



REPORT 3 OF 2017
SELECT COMMITTEE ON PUBLIC ACCOUNTS OF THE 5TH MPUMALANGA PROVINCIAL LEGISLATURE:
DEPARTMENT OF CULTURE, SPORT AND RECREATION (2015/16)

1. INTRODUCTION

The Select Committee on Public Accounts (SCOPA) hereinafter referred to as a Committee, examined the annual report of the Department of Culture, Sport and Recreation; hereinafter referred to as the Department, which includes the financial statements, report of the Auditor-General, report of the Accounting Officer and performance information.

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

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

2. COMMITTEE PROCEDURES

The Committee met on 10 February 2017 to deliberate on the above reports on the House Resolutions of SCOPA. The committee considered its draft report on 14 June 2017. 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 Committee was not satisfied with the responses by the Department and the MEC requested that they be given the period of three (3) months to implement the House Resolutions and provide progress report to the Committee. The Committee agreed during the meeting that the Department will provide the progress thereof not later than the 30 June 2015.

COMMITTEE FINDINGS AND RECOMMENDATIONS

3. IMPLEMENTATION OF 2015/16 AUDIT ACTION PLAN

The Committee noted that the Accounting Officer did not provide the progress report on the implementation of 2015/16 Audit plan.

The Committee engaged the Accounting Officer on why he had failed to provide the progress report on the implementation of the 2015/16 Audit plan. The Accounting officer indicated that the department has implemented all recommendations of remedial action plan for the 2015/16 financial as recommended except for filling of critical posts.

The committee was concerned about the functioning of the department without the CFO and the head of Supply Chain management. The Committee needed clarity from the department on whether these critical positions were abolished and if there were allowances being paid to personnel acting on these positions. The Accounting Officer indicated that the department submitted request for filling of critical posts as per agreed upon procedures attached to moratorium and hitherto no feedback was received. The Accounting Officer further indicated that the positions were no longer on the organogram therefore no allowances can be paid.

The Committee is of the view that the two positions are critical in the functioning of the department. Their abolishment must be reconsidered.

3.1 RECOMMENDATIONS

The Committee recommends the House to resolve that:

- (i) The Accounting Officer must ensure the critical positions of the Chief Financial Officer and Director Supply Chain Management are filled accordingly.

4. REPORT ON FINANCIAL STATEMENT

The committee noted that the Accounting Officer had encountered challenges in producing proper records or audit evidence to the Auditor-General that are reconcilable with the accounting system and minor assets.

The Accounting Officer indicated that the department obtained qualification based on technical reasoning and different interpretation of framework for the recognition of books as minor assets. In terms of the Modified Cash Standards released by National Treasury the department must recognise the books acquired at cost as minor assets. The books are catalogued after acquired and that means the total list of books on hand will be represented in two ways, the conditional disclosures are as follows,

Total books on hand [If NOT all books are catalogued]

Description	Amount
	000'
Total books catalogued at 31 March 2014	R99, 940
Additional books catalogued 01 April 2014 – 31 March 2016	R15, 249
Total books un-catalogued	<u>R22, 816</u>
Total books acquired at cost	R138, 005

Total books on hand [If all books are catalogued]

Description	Amount
	000'
Total books catalogued at 31 March 2016	R138, 005
Total books un-catalogued	<u>0</u>
Total books acquired at cost	R138, 005

The Committee noted that the Accounting Officer failed to implement measures and systems to maintain records of library books.

The committee engaged the department on why they failed to implement measures and systems to maintain records of library books. The Accounting Officer indicated that the internal controls and systems are in place and provided reconciled lists to auditors during the audit. However, the department identified serious flaws with the current system (SLIMS) procured by SITA. The Accounting officer further indicated that the management of the system is handled in Western Cape and it makes it hard for the Department to function effectively as result verification is done manually.

The committee noted that the department did not have systems for implementing and maintaining proper library books register.

The committee engaged the department on what proposed systems to implement and maintain proper library books register were in place. The department indicated that there are currently reconstructing and reconciling all books acquired and intend to transfer them to various municipalities as provided for per service level agreements entered into with municipalities.

4.1 RECOMMENDATIONS

The Committee recommends the House to resolve that:

- (i) The Accounting Officer must put measures in place to ensure that the financial statements are prepared in accordance with prescribed financial reporting framework and supported by proper records.
- (ii) The Accounting Officer must ensure that measures and systems to maintain records of library books are implemented.

5. EMPHASIS OF MATTER

The committee noted that the Accounting Officer failed to comply with Section 40(3) (a) of the PFMA relating to the material under spending by R37 707 000 on programme 3.

The committee engaged the department on what were the challenges preventing the Accounting Officer to spend the allocated budget for 2015/16 financial year as recommended by the Committee. The department indicated that the budget was allocated to infrastructure projects not completed at year end, Goods and services procured but delivered at year end those essential services rendered.

The committee needed clarity on what impact the under spending had on the overall performance of the department and on service delivery. The department indicated that service delivery was affected for projects which were not completed according to agreed completion timeframes

The committee further needed clarity on what actions or measures has the Accounting Officer put in place to avert under spending and make sure that the budget allocation is well spent at the end of the current financial year. The department and its implementing agent have special committees overseeing infrastructure projects. The committees also account to Provincial Infrastructure Committee.

5.1 RECOMMENDATIONS

The Committee recommends the House to resolve that:

- (i) The Accounting Officer must ensure that the budget allocated to the department is fully spent.
- (ii) The Accounting Officer must ensure that infrastructure projects of the Department are completed within the stipulated timeframes.

6. ANNUAL FINANCIAL STATEMENTS, PERFORMANCE REPORTING AND ANNUAL REPORT

The committee noted that the auditor General has reported that financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as per section 40(1)(a) of the PFMA. Material misstatement of the disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, but the reconciliation of minor assets that could not be provided resulted in the financial statement receiving qualified opinion.

The committee engaged the department with result to the above findings and requested the Accounting Officer to provide reasons that led to failure to prepare financial statements in accordance with the prescribed financial reporting framework required by Section 40(1) (a) of the PFMA and to indicate what led to the persistent challenges that purported the failure to submit correct financial statement prepared in accordance with any prescribed norms and standards to the Auditor-General. The committee required the Accounting Officer to indicate what measures have been put in place to ensure that the financial statements are prepared in accordance to the prescribed financial reporting framework and supported by full and proper records.

The Accounting Officer indicated that it experienced challenges at year end which affected accuracy and completeness of the information disclosed in the Annual Financial Statements. The Department had problems with the interface between Logis and BAS systems which affected accruals, payables, leases and commitments. Lastly, there was discrepancy between interdepartmental accounts in respect of the

infrastructure projects and irregular expenditure. The department noted that some of the reporting guidelines cannot be interpreted within the confines on broader legal prescripts and corporate law. The problems affect the disclosure of irregular expenditure and commitments. The department indicated that they continue to work with Internal Audit, Auditor General and Provincial Treasury for support on matters pertaining to audit and financial reporting.

The committee felt that the Accounting Officer is shifting liability regarding the matter as a result of the above and indicated that the Accounting officer is responsible for budget allocated to the department and regardless of the implementing agent's role in ensuring that things are done accordingly.

6.1 RECOMMENDATIONS

The Committee recommends the House to resolve that:

- (i) The Executive Authority must consider taking disciplinary actions against the Accounting Officer for contravention of Section 40 (1) (a) of the PFMA.

7. FINANCIAL AND PERFORMANCE MANAGEMENT

The committee noted that supported schedules submitted with the financial statements for auditing were not made adequately reviewed for accuracy and completeness, as errors were noted during the audit.

The committee required the Accounting Officer to indicate why did the contravened section 38(1)(a)(i) by failing to maintain adequate internal controls over daily and monthly processing and reconciliation of the electronic assets system in differences between the amount disclosed in the financial statements and the system.

The Committee further enquired on what corrective steps has the Accounting Officer put in place to ensure internal controls are maintained on daily and monthly basis and

The Accounting Officer indicated that the department experienced challenges at year end which affected accuracy and completeness of the information disclosed in the Annual Financial Statements. The department has problems with the interface between

LOGIS and BAS systems which affected accruals, payables, leases and commitments. Lastly there was discrepancy between interdepartmental accounts in respect of the infrastructure projects and irregular expenditure.

The Accounting Officer further indicated that department continue to work with Internal Audit, Auditor General and Provincial Treasury for support on matters pertaining to audit and financial reporting. All recommendations of the AG were implemented as recommended.

7.1 RECOMMENDATIONS

The Committee recommends the House to resolve that:

- (i) The Executive Authority must consider taking disciplinary actions against the Accounting Officer for contravening Section 38 (1) (C) (ii) of the PFMA.
- (ii) The Accounting Officer must ensure that all vacant positions are filled.

8. GOVERNANCE

The committee noted with concerns that the Department did not have an Audit Committee for the five months of the financial year.

The Accounting Officer indicated that the appointment of the Audit committee is handled by the Office of the Premier and the Accounting Officer further stated that the Audit Committee is also assigned to four (4) other departments.

8.1 RECOMMENDATIONS

The Committee recommends the House to resolve that:

- (i) The Executive Authority must consider ensure that there is a functional Audit Committee assigned to the Department.

9. INVESTIGATIONS

The committee has noted that the Auditor General reported that there are five (5) investigations by the Office of the Premier's Integrity Monitoring Unit relating to alleged to procurement irregularities, fraud, corruption, theft and misuse of public funds.

Based on the above finding the committee requested the Accounting Office provide a detail list and progress on the five investigations conducted by the Office of the Premier's Integrity Unit.

9.1 RECOMMENDATIONS

The Committee recommends the House to resolve that:

- (ii) The Accounting Officer must engage the Integrity Management Unit (Office of the Premier) to expedite the five (5) investigations on procurement irregularities.

10. IRREGULAR EXPENDITURE

The Committee has noted that the Auditor General indicates a total amount of **R51 857 000** of irregular expenditure incurred by the department. According to Annual Financial Statements Note 26.1 and amount of **R36 061 000** of irregular expenditure relates to prior year; while and amount of **R15 796 000** relates to current year.

Based on the findings, the Committee required the Accounting officer to indicate what appropriate steps taken in terms of section 38(c) (ii) of the PFMA to prevent the irregular expenditure.

The Accounting Officer indicated that the Office of the Director General, Internal Audit and Provincial Treasury are assisting the affected departments to expedite the process of clearing the irregular expenditure.

The Committee requested the Accounting Officer give a list of irregular expenditure as stated in the 2015/16 annual report on page 230 and further requested the Accounting Officer submit proof that the irregular expenditure was reported to Provincial Treasury

as required by section 38(1) (g) of PFMA and that the register was kept for 2014/15 and 2015/16 financial years.

The Accounting Officer indicated that department declared all irregular expenditure incurred identified during audit by auditors of the implementing agent being DPWRT in this case.

The Committee requested the Accounting Officer to give progress report on the investigations conducted on irregular expenditure of R36 061 000 as incurred in the 2014/15 financial year.

The Accounting officer indicated that the Office of the Director General is expediting the process of clearing the irregular flowing Rapid Implementation Unit (RIU) and that the projects were completed and accepted and transferred to various municipalities therefore the contracts were ratified. The Accounting officer further stated that the RIU has ceased to function as per audit recommendation of the Auditor General.

10.1 RECOMMENDATIONS

The Committee recommends the House to resolve that:

- (i) The Accounting Officer must engage the Integrity Management Unit (Office of the Premier) to expedite the five (5) investigations on procurement irregularities.
- (ii) The Accounting Officer must take disciplinary action against official(s) who caused the department to incur irregular expenditure amounting R15 796 000 (2015/16).

11. FRUITLESS AND WASTEFUL EXPENDITURE

The Committee has noted that Page 231 of the annual report 2015/16 Note 27 shows that the department incurred fruitless and wasteful expenditure amounting to R9 161 000 that relates to prior year.

Based on the findings, the Committee noted that Section 38 (c) (ii) of the PFMA requires the Accounting Officer to take effective and appropriate disciplinary action against any officer who committed fruitless and wasteful expenditure. The Committee requested the Accounting Officer to provide proof if such actions were taken.

The Accounting officer indicated to the Committee that the fruitless expenditure flow from appointments made by implementing agent (DPWRT). The responsible official has since been discharged from the provincial administration.

The Committee strongly felt that the Accounting officer is shifting responsibility regarding the fruitless and wasteful expenditure and indicated that the Accounting Officer is a custodian of the funds allocated to the Department and must take full responsibility.

11.1 RECOMMENDATIONS

The Committee recommends the House to resolve that:

- (i) The Executive Authority must consider taking disciplinary actions against the Accounting Officer for contravening Section 38 (1) (c) (ii) of the PFMA.
- (ii) The Accounting Officer must ensure that disciplinary actions are taken against official(s) who caused the department to incur fruitless and wasteful expenditure.

12. UNAUTHORISED EXPENDITURE

The Committee noted on page 217 of the annual report note 10, the department incurred unauthorized expenditure of R6 391 000 during financial 2015/16. And an amount of R1 283 000 was carried over from prior year. The unauthorized expenditure of R6 391 000 incurred due to overspending on main divisions (programme 1&2). As a result the Accounting Officer contravened section 39 of the PFMA.

The Committee required the Accounting Officer to provide reasons why section 39 of the PFMA was contravened and to provide evidence that impending overspending was reported to the relevant Treasury and the Executive Authority. It was further required the

Accounting Officer to indicate what appropriate steps were taken to prevent the overspending on programme 1&2 as per section 39(2) (a).

The Accounting Officer reported to the Committee that the department did not follow PFMA and Public Service Act and the process been reversed accordingly. The unauthorised expenditure was identified by auditors during audit of 2012/13 and reported to Provincial Treasury at the time as required by PFMA. The Accounting Officer further indicated that the department made correct budget allocations but the department was advised to surrender part of the budget based on the projected under spending as determined by Provincial Treasury.

12.1 RECOMMENDATIONS

The Committee recommends the House to resolve that:

- (i) The Executive Authority must take disciplinary actions against the Accounting Officer overspending on main divisions (programme 1&2 with R6 391 000 in 2015/16.
- (ii) The unauthorized expenditure amounting R6 391 000 is not condoned until department has taken disciplinary action against the official(s) who caused the department to overspent and reported to the legislature the outcomes.
- (iii) The Accounting Officer must submit the documentary proof of the advise by Provincial Treasury which led to the surrender of the budget.

13. ACCRUALS

The Committee noted on page 226 of the annual report note 22, the department had a total amount R5 275 000 for accruals. For goods and services R5 036 000 and R239 000 for capital assets.

The Committee required the Accounting Officer to state which services were rendered to the department that were not paid by the 31 March 2016 and indicate what informed the department to contravene TR8.2.3 during the year under review 2015/16. The Committee enquired on what improved systems or measures have been put in place to

ensure service providers are paid within stipulated timeframe as per TR8.2.3 during the year under review 2016/17

The Accounting Officer informed the Committee that the services rendered but not paid include contractual obligations billed at 31 March 2016 after accounting systems were closed and the department complied with Year End procedures not process payment immediately before 31st March 2016 in order to ensure smooth closure. The Accounting Officer further indicated that the department had internal control systems in place to ensure timely processing of payments. Above that, the department improved communication and liaison with stakeholders and arrangement whereby follow ups are made with service providers who do not submit invoices on time.

13.1 RECOMMENDATIONS

The Committee recommends the House to resolve that:

- (i) The Accounting Officer must ensure that there are proper systems and tools to enable the department to pay creditors within 30 days.

14. VIREMENTS / ROLLOVER

The Committee noted on page 10 of the AR 2015/16 that the department submitted rollover at the end of the financial year that amount to **R35, 468, 000**. Furthermore, an amounts of R950 000 was shifted from programme 4 (Sports and Recreation) to programme 2 (Cultural Affairs).

Section 43(1) of the PFMA the Accounting Officer may utilize savings in the amount appropriated under a main division to defray excess expenditure on another division. The Committee required the Accounting Officer to explain how savings of R950 000 were made in programme 4 (Sports and Recreation) to defray excess expenditure on programme 2 (Cultural Affairs).

Section 43(3) of the PFMA requires that the Accounting Officer must submit a written report within 7 days containing details how savings will be utilised within the main division. The Committee required the Accounting Officer provide proof that such report was compiled and submitted to the Executive Authority and the Provincial Treasury.

The Accounting Officer indicated that the department effected the virement from capital saving in Programme 4 to over expenditure in Programme 2.

The Accounting Officer indicated that the department did submit report to Member of Executive as required by PFMA.

The Committee further requested the Accounting Officer to submit a list of all affected projects with budget attached and if projects were rolled over, can the Accounting Officer provide supporting documents on projects that were rollover; list of approved projects; and reasons for projects that were not approved.

14.1 RECOMMENDATIONS

The Committee recommends the House to resolve that:

- (i) The Accounting Officer must ensure that appropriated funds are spent for intended purpose and as appropriated by the Legislature.

15. 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 August 2017 and thereafter on quarterly basis.

16. ADOPTION OF THE REPORT

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



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

20 June 2017

Date