



## **REPORT 11 OF 2015**

### **SELECT COMMITTEE ON PUBLIC ACCOUNTS OF THE 5<sup>TH</sup> MPUMALANGA PROVINCIAL LEGISLATURE: OFFICE OF THE PREMIER (2013/14)**

#### **1. INTRODUCTION**

The Select Committee on Public Accounts (SCOPA) examined the annual report of the Office of the Premier, which includes the financial statements, report of the Auditor-General, report of the Accounting Officer and performance information for the financial year 2013/14.

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

This transparent process of engagement is 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 PROCEDURE**

The Committee met on 19 February 2015 to deliberate on the above reports. Meetings of the Committee were open sessions for the public including the media as required by Standing Rule 123 and section 118 (1) (b) of the Constitution of the Republic of South Africa, Act No. 108 of 1996.

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

### **3. COMMITTEE FINDINGS AND RECOMENDATIONS**

#### **REPORT ON OTHER AND REGULATORY REQUIREMENTS**

##### **3.1 EXPENDITURE MANAGEMENT**

###### **3.1.1. IRREGULAR EXPENDITURE (R68 267 000)**

The Committee noted that Auditor General reported that of the irregular expenditure of **R68 267 000** was incurred, as a results of the contravening of supply chain management prescripts. The Committee asked the Accounting Officer on why was section 38(1) (c) (ii) of the PFMA and Treasury Regulation 9.1.1?

The Accounting Officer indicated that amongst the reasons was that the Province had to arrange a memorial service to mourn the passing on of the first President, Honorable Dr. Nelson Rolihlanhla Mandela. Following the announcement by the Presidency the Office of the Premier was tasked with the responsibility to coordinate activities to allow citizens of the Province to mourn and also participate in the National activities which were to take place in Gauteng Province, FNB Stadium, the Union Building as well as Qunu Village where the actual funeral took place. The Accounting Officer further indicated that the nature of the event was considered an emergency as it could not have been foreseen and the event was time-bound.

According to the Accounting Officer the office was guided by the PFMA and Treasury Regulations in procuring services relating to the Nelson Mandela Memorial events. It was impractical to go on an open tender. The Accounting Officer procured the required goods and services by other means. The deviation was recorded and approved by the Accounting Officer.

The Accounting Officer also reported that other incident of irregular expenditure related to VIP pool vehicle. This was mainly due to the OTP having a different interpretation of the Ministerial Handbook when it procured such vehicles. The OTP did not use the existing transversal contract and did not consider the procedures followed as a deviation until the matter was brought to the attention by the Auditor General.

Furthermore the Committee also noted that the Office incurred an irregular expenditure of R365 000 as a result of non-adherence to the PMDS policy. The Accounting Officer indicated that at the time of assumption of responsibilities a matter of backlog relating to the assessment of senior managers was brought to the attention of the Accounting Officer. The outstanding assessments related to previous financial years dated back from 2006/07 to 2010/11 financial year.

The Accounting Officer granted an approval for the payment of incentives in an attempt to address the backlog of the previous financial years as well as to ensure that the matter was resolved amicably and without disruption of the activities of the Office.

The Committee further asked the Accounting Officer why the office paid EPMDS to Senior Managers who did not sign performance agreements. The Accounting Officer indicated that all Performance Agreements for SMS members were submitted on time and filed accordingly by the performance Management Unit. The said agreements were also used to assessing the performance for the SMS officials and performance bonuses paid, however performance agreements in respect of five senior managers assessments packs were signed by only one part and not the supervisors or vice versa or the dates were not reflected on the said agreements. Consequently the validity of the said performance agreements was questioned by the Auditor General and the payment of the bonuses were deemed irregular expenditure.

The Committee further asked whether any money was recovered as required by Treasury Regulations 9.1.4. The Accounting Officer indicated that the Office did not recover any costs in respects of the payment of performance bonuses for the five Senior Manager as per the above explanation.

It was indicated that an internal investigation on procurement processes was in progress; therefore the Office is still waiting for the outcomes. The Accounting Office indicated that she wrote a letter to one of the service provider (Carol Bower Production) to repay surplus funds that were indicated in their financial statement. The service

provider acknowledged receipt of the letter and confirmed that they would cooperate with the Office and return the surplus funds.

The Committee accepted the explanations. It further noted weaknesses in that the office failed to discover irregular expenditure on time and to report on it as required especially as it relates to the procurement of the pool vehicle. The meeting also agreed that the Mandela Memorial matter was dealt with by the House and closed.

### **3.1.1 RECOMMENDATIONS**

The Committee recommended that the House resolve that:

- (i) The Accounting Officer must put measures to detect, register and report on irregular expenditure as required by the PFMA and Treasury Regulations
- (ii) The Accounting Officer must recover the surplus funds from Carol Bower Production as disclosed in their financial statements.

### **3.1.2 ACCRUALS (R421 000)**

The Committee noted that the Auditor General reported that on the Annual Report, Accruals of R421 000 was incurred this was rust of invoice not paid within 30 days as required by Treasury Regulations 8.2.3 and PFMA section 38 (1)(f).

The Committee asked why the Office failed to pay invoices and the Accounting Officer also indicated that the Office had paid all valid invoices within the stipulated period of 30 days, this was due to the disputes which range from mathematical calculations on invoices, invalid banking details and submissions of incomplete documents by suppliers.

It was reported to the Committee that the Accounting Officer had put measures in place to avoid the matter from recurring in the next financial year. A creditor's control point had been created where all documents will be submitted and thoroughly checked for accuracy and completeness; a register has also been created so that monitoring of payments can be enhanced.

### **3.1.2.1 RECOMMENDATIONS**

The Committee recommended that the House resolve that:

- (i) The Accounting Officer must keep and maintain a register of irregular expenditure.
- (ii) The Accounting Officer must minimise accruals.

### **3.1.3 CONTINGENT LIABILITIES (R20 432 000)**

The Committee noted that the Auditor General reported that the office has reported contingent liabilities amounting R20 432 000. The Committee asked the Accounting Officer to give a detailed account of the intergovernmental payables of R262 000. The Accounting Officer indicated that these are unconfirmed balances.

- Department of Justice and Constitutional Development = R146 000
- Department of Education = R39 000
- Department of Public Works, Roads and Transport –R60 000
- National Department of Health – R17 000

The Office indicated that it did not have enough supporting documents to ascertain whether these are valid claims or not. The Committee raised a concern that the Office paid intergovernmental payables without supporting documents. The Accounting Officer indicated that the claims were not paid because necessary documents had not been submitted.

### **3.1.3.1 RECOMMENDATION**

The Committee recommended that the House resolve that:

- (i) The Accounting Officer must create effective system which will enable timely engagement with claimants and settlement of claims against the provincial administration

## **COMPLIANCE WITH LAW AND REGULATIONS**

### **4.1 ANNUAL FINANCIAL STATEMENTS (AFS)**

The Committee noted that the Auditor General reported that the financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework, as required by section 40(1)(a) of the PFMA, but they were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion. The Committee asked the Accounting Officer on why did the Office contravene section 40 (1) (a) of the PFMA. The Accounting Officer indicated that this was as a result of irregular expenditure which was identified during the audit process which the Office was not aware of, and not even disclose on the AFS.

The Committee further asked the Accounting Officer on what led the Office to regress from clean audit to unqualified audit opinion. The Accounting Officer indicated that the vacancies in key positions within Supply Chain Management contributed significantly of the Office regressing from previous clean audit opinion, The Committee also raised a concern that most of the findings have to do with SCM which came as a result of the promotion of the SCM Manager to the position of the CFO and the OTP has a vacancy of the Supply Chain Manager during the period under review.

The Committee asked the Accounting Officer on what process did the Office put on place to make sure that the financial statements are checked and corrected at regular intervals. The Accounting Officer indicated that both Interim and Annual Financial Statements are submitted to Internal Auditors for review before submitting to Provincial Treasury. The Accounting Officer further indicated that the early submission of financial statements to Internal Audit intended to enable them to have adequate time to perform independent check for any possible misstatements and give some assurance to the Accounting Officer prior to appending her signature thereon. The Committee was concerned that the control did not prevent the misstatements. The trust bestowed on those delegated to support the accounting officer to prepare error free and correct financial statements failed to bear the desired outcomes.

#### **4.1.2 RECOMMENDATION**

The Committee recommended that the House resolve that:

- (i) The Accounting Officer must ensure that Annual Financial Statements are correct and error free as required by section 40(1) (a) and (b) of the PFMA.

## **4.2 PROCUREMENT AND CONTRACT MANAGEMENT**

The Committee noted that the Auditor General reported that Goods and Services with a transaction value of R10 000.00 and R500 000.00 were procured without inviting at least three written price quotations from prospective suppliers as per the requirements of Treasury Regulation 16A6.1. The Committee raised a concern on why did the Accounting Officer fail to comply with Treasury Regulation 16A6.1.

The Accounting Officer indicated that the non-compliance was mainly related to the procurement of goods and services for the Nelson Mandela Memorial Service, which necessitated the Office to request different types of services from various suppliers which was to be rendered within a short space of time.

The Accounting Officer further added that following the announcement by the Presidency and based on a National concept the OTP was tasked with the responsibility to coordinate and implement the Provincial Plan to allow the citizens of the Province to mourn.

The Committee accepted the explanation of the Office but further asked if the deviation was reported to Treasury as required by Treasury Regulation. The Accounting Officer indicated the Office did prepare a letter reflecting the deviation from normal supply chain management processes which was approved by the Accounting Officer and Provincial Treasury notified, however its content was not prepared in such that it meets all the requirements of the PFMA and Treasury Regulation as highlighted by the Auditor General which resulted in irregular expenditure.

The Committee accepted the explanation as the matter had been duly dealt with on item 3.1.1 of this report and concluded.

## **4.3 LEADERSHIP**

The Committee noted that the Auditor General reported that the Accounting Officer did not review the Financial Statements prior to the submission for auditing. The Committee wanted to know why did the Accounting Officer failed to review the Financial Statements. The Accounting Officer indicated it was an oversight, she had since advised the CFO's office to present the

financial Statements timeously. The Committee did not accept the explanation of the Accounting Officer as it is the responsibility of the Accounting Officer to review Financial Statements prior to be submitted for auditing.

The Committee further whether there were any measures put in place to prevent this from recurring. The Accounting Officer indicated that an instruction had been issued to all officials informing them that all correspondences must be submitted five days in advance to enable review by the accounting officer.

#### **4.3.1 RECOMMENDATION**

The Committee recommended that the House resolve that;

- (i) The Accounting Officer must review financial statements prior to submission to Treasury and/or the Auditor General.

### **5 PROGRESS TOWARDS ACHIEVING CLEAN AUDIT**

The Accounting Officer indicated that the Office is re-engineering the systems/processes, development of the Internal Control and Compliance Matrix, which gets to be verified by Internal Auditors quarterly and strengthening of controls within Financial Management as a whole.

The Committee further asked the Accounting Officer on how will the Office deal with high risk areas (supply chain management; quality of performance reports, information Technology Controls and quality of submitted Financial Statements) as identified by Auditor General.

The Accounting Officer indicated the following measures:

- A Supply Chain Manager has been appointed to do quality check of all reports
- An Internal Control and Quality Assurance Task Team have been established to deal with all compliance issues surrounding SCM and financial management as a whole.



- Due to changes at national levels regarding ICT governance, a new approach has been devised by the DPSA and AG. As soon as details from the DPSA are available, new measures will be put in place to address risk and shortcoming
- With regard to ensuring quality performance information the Office embarks on extensive verification processes which culminate into a performance/business review session whereby the information is verified by Senior Management of each programme. This is done before the information is signed off by the Accounting Officer unlike previously where the exercise was done after the information was reported.

The Committee also further questioned the Office on what challenges does the OTP envisage to encounter that might hamper the achievement of clean audit in 2014/15 financial year. The Accounting Officer indicated that there were no known challenges that could prevent the Office from obtaining a clean audit since the action plan addressed the challenges for the previous year.

The Committee further requested the Office to share the commitments the OTP makes to the committee in achieving clean audit in the 2014/15 financial year. The Accounting Officer indicated that the office remains committed to achieving a clean audit by means of the following:

- Promoting and monitoring adherence/ compliance to all prescripts (i.e. legislations, regulations, policies and procedures)
- Implementation and monitoring of the Internal Controls and Compliance Matrix that the Accounting Officer developed
- Accounting Officer to intensify the implementation of Internal Audit and AGSA action plans.
- Internal Audit to review progress and status of agreed remedial actions on a quarterly basis, prepare and present reports to the Accounting Officer and Top Managements
- Accounting Officer to continue and enforcing consequences management

## 5.1 RECOMMENDATION

The Committee recommended that the House resolve that;

- (i) The Accounting Officer must ensure that there are plans to deal with prior year audit findings, issues raised by Audit Committee, Programme Performance Reviews, Budget Expenditure Reviews, Compliance with Legislations and management of fruitless wasteful and irregular expenditure.

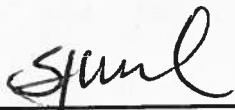
## 6. CONCLUSION

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

**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 June 2015 and thereafter on quarterly basis.**

## 7. 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**

2015. 03. 23

**DATE**