



REPORT 12 OF 2016

SELECT COMMITTEE ON PUBLIC ACCOUNTS OF THE 5TH MPUMALANGA PROVINCIAL LEGISLATURE; MPUMALANGA ECONOMIC GROWTH AGENCY

1. INTRODUCTION

The Select Committee on Public Accounts (SCOPA) examined the annual report of the Mpumalanga Economic Growth Agency, which includes the financial statements, report of the Auditor-General, report of the Accounting Authority and performance information for the financial year 2014/15.

The Committee sent preliminary questions to the entity and received responses which were subsequently presented during a hearing of the committee.

The transparent process of engagement was aimed at assisting and guiding the entity on areas that require improvement and monitoring going forward.

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

2. COMMITTEE PROCEDURE

The Committee met on 31 May 2016 to deliberate on the above reports. 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 Acting Accounting Authority and the delegation responded to various questions posed by the Committee during the hearing.

3. COMMITTEE FINDINGS AND RECOMMENDATIONS

IMPLEMENTATION OF 2013/14 SELECT COMMITTEE ON PUBLIC ACCOUNTS HOUSE RESOLUTIONS

	HOUSE RESOLUTION	PROGRESS AS ON 31 MAY 2016	STATUS
3.1.1	(i) The Accounting authority 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	<p>MEGA is in the process of transferring the properties to the individual owners through its appointed conveyancing attorneys. The properties that will first be attended to can be summarised as follows:</p> <ul style="list-style-type: none"> • Replacement of lost title deeds and bond documents- 426 • Dual properties – deregistration of MEGA as co-owners-455 <p>The exercise to confirm ownership and completeness of the property portfolio is a challenging and time consuming exercise and consequently it is estimated that this exercise will only be completed during the 2016/17 financial year.</p>	Ongoing
3.2.1	(i)The Accounting Authority must take action against the Former Accounting Authority and Management 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.	<p>This is a challenge that the new MEGA has inherited and can mainly be attributed to the various merger and unbundling processes of the former entities.</p> <p>It is very difficult to institute disciplinary action as the responsible officials are no longer in the employ of the entity. The focus is now on strengthening the records management function to avoid such incidents occurring in future. Provincial Treasury will be asked to assist MEGA with the review of its document retention policies and procedures.</p>	Closed

3.3.1	(i) The Accounting authority 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	<p>The Call Centre was staffed by two temporary workers. The following activities were performed by the Call Centre:</p> <ul style="list-style-type: none"> •Follow up on long outstanding debt; •Update client information and •Identifying accounts with outstanding queries. <p>The annual equivalent for cash collections during the 2015/16 financial year is R188.3 million - this will be a 17.5% increase compared to 2015 cash collections. The decrease in cash collections from loans can be attributed to the following factors:</p> <ul style="list-style-type: none"> •Limited number of new loans being funded due to cash flow constraints and •The settlement of existing loans in the prior year without being replaced by new loans. For example one SMME debtor settled his loan with MEGA during the 2014/15 financial year. This debtor repaid R4.5 million to MEGA in 2015 (2014: R4.9 million). 	Closed
	(ii) The Accounting authority must ensure that officials responsible for the collection of debt are fully capacitated to exercise's their duty	It is envisaged that debt collectors will be appointed to attend to account queries and the collection of debt outstanding for less than 120 days. Amounts outstanding for longer than 120 days will be handed over to MEGA's Legal Division and/ or external service providers for collection.	Closed
4.1.1	(i) The Accounting authority must develop systems to monitor the measures put in place to ensure that planned target for the financial year is achieved.	Systems and mechanisms that will monitor the implementation of the Annual Performance Plan have been developed. The Performance Information Management Policy is in place to assist in managing performance information as well as monitoring and evaluation. MEGA is currently sourcing additional capacity in the form of human resources and systems to improve on the management and monitoring of performance information. The Annual Performance Plan for 2015/16 has been developed in accordance with SMART (specific, measureable, attainable, realistic and timely) principles. In addition, inputs from the Provincial Treasury and the Auditor General have been solicited to ensure that all challenges relating to performance information are dealt with.	Closed
4.2.1	(i) The Accounting authority must take disciplinary action against the Acting Chief	<p>It is not possible to take disciplinary actions as the responsible officials are no longer in the employ of the entity.</p> <p>The audit preparation procedures and annual financial</p>	Closed

	Financial Officer / Officials for not compiling financial statements in accordance with section 55 (1) (a) and (b) of the PFMA	statements (2013/14) were managed and compiled by the Deloitte Finance team. The acting Chief Financial Officer was also appointed on recommendation by Deloitte. MEGA terminated the contract with Deloitte and has since appointed a permanent Chief Financial Officer in October 2015 for a period of 5 years.	
4.3.1	(i) The Accounting authority must develop an effective and cost efficient record management system for MEGA.	Record management remained a challenge during the 2014/15 financial year. The following activities have recently taken place regarding record keeping at MEGA: •Respective MEGA employees have attended record management training to enhance MEGA's record keeping capabilities. •A meeting between Provincial Treasury and MEGA was held on 25 November 2015, whereby Treasury offered to assist MEGA with a review of its current document management policy and procedures.	Ongoing
4.4.1	(i) The Accounting authority must take disciplinary action against the Officials who failed to comply with section 51 (1) (b) (ii) of the PFMA.	The Accounting Authority will continue to review the internal controls in order to minimize the likelihood of irregularities and wasteful acts. High risk areas have been identified and by looking into these "red flags" will not only detect irregularities; it will prevent them from occurring in the first place because an environment of accountability will have been established. In the event of discovery, of fruitless wasteful and irregular expenditures will be reported to Provincial Treasury and disclosed as such in the Annual Financial Statements	Closed
	(ii) The Accounting Authority 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 is currently being used in the Creditors division to confirm when invoices are received for payment. MEGA is currently complying with the requirement to pay clients within 30 days of receipt of the invoice, except for the historical debt owed to the City of Tshwane. The amount outstanding for longer than 30 days at the end of October 2015 is R26.6 million.	Closed
	(iii) The Accounting Authority must forward a report to the Committee on why and how the	MEGA did an extensive review of Irregular expenditure incurred in the 2013/14 and prior financial years. A submission was made to the interim Board in March 2015 based on the latest available guidelines issued by National Treasury pertaining to irregular expenditure. The Board approved the submission, but the AG did not	Closed

<p>unauthorised expenditure amounting R36 763 468 was approved or condoned by the Board.</p>	<p>want to accept mainly due to the following reasons:</p> <ul style="list-style-type: none"> •Lack of consequence management and •An updated guideline was issued by National Treasury in April 2015 clarifying more clearly the processes to be followed in certain instances, e.g. transgressions can only be condoned by the authority issuing the applicable prescript/ guideline. <p>Management will adopt the following approach in relation to irregular expenditure incurred in prior financial years:</p> <ul style="list-style-type: none"> •Management will review the work already executed previously as instructed by the interim Board; •A new submission/ summary will be prepared listing: <ul style="list-style-type: none"> - The actions taken per individual transgression; -Where applicable, the reasons will be documented as to why management is of the view that instituting disciplinary action is unlikely to be successful. •During the review process, cognisance will be taken of the "Updated Guideline on Irregular Expenditure" issued by National Treasury during April 2015 to determine how best each case can be finalised; •To the extent necessary, reference will also be made to the "Legacy Issue" guidelines issued by National Treasury a number of years ago to see the relevance thereof to the irregular expenditure review process; •The suggested approach will be discussed with Provincial Treasury and MEGA's Internal Audit division with reference to the "value for money" concept. Thereafter the suggested approach will be discussed with the AG prior to the implementation thereof. <p>Once an in principle agreement has been reached with the AG, management will draft the submissions for consideration by the relevant authorities, e.g. National Treasury and the MEGA Board.</p>	
--	--	--

4.5.1	The Accounting Authority must ensure that the IT related Policies and other outstanding policies are approved and Implemented.	The IT related policies have been approved by the Board and currently being implemented.	Closed
-------	--	--	--------

3. BASIS FOR QUALIFIED OPINION

3.1. INVESTMENT PROPERTIES

The Committee noted that Auditor General (AG) reported that some properties that the entity rented out and earned rental on were not included in its asset register, resulting in investment property disclosed in note 3 to the financial statements being understated. There was an incorrect fair value of the properties done by the Entity without considering other market factors. As a result, investment property and related fair value adjustment of R92 847 689 was misstated. The AG was unable to quantify the amount of the misstatements relating to the fair value adjustment

The Committee asked whether the properties rented out not included in the asset register of the Entity. The Accounting Authority indicated that the bulk of the identified assets are not registered in MEGA's name or any predecessor entity. Proof of ownership was not available as a result the properties were not included on MEGA's asset register.

The Accounting Authority indicated that MEGA will approach the challenges relating to the ownership and completeness of its property portfolio in the following manner:

- A document will be compiled as to why MEGA was of the view that the continued use of the fair value model (investment property) and revaluation model (property, plant and equipment excluding moveable assets) was appropriate. This document will be circulated to the AG to obtain their inputs on the issue;

- The Entity will developed a decision tree to deal with the classification of properties for financial statement purposes and the high level actions to be implemented by management.
- The Entity has appointed a panel of three conveyancing attorneys to assist with the registration processes of MEGA properties.

The exercise to confirm ownership and completeness of the property portfolio was a challenging and time consuming exercise and consequently it was estimated that the exercise will only be completed during the 2016/17 financial year.

It was further indicated to the Committee that the Asset Management Policy had been updated during the 2014/15 year to indicate that the fair value must be determined every third year by independent valuers and that the fair value adjustment will be determined by management for the other two years. It should be noted that from an accounting standards perspective it is not a requirement that the fair value of investment properties should be determined by a sworn appraiser. MEGA's investment property portfolio was fair valued by a sworn appraiser as at 31 March 2014. In terms of the amended Asset Management Policy, management had to determine the fair value adjustment for the 2014/15 financial year.

The Accounting Authority also indicated that the Management was of the view that the application of the Building Cost Index, published by the Bureau of Economic Research (BER), is the most appropriate rate to determine the change in fair value of investment properties for the 2014/15 financial year.

The Building Cost Index was based on information obtained from participating quantity surveyors who regularly supply the BER with data extracted from the bill of quantities of actual accepted tenders in both the private and public sector. It was compiled by analysing current price movements of 22 selected representative cost components that are common to all buildings. Changes to the BER rate will be closely aligned to changes in the fair value of improvements when using the Depreciated Replacement Cost model.

The Building Cost Index rate calculated and implemented for the 2014/15 financial year was 11.575%. AG was of view that other factors should also be taken into account when determining the fair value of investment property. One additional measurement basis could be rental income generated by the property.

The Committee further noted that the Auditor General reported that the Entity could not provide supporting documents to support the adjustment of R99 157 000 made to investment property and the AG also could not obtain proof of ownership for properties to the amount of R32 074 209 included in investment property. Furthermore the Auditor General could not confirm the correctness of investment property disclosed at R866 116 986 in note 3 to the financial statements by alternate means.

The Accounting Authority indicated that the Auditor General raised the following concerns during the 2013/14 audit in relation to MEGA's residential property with a fair value of R99 million and disclosed as part of investment property per the audited 2013/14 annual financial statements:

- Residential houses which are not owned by MEGA have been classified as part of MEGA's assets
- Residential properties classified as investment property did not have rental lease agreements in place
- There are residential properties which are listed under MEGA's name and a third party (dual ownership)
- There are residential properties that have been sold by MEGA through housing loans, but these properties are still registered under MEGA's name at the Deeds Office (dual ownership)
- Housing loan and investment property relating to the same asset are recognized in MEGA's annual financial statements.

The Accounting Authority also added that the basis for the qualified audit opinion relating to the 2013/14 can be summarised as Properties with dual ownership and lack of sufficient and appropriate audit evidence to confirm the accuracy of housing loans

due to the unavailability of loan agreements. The Entity reviewed the properties listed as investment properties in 2013/14 and removed items where MEGA confirmed that there is an existing loan in place based on the following rationale.

- A property cannot both be listed as a “housing loan” and an “investment property”. This is in line with the 2013/14 AG audit findings pertaining to dual ownership as detailed above.
- Dual ownership was registered by the erstwhile entities as an additional security measure to ensure that a property cannot be sold to another party without the knowledge of the erstwhile entities.

As part of this analysis it was also discovered that certain repossessed properties, classified as investment property, should be reclassified as housing inventory as management’s intention in respect of these properties was to sell these houses rather than to keep them to earn rental or for capital appreciation. The Accounting Authority also indicated that the cost of these repossessed properties (housing inventory) was determined with reference to documents available to management at the time. The supporting documents used to substantiate the cost price of these properties consisted of;

- A list of properties with cost prices reflected on it as submitted to audit in financial years prior to the 2013/14 financial year,
- In a limited number of instances additional supporting documents were available to confirm the cost price of these reposed properties, e.g. a copy of the sheriff’s records where a property was sold on auction,

The Accounting Authority highlighted in summary that the management could not provide sufficient appropriate audit evidence to support the cost price of housing inventory as some of these properties were repossessed and first included as housing inventory more than 10 years ago. In preparation of the 2015/16 audit, the management will discuss with the AG the options available to management to address the concerns raised by the AG with regards to MEGA’s property portfolio.

The Committee further asked why the AG could not obtain proof of ownership for properties to the amount of R32 074 209 included in investment property. The Accounting Authority indicated that most of the identified properties are currently registered in the names of the Mbombela Local Municipality and the National Department of Land Affairs. These properties mainly form part of the Ekandustria and Siyabuswa industrial areas, whilst others are adjacent to existing MEGA properties. As part of the action plan to address challenges of ownership associated with MEGA's property portfolio, management will refer to the guideline issued by National Treasury in this regard titled "Accounting and Reporting for Immovable Assets (Property)" as updated in February 2015 and will engage the AG on this matter to the extent necessary.

The Committee asked whether there are measures put in place to ensure that this not recur in the next financial year? The Accounting Authority indicated that the Entity has appointed a panel of conveyancer attorneys to assist with the registration processes of MEGA properties. The following corrective actions are being implemented to address the challenge of ownership of MEGA's property portfolio:

- The appointment of a panel of conveyancing attorneys to assist with the registration and deregistration process of properties.
- Reference will be made to the guideline issued by National Treasury titled "Accounting and Reporting for Immovable Assets (Property)" as updated in February 2015.
- Early engagement of the AG on the matter is also envisaged.

3.1.1 RECOMMENDATION

The Committee recommended that the House resolve that:

- (i) The accounting authority must ensure that the appointed conveyancing attorneys finalise the registration and transfer processes of MEGA properties by 31 March 2017. A progress report in this regard must be submitted on 30 January 2017 and 28 February 2017 and thereafter on 7 April 2017.

- (ii) The Board must request the Provincial Government of Mpumalanga and Provincial Government of Gauteng to engage on the transfer of properties that are now within the Gauteng Province and documentary proof on the engagement be submitted to the committee by 14 February 2017.

3.2 OTHER FINANCIAL ASSETS

The Committee noted that the Auditor General reported that it was unable to obtain sufficient appropriate audit evidence to confirm that housing loans and related interest were accounted for properly in the financial statements, due to the unavailability of loan agreements. Housing loans to the amount of R51 661 314 and interest income of R36 488 278 was unable to be confirmed.

The Committee raised a concern noting that this matter is recurring from the previous financial year, the Committee asked why the Entity did not take appropriate steps in addressing the matter related to the unavailability of loan agreements. The Accounting Authority indicated that in compliance with SCM prescripts, MEGA followed a competitive bidding process to appoint a panel of conveyancing attorneys to assist in obtaining bond documents. Finalisation of the procurement process took longer than initially anticipated, but a panel of conveyancing attorneys have since been appointed to assist MEGA in this regard.

The Accounting Authority indicated that they appointed a panel of conveyancing attorneys to assist in obtaining bond documents. The bond documents will include the salient features of the loan agreements. In addition to the aforesaid supporting documents to confirm the decision by the Board of the former MHFCo in August 2007 to decrease the fixed interest rate on housing loans from 16% to 12%, as mandated by the renegotiated loan agreements with DBSA, was made available to the audit team as part of the 2014/15 audit process.

3.2.1 RECOMMENDATION

The Committee recommended that the House resolve that:

The accounting authority must ensure that the appointed conveyancing attorneys finalise the tracing and establishment of bond documents by 31 March 2017. A progress report in this regard must be submitted on 30 January 2017 and 28 February 2017 and thereafter on 7 April 2017.

3.3 MATERIAL IMPAIRMENTS

The Committee noted that the Auditor General reported that material impairments of R119 689 788 were incurred as a result of the provision for doubtful debts. 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 the Entity contravenes section 51(1)(b)(i) of the PFMA. The Accounting Authority indicated that a significant portion of the amounts outstanding is historical debt. The Entity has taken the following steps to recover legacy debt and to manage on-going debt collections:

- Establishment of a Call Centre, consisting of two individuals, to attend to the following issues:
 - Following up on long outstanding debt
 - Updating of client information and
 - Identifying unresolved queries.
- Monthly site visits by the Head of the Collections Department to establish a clear point of contact between MEGA and its clients.
- Demand letters are sent to defaulters and
- Suspension of services to non-paying rental and/ or municipal clients.

The Accounting Authority also added that the collection in respect of municipal and rental debtors increased on average by 4% in the 2015 financial year in comparison to the collections in the 2014 financial year.

The Committee further asked whether the entity has explored all avenues to collect from its debtors. The Accounting Authority indicated the management will need to take a number of business decisions to ensure adherence to the value for money.

The Committee also asked with great concern whether this material impairment have anything to do with the ability of the Entity not being able to collect its debt efficiently. The Accounting Authority indicated that a various reasons contributed to the Entity not being able to collect all outstanding debts, the Accounting Authority indicated that the debt was carried forward during the merger of the three erstwhile entities, with some historical debt dating back to 1987, Some debtors are only paying nominal amounts in relation to their outstanding debt, e.g. R400 - R1000 a month, certain customers have vacated MEGA's buildings without settling their accounts and consequently the tracing of these customers are more challenging than following up on active customers. As part of management's increased efforts to collect outstanding monies it was discovered that the main reason for the poor payment history of SMME loans is the fact that most customers are of the view that these loans were grants from Government and as such no repayment thereof is due to MEGA. MEGA's loan book is currently overstated due to the fact that the applications of the "in duplum" rule needs to be investigated and implemented.

3.3.1 RECOMMENDATION

The Committee recommended that the House resolve that:

- (i) The Accounting authority must take disciplinary action against the officials who failed to ensure that effective and appropriate steps were taken to collect all monies due to the Entity as required by section 51 (1) (b) (I) of the PFMA.

3.4 INVENTORY

The Committee noted that AG reported that Management did not determine the net realizable value of work in progress that showed indications of impairment. The AG therefore was unable to determine whether inventory was fairly stated. Furthermore, Management could not provide supporting documents for housing inventory amounting to R6 393 599.

The Accounting Authority indicated that all housing projects were put on hold during the merger process. As a result, some of the infrastructure that had been installed was

damaged/ vandalized and some work-in-progress was not completed. The amount of housing projects reflected as work-in-progress in MEGA's records at 31 March 2015 was R48.9 million.

Balfour

The capital amount for Balfour will be fully impaired as the funds of R 990 000 were used for planning processes which were not completed. These documents cannot be used any more due to time lapse.

Lydenburg

A developer had been appointed for Lydenburg who did an assessment of the damage. Initial indications are that the estimated cost of repair is R1 million. This will be used as the impairment amount for financial statement purposes.

Sabie

The Sabie project was bought with infrastructure already installed. Some of the infrastructure has been damaged, but the amount of impairment had not been when finalizing the 2014/15 annual financial statements as the tender submissions received by prospective developers were deemed to be non-responsive from a procurement perspective. Management will investigate alternatives to determine a reliable estimate of the impairment to be recognized in the accounting records of MEGA.

The Committee further asked why the Entity failed to provide supporting documents relating to housing inventory to the AG. The Accounting Authority indicated that the Entity provided AG with a list of the 80 properties recorded as housing inventory. These houses were originally owned by the former MHFCo with some dating back to 1999. In the 2013/14 financial year these inventory houses were erroneously removed as assets owned by MEGA. This error was corrected/ reversed in the 2014/15 annual financial statements.

The AG requested management to provide proof of the cost of the housing inventory. Management could not provide proof due to the lapse in time since the initial recognition of these properties as housing inventory, dating back to more than 10 years, on the cost prices assigned to each property. In a limited number of instances additional supporting documents were available and handed over to the AG for audit inspection, e.g. a copy of the sheriff's records where a property was sold on auction.

The Accounting Authority further added that in preparation of the 2015/16 audit, management will discuss with the AG the options available to management to address the concerns raised by the AG with regards to these housing inventory properties. The management will investigate options available to determine the impairment amount applicable to Sabie. MEGA's approach in this regard will be discussed with the AG before being implemented.

Work-in-progress in respect of new projects will be assessed for impairment at the end of each year if there are any indicators of impairment, e.g.

- Significant changes in the economic environment;
- Evidence of obsolescence or physical damage to an asset.

As for the Housing Inventory the Entity will engage the AG at an early stage to discuss the options available to management to address this audit concern. As part of this process the decision tree developed by management in dealing with its property portfolio (including PPE, investment property and inventory) will be discussed with the AG. In addition to the aforesaid, the conveyancing attorneys will assist management in obtaining the relevant title deeds.

3.4.1 RECOMMENDATION

The Committee recommended that the House resolve that:

- (i) The Accounting authority must develop strategies and mechanism to ensure that the Entity has proper filing system for safeguarding of the Entities historical records regarding the Housing Inventory.

- (ii) The Accounting authority must determine the fair value of the Housing inventory by 28 February 2017.

4 EMPHASIS OF MATTER

4.1 SIGNIFICANT UNCERTAINTIES

The Committee noted that the Auditor General reported that the public entity was the defendant in a loss of income and arrear amounts lawsuit. The Entity was opposing the claim and the ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements. The Committee requested the Entity to provide more details on the merits of the mentioned case. The Accounting Authority indicated that the claim as indicated on the financial statements was being instituted by G-Tech Electronics, MEGA's former ICT service provider, based on alleged services provided after an alleged oral alteration of the contract that the service provider had with the Entity. The Entity has received summons from GTech citing MEEC as defendant 1 and MEGA as defendant 2, but later withdrawn the action against defendant 1. A notice of intention to defend the matter was filed by MEGA and served on 7th April 2009.

The claim instituted for loss of income was R5 150 332, under case number 16360/2009, whilst the claim for arrear amounts was R2 113 610, under case number 58350/2011. MEGA brought an application to consolidate the matters due to the fact that it would have been a waste of costs to run two separate cases which are based on the same cause of action. The application was granted. Both claims are now being heard under case number 16360/2009.

The Accounting Authority also added that the Entity was waiting for the Court to allocate a trial date, which is likely going to be heard next year in the second part of the year between August and September 2016.

The Committee raised a concern on the whether are the likely implications of the entity not including the potential liability in its income statements. The Accounting Authority indicated that these claims have been disclosed as contingent liabilities in the 2014/15 annual financial statements in accordance with the applicable accounting standards, i.e. it is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of MEGA. If the claims are successful, MEGA will have to record the related payments as expenses.

The Committee noted that the case was still in court.

4.1.1 RECOMMENDATION

The Committee recommended that the House resolve that:

- (i) The Accounting Authority must submit a report on the case at the end of the litigation process.

5 ADDITIONAL MATTERS

5.1 ANNUAL FINANCIAL STATEMENTS AND ANNUAL REPORT

The Committee noted that the Auditor General reported that, the AG has reported that financial statements submitted for auditing 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 and liabilities identified by the auditors which were subsequently corrected and the supporting records provided, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Furthermore the Committee also noted that AG reported that oversight responsibility was not exercised adequately to ensure appropriate financial and performance reporting, including compliance with laws and regulations.

The AG also reported that the Entity did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting. The AG also stated that the Entity did not implement controls over daily and monthly processing and reconciling of transactions. The AG reported that the audit committee and internal audit unit did not review the annual financial statements. The AG also noted the non-compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored.

The Committee asked why the Entity contravened section 55 (1) (a) and (b) of the PFMA. The Accounting Authority indicated that the 2014/15 financial year has been a challenging due to instability caused by unresolved merger issues and Leadership changes which will be the Board and Management. The result was a weakened finance function in particular and executive leadership, the Interim Board focused on stabilizing the organization, culminating in the appointment of the CEO in January 2015. The Accounting Authority further added that in January 2015 some key actions were taken including Compilation of a new Strategic Plan within six weeks, resolving CFO impasse, Development of audit management action plan and securing additional resource to fortify the finance function.

In February 2015 the management review of audit readiness revealed that the situation was challenging as a result of MEGA's failure to execute agreed remedial actions following the 2013/14 audit (in spite of promises to AG and instructions from Interim Board). In short as a result of a failure to execute agreed courses of action, there has been too much work to do and too little time to do it in to deliver the audit efficiently. Under the circumstances, there was a need to:

- Prioritise the areas of focus for the audit
- Develop the most practical mechanisms to meet AG/audit requirements

The Accounting Authority highlighted that these reasons outlined above contributed to the Annual Financial Statements being finalised later than anticipated and the disclosure notes not being fully compliant with all the relevant accounting standards.

The Committee further asked why the Entity failed to implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting. The Accounting Authority indicated that the main item to be addressed in terms of supporting documents is the outstanding home loan agreements. The Entity is currently working with the panel of conveyancing attorneys in obtaining the relevant supporting documents, e.g. bond documents to support the amounts reflected in the accounting records of MEGA.

The Committee further raised a concern noting that the Audit Committee and the Internal Audit unit failed to review the Annual Financial Statements and requested the Accounting Authority to state the reasons of failing to perform this task. The Accounting Authority indicated that the 2014/15 Annual Financial Statements were finalised late. Consequently there was not sufficient time available for Internal Audit and the Audit Committee to perform a detailed review of the financial statements prior to submission thereof to the AG.

5.1.1 RECOMMENDATION

The Committee recommended that the House resolve that:

- (i) The Accounting Authority must ensure that all documents submitted to Auditor General and Legislature are reviewed and adequately prepared.

6. PROCUREMENT AND CONTRACT MANAGEMENT

The Committee noted that the Auditor General reported the following findings:

- i. Sufficient appropriate audit evidence could not be obtained that all contracts had been awarded in accordance with legislative requirements, as management could not provide the supporting documentation for some of the wards made to suppliers.
- ii. Goods, works or services were not procured through a procurement process that was fair, equitable, transparent and competitive, furthermore, procurement processes did not comply with the requirements of a fair SCM system in that invitations for competitive bidding were not advertised for the

minimum period as required by section 51 (1) (a) (iii) of the PFMA and the Entity's SCM policy.

- iii. Sufficient appropriate audit evidence could not be obtained that all contracts had been awarded to bidders based on points given for criteria stipulated in the original invitation for bidding as required by the Preferential Procurement Regulations (PPR).
- iv. Sufficient appropriate audit evidence could not be obtained that the preference point system had been applied in all procurement of goods and services above R30 000 as required by section 2 (a) of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act No.5 of 2000) and Treasury Regulation 16A6.3 (b).
- v. Quotations were awarded to suppliers whose tax matters had not been declared by SARS to be in order as required by PPR 14.
- vi. Construction projects were not always registered with the Construction Industry Development Board (CIDB) as required by section 22 of the CIDB Act of SA (Act No. 38 of 2000) and CIDB Regulation 18 and;
- vii. Construction contracts were awarded to contractors that were not registered with the CIDB and did not qualify for the contract in accordance with section 18 (1) of the CIDB Act and CIDB Regulation 17 and 25 (7A).

The Accounting Authority indicated that seven of the eight items reported by the AG relate to procurement processes undertaken in prior financial years. The lack of supporting procurement documents can be attributed to ineffective planning and management of BID processes as well as capacity constraints experienced within the SCM unit.

Management provided all the available documents to the AG in terms of the one 2014/15 procurement process reported by the AG and some evidence was not accepted by the AG. Management will engage the AG to determine the reasons why the supporting documents relating to this procurement process were not accepted by the AG. The outcome of this discussion will determine how the matter can be resolved in the current financial year.

The Committee asked whether appropriate action was taken against the individuals concerned. The Accounting Authority indicated that no action was taken against any employee for the misplacements of SCM documents because it was very difficult to identify the employee (s) responsible for non-compliance.

Consequence management was however important to the Board and management. Provincial Treasury and Internal Audit will assist with the review of MEGA's document retention policy and processes. Guidance will also be requested as to how consequence management practices can best be implemented going forward. As part of this process the 2014/15 irregular and fruitless and wasteful expenditure submissions made to the Board will be reviewed with reference to the new guide issued by National treasury in this regard. Items requiring further clarity will be discussed with Provincial Treasury.

The Committee further asked whether the Entity has taken steps to try and avoid this kind of recurrence in the next financial year. The Accounting Authority indicated SCM division will be tasked to request the Provincial Treasury to assist MEGA with the review of its document retention policies and procedures, review will be done to establish the availability of the relevant procurement documents including documentation relating to unsuccessful bidders, the Management will review the SCM Policy with specific reference to the minimum period to advertise competitive bidding procurement processes, Justification for deviating from the prescribed minimum advertising period will be scrutinised to verify the validity thereof, Competitive bidding processes will be evaluated by properly constituted Bid Evaluation and Bid Adjudication Committees. The Accounting Authority also added that in terms of construction related projects all construction related tenders will be advertised on the CIDB website and Proof of CIDB registration will be attached for all construction related work executed by MEGA as envisaged by the CIDB Act. Every project consisting of a single construction works contract exceeding R200 000 will be registered with the CIDB.

6.1.1 RECOMMENDATION

The Committee recommended that the House resolve that:

- (i) The Accounting authority must develop systems and mechanism to enhance the Supply Chain Unit and ensure that officials are fully capacitated.
- (ii) The Board must in future take disciplinary action against the Accounting authority (CEO) wherein he/she fails to identify those liable for mishaps or irregularities.

7. EXPENDITURE MANAGEMENT

The Committee noted that the Auditor General has reported that effective steps to prevent irregular as well as fruitless and wasteful expenditure were not taken according to section 51 (1) (b) (ii) of the PFMA. However the AG stated on the AR that the Entity did not disclose irregular expenditure incurred due to payments made without the required approval as per the Entity's delegation of Authority. As a result the AG could not confirm the correctness of irregular expenditure disclosed at R155 586 318 in note 36. The AG stated that the Entity had taken effective and appropriate disciplinary steps against officials who incurred or permitted irregular expenditure as required by section 51 (1) (e) (iii). The Entity incurred irregular and unauthorized expenditure of R75 129 108 for the 2014/15 financial year which totals R155 586 318 with the carried over amount from the previous financial year.

The Committee asked why the Entity contravene section 51 (1) (b) (ii) of the PFMA. The Accounting Authority indicated that the Management exercised the utmost care to prevent new irregular expenditure being incurred. An analysis of the items incorporated in the balance of irregular expenditure of R155 586 319 is provided. In terms of new irregular expenditure incurred during the 2014/15 financial year of R75 129 108 an amount of R27.345 million (36.4%) relates to prior period contraventions carried forward to the current year.

The Committee probed further and asked whether steps were taken by the Entity to prevent the irregular as well as fruitless and wasteful expenditure. The Accounting Authority indicated that the Management will implement the following actions to prevent new instances of fruitless and wasteful and irregular expenditure:

- Utmost care is taken to ensure compliance with the relevant SCM prescripts;
- Requests for deviations from the normal procurement processes are carefully scrutinized before being considered for approval. This resulted in some of the deviation requests being rejected as the reasons to deviate from the normal procurement process was not regarded as justifiable after taking cognisance of the prevailing circumstances;
- Specific attention will be given to the CIDB requirements especially as far as maintenance work is concerned. In this regard SCM was requested to provide proof of CIDB registration prior to a maintenance procurement award being made;
- A panel of maintenance contractors have been appointed for a period of three years. This should assist MEGA to comply with the relevant CIDB prescripts in terms of maintenance and other construction work;
- Prior period contraventions are being phased out as soon as possible by following competitive bidding processes where required, e.g. new service providers have been appointed to provide security services to MEGA whilst some of the specialized services at Ekandustria for example waste management have been awarded to service providers after following a competitive bidding process.

The Committee further asked whether action was taken against the individuals concerned. The Accounting Authority indicated that no disciplinary action has been instituted against employees as far as fruitless and wasteful and irregular expenditure is concerned.

The Committee asked the Accounting Authority to indicated the steps that will be taken by the Entity in recovering the R155 586 318 of irregular and unauthorized expenditure. The Accounting Authority indicated that the Entity approach to resolve the balance of R155 586 318 in irregular expenditure can be summarised as follows:

- Management will review the work already executed previously as instructed by the Interim Board
- A new submission/ summary will be prepared listing:
 - ✓ The actions taken per individual transgression

- ✓ Where applicable, the reasons will be documented as to why management is of the view that instituting disciplinary action is unlikely to be successful.
- During the review process, cognisance will be taken of the “Updated Guideline on Irregular Expenditure” issued by National Treasury during April 2015 to determine how best each case can be finalised
- To the extent necessary, reference will also be made to the “Legacy Issue” guidelines issued by National Treasury a number of years ago to see the relevance thereof to the irregular expenditure review process
- The suggested approach will be discussed with Provincial Treasury and MEGA’s Internal Audit division with reference to the “value for money” concept. Thereafter the suggested approach will be discussed with the AG prior to the implementation thereof.
- Once in principle agreement has been reached with the AG, management will draft the submissions for consideration by the relevant authorities, e.g. National Treasury and the MEGA Board.

The Committee noted that there was a need for the entity to improve its internal controls in the Supply chain management function. The historic instances have the capability of recurring in future if there are no measures put in place to curb them.

7.1.1 RECOMMENDATION

The Committee recommended that the House resolve that:

- (i) The Board must monitor and evaluate the actions put in place by the Accounting Authority to prevent new instances of fruitless and wasteful expenditure and irregular expenditure.
- (ii) The Accounting Authority must review and improve internal controls relating to Supply Chain Management in the entity.

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.

21.1 RECOMMENDATIONS

The Committee recommend the House to resolve that:

- (i) The Accounting Authority must provide the Committee with the outcomes/progress made regarding the 2 suspects arrested for rhino horn theft not later than the 30 November 2016.

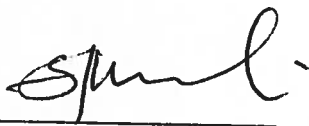
22. CONCLUSION

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

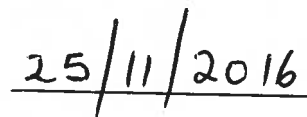
Unless otherwise stated a report detailing progress made in the implementation of all recommendations in this report should be forwarded to the Committee by 31 January 2017 and thereafter on quarterly basis.

23. ADOPTION OF THE REPORT

The Select Committee on Public Accounts recommends that the House adopt this report.



**HON. SI MALAZA
CHAIRPERSON
SELECT COMMITTEE ON PUBLIC ACCOUNTS**



DATE