



**REPORT 01 OF 2016**  
**SELECT COMMITTEE ON PUBLIC ACCOUNTS OF THE 5<sup>TH</sup> MPUMALANGA PROVINCIAL LEGISLATURE:**  
**DEPARTMENT OF ECONOMIC DEVELOPMENT AND TOURISM (2014/15)**

## **1. INTRODUCTION**

The Select Committee on Public Accounts (SCOPA) hereinafter referred to as a Committee, examined the annual report of the Department of Economic Development and Tourism; 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 reports of the Department.

## **2. COMMITTEE PROCEDURES**

The Committee met on 19 November 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 116 and section 118 (1) (b) of the Constitution of the Republic of South Africa, Act No. 108 of 1996.

The Accounting Officer and his 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 Report of Department	Status
3.1.1	(i) The Accounting Officer must ensure that the Office of the CFO is fully capacitated to discharge expected mandate and responsibilities	<p>The Department, in line with its reorganisation programme has started the Organisational redesign process which is still under way. The process includes the review of the structure within the Office of the Chief financial Officer. Once the process has been finalised, it will enhance the ability of the Office to discharge its expected mandate and responsibilities.</p> <p>However, to ensure that the Office of the CFO discharge its responsibilities, the Department has established a Financial Statement Preparation Committee to ensure that financial statements are prepared according to the framework and supported by all necessary documents.</p> <p>Officials involved in the preparation of financial statements were sent to the financial statements preparation training workshop organised by the Provincial Treasury. The Department will continue to send them to these workshops since the financial reporting framework and template is updated with latest changes on an annual basis.</p> <p>The officials will also be sent to training provided by other external service providers. This will assist improve their skills and competency in the preparation of financial statements.</p>	Closed
3.2.1 i.	The Accounting Officer must take disciplinary action against the officials who failed to verify the qualifications in the application before appointing the employees.	<p>The Department considers compliance to legislation very seriously. The officials who are responsible for recruitment have been counselled as part of disciplinary processes to ensure that from now henceforth there is no appointment of employees that will be made without prior verification of claims.</p> <p>The reason for the granting of a</p>	Closed



		<p>counseling sanction was due to the fact that the Department in the financial year under review had challenges with paying of service provider due to documents being misplaced by the official who was responsible for capturing the invoices. The official has since been moved out of the section, she was also counseled prior to being moved so as to avoid the misplacing of invoices in the future.</p>	
		<ul style="list-style-type: none"> <li>• The Department has developed a framework for the monitoring of the Public Entities (monitoring and evaluation).</li> <li>• Quarterly analysis report. There is a dedicated team that is assigned the responsibility to perform oversight of public entities on a quarterly basis against annual planned targets.</li> <li>• Conduct quarterly review sessions to provide feedback on outcome of the assessments.</li> <li>• Internal Audit, Risk management and CFO have been assigned to sit in the audit committee of entities to ensure compliance with governance systems.</li> <li>• Shareholder Compacts signed with public entities to provide policy direction.</li> <li>• Department maintained a consistent representation at the Entities' board's meetings.</li> </ul>	Closed
3.3.1 i.	<p>The Accounting Officer must establish mechanism to strengthen the department's oversight role on its Public Entities.</p>	<ul style="list-style-type: none"> <li>• The Department has developed a framework for the monitoring of the Public Entities (monitoring and evaluation).</li> <li>• Quarterly analysis report. There is a dedicated team that is assigned the responsibility to perform oversight of public entities on a quarterly basis against annual planned targets.</li> <li>• Conduct quarterly review sessions to provide feedback on outcome of the assessments.</li> <li>• Internal Audit, Risk management and CFO have been assigned to sit in the audit committee of entities to ensure compliance with governance systems.</li> <li>• Shareholder Compacts signed with public entities to provide policy direction.</li> <li>• Department maintained a consistent representation at the Entities' board's meetings.</li> </ul>	Closed
ii	<p>The Accounting Officer must develop a mechanism and procedures to deal with oversight function on the entities</p>	<ul style="list-style-type: none"> <li>• The Department has developed a framework for the monitoring of the Public Entities (monitoring and evaluation).</li> <li>• Quarterly analysis report. There is a dedicated team that is assigned the responsibility to perform oversight of public entities on a quarterly basis against annual planned targets.</li> <li>• Conduct quarterly review sessions to provide feedback on outcome of the assessments.</li> <li>• Internal Audit, Risk management and CFO have been</li> </ul>	Closed

		<p>assigned to sit in the audit committee of entities to ensure compliance with governance systems.</p> <ul style="list-style-type: none"> <li>• Shareholder Compacts signed with public entities to provide policy direction.</li> <li>• Department maintained a consistent representation at the Entities' board's meetings.</li> </ul>	
4.1.1 i.	<p>The Accounting Officer must submit a progress report on the investigations to the Committee.</p>	<p>The Department is not conducting any internal investigations. The Office of the Premier is handling all cases reported on the Public Service Commission's National Anti-corruption Hotline and those referred by the Department. The Office of the Premier has established a shared investigative capacity by which all special Fraud and Corruption cases in all provincial departments are reported and investigated. This will help in reducing the backlogs of unresolved cases. The Department conducts periodical follow ups with the Office of the Premier. The following cases are under investigation by the Integrity Management unit within the Office of the Premier:</p>	ongoing
5.1 i.	<p>The Accounting Officer must take action against responsible officials for incurring the irregular expenditure of R6 530 000.</p>	<p>In July 2015 the State Attorney furnished a preliminary opinion and requested further information pertaining to this matter. According to the opinion, a copy of which is attached hereto marked "D", more information was required in order to determine if the Accounting Officer can be held personally liable for such expenses.</p> <p>The preliminary opinion also raised the possibility that the then Bid Evaluation Committee may have failed to properly discharge its duties by failing to disqualify one of the bidders at evaluation stage. More information on the transactions was provided in a consultation on 22 September 2015.</p>	ongoing



5.1 ii.	The Accounting Officer must fast track process of recovering the irregular expenditure from the officials, a report on the investigation by the Office of the State Attorney must be submitted to the Committee (R2 807 000.00).	<p>The Department initiated the process of recovery with the issuing of a letter of demand for payment on 31 October 2013 and when the responsible official refused to co-operate, the State Attorney was instructed to pursue the matter through civil litigation as the official had left the Provincial Government at that stage.</p> <p>Copy of letter of demand attached hereto marked "F" and subsequent correspondence to Office of the State Attorney dated 22 September 2014 is attached marked "G". Further inquiries are to be made without further delay.</p>	ongoing
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### 3.1 ANNUAL FINANCIAL STATEMENTS, PERFORMANCE REPORT AND ANNUAL REPORT

The Committee noted that the Auditor General reported that the financial statements were not prepared in accordance with the prescribed financial reporting framework as required by section 40(1)(a) and (b) of the PFMA. Material misstatements of funds to be surrendered and related party transactions identified by auditors in the submitted statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion. The Committee asked the Accounting Officer to explain why the department failed to comply with the prescribed financial reporting framework for the previous three financial years as per section 40 (1) (a) and (b) of the PFMA.

The Accounting Officer indicated that The Department has insufficient competency and skills in the preparation of the annual financial statements. During the 2014/15 financial year the establish controls could not pick up material misstatements on the annual financial statement relating to mainly two areas:

- Material misstatement of funds to be surrendered to the Treasury. This could not be picked up by the review process since it related to overstated surrender amount as a result of the accounting treatment of unauthorised expenditure that

was condoned without funding. The guideline for the preparation of financial statement was not clear on the accounting treatment of unauthorised expenditure emanating from an overspending on a programme and not of the vote. The accounting treatment of this transaction had to be agreed to amongst the Auditor general, Provincial Treasury and the Department. Hence the annual financial statements had to be adjusted.

- Related party transactions incorrectly disclosed in the annual financial statements. Transactions with National Departments were incorrectly disclosed as related party transactions. An oversight that was picked up by the Auditor General and the financial statements had to be adjusted.

The Committee further noted that the AG reported that the Accounting Officer did not adequately review the AFSs, annual performance reports prior to their submission. The AG further stated that management of the Department failed to ensure the adequate monitoring and review of compliance with applicable laws and regulations and the AFSs submitted for auditing. The Committee asked why the Accounting Officer failed to adequately review the AFSs and the Annual Performance Report prior to their submission for auditing. The Accounting Officer indicated that the Department reviewed the annual financial statements and the annual performance report, but clearly the review was inadequate due to insufficient competency and skills to identify the material misstatements picked up by the Auditor General. Unfortunately the review process by management internal assurance provider (Internal Audit) and the independent review by the Provincial Treasury could not pick-up the misstatements.

### **3.1.1 RECOMMENDATIONS**

The Committee recommends that the House resolve that:

- (i) The accounting officer must take action against the officials who failed to ensure that financial statements are prepared in accordance with the prescribed financial reporting framework as required by section 40(1)(a) and (b) of the PFMA

### **3.2. PROCUREMENT AND CONTRACT MANAGEMENT**

The Committee noted that the Auditor General reported that persons in service of the Department whose close family members, partners or associates had a private or business interest in contracts awarded by the Department failed to disclose such interest as required by Treasury Regulation 16A8.4. The Committee asked the Accounting Officer why the Department contravened Treasury Regulation 16A8.4 of the PFMA.

The Accounting Officer indicated that The Auditor General during the audit made a finding through the computer assisted auditing techniques (CAATs) that a business partner of an employee of the Department was doing work with the Department. The employee did not have approval from the Executive Authority and there was no declaration of interest. The Department indicated that it does not have the enabling tools to pro-actively identify such business relationships between employees and other third parties, unless the employee has declared such business interests.

The Committee probed further whether any disciplinary action has been taken against the individuals concerned. The Accounting Officer indicated that the matter was under investigation by the Department to establish whether the employee directly benefited from this transaction(s). The Department has requested the Office of the Premier to assist with this investigation. Appropriate action will be taken once the investigation is completed

The committee raised a concerned whether were measure put in place to ensure that this does not recur in future. The Accounting Officer reported that the Department issued a circular to all employees to remind them to comply with the requirement of the Public Service Act with regard to the declaration of interest and performing additional remunerative work outside the Public Service.

- The Department will continue to request service providers to complete the standard bidding documents (SBD), especially SBD 4 where they are required to make declaration of interests.
- The Department will also continue to verify that directors of companies to be appointed are not government employees through the PERSAL system.

- The Department will utilise centralised supplier database (CSD) once implemented. The CSD is an initiative of the National Treasury to address amongst others the issue of government employees doing business with the State. This system will be fully implemented from 1 April 2016. The database will only have accredited services providers that would have been vetted by the National Treasury.
- Appropriate action (including disciplinary action) against employees that does not comply with the circular and the requirements of the various prescripts will be taken

### **3.2.1 RECOMMENDATIONS**

The Committee recommends that the House resolve that:

- (i) The Accounting Officer must take disciplinary action against the official for doing remunerative work outside his or her employment in the public service without approval with immediate effect (without delay).
- (ii) The Accounting Officer must submit a progress report on the investigation made on the employees who failed to disclose such interest in contracts awarded by the Department to close family members, partners or associates.

### **3.3 HUMAN RESOURCE MANAGEMENT AND COMPENSATION**

The Committee noted that the Auditor General reported that employees were appointed without properly verifying the claims in their application, in contravention of Public Service Regulation 1/VII/D.8. The Committee raised a concern on this finding that it also occurred in the two previous financial years; the Committee further asked why the Department failed to implement measures to ensure that this finding is not flagged again by the AG.

The Accounting Officer indicated that the Department up to August 2014 would appoint successful candidates with a clause in the employment contract that would stipulate that the employment was subject to a positive clearance of the claims made by the candidates. However in August 2014 a resolution was taken to ensure that every employment made was subjected to the verification of claims. In 2014 November there was a provincial need to move with speed in the shutting down of liquor outlets that are



close to schools and churches as they were creating a social crisis. The Department had to advertise positions of liquor inspectors and appoint with speed so that a report could be presented to the Executive Council on how the Department is addressing the social challenge, as a result the appointment of those inspectors was made without the finalisation of the verification. The clause was included in their contracts and the verifications have been made and they all had a positive clearance.

The Committee accepted the measures put in place.

### **3.4 INTERNAL AUDIT**

The Committee noted that the Auditor General reported that that the Internal Audit function of the Department did not assess the operational procedure and monitoring mechanisms relating to all transfers made and received, including transfers in terms of DoRA, as required by Treasury Regulations 3.2.8.

The Department indicated that Auditor General is referring to the transfers made to Public Entities:

- Mpumalanga Economic Growth Agency,
- Mpumalanga Tourism and Parks Agency, and
- Mpumalanga Gambling Board

The Committee asked what caused the Department to contravene Treasury Regulation 3.2.8. The Accounting Officer indicated that the Internal Audit deemed it sufficient to assess transfers by conducting reviews on quarterly financial statements; wherein the completeness and accuracy of transactions were evaluated and reports compiled. In addition, Internal Audit performed a review of revenue received from Public Entities, to determine if all revenue is properly reconciled and accounted for. A report was issued to that effect.

The Committee asked whether was measure put in place by the Department to ensure that the internal audit function of the Department assesses the operational procedure and monitoring mechanisms of the Department in the next financial year. The

Accounting Officer indicated that the 2015/16 audit plan has been adjusted to include the monitoring and oversight of conditional grants allocated in terms of TR 3.2.8. Furthermore, management has since established a Unit that specifically deals with oversight over Public Entities

The Department will nominate the Chief financial Officer and the Head of Internal Audit in the department to be members of the audit committees of Public Entities.

### **3.4.1 RECOMMENDATIONS**

The Committee recommends that the House resolve that:

- (i) The Accounting Officer must ensure that all transfers made to Public Entities are reported and Recorded as required by Provincial Treasury.

## **4. ACCRUALS**

The Committee noted that the Auditor General reported that an amount of R1 757 000 has been stated as accruals of the Department. The Committee requested the Accounting Officer to explain how the accruals for the 2014/15 financial year were incurred. The Accounting Officer indicated that the accruals for 2014/15 related to invoices for services received by the department during the last month of the financial year (March 2015). Invoices relating to these services were received during April 2015. These relate to contractual obligations for leased asset, running costs for government owned vehicles and municipal services. The R1, 757,000 relate to interdepartmental payables/accruals to the Department of Public Works Roads and Transport (DPWRT) for payment of telephone, water, and electricity bills on shared government owned buildings. A roll-over has tentatively been approved by the Provincial Treasury to fund these accruals.

The Committee further raised a concern whether were measure taken to try and reduce the accruals. The Accounting officer indicated that the Department will continue with the following to manage the financial year-end processes.

- Encourage service providers to submit invoices for work performed before the end of the financial year;

- Will issue a circular in February to minimise the acquisition of goods and services towards the end of the financial year without compromising service delivery

The Committee further asked on measures that have been put in place to try and prevent the further accumulation of accruals. The Accounting Officer indicated that the Department will continue with the following to manage the financial year-end processes

- Encourage service providers to submit invoices for work performed before the end of the financial year;
- Will issue a circular in February to minimise the acquisition of goods and services towards the end of the financial year without compromising service delivery.

#### **4.1 RECOMMENDATIONS**

The Committee recommends that the House resolve that:

The Accounting Officer must develop systems and mechanisms to ensure that invoices are submitted and paid before the financial year end.

#### **6. EXPENDITURE MANAGEMENT**

The Committee noted that the Auditor General raised a concern that the Department must be commended for not incurring unauthorized, fruitless and wasteful as well as irregular expenditure for the 2014/15 financial year. The Committee asked the Accounting Officer on how will the Department recover the irregular expenditure of R37 492 000 and Fruitless and wasteful expenditure of R3 936 000 which resulted from previous financial years. The Accounting Officer indicated on the following progress made on recovering on the unwanted expenditure that occurred in the Department:

<b>Nature of irregularity</b>	<b>Progress to date</b>	<b>Amount</b>
Whilst Dr Motete was the CEO of Heritage,	Letter of demand issued on 31 October 2013 and Official	R 2 712 445.30



<p>Greening Mpumalanga and Tourism Flagship Project, she acted without the approval of her principals and inserted a clause in the contract with the service provider agreeing to pay an "initiation fee" which was in contravention of the PFMA.</p>	<p>is opposing claim through her attorneys, Hough &amp; Bremner Inc. Subsequently State Attorney's office was furnished with all the relevant information to issue summons. Last enquiry made in September 2014.</p> <p>Department has scheduled an urgent consultation for 24 November 2015 to obtain progress report.</p>	
<p>The SCM processes were not followed to the latter in that the former Accounting Officer, Dr. V. Dlamini used TR16A.6.4 to deviate from processes prescribed by the SCM policy instead of using Practice Note No. 8 of 2007/2008</p>	<p>State Attorneys requested to provide opinion on prospects for a successful civil lawsuit and information furnished on 22 September 2015 after receipt of preliminary opinion.</p>	<p>R 6 530 000</p>
<p>The nature of the irregularity is a breach of contract and/or corruption by the service provider pertaining to the revitalisation of the Agro-processing Hub.</p>	<p>The State Attorney's office instructed to implement forensic investigation's finding of freezing service provider's assets. State Attorney and Counsel preparing application to freeze the assets. A copy of</p>	<p>R 11 368 554,70</p>

	the Grant Thornton Forensic Report is attached hereto marked "I" and it forms the basis of the instruction to freeze issued to the state attorney.	
Splitting of bids for procurement of gazebos	Instruction to recover to be re-issued in consultation scheduled for 24 November 2015	R 85 000
Required written price quotation not obtained-approved deviation declared unjust	Instruction to recover to be re-issued in consultation scheduled for 24 November 2015	R 342 000
Re-appointment of SMS members in terms of SMS hand book chapter 3 (10.6) declares unjust	Instruction to recover to be re-issued in consultations scheduled for 24 November 2015	R 97 000
Declaration of employees acting in SMS positions as SMS members contrary to Chapter 4.1(B) of Public Service Regulations	Instruction to recover to be re-issued in consultation scheduled for 24 November 2015	R 321 000
Non-SMS officials acting longer than 12 months	Letters of demand issued and officials declined to accept responsibility for the irregular payments on the basis that they had performed the additional duties for which they were remunerated. They argued	R 84 000

	<p>that failure to obtain the requisite approval from the Executing Authority was not their fault but that of HR.</p> <p>The then HR Head left before the A-G's findings were published.</p>	
Appointment of joint venture lead partner with lower grading than specified in the CIBD regulation	Instruction to recover to be re-issued in consultations scheduled for 24 November 2015	R 872 000
Evaluation of bids without minimum threshold set on functionality	Instruction to recover to be re-issued in consultation scheduled for 24 November 2015.	R 956 000
Payment for renovations not completed at Mdala Environmental Centre	Disciplinary action taken against official and she was found guilty and she was suspended without pay. The official appealed successfully to the then Executing Authority and finding of guilt overturned. Official resumed her duties upon the then MEC's pronouncement.	R 320 000
Overspending due to staff transferred from Limpopo not budgeted for after the repeal of	A process for condonation has been initiated for this amount	R 13 479 000



cross-boundary municipalities.		
Appointment of service provider for soya bean study without following prescribed processes.	SAPS instituted investigation after complaint instituted around 2008 and we'll be making enquiries with the Priority Crimes Investigation Unit urgently. Committee to be promptly advised of outcome of enquiry	R 325 000

<b>Nature of fruitless and wasteful expenditure</b>	<b>Progress to date</b>
Rental of office at Ermelo and Venter street (2011/12) R2,883,000; Payment for vacant building and security Ermelo (2012/13) R1,058,000	This matter was finalized after we had sought a legal opinion; it was found that the fruitless and wasteful expenditure was as a result of communication breakdown when Environmental Services was transferred to the Department. Not recoverable, based on the legal opinion, a copy of which is attached hereto.

The Committee noted the progress made by the department on the above incidents and is of the view that the department must put more efforts towards recouping monies from persons liable. There should be a sense of urgency to close matters before they prescribe.

### **6.1 RECOMMENDATIONS**

The Committee recommends that the House resolve that:

- (i). the Accounting Officer must recover all monies due to the department where there are prospects of recovery and provide the committee with a progress report.


## **7. 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 July 2016 and thereafter on quarterly basis.**

## **8. ADOPTION**

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



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

26-05-2016

**DATE**