnection of electricity supply to tenants with overdue accounts.

3.3.1 RECOMMENDATIONS

The Committee recommends that the House resolve that:

(i) The Accounting Officer must create systems to monitor the call center set up for the collection of debt and a progress report should be submitted to the Committee on a quarterly basis

(ii) The Accounting Officer must ensure that officials responsible for the collection of debt are fully capacitated to exercise their duty

4 ADDITIONAL MATTERS

4.1 ACHIEVEMENT OF PLANNED TARGETS

The Committee noted that the Auditor General reported that The Entity achieved 47.1% of its targets in the 2013/14 financial year which is an increase from the previous year's achievement of 32%. This is an improvement but yet still way under the acceptable level. The Committee acknowledged that the Entity improved in achieving its target but further enquired why the Entity is consistently failing to achieve its targets above the 50% level for two years running. The Accounting Officer indicated that the failure to achieve targets was a result of the following challenges:

- Change of Leadership;
- Lack of adequate budget to provide for new loans;
- Lack of Monitoring and Evaluation function;
- Failure to develop measurable objectives.

The Committee asked the Entity what had been the measure that had been put in place and why was it not implemented successfully. The Accounting Officer indicated that The payment of new loan advances were budgeted to be funded by the projected cash collections during the financial year. Due to cash flow constraints MEGA was unable to issue/ approve new loans as planned. The Performance Management Policy was developed and approved but not fully implemented due to staff capacity challenges encountered during the year under review and further added that the FMPPI was adhered to, however, due to some objectives not being measurable (SMART), certain targets could not be supported by sufficient evidence. This resulted in certain achieved targets being considered as not achieved during the regulatory audit, resulting in the reduction of the number of targets achieved.

The Committee further asked the Entity the effect on service delivery programme in the Province that was done by MEGA. The Entity indicate that Mpumalanga citizens did not receive the financial assistance that MEGA can offer in terms of its developmental mandate due to cash flow constraints. This also had an impact on the number of job opportunities that were created through SMME development.
Citizens could not benefit from the housing development that was planned in Sabie and Lydenburg due to a lack of funds.

4.1.1 RECOMMENDATIONS

The Committee recommends that the House resolve that:

(i) The Accounting Officer must develop systems to monitor the measures put in place to ensure that planned target for the financial years are achieved.

4.2 ANNUAL FINANCIAL STATEMENTS, PERFORMANCE REPORT AND ANNUAL REPORT

The Committee noted that the Auditor General reported that financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and were not supported by full and proper records, as required by section 55 (1) (a) and (b) of the PFMA. There were misstatements on non-current assets, current assets liabilities, revenue and disclosure items identified by the auditor which were subsequently corrected. Supporting records that could not be provided resulted in the financial statements receiving a qualified opinion.

The Accounting officer reported that the misstatements on non-current assets, current assets, liabilities, revenue and disclosure items identified by the auditor which were subsequently corrected were as a result of late finalization of the financial statements. Due to the volume of the work involved, the process could not allow adequate time for the Internal Audit Unit and the Board Audit Committee to review the annual financial statements prior to submission on 31 May 2014.

The Committee asked the Accounting Officer on why did the Auditor General had to correct the financial Statements of the Entity for more than three years running. The Accounting Officer indicated that In 2011/12 and 2012/13 financial years the entity was unable to classify the other financial assets in current and non-current assets as required by IAS1 due to non-availability of historical information and that an impairment test was not performed.

With the preparation of the 2013/14 financial statements the split between current and non-current financial assets were disclosed correctly, but other disclosure items were neglected. Due to the volume of the work involved, the process could not allow adequate time for the

Internal Audit Unit and the Board Audit Committee to review the annual financial statements prior to submission on 31 May 2014

The Committee further enquired with who were the responsibility to of compiling the Entity's financial statements entrusted with. The Accounting Officer indicated that The Acting Chief Financial Officer was entrusted with the responsibility of compiling the financial statements in accordance with the delegation of authority.

4.2.1 RECOMMENDATIONS

The Committee recommends that the House resolve that:

(i) The Accounting Officer must take disciplinary action against the Acting Chief Financial Officer and implicated official(s) for not compiling financial statements in accordance with section 55 (1) (a) and (b) of the PFMA

4.3 PROCUREMENT AND CONTRACT MANAGEMENT

The Committee noted that the Auditor General reported that sufficient appropriate audit evidence could not be obtained that all contracts and quotations had been awarded with accordance with the legislative requirements, as management could not provide supporting documentation for some of the awards made to suppliers. The Committee asked the Accounting Officer to give reasons why the Entity could not provide the AG concerning the contracts and quotations. The Accounting Officer indicated that due to challenges with document management at the time of merger, documents to support bidding processes followed in appointing these service providers could not be found. The Entity has established a Records Management Unit for document management.The process to develop MEGA's records management system is at the finalisation stage. The only outstanding process is the completion of a File Plan and the appointment of a Records Manager

The Committee did not accept the reasons provided by the Accounting Officer and further asked whether action was taken against the individual concerned. The Accounting Officer indicated that the Board did not condone irregular expenditure but instead it directed management to do a thorough analysis of expenditure to determine the cause in order to take appropriate action and also develop a programme of action.

The Committee further asked whether there are steps taken by the Entity to try to avoid this kind of occurrence in the next financial year. The Accounting officer indicate that the Entity shall terminate month to month contracts, ensure that it follows the prescribed SCM processes to appoint service providers and proper filling of documents to support bidding processes.

4.3.1 RECOMMENDATIONS

The Committee recommends that the House resolve that:

(i) The Accounting Officer must develop an effective and cost efficient record management system for MEGA.

4.4 EXPENDITURE MANAGEMENT

The Committee has noted that the Auditor General reported that effective steps to prevent irregular expenditure as well as the fruitless and wasteful expenditure were not taken according to section 51 (1)(b)(ii) of the PFMA. An amount of R1 462 439 was incurred for fruitless and wasteful expenditure and an amount of R 36 763 468 was incurred as irregular and unauthorized expenditure. The Committee asked what the causes of the expenditures were in the 2013/14 financial year. The Accounting Officer indicated that for the fruitless and wasteful expenditure the suppliers were forwarding invoices to regional offices instead of sending them directly to the head office and prolonged the payments process, and the irregular expenditure the SCM processes and procedures were not adhered to in the procurement of services, poor record keeping and maintenance practices and lack of electronic copies of documentation was also one of the contributors of irregular expenditure.

The Committee further asked whether an investigation had been conducted in relation to the matters raised above. The Entity indicated the Internal Audit Unit did an investigation in 2014/15 financial year on irregular and unauthorized expenditure and a report was submitted to the Board and was approved.

The Committee further asked whether disciplinary action was taken against individuals concerned. The Accounting Officer indicated that the Board did not condone irregular expenditure but instead it directed management to do a thorough analysis of expenditure to determine the cause in order to take appropriate action and also develop a programme of action.

4.4.1 RECOMMENDATIONS

The Committee recommends that the House resolve that:

(i) The Accounting Officer must take disciplinary action against the Official(s) who failed to comply with section 51 (1)(b)(ii) of the PFMA

(ii) The Accounting Officer must strengthen the Entity's system in dealing with invoices from suppliers and ensured that they are paid within 30 days as stipulated in Treasury Regulation. A date stamp be used at the entry point of invoices.

(iii) The Accounting Officer must forward a report to the Committee on why and how the unauthorised expenditure amounting R36 763 468 was approved or condoned by the Board.

4.5 INFORMATION TECHNOLOGY

The Committee noted that the Auditor General reported that the Entity did not have approved IT policies that would guide the Entity in its processes. The Committee also raised a concern that the entity for two years running failed to approve IT policies. The Accounting Officer indicated that the Development of IT Policies was included in the turnaround Strategy for MEGA which was driven by Deloitte. These were drafted and the consultation process on the draft was delayed as the IT division had a high vacancy rate. These needed consultation with IT at Tactical level and the division had no capacity at this level

The Entity also indicated that the IT policies have been considered by the Board Committee and will serve before the Board in its next sitting.

4.5.1 RECOMMENDATIONS

The Committee recommend that the House resolve that:

(i) The Accounting Authority must ensure that the IT related Policies and other outstanding policies are approved and implemented.

5. CONCLUSION

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

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 November 2015 and thereafter on quarterly basis.

6. ADOPTION

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

20/08/2015

HON. S I MALAZA
CHAIRPERSON
SELECT COMMITTEE ON PUBLIC ACCOUNTS
MPUMALANGA PROVINCIAL LEGISLATURE

DATE