



**REPORT 10 OF 2016**  
**SELECT COMMITTEE ON PUBLIC ACCOUNTS OF THE 5<sup>TH</sup> MPUMALANGA PROVINCIAL LEGISLATURE:**  
**DEPARTMENT OF HUMAN SETTLEMENTS (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 Human Settlements; 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 05 May 2016 to deliberate on the above reports. Meetings of the Committee were open sessions for the public including the media as required by Standing Rule 116 and section 118 (1) (b) of the Constitution of the Republic of South Africa, Act No. 108 of 1996.

The Accounting Officer and delegation appeared before the committee and answered questions advanced by the Committee.

Number	RESOLUTION	PROGRESS REPORTED AS AT 24 MAY 2016	STATUS
3.1.1	(i) The Accounting Officer must ensure penalties are imposed on contractors who fail to organise their work, in return causing delays to service delivery	The Accounting Officer imposed during the 2014/15 financial year penalties on contractors who fail to implement projects within the agreed timeframes.	Closed
	(ii)The Accounting Officer must ensure that a sound business plan is developed and implemented	The Accounting Officer developed a sound business plan for 2014/15 financial year and was implemented.	Closed
3.2.1	(i) The Accounting Officer must consider taking disciplinary actions against management for failure to adhere to the requirements of the Framework for Managing Programme Performance Information (FMPPi)	The Accounting Officer had discussions with management regarding compliance with FMPPi. The Department referred the 2015/16 annual plan to AGSA to evaluate compliance with FMPPi and the plan was found to be compliant	Closed

3.3.1	(i) The Executive Authority must consider taking disciplinary actions against the Accounting Officer for contravening Public Service Regulation 1/VII/D.8	The recommendation is noted, however, the responsible person (Accounting Officer 2013/14) has since left the public service	Closed
	(ii) The Accounting Officer must ensure that officials in Human Resource Management verify qualifications as required by PSR 1/VII/D1.8	The verification of employees' qualifications is still underway. To date the Department has completed verifying Senior and Middle Management. The next batch to be verified is Assistant Directors and below.  The Department will continue to verify all qualifications during the period of recruitment	Closed
	(iii) The Accounting Officer must complete the outstanding verification of employees by 31 July 2015	The verification of employees' qualifications is still underway. To date the Department has completed verifying Senior and Middle Management. The next batch to be verified is Assistant Directors and below.	Closed
3.4.1	(i) The Accounting Officer must ensure that the organisational structure review is conducted and that	The organisational structure has been reviewed and approved, however, awaiting concurrence by Minister of the Department of Public Service and Administration	Closed

	officials are correctly placed		
	(ii) The Accounting Officer must ensure that only qualified inspectors are tasked with the function of inspecting houses.	The Department has in its employ inspectors that are qualified. Over and above that, the Department uses qualified professionals from Cuba and those appointed through Project Management Unit (PMU).	Closed
	(iii) The Accounting Officer must develop an effective strategy that will be able to verify the authenticity of reports from inspectors and take disciplinary actions against any kind of misconduct.	The Department verifies the authenticity of the reports from inspectors by conducting random spot checks on projects. Over and above, responsibility managers check the reports.  In the event that there are inaccuracies or misrepresentation, disciplinary action is taken.	Closed
3.5.1	(i) The Accounting Officer must ensure that all vacant funded positions are filled by 31 August 2015.	The Executive Council placed a moratorium of filling of vacant posts until organisational structures of Departments are reviewed and approved by DPSA	Closed
	(ii) The Accounting Officer must ensure that the Human Resource Strategy is effectively implemented.	The Human Resource Strategy is being implemented	Closed

3.6.1	(i) The Executive Authority must consider taking disciplinary actions against the Accounting Officer for failure to ensure that effective systems of internal controls to ensure validity; completeness and accuracy of information as recorded in the annual report are in place.	The recommendation is noted, however, the responsible person (Accounting Officer 2013/14) has since left the public service	Closed
	(ii) The Executive Authority must consider taking disciplinary actions against the Accounting Officer for failure ensure that a formal compliance management system is in place.	The recommendation is noted, however, the responsible person (Accounting Officer 2013/14) has since left the public service	Closed

	(iii) The Accounting Officer must take disciplinary actions against members of management for failure to ensure that compliance with applicable laws and regulations was adequately reviewed and monitored throughout the year.	The Accounting Officer does take action against members of management for failure to ensure compliance with applicable laws and regulations.  To ensure continuous compliance, a Compliance Monitoring Office has been established and Compliance Monitoring Officer has been appointed by the Accounting Officer.	Closed
	(iv) The Accounting Officer must develop effective and efficient system to ensure that Accruals are minimised.	The Department has implemented a centralized process of receiving invoices and processing payments. A dedicated official was appointed to acknowledge receipt and update the invoices on an electronic register where regular follow ups are made to ensure that all invoices are paid on time.	Closed
3.7.1	(i) The Accounting Officer must provide a report on the outcome of the investigations relating to the irregular expenditure.	An investigation was conducted by Internal Audit in the Office of the Premier.	Closed
	(ii) The Accounting Officer must provide proof that the irregular expenditure was	The Department did not discover the irregular expenditure. It was a finding by AGSA and the Department complied with recommendations of	Closed

	reported to the Provincial Treasury and Auditor General as required by Section 38 (1) (g) of the PFMA.	AGSA.	
	(iii) The Accounting Officer must develop effective internal systems and tools to timeously detect and prevent fruitless, wasteful, irregular and unauthorised expenditure as required by Section 51 (1) (g) (ii) of the PFMA	An Internal Audit Activity together with Compliance Management Unit and Risk management are part of units established to help strengthen internal control systems	Closed
3.8.1	(i) The Accounting Officer must ensure that all money due to the Department is timely collected in future as required by Section 38 (c) (i) of the PFMA.	All moneys due to the Department are collected as per PFMA 38(c)(i)	Closed
3.9.1	(i) The Accounting Officer must ensure that the backlog in the Province is analysed and a plan be developed to address it and	A Provincial Human Settlement Master Plan was developed to address the housing backlog and general housing needs in the province	Closed

	furnish the Committee with a detailed report by 30 October 2015.		
4.1.1	(i) The Executing Authority must ensure that the Accounting Officer achieves a clean Audit.	The Department has put in place systems and controls to ensure that a clean audit report is achieved.	Closed
	(ii) The Accounting Officer must ensure that all measures and remedial plans put in place are effectively implemented	The Internal Audit, SCOPA and AGSA action plans are effectively implemented through a consolidated Departmental Audit Action Plan	On-going
	(iii) The Accounting Officer ensure that recommendations made by the Auditor General and Internal Audit are implemented.	The Compliance Monitoring and Internal Audit units make follow up audits on the implementation of remedial action plans	On-going
	(iv) The Accounting Officer must ensure that SCOPA resolutions are implemented.	The Action Plan on SCOPA resolutions has been developed and progress reports will be sent to the legislature on quarterly basis	Closed
5.1.1	(i) The Accounting Officer must develop a system that will be able to monitor the ownership of the	Beyond issuing of happy letters to beneficiaries, the Department utilise five conveyance firms to transfer the properties to the beneficiaries' names.	Closed



	houses.		
	(ii)The Accounting Officer must develop a beneficiary management system or strategy for the province.	In terms of the beneficiary management system, the Department currently uses the HSS which is a nationally developed system used by all provinces. This system is enhanced as and when new policies are approved. Furthermore, the Department has approved the Beneficiary Management Policy wherein the aged, child-headed households and disabled persons are prioritised for subsidy allocation.	Closed

### 3. COMMITTEE FINDINGS AND RECOMMENDATIONS

#### 3.1 PRE - DETERMINED OBJECTIVES

The Committee has noted that the Auditor General made material findings in respect of the Programme 2: Housing, needs, research and planning wherein a total of 40% of the indicators were not well defined- see page 46 of Annual Report. The Committee sought reasons which led to failure to ensure that 40% of the indicators are well defined, as this is a recurring finding. The Committee required the Accounting Officer to confirm whether he (AO) is familiar with the requirements of the National Treasury's Framework for Managing Programme Performance Information (FMPPI)? If so, why did department fail to comply with the requirements of the FMPPI. The Committee iastly required the Accounting Officer to indicate the corrective measures put in place to prevent the recurrence of non-compliance with the requirements of the FMPPI.

The Accounting Officer informed the Committee that the department was going through a change management curve and it had tried to improve on indicators of the previous financial year, however, such improvements were found not to be good enough by the Auditor General. The Accounting Officer further reported that a comparative analysis of the 2013/14 and 2014/15 plans does demonstrate evidence that the department did put an effort in improving strategic planning processes and indicators in the Annual Performance Plan.

In addressing the question of measures put in place, the Accounting Officer reported that to ensure that indicators are well defined the department has presented its plan and indicators for 2015/16 and 2016/17 Annual Performance Plan for review by the Auditor-General and as such they were well defined as per the Framework for Managing Programme Performance Information (FMPPi).

### **3.1.1 Recommendations**

The Committee recommends that the House resolve that:

- (i) The Accounting Officer must ensure that all indicators are well defined as per requirement by Treasury's Framework for Managing Programme Performance Information (FMPPi).

## **3.2 COMPLIANCE WITH LEGISLATION**

### **3.2.1 Annual Financial Statements**

The Committee has noted that the Auditor General found that the Financial Statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and were not supported by full and proper records, as required by s 40 (1) 9a) of the PFMA.

Upon this finding, the Committee required the Accounting Officer to provide reasons which led to failure to comply with s 40(1) (a) of the PFMA and enquired whether

personnel in the financial section of the department have capacity to prepare proper financial statements. The Committee also sought reasons which led to failure of the Accounting Officer to submit proper records and further required about the measures put in place prevent the finding from recurring.

In an attempt to respond to the questions posed by the Committee, the Accounting Officer confirmed that the department does have capable personnel in the finance section and indicated that the irregular expenditure identified by AGSA had to be disclosed after submission of the Annual Financial Statements (AFS). With regard to failure to submit proper records, the Accounting Officer informed the Committee that the department did not have a records management centre that had to ensure proper filing and record keeping, however the Department has since developed the records management centre in Louville where all department's files and records are properly kept and archived.

In addressing the issue of measures put in place, the Accounting Officer reported that all records are stored in a safe place at Louville and are properly referenced and went on to indicate that the establishment of the Records Management Centre will improve the Department's records keeping and management system. The Accounting Officer further indicated that the department has developed a Performance Management and Monitoring Policy which provides guidelines on processes to be followed. Furthermore, the new structure has increased the capacity of the unit since the Department has identified this as a high risk area that requires strategic intervention.

#### **3.2.1.1 Recommendations**

The Committee recommends that the House resolve that:

- (i) The Accounting Officer must continuously monitor that the established filing and records management system is effectively implemented.

### **3.3 INTERNAL AUDIT**

The Committee has noted that the Auditor General found that the internal audit did not assess the operational procedure and monitoring mechanism relating to all transfers made and received, including transfers in terms of the annual DORA, as required by treasury regulation 3.2.8.

Upon this finding, the Committee required the Accounting Officer to provide reasons which led to the internal audit to omit to assess the operational procedure and monitoring relating to all transfers made and received including transfers in terms of the annual DORA and to also indicate the corrective measures put in place to prevent the recurrence of the omission by the internal audit to comply with regulation 3.2.8.

The Accounting Officer reported that the Internal Audit Unit did not include in its annual internal audit plan the activity to assess and evaluate transfers in terms of the DORA. This omission was realised at the end of the financial year and further reported that the activity on assessment and evaluation of transfer payments have been included in the 2015/2016 internal audit plan which is currently in operation.

#### **3.3.1 Recommendations**

The Committee recommends that the House resolve that:

- (i) The Accounting Officer must ensure that the internal audit action plan include the activity to assess and evaluate transfers in terms of the DORA.

### **3.4 PROCUREMENT AND CONTRACT MANAGEMENT**

The Committee has noted that the Auditor General found that sufficient appropriate audit evidence could not be obtained that all contracts had been awarded in accordance with the legislative requirements, as a result of inadequate internal controls to ensure proper record management.

The Committee required the Accounting Officer provide and/or indicate the total value of contracts that were awarded without complying with legislative requirements. The Committee further enquired as to why the Accounting Officer failed to keep proper records of all contracts that have been awarded and also enquired whether there are

proper internal controls to ensure proper record management. The Committee enquired about the disciplinary actions that have been taken against officials who failed to ensure that there is proper procurement and contract management and staff rotation within the Supply Chain Management section.

Upon the questions posed by the Committee, the Accounting Officer reported that the total value of contracts that were awarded without complying with legislative requirements amount to R 78,847,000.00. With regard to failure to ensure proper record management the Accounting Officer reported that the records relating to procurement date as far back as the financial year 2009/2010. These old-contracts incurred expenditure during the 2014/15 financial year relating to outstanding work which the service providers had to complete.

In addressing the question of internal controls, the Accounting Officer informed the Committee that the Department did have inadequate internal controls and that records management suffered due to absence of a properly secured records management centre which has since been completed. It was brought to the attention of the Committee that no disciplinary actions were instituted against any official and that there was a rotation at Deputy Director and Assistant Director Levels in October 2014 within the Supply Chain Management Unit.

#### **3.4.1 Recommendations**

The Committee recommend that the House resolve that:

- (i) The Executive Authority must consider taking disciplinary actions against the Accounting Officer for contravening Section 38 (1) (iii) of the PFMA.
- (ii) The Executive Authority must consider taking disciplinary actions against the Accounting Officer for contravening Section 40 (1) (a) of the PFMA.

#### **3.5 HUMAN RESOURCE MANAGEMENT AND COMPENSATION**

The Committee has noted that the Auditor General found that the department did not fill funded vacant posts with 12 months as required by Public Service Regulation 1/VII/C.1A.2. and also noted that this is a recurring finding.

The Committee required the Accounting Officer to provide a detailed explanation which led to failure to fill funded vacant posts within 12 months or comply with Public Service Regulation 1/VII/C.1A.2, and enquired on the measures put in place to prevent the recurrence of non-compliance with the Public Service Regulation 1/VII/C.1A.2.

The Accounting Officer informed the Committee that the provincial cabinet placed a moratorium on filling of all vacant posts and the department was directed to review its structure and went on to indicate that the Department has since concluded the review of the organizational structure and has advertised posts already in the past two weeks.

### **3.6 INTERNAL CONTROL**

#### **3.6.1 Leadership**

The Committee has noted that the Auditor General found that that oversight responsibility was not exercised regarding performance reporting and compliance as well as related controls. The Committee required the Executive Authority to indicate the extent to which oversight was exercised and also enquired whether the Accounting Officer exercised oversight over Chief Directors of all programmes especially Programme 2 and 3 where there were material findings. The Committee further required the Accounting Officer to indicate the corrective measures put in place to prevent the finding from recurring.

It was reported that the MEC has provided direction and adequate oversight over the Accounting Officer and it was further reported that the Accounting Officer presents non-financial and financial performance information /reports to the Accounting Officer on monthly and quarterly basis. The Accounting Officer confirmed that oversight was exercised over Programme 2 and 3 and went on to report that Chief Directors form part of the Top Management Committee which meets frequently. It was brought to the attention of the Committee that monthly and quarterly financial and non-financial reports are discussed and weaknesses are identified and remedial plans adopted for implementation.

### **3.6.1.1 Recommendations**

The Committee recommend that the House resolve that:

- (i) The Executive Authority must consider taking disciplinary actions against the Accounting Officer for failure to effectively exercise oversight responsibility regarding performance reporting and compliance as well as related controls.
- (ii) The Accounting Officer must develop an effective strategy that will ensure that remedial actions adopted are effectively implemented.

### **3.6.2 Financial and Performance Management**

The Committee has noted that the Auditor General found that the department did not prepare regular, accurate and complete financial and performance reports and further found that management at the appropriate level did not always ensure that compliance with applicable legislation was adequately reviewed and monitored throughout the year.

Upon these findings, the Committee sought reasons which led to the Accounting Officer to commit the same omission as in the prior year with regard to failure to prepare regular; accurate and complete financial and performance reports. The Committee questioned with great concern the capacity within the department with regard to the preparation of accurate and complete financial and performance reports.

The Accounting Officer argued that the omissions were not the same and the areas of findings differ to those of the prior year and indicated that the finding relates to documents which could not be provided or were provided after the turnaround time for submission during the audit. In addressing the issue of capacity, the Accounting Officer reported that the department does not lack capacity after an improvement in the records management centre and made a commitment that reports will be regular, accurate and complete going forward.

### **3.6.2.1 Recommendations**

The Committee recommend that the House resolve that:

- (i) The Executive Authority must consider taking disciplinary actions against the Accounting Officer for contravening Section 38 (1) (iii) of the PFMA.

### **3.7.3 Accruals and Payables Not Recognized**

The Committee has noted that the Auditor General found that the financial statements of the department indicated the total accruals of R81 998 000.00 which translate to an increase of R75 680 000 i.e. 92.2 % in contrast to the prior year which were R 6 318 000.00.

The Committee required the Accounting Officer to provide reasons which led to an increase in accruals increase by R75, 680,000.00 or 92.2% during the period under review and also enquired whether the Accounting Officer does have a mechanism to reduce the high rate of accruals.

In response to the questions posed by the Committee, the Accounting Officer reported that Invoices were submitted late towards the last day of the financial year by service providers and the Department could not hastily pay invoices without first confirming existence, accuracy and completeness. In addressing the question of a mechanism being in place, the Accounting Officer reported that the department will notify and frequently remind service providers of the closing date for receiving invoices which will allow the department enough time to process the invoices prior to the end of the financial year.

#### **3.7.3.1 Recommendations**

The Committee recommend that the House resolve that:

- (i) The Executive Authority must consider taking disciplinary actions against the Accounting Officer for failure to minimise accruals as this is a recurring finding.



- (ii) The Accounting Officer must ensure that the invoice management mechanism put in place is effectively implemented.

### **3.8.1 Supply Chain Management**

The Committee has noted that the Auditor General found that the AGSA found that the department has incurred an irregular expenditure amounting to R78 847 000.00.

Upon this finding, the Committee required the Accounting Officer to provide reasons which led to the contravention of Supply Chain Management Regulations, and also enquired on the corrective measures the Accounting Officer has put in place to prevent the contravention of the SCM Regulations during the current financial year. The Committee further enquired why the Accounting Officer failed to provide evidence for contracts awarded and why were contracts not awarded in accordance with the legislative requirements.

The Committee further required the Accounting Officer to provide reasons which led to failure to ensure that state officials do not do business with the department, and also enquired on the measures put in place to ensure that this finding does not recur. The Committee lastly required the Accounting Officer to provide reasons for failure to update its database on quarterly bases as required by the National Treasury Practice Note 8 2007/08.

The Accounting Officer in response to the questions posed by the Committee reported that the issues raised by AGSA were not related to Departmental SCM internal controls but the (Memorandum of Understanding) MoU signed between the Office of the Premier and the Department of Public Works, Roads and Transport whereby the involved stakeholders did not comply with the MoU and that MoU has been repealed. The Accounting Officer further reported that the procurement policy was reviewed to strengthen internal controls. The MoU involving the Department, the Office of the Premier and the Department of Public Works, Roads and Transport was withdrawn and went on to indicate that the SCM Bid Committees were re-established as part of a corrective measure and are effective.

In addressing the matter of failure to provide adequate evidence on contracts awarded, the Accounting Officer reported that the contracts related to agreements entered into as

far back as 2010 – 2012 and that those contracts were audited during those years and no findings relating to the contracts were raised during the audit in those financial years. With regards to contracts not awarded in accordance with the legislative requirements, the Accounting Officer reported that the MoU entered into between the Office of the Premier, the Department of Human Settlements and the Department of Public Works, Roads and Transport did not comply with prescripts guiding the Supply Chain Management processes hence it was repealed.

With regard to employees doing business with the state, the Accounting Officer reported that the department can only detect those employed through the Public Service Act and are registered on PERSAL and went on to indicate that the department like any other department does not have a system to detect officials from municipalities, State Parastatals, Employees employed through other Acts like SAPS etc. The Accounting Officer further informed the Committee that the department does not have the system used by AGSA to detect state officials who are in businesses.

With regard to failure to update the database, the Accounting Officer reported that the volume of applications per advert required a period of more than two months to capture hence the department only managed to update the database twice and indicated that the department will improve on the database.

#### **3.8.1.1 Recommendations**

The Committee recommend that the House resolve that:

- (i) The Executive Authority must consider taking disciplinary actions against the Accounting Officer for contravening Section 38 (1) (iii) of the PFMA.
- (ii) The Executive Authority must consider taking disciplinary actions against the Accounting Officer for contravening the National Treasury Practice Note 8 of 2007/08
- (iii) The Accounting Officer must develop a system or mechanism to detect and prevent state employees from doing business with the department i.e. conduct PERSAL analysis

### **3.9.1 Movable Tangible Capital Assets**

The Committee has noted that the Department has movable tangible assets amounting to R29 035 000.00. The Committee enquired whether the Accounting Officer does have a quality and effective security mechanism to safeguard the movable tangible capital assets of the department and also enquired whether anyone has been held accountable for the loss of the movable tangible capital assets.

The Accounting Officer confirmed to the Committee that the department does have adequate internal controls to ensure proper safeguarding of the movable tangible capital assets. These include verification of assets on monthly basis for an accurate asset register. The Accounting Officer provided a list of those held accountable for the safeguarding of movable tangible assets.

#### **3.9.1.1 Recommendations**

The Committee recommend that the House resolve that:

- (i) The Executive Authority must consider taking disciplinary actions against the Accounting Officer for failure to exercise proper safeguarding of movable tangible capital assets.

## **4. CONCLUSION**

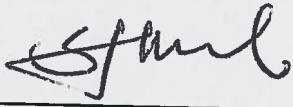
The Committee has satisfied the requirements of the Mpumalanga Provincial Legislature Rules and Orders of conducting oversight over the financial statements of the Department of Human Settlements.

The Committee emphasized on the fact that the Accounting Officer must fill all key vacant and funded positions in order to address the findings which were as a result of lack of capacity and shortage of staff in the Department.

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

## 5. ADOPTION

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



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**Hon. S I Malaza**  
**Chairperson**  
**Select Committee on Public Accounts**  
**Mpumalanga Provincial Legislature**

11/08/2016

**Date**