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REPORT OF THE PORTFOLIO COMMITTEE ON PREMIER'S OFFICE; FINANCE; ECONOMIC DEVELOPMENT AND TOURISM

2016/17 ANNUAL REPORT OF THE PROVINCIAL TREASURY

1. INTRODUCTION

The **Portfolio Committee on Premier's Office; Finance; Economic Development and Tourism** (the Committee) has a mandate as per Section 114(2) (b) of the Constitution of the Republic of South Africa (Act. 108 of 1996), read with rule 131 (b) (c) (d) of the Rules and Orders of the Mpumalanga Provincial Legislature (the Rules), to oversee the performance of the Provincial Treasury (the treasury).

Section 133(b) of the Constitution requires the Member of the Executive Council (MEC) to provide the Legislature with full and regular reports concerning matters under their control. Thus the tabling of the 2016/17 Annual Report of the Provincial Treasury was in compliance with section 65(a) of the Public Finance Management Act (Act 1 of 1999) (PFMA).

The consideration and scrutiny of the 2016/17 Annual Report of the Provincial Treasury was for the Committee to satisfy itself that the treasury's performance was in line with its approved 2016/17 Annual Performance Plan (APP); and the budget that was appropriated for the financial year under review. The Annual Report oversight exercise is a mechanism of the Committee to ensure that public funds allocated to the treasury in the year under review, are used economically, efficiently, equitably and effectively. There should ultimately be value for money in any activity undertaken by the treasury. Thus, the Executive Authority was held to account for the treasury's performance in the 2016/17 financial year.

2. METHOD OF WORK

The MEC tabled the 2016/17 Annual Report in accordance with Section 65(a) of the PFMA and the Hon Speaker subsequently applied rule 219(3) of the Rules and Orders of the Mpumalanga Provincial Legislature by referring the report to the Committee for consideration and report back to the House.

On 17 October 2017, the Committee considered a detailed analysis of the 2016/17 Annual Report and raised key observations and questions that were sent to the treasury for written responses.

Thereafter, on 31 October 2017, the Committee interacted with the Head Official and the Senior Management team of the treasury on the 2016/17 Annual Report. The Committee met again on 08 November 2017 to consider its draft report.

3. OBSERVATIONS AND COMMENTS

The MEC for Provincial Treasury, Mr. SE Kholwane, tendered an apology for the meeting. The Head Official (HO) led the delegation and made a presentation to the Committee.

4. PART A: GENERAL INFORMATION

4.1. Compliance to the National Treasury Guide on the Preparation of the Annual Report

The Provincial Treasury complied with the National Treasury Guide on the preparation and compilation of the Annual Report.

4.2. Strategic Outcome Oriented Goals

Strategic Outcome Oriented Goals

Government Priorities	Department Outcomes	Department's Strategic goal
1. Improving education 2. Improving healthcare 3. Creating decent work 4. Fighting crime and corruption 5. Rural development and land reform.	<p>Outcome 9: Responsive, accountable, effective and efficient developmental local government system</p> <p>Sub-Outcome 3: Sound financial and administrative management</p> <p>Outcome 12: An efficient, effective and development oriented related public service.</p> <p>Sub-Outcome 4: Efficient and effective management and operation system</p> <p>Sub-Outcome 5: Procurement systems that deliver value for money</p>	<p>Strategic goal 1: Administrative support services Prompt, continuous, effective administrative support to all line functions in the treasury</p> <p>Strategic goal 2: Ensure efficient and effective financial, ICT, and corporate governance in the Province, in line with legislation and policies Provide advice, support and monitor public sector institutions on legislation and prescript.</p>

5. PART B: OVERVIEW OF DEPARTMENTAL PERFORMANCE

5.1. FINANCIAL PERFORMANCE

Two Years Expenditure Pattern

	2015/16	2016/17	% Growth
	R'000	R'000	R'000
Main Appropriation	287 550	287 466	0.0%
Adjusted Appropriation	278 243	287 466	3.3%
Actual Spent	273 091	286 270	4.8%
Over/Under Expenditure	5 152	1 196	(76.8%)
%	98.1%	99.6%	

The treasury was initially allocated a budget of **R287 466 000.00** at the beginning of the 2016/17 financial year. This budget was not adjusted during the adjustment appropriation. The treasury spent **R286 270 000.00** which translates to 99.6% of its budget for the 2016/17 financial year. This is a very slight improvement from the 2015/16 outcome of 98.1% of which it had spent **R273 091 000.00** against the adjusted annual budget of **R278 243 000.00**. There was **R1 196 000.00** remaining from the 2016/17 budget of the treasury year.

5.2. EXPENDITURE PER ECONOMIC CLASSIFICATION

Expenditure per Economic Classification

Per Economic Classification	2016/17			
	Adjusted Budget	Actual spent	Under/over spent	% spent
Compensation of employees	162 716	162 714	2	100.0%
Goods and Services	108 445	107 654	791	99.3%
Transfers	2 887	2 463	424	85.3%
Payment for Capital Assets	13 415	13 436	(21)	100.2%
Payment for Financial Assets	3	3	0	100.0%
Total	287 466	286 270	1 196	99.6%

5.3. AUDIT OPINION

Audit Opinion for the two years

2015/16	2016/17
Clean Audit	Clean Audit

Provincial Treasury maintained the unqualified (clean) audit opinion. This indicates that the treasury is doing well in terms of complying with key legislation, reporting on performance information and the internal controls are being implemented.

5.4. DONOR FUNDING

The treasury reported that it received donor funds from Standard Bank for an amount of **R15 000.00** which was committed for the 2017/18 financial year. This was in respect to the Corporate Social Responsibility which would go towards the treasury's Legacy Project Support.

5.5. CONDITIONAL GRANTS

The treasury did not receive or issue any conditional grants for the year under review.

6. PROGRAMME ANALYSIS

6.1. PROGRAMME 1: ADMINISTRATION

This programme is responsible to provide political, financial and administrative management to the treasury. It provides effective and efficient administrative support to all line functions in the treasury.

a) Spending Pattern

Spending for Programme 1

	Final	Actual	Over/under	%
Sub-Programme	R'000	R'000	R'000	
Management Services	38 933	38 934	(1)	100.0%
Financial Management	46 191	46 190	1	100.0%

Internal Audit	4 501	4 492	9	99.8%
Total	89 625	89 616	9	100.0%

The Programme under spent on its budget by less than a percent. This translates to an amount of **R9 000.00**. The economic classification item which the programme has under spent the most is Transfers at 17.3% by **R144 000.00**. It has over spent on Goods and Services by **R81 000.00**.

b) Programme Performance

The programme achieved all planned targets (13 of 13) for the period under review. When comparing with the programme's expenditure trends, the performance is correlating with the expenditure of the programmes.

6.2. PROGRAMME 2: SUSTAINABLE RESOURCE MANAGEMENT

This programme exists to promote optimal and effective provincial resource allocation and utilisation, efficient budget management, accurate financial reporting on provincial revenue generation and maximisation, provide quality and accurate socio-economic research reports to inform the provincial budget and planning process, promote efficient planning, implementation and management of infrastructure by provincial departments and municipalities; and provide technical support to delegated municipalities on the implementation of the MFMA.

a) Programme Expenditure

Spending for Programme 2

Sub-Programme	Final	Actual	Over/under	%
	R'000	R'000	R'000	
Programme Support	1 452	1 453	(1)	100.1%
Fiscal Discipline	9 149	8 929	220	97.6%
Budget and Expenditure	9 459	9 381	78	99.2%
Municipal Finance	19 544	19 460	84	99.6%
Infrastructure Co-ordination	3 960	3 912	48	98.8%
Total	43 564	43 135	429	99.0%

The Programme spent 99% of its budget for the 2016/17 financial year. This translates to an under expenditure of **R429 000.00**.

b) Programme Performance

The Committee noted that the programme achieved all planned targets (12 of the 12) for the financial year under review.

6.3. PROGRAMME 3: ASSETS AND LIABILITIES MANAGEMENT

This programme is responsible for the monitoring and support on Assets, Liabilities, Provincial Supply Chain Management, Public Private Partnerships, Transversal Systems and Information Technology Services as well as the provisioning of Information Technology Infrastructure to Votes.

a) Programme Expenditure

Spending for Programme 3

Sub-Programme	Final	Actual	Over/under	%
	R'000	R'000	R'000	
Programme Support	1 210	1 237	(27)	102.2%
Provincial Supply Chain Management	16 344	16 056	288	98.2%
Public Sector Liabilities	5 106	5 160	(54)	101.1%
Physical Asset Management	6 777	6 569	208	96.9%
Interlinked Financial Systems	13 534	13 834	(300)	102.2%
Information Technology	83 350	82 740	610	99.3%
Total	126 321	125 596	725	99.4%

The Programme under spent on its budget by 0.6% (**R725 000.00**).

b) Programme Performance

The programme achieved 86% (6 of 7) planned targets during the financial year under review.

i. Assistance provided to Municipalities

The 2015/16 Municipal Audit outcomes show that only three Municipalities have received clean audits, eight have received Unqualified audits, eight have received qualified and two were disclaimed. The results have shown that even though the Ehlanzeni and Nkangala regions have improved, the Gert Sibande region still struggles and regressed during the financial year under review. The Committee enquired on the reason a majority of Municipalities still face major challenges in terms of SCM compliance even though the Provincial Treasury is assisting. The treasury reported that the consistently high level of SCM transgressions is driven mainly by the following:-

- a. **Uncompetitive or unfair procurement processes** wherein tenders are awarded without following the necessary processes. In most instances these deviations are also not reported to the Auditor General and Treasury as a result during the audit period they become irregular expenditure.
- b. **Awards to other state officials** are made by municipalities in most instances this is negligent because there are declarations which are made to establish relations with municipal officials and whether the tenderer is a state official. Some municipalities in particular the Steve Tshwete Municipality escalated to the Provincial Treasury with the request that those that tendered that their names are verified against the Persal system.
- c. **Inadequate contract management** remains a major challenge in municipalities. This is as a result of inadequate capacity to track performance on contracts including contract expiry period. Poor document management exacerbate the challenge because in most instances documents are kept in a number of places some in the Project Management Unit, CFOs office etc.
- d. **Awards to close family members of employees and councillors** are made despite the fact that the MFMA is so clear on councillors in doing business with the state. Declaration forms are overlooked wherein relations either with employees are supposed to be made.
- e. **Limitation in planned scope of audit of awards.** There are cases where the Office of the Auditor General was not provided with documentation which then limited their scope of work.
- f. **Awards to employees and Councillors (Same as d above)**

On the effectiveness of the intervention by Provincial Treasury, the treasury reported that whilst the intervention might be effective in most instances, municipalities do not comply deliberately while others do not comply due to inadequate staffing of the SCM function. The Provincial Treasury also does provide support to SCM practitioners in assisting them to acquire **minimum competency on SCM** by providing training support through the National School of Government to municipalities on various SCM functional areas. Also our own officials also provide the training.

6.4. PROGRAMME 4: FINANCIAL GOVERNANCE

This programme serves to facilitate, monitor, support and provide professional advice to ensure good governance in the Province.

a) Programme Expenditure

Spending for Programme 4

Sub-Programme	Final	Actual	Over/under	%
	R'000	R'000	R'000	
Programme Support	6 411	6 876	(465)	107.3%
Accounting Services	5 310	5 110	200	96.2%
Norms and Standards	12 418	12 360	58	99.5%
Risk management	2 226	2 126	100	95.5%
Provincial Internal Audit	1 591	1 451	140	91.2%
Total	27 956	27 923	33	99.9%

The Programme under spent on its budget by 0.1% (**R33 000.00**).

b) Programme Performance

The Programme achieved 84% (16 out of 19) planned targets for the period under review.

i. Assessment on the readiness of Quality Assurance

The Programme failed to do one assessment on the readiness of Quality Assurance review and reported that the failure was due to capacity constraints citing that the unit has a high vacancy rate. The Committee wanted to know how the treasury will navigate going forward in terms of the challenge of the high vacancy rate reported within the Provincial Internal Audit sub-programme. The treasury reported that a manager from another directorate within the Provincial Treasury was seconded to the Provincial Internal Audit Unit to assist with the capacity constraints experienced.

7. PART C: GOVERNANCE

7.1. RISK MANAGEMENT

The treasury reported that it has an approved Risk Management policy and strategy in place. It further stated that Risk assessment is conducted regularly to identify new and emerging risks. A Risk Management Committee that advises management on the overall system of risk management was in place and the term expired on 31 October 2016. The treasury also reported that a new Committee was appointed with effect from 1 November 2016 for the period of three years under the guidance of an external Chairperson. The Committee enquired on whether the treasury managed to mitigate any of the risks that may have been identified during the year under review. The treasury reported that most of the risks in Programme 1 were satisfactory mitigated to the extent that the Provincial Treasury has control in determining and implementing the control measures put in place. However, on risks where external sources play a role such as the high vacancy rate remained at a high rating due to the provincial moratorium that is still in place.

For Programmes 2, 3 and 4; one major risk of inappropriate utilisation of resources by stakeholders was identified. It was established that this risk is as a result of amongst others, but not limited to: lack of consequence management for non-compliance with legislation and policies by public sector institutions supported by the treasury; incorrect reporting; ineffective planning; socio-economic pressures and high staff turnover in the same institutions. The treasury reported that it is not easy to see a drastic improvement on this risk as the sources thereof are external and not within the full control of the Provincial Treasury. However, the treasury will continue to provide support and controls to assist in mitigating the risk.

7.2. FRAUD AND CORRUPTION

The treasury reported that it has an approved Fraud Prevention Policy and Plan in place. Under the year under review, awareness sessions were conducted by risk management policy, plan and responsibilities of staff on fraud prevention as well as the reporting mechanisms. The Committee requested the treasury to share the effectiveness of the Fraud Prevention Policy and Plan during the financial year under review and whether there were any serious cases reported. The treasury reported that:

- i. The Fraud Prevention Policy and Plan is effective, there is an adequate risk assessment process including Fraud Risk Register that is compiled and monitored.
- ii. Risks are evaluated on a regular basis throughout the year to ensure that action plans and strategies are implemented to try and manage risks to an acceptable level and reports on progress are presented to the Risk Management Committee and Audit Committee.
- iii. Risk awareness sessions are held throughout the Provincial Treasury, the challenge around these awareness sessions in the non-availability of some officials due to competing priorities, and a more flexible approach to the scheduling of these awareness sessions needs to be looked at.
- iv. The risk management unit needs to be capacitated with additional resources to ensure that its mandate is achieved after one official will resign in November 2017.
- v. There was one case reported via the hotline to the PSC of a Government Vehicle that was abandoned by the driver after an accident. The Office of the Premier investigated the case, and a report was provided to the Provincial Treasury. A criminal case for defeating the ends of justice, and use of motor vehicle without the consent of owner, and failing to report within 24 hours, was opened with the South African Police Services and is currently before the courts. The case has also been presented to the treasury Accidental Committee for notification and recommendations. Disciplinary measures were taken by the Labour Relations Unit and suspension without pay was instituted. The official is no longer allowed to drive Government vehicles.
- vi. A case of alleged theft of cash from cash offices was reported. During the verification two cases (R400) were noted where documents were issued to suppliers and receipts could not be traced.
- vii. Recommendations were made to the Office of the CFO to improve the internal control measures.

- viii. Disciplinary processes were finalised by the Labour Relations Unit and final written warnings were issued by the Accounting Officer to the officials concerned. The officials were removed from all revenue collection responsibilities.
- ix. The tender receipt certificate process was amended to enable the tracing of receipts for each document sod; daily controls were also strengthened to prevent repetition of the cases noted.

8. PART D: HUMAN RESOURCE MANAGEMENT

8.1. ORGANIZATIONAL STRUCTURE

Provincial Treasury reported that a provincial moratorium on the filling of vacant posts was implemented during the financial year under review which affected the treasury's ability to meet its outputs effectively as the officials were overstretched as a result of staff shortages when posts became vacant due to resignations, deaths or promotions. It further stated that the internship programme was successfully implemented and 71 interns were employed during the financial year under review.

8.2. HUMAN RESOURCE OVERSIGHT STATISTICS

The treasury reported that the approved number of posts is 291, and 291 posts were filled at the end of the 2016/17 financial year. This is down from the previous year of 321, implying an abolishment of 30 posts. The vacancy rate is currently at 0%. There were no advertisements for posts conducted in the financial year under review. 30 employees left the treasury during the 2016/17 financial year. Five resigned, eight retired and seventeen contracts expired. There were no employees who joined the treasury over the course of the year.

i. Resignations

The Committee enquired on the reasons that led to 5 employees resigning from the treasury during the 2016/17 financial year and whether there were no alternatives of keeping them. The treasury reported that the 5 resignations were voluntary terminations as follows:

- a) Director- Corporate services was found to be trading with State and was issued with final written warning and was given an option to resign from the State or resign from the companies and had opted to resign from the service of the State.

- b) Director - Information Technology submitted voluntary terminations to pursue personal interest.
- c) Deputy Director – Norms and Standards submitted voluntary terminations to pursue business interests.
- d) Labour Relations officer was offered promotional opportunity in another organ of state.
- e) Secretary Legal Services was offered proportional opportunity in another organ of state.

The revised Public Services Regulations, 2016 presents limitations on retention alternatives and also the fact that there is a moratorium in filling of posts.

ii. Retirements

The Committee enquired on how the 8 retirements affected the various programmes which the retirees were employed under. The treasury reported that:

Programme 1: 1 cleaner, 1 messenger and 1 Registry Clerk

Programme 3: 1 Director – Physical Asset Management, 2 Accounting Clerks: PSCM, 1 Deputy Director: PSCM and 1 Senior Data Technologies.

The treasury reported that the retirements negatively affected operations in the above mentioned programmes, in that some officials carry responsibilities of more than one job, which can possibly compromise quality of delivery, and in some instances it result to poor compliance on segregation of duties and ultimately the workforce is left desponded and fatigued.

iii. Skills Development Act No. 97 of 1998

The treasury reported that the budget for training and educating of Provincial Treasury's employees was **R 3 028 000.00** and the actual expenditure was **R 2 513 000.00** (83%) as at the end of March 2017. Furthermore, the treasury reported that the approved annual training programme on generic training was successfully implemented; however some of the core training as informed by Personal Development Plans was not fully implemented by respective units.

9. PART E: FINANCIAL INFORMATION

The report of the Auditor-General in Mpumalanga on the treasury's financial conduct in the period under review; as well as the treasury financial statements for the period under review were included in the Annual Report.

10. FINDINGS

- 10.1. The Provincial Treasury obtained a clean audit opinion for the past 6 financial years.
- 10.2. The Provincial Treasury has a mandate to assist Municipalities in improving their audit results. This has proven to be a challenge in recent years.
- 10.3. The Provincial Treasury lost a number of employees in critical positions at senior Management level through resignations and retirements during the 2016/17 financial year which has caused certain units or sections to be working under extreme pressure to carry out their duties.

11. RECOMMENDATIONS

After the deliberations, the Committee recommends that:

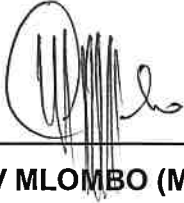
- 11.1. The Provincial Treasury must maintain the clean audit opinion and strengthen its support to departments and public entities that did not receive a clean audit during the 2016/17 financial year.
- 11.2. The Provincial Treasury must identify five Municipalities that are failing to improve their audit outcomes as well as with most challenges in terms of SCM compliance and submit the list to the Legislature.
- 11.3. The provincial Treasury must confirm to the Committee whether the vacant positions could not be filled through the rationalization process. If not, the Provincial Treasury must identify which critical positions are required to relieve the pressure currently exerted on certain employees and follow the process of getting Cabinet approval to fill them.

12. CONCLUSION

In conclusion, the Chairperson would like to thank the Honourable Members of the Portfolio Committee on Premier's Office; Finance; Economic Development and Tourism, the Head Official and her management team and the support staff of the Legislature for their availability, dedication and commitment shown during the deliberations.

This Committee report on the 2016/17 Annual Report of Provincial Treasury is hereby tabled to the House with a request to adopt the report with its recommendations for implementation by

the treasury and report back by the MEC to the Honourable Speaker of the Legislature by no later than **28 February 2018** and thereafter, on a quarterly basis.



HON FV MLOMBO (MPL)

**CHAIRPERSON: PORTFOLIO COMMITTEE
ON PREMIER'S OFFICE; FINANCE;
ECONOMIC DEVELOPMENT AND TOURISM**

16. 31. 2017

DATE

