



REPORT 4 OF 2016
SELECT COMMITTEE ON PUBLIC ACCOUNTS OF THE 5TH MPUMALANGA PROVINCIAL LEGISLATURE:
MPUMALANGA PROVINCIAL LEGISLATURE (2014/15)

1 INTRODUCTION

The Select Committee on Public Accounts (SCOPA) hereinafter referred to as a Committee, examined the Annual Report of the Mpumalanga Provincial Legislature; hereinafter referred to as the Legislature, which includes the Annual Financial Statements, the report of the Auditor-General, the report of the Accounting Officer and performance information.

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

The Committee discharged its mandate of ensuring prudent financial management over the reports of the Legislature.

2. COMMITTEE PROCEDURES

The Committee met on 16 March 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 123 and section 118 (1) (b) of the Constitution of the Republic of South Africa, Act No. 108 of 1996.

A. PROGRESS REPORT ON IMPLEMENTATION OF PREVIOUS SCOPA RESOLUTIONS

NO.	RESOLUTION	PROGRESS BY MPULEG 31 OCTOBER 2015	STATUS
3.1.1	(i)The Accounting Officer must furnish the Committee with proof that the irregular expenditure amounting R1 562 117 was reported to the executive Authority.	The correspondence to the Executive Authority is attached hereto. The Committee received evidence and accepted it.	Closed
	(ii) The Accounting Officer must ensure that effective and efficient system and policies are developed and implemented, and ensure that there is compliance to laws and regulations.	<p>The development and review of finance policies has commenced. Four (4) policies have been processed by management and must be presented to the Legislature Service Board. Two outstanding policies will be processed by management in November 2015.</p> <ul style="list-style-type: none"> • A FMPPLA Compliance Checklist will be utilised to monitor compliance with FMPPLA. • A Legislative Compliance Checklist has been developed and it will be implemented and monitored in the course of the 2016/17 financial year. 	On-going
	(iii) The Accounting Officer must ensure that section 6 (f) of FMMPLA is adhered to.	<p>Management has conducted an awareness workshop on the new FMPPLA and the SCM Regulations. Proof of attendance was submitted to the Committee and accepted.</p> <p>Further workshops were conducted to facilitate the review of financial policies.</p> <p>Training will be provided on GRAP standards and financial statements reporting format by the end of March 2016</p> <ul style="list-style-type: none"> • The first phase on general 	On-going

		<p>understanding of GRAP Standards was conducted September 2015</p> <ul style="list-style-type: none"> The second phase on asset management GRAP financial statement template will be conducted in January 2016 	
3.2.1	(i) The Accounting Officer must provide proof that the fruitless and wasteful expenditure was reported to the Executive Authority as required by Section 62 of FMMPLA.	<p>The correspondence to the Executive Authority is attached hereto. Committee accepted the submitted evidence.</p>	Closed
	(ii) The Accounting Officer must ensure that contract management is strengthened.	<p>Management maintains a register of contracts to strengthen the management of contracts.</p> <p>Measures have been introduced to ensure that payments are linked to performance as per the signed contracts.</p>	Closed
	(iii) The Accounting Officer must incorporate a clause that speaks to consequence management in the Legislatures SBD4 forms.	<p>The SBD 4 form is a National Treasury standardized form.</p> <p>The Legislature has introduced a process of verification of the status of service providers on the National Treasury database as to whether they are prohibited from doing work with the state.</p> <p>The Legislature has agreed with the AG to verify whether the directors/members of service providers in our database are potentially are employed by the state.</p>	On-going
4.1	(i) The Accounting Officer must ensure that monies paid to the 22 officials are recovered as required by Section 31(1) of FMMPLA.	<p>Management has started a process of recovery by writing letters of demand to the 22 officials for recovery through their employers. Evidence was submitted and accepted by the Committee.</p> <p>Management will follow-up on the progress with the relevant employers.</p>	On-going

	(ii) The Accounting Officer must communicate with the relevant employer (Department and entities) of the 22 affected officials on the irregular transaction(s) provide progress to the Committee on or before 29 August 2015.	Management has started a process of communication with the employers of the affected officials.	
5.1	(i) The Accounting Officer must ensure oversight and reviews of quarterly Performance Information as required by section 49(3) of FMMPLA.	Management conducted reviews for Quarter One (Q1) in July 2015 and for Quarter Two (Q2) in October 2015. The quarterly performance information and quarterly performance reports for Q1 and Q2 were submitted to the Speaker as the Chairperson of the Legislature Oversight Committee.	Closed
6.1.1	(i) The Executive Authority must consider taking disciplinary actions against the Accounting Officer for contravening section 55(1) of FMMPLA.	Disciplinary processes against the former Accounting Officer, the CFO and other officials have commenced.	On-going
	(ii) The Accounting Officer must put measures to ensure that misstatements are prevented on financial statement in compliance with Section(55) of FMMPLA	The following measures were put in place in the 2014/2015 financial year: <ul style="list-style-type: none"> • A GRAP compliance checklist was adopted to ensure that transactions required to be reported by the Legislature are identified and treated accordingly. • A GRAP compliant reporting template was sourced. • Management prepared quarterly financial statements and ensured that internal audit reviews were conducted for the interim and third quarter statements. • SCM/Payment Compliance Checklist was implemented. <p>The following measures are put</p>	On-going

		<p>in place in the current financial year to reduce misstatements when reporting at year end:</p> <ul style="list-style-type: none"> • A GRAP training plan • Review of the SCM/Payment Compliance Checklist to enhance identification of key transactions affecting the compliance of GRAP standards and the misstatements that were identified during the audit. 	
6.2.1	(i) The Accounting Officer must consider taking Disciplinary actions against the official who contravened paragraph 6.3.5 of the Supply chain Management Policy.	Disciplinary processes against the former Accounting Officer, the CFO and other officials have commenced.	Closed
	(ii) The Accounting Officer must ensure that the Supply chain Management Policy is effectively implemented.	<p>The Supply Chain Management Policy will be reviewed by the end of November 2015 to incorporate the new SCM Regulations and FMPPLA.</p> <p>An SCM/Payment Compliance Checklist has been adopted to ensure that daily transactions comply with the SCM regulations and act.</p> <p>A workshop was conducted in June 2015 on the SCM regulations for managers to enhance compliance.</p>	On-going
7.1.1	(i) The Accounting Officer must develop effective system to ensure that officials are in a position to effectively implement the newly adopted standard of reporting.	<p>The following measures will be implemented:</p> <ul style="list-style-type: none"> • A GRAP Compliance checklist will be utilized. • Training was conducted in October 2015 on developments on changes of the GRAP standards, asset reporting and financial statements format/template training will be conducted in February 2016. 	Closed
	(ii) The Accounting Officer must ensure that Quarterly financial statement are compiled and reviewed by	<ul style="list-style-type: none"> • In the 2014/2015 financial year, management prepared quarterly financial statements. • The statements were 	Closed

	management, internal audit and the Audit committee.	reviewed by management, Internal Audit and the Audit Committee.	
	(iii) The Accounting Officer must ensure that Section 6(c) of FMMPLA is adhered to.	<p>Establishment of effective, efficient and transparent system of financial management</p> <ul style="list-style-type: none"> • Management has developed financial management policies and an internal control procedure manual which must be reviewed to align to the new FMPPLA. <p>Establishment of Risk Management processes The Legislature has established a risk management unit. The following processes were conducted:</p> <ul style="list-style-type: none"> • Risk assessments were conducted. • A risk register was developed • Risk management strategy. • Quarterly monitoring of progress on implementation of risk mitigating factors. <p>Establishment of internal control and internal audit processes</p> <ul style="list-style-type: none"> • Two positions for the Assistant Managers Internal Audit were advertised with a view to capacitate the Internal Audit section. • The co-sourced Internal Audit service provider withdrew from the extended contract. The Audit Committee recommended that a pool of Intern Audit service providers be sourced and utilised to perform Internal Audit as indicated in the approved operational plan. The quotations were sourced and received and appointments is underway 	On-going
7.2.1	(i) The Executive Authority must consider taking	Disciplinary processes against the former Accounting Officer, the	On-going

	disciplinary actions against the Accounting Officer for failure to exercise control over daily and monthly processing and reconciliation of transaction (GRAP standards)	CFO and other officials have commenced.	
	(ii) The Accounting Officer must ensure that the GRAP compliance checklist is effectively implemented	The Legislature included the review of financial statements in relation to the GRAP Compliance Checklist as part of the action plan developed for the preparation and submission of financial statements. These processes will be improved by providing training on the GRAP standards and financial statements reporting template.	Closed
8.1.1	(i) The Executive Authority must ensure that the Accounting Officer achieves a clean audit in the 2014/15 financial year.	The Legislature achieved a clean audit in the 2014/15 financial year. The Legislature will continue to work towards maintaining a clean audit report through the following processes: Misstatements <ul style="list-style-type: none"> • Management will continue to compile quarterly financial statements • Financial statements will be reviewed by management and Internal Audit to ensure compliance with the GRAP Compliance Checklist. • Quarterly verification and validation of reported information on pre-determined objectives will continue Asset reporting <ul style="list-style-type: none"> • A project for the evaluation of assets has started to ensure that the Legislature is ready for year-end reporting and audit at the 	Closed

		<p>end of March 2016.</p> <ul style="list-style-type: none"> • This timeline was extended from September 2015 due to the inclusion of heritage assets and staff movement between Vakasha and Legislature building number 1. • The project is expected to be finalised at the end of November 2015 where after a process of audit review will follow to validate information before year end auditing of the SAP asset register. <p>Compliance with FMPPLA</p> <ul style="list-style-type: none"> • A compliance checklist will be developed to monitor progress on the implementation of FMPPLA. • Financial policies and procedures will be reviewed to ensure alignment to FMPPLA <p>Compliance with the standards of GRAP</p> <ul style="list-style-type: none"> • Training will be provided on the standards of GRAP and financial statements template. • The preparation of quarterly financial statements will continue to provide required in-year practice. <p>Internal controls and in year reconciliations</p> <p>The SCM/Payment Compliance Checklist has been updated to enhance the identification of key transactions for daily, monthly and quarterly reconciliations. In year reports and reconciliations reports and registers are prepared to facilitate preparedness for year-end reporting.</p>	
	(ii) The Accounting Officer	The implementation of the plan	On-going

	must ensure that recommendations made by the Auditor General and internal audit are implemented.	will be monitored as follows: <ul style="list-style-type: none"> • Through internal audit reviews. • Risk assessments. • Quarterly reporting and monitoring of progress. 	
	(iii) The Accounting Officer must ensure that all measures put in place to ensure that the Legislature achieves a clean audit are effectively implemented.	<ul style="list-style-type: none"> • The Legislature has drafted an Action Plan to address the issues raised by the Auditor General for the 2014/2015 year-end audit. • The implementation of this plan will be monitored on a quarterly basis. 	On-going

3. COMMITTEE FINDINGS AND RECOMMENDATIONS

3.1 INTERNAL CONTROLS

3.1.1. Leadership

The Committee has noted that the Auditor General has reported that the Accounting Officer failed to exercise Leadership as financial statements were not adequately reviewed prior to their submission and also noted that noted that key positions were vacant for a significant period. The Committee further noted that the Legislature developed a plan to address internal audit and external audit findings, but the appropriate level of management failed to timely monitor adherence to the plan.

Based on the above finding the Committee required the Accounting Officer to provide reasons which led to failure to adequately review financial statements prior to submission and to indicate the measures put in place to prevent future recurrence of the above finding. The Committee further required the Accounting Officer to indicate the reasons why key vacant positions were not filled within the stipulated period and to also indicate the steps taken to address the finding.

With regard to the failed implementation of the plan to address internal audit and external audit findings, the Accounting Officer was required to provide the reasons for failure to timeously monitor adherence to the developed plan.

In response to the questions raised by the Committee, the Accounting Officer reported that the reasons for failure to adequately review financial statements are attributed to management's maturity level to implement the GRAP standards and further indicated that the change of accounting policy from modified cash to accrual basis of accounting was implemented in the 2013/2014 financial year, thus Management started reporting on accrual basis of accounting in the 2013/2014 financial year. The Accounting Officer went on to state that Management was able to comply to a certain extent and continues to develop.

The Accounting Officer reported that as a measure to prevent recurrence of the finding; Management has included the review of financial statements as part of the activities to be performed prior submission of the financial statements as follows:

- Interim financial statements are prepared and these are reviewed through the internal audit processes.
- Annual financial statements are reviewed together with a GRAP expert prior submission.
- A GRAP compliance checklist has been adopted to facilitate management review of financial statements.
- Staff development and training programme on standards of GRAP is implemented.

With regard to filling of key vacant positions, the Accounting Officer reported that Key positions such as that of the Secretary to the Legislature and Executive Manager: Parliamentary Operations, were advertised and the processes could not be concluded in the year under review. The Accounting Officer went on to report that the position of Secretary to the Legislature has since been filled and that of Executive Manager – Parliamentary Operations has been re-advertised.

In addressing the question of failure to adequately monitor adherence to the developed plan to address internal and external audit findings, the Accounting Officer reported that the system of monitoring adherence to the implementation of internal and external audit action

plans was not adequate. The Committee was informed that that such a system has been strengthened through the establishment of the Cross Functional Teams on Integrated Institutional Performance and that the audit plan is monitored through quarterly reporting.

Upon the responses of the Accounting Officer, the Committee enquired on the effectiveness of the systems put in place as this finding is recurring. The Committee further suggested that the trainings held were fruitless as they failed to serve the intended purpose. The Committee was not satisfied with the response of the Accounting Officer regarding non – filling of vacant positions.

3.1.2 Recommendations

The Committee recommend that the House resolve that;

- (i) The Accounting Officer must ensure that further training is conducted on the implementation of GRAP and exercise continuous monitoring (compliance checklist) in this regard.
- (ii) The Accounting Officer must ensure that the internal and external audit action plan is adequately implemented.

4. FINANCIAL AND PERFORMANCE MANAGEMENT

The Committee has noted that the Auditor General has reported that controls implemented over daily and monthly processing and reconciliation of transactions were not effective throughout the period. The Committee further noted that the legislature's financial statements contained numerous misstatements that had to be corrected, mainly due to the staff members not fully understanding of the South African Standards of GRAP.

The Committee has noted that the Auditor General has reported that annual performance report contained numerous misstatements, mainly due to staff members not thoroughly reviewing some of the performance files prior to reporting on the achievement or non – achievement of specific targets.

Based on the above findings, the Committee required the Accounting Officer to provide an explanation as to why the Legislature operates without adequate capacity in financial management in relation to understanding GRAP and preparation of financial statements. The Committee further required the Accounting to indicate the steps put in place to ensure that the persisting challenges relating to the migration from cash basis accounting to GRAP does not recur. The Committee further required the Accounting Officer to provide reasons which led to failure to monitor thorough review of performance files (mode of verification) prior to reporting on achievement or non – achievement of specific targets and to also indicate the steps or measures the Accounting Officer has put in place to address the challenge.

Contrary to the findings of the Auditor General, the Accounting Officer reported that the monitoring system of reconciliations was adequate. In addressing the question regarding the measures put in place to prevent the finding from recurring, the Accounting Officer reported that management has introduced and implemented a compliance checklist to facilitate the processing and reconciling of monthly transactions. In addressing the question of capacity in Financial Management, the Accounting Officer reported that the reasons failure to effectively prepare annual financial statements are attributed to the maturity level of staff after the change of accounting policy from modified cash to accrual basis of accounting. The Accounting Officer reported that the following measures have been implemented:

- Interim financial statements are prepared and these are reviewed through the internal audit processes.
- Annual financial statements are reviewed together with a GRAP expert prior submission.
- A GRAP compliance checklist has been adopted to facilitate management review of financial statements.
- Staff development and training programme on standards of GRAP is implemented.

The Committee required the Accounting Officer to clarify the meaning of 'maturity level' of management as indicated in the responses. The Accounting Officer reported that during the 2013/14 Financial year there was heavy reliance on GRAP experts from Financial Management staff and further reported that in the 2014/15 Financial year there was less

reliance from staff and that most of the processes were conducted by internal staff, which displayed the 'maturity level' of staff on GRAP issues.

4.1 Recommendations

The Committee recommend that the House resolve that;

- (i) The Accounting Officer must consider training more finance officials and management on standards of GRAP to maximise knowledge and compliance.
- (ii) The Accounting Officer must ensure that the compliance checklist to facilitate the processing and reconciling of monthly transactions is effectively implemented and there is accountability thereof.

5. INVESTIGATION

The Committee required the Accounting Officer to provide background information on the investigation and a brief on the current status of the investigation. The Committee further required the Accounting Officer to indicate whether the investigation has been completed and the total cost of the investigation. The Committee required the Accounting Officer to indicate whether the investigation also form part of the Chamber revamp.

The Accounting Officer reported that an external independent investigator has been appointed to conduct the investigation and it is currently still underway. The Accounting Officer reported further reported that the external independent investigator has been paid a total of R 382 000.00 up to date, however the total costs of the investigation have not been determined because disciplinary actions processes are still underway.

The Committee strongly emphasised that the disciplinary action processes should be finalised as a matter of urgency as those affected are being remunerated while not contributing to the organisation. The Committee required the Accounting Officer to indicate when the disciplinary process is envisaged to be concluded.

The Accounting Officer confirmed that the investigation does in fact include the Legislature Chamber revamp project. The Accounting Officer reported that the cases should be

concluded soon as the officials have pleaded, and further indicated that 29 May 2016 is the envisaged date of conclusion of the processes (Investigation).

5.1 Recommendations

The Committee recommend that the House resolve that;

- (iii) The Accounting Officer must furnish the Committee with the outcomes of the investigation process on or before 18 July 2016.


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 Legislature.

~~Unless specified differently, progress on all resolutions must be submitted to the Committee by 30 July 2016 and on a quarterly basis afterwards.~~


7. ADOPTION

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



Hon. Si Malaza

**Chairperson: Select Committee on Public Accounts
Mpumalanga Provincial Legislature**



Date