



REPORT 11 OF 2017
SELECT COMMITTEE ON PUBLIC ACCOUNTS OF THE 5TH MPUMALANGA PROVINCIAL LEGISLATURE:
DEPARTMENT OF AGRICULTURE, RURAL DEVELOPMENT AND LAND ADMINISTRATION (2016/17)

The Select Committee on Public Accounts (SCOPA) hereinafter referred to as 'the Committee', examined the annual report of the Department of Agriculture, Rural Development and Land Administration; 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 oversight process was aimed at assessing prudent financial management, good governance and value for money appropriated by the Legislature. The Committee identifies areas that require attention of the department and measures that can be put in place to improve service delivery.

The Committee discharged its mandate over the reports of the Department and matters raised in the report of the Auditor General.

2. COMMITTEE PROCEDURES

The Committee met on 10 November 2017 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.

3. COMMITTEE FINDINGS AND RECOMENDATIONS

PROGRESS REPORT ON SCOPA RESOLUTION 2015/16 FINANCIAL YEAR

	<u>RESOLUTION</u>	<u>PROGRESS UP TO DATE</u>	<u>STATUS</u>
1. ACHIEVED OF PLANNED TARGETS	i) The Accounting Officer must ensure that all targets in the APP approved by the Legislature are implemented and achieved.	The department notes the resolution by the Committee, and will ensure that the APP is implemented as approved. The department conducts departmental performance review sessions as per the Procedure Manual on Performance and Information Management. In these sessions, progress on the planned targets is reported on a monthly basis at the programme level and quarterly at the departmental level. Programme Heads present progress on their performance against the set targets, expenditure on the allocated budget and the encountered challenges and the remedial actions thereafter.	Ongoing
	ii) The Accounting Officer must provide the Committee with the list of beneficiaries drought relief programme indicating amounts received per individual or project.	The department procured drought relief items in bulk and distributed to farmers affected	Closed

<p>2.ACCRUALS</p>	<p>The Accounting Officer must take disciplinary actions against official(s) for incurring accruals that were not cash backed.</p>	<p>The department notes the resolution by the Committee; however upon analysis of the accruals, these accruals were in relation to projects overlapping to the current financial year which were budgeted for. These did not have any negative impact on the departmental plans; hence no disciplinary actions were taken.</p>	<p>Ongoing</p>
<p>3.UNAUTHORISED EXPENDITURE</p>	<p>The unauthorized expenditure amounting R2 722 000.00 is not condoned pending investigation report, proof of disciplinary measures and recovery of the R2 722 000.00 from persons found liable in law.</p>	<p>The department has conducted an investigation on the unauthorized expenditure amounting R2 722 000.00, the report was circulated to the Committee</p>	<p>Closed</p>
	<p>The Accounting Officer must ensure that the investigation is completed on time to allow consequence management regime to unfold as required by section 38 (1) (h) (i-iii). A report in progress made must be furnished to the Committee on 30</p>	<p>The Department had conducted an investigation on the matter through Office of the Premier. Following the recommendation from the investigation report, the then Acting CFO was charged. The department held several hearings with the official. The matter was ultimately taken to the Labour Court which ruled in favour of the official</p>	<p>closed</p>

	September 2017, 30 November 2017 and 28 February 2018.		
4. PROCUREMENT AND CONTRACT MANAGEMENT	The Accounting Officer must taking disciplinary action against official(s) who failed to comply with Preferential Procurement Policy Framework Act of South Africa, 2000 (Act No.5 of 2000) and its regulations.	The department has given the responsible official verbal warning for failing to ensure that the matter is reported to the Provincial Treasury within specified timeframe as well as the Auditor General, after the deviation was approved by the Accounting Officer	closed
5. EXPENDITURE MANAGEMENT	The Executive Authority must take disciplinary actions against the Accounting Officer/ official (s) for incurring irregular expenditure amounting R33 144 000 in the 2015/16 financial year.	The department conducted an investigation on the matter. The outcome of the report indicates that most of the issues raised as irregular expenditure were compliance matters, of which responsible officials received verbal warnings. The report for 2015/16 irregular expenditure was submitted to Provincial Treasury for condonation. During the current financial year, the department has referred the matter to Governance and Compliance Advisory Committee for condonation. Currently, the department awaits for the outcome from the Committee	On-going

6.LEADERSHIP	The Executive Authority must take disciplinary actions against the Accounting Officer for failure to exercise oversight responsibility regarding financial and performance reporting and compliance with legislation in the department.	The Executive Authority notes the resolution by the Committee. The department will give progress on the resolution in view of the other resolutions and investigation that are still ongoing or to be initiated. However, the department has since appointed the CFO who amongst his responsibilities is to oversee and ensure that financial performance issues are well performed. The department continues to strengthen the current internal control systems to ensure improvements on the reporting of financial and non-financial performance.	Ongoing
7. REPORT OF THE AUDIT COMMITTEE	The Accounting Officer must ensure that the process of paying officials transferred to the Department of Health is finalised not later than 30 September 2017.	The department has since written a letter to the Department of Health on 11 July 2017 to request back the submitted personnel files, with the intention of absorbing the excess staff into the positions that were vacated through various terminations. The department awaits the response from the Department of Health to finalise the process and progress on the matter will be reported to the Committee upon conclusion	Ongoing
	The Accounting Officer must ensure that the department has a plan in place to adequately implement the internal and external recommendations by	The department has developed an Audit Action Plan and Decision Register which are monitored on a quarterly and monthly basis respectively. Progress on the plans is discussed during the Audit Committee sittings and management meetings.	Ongoing

	the Audit Committee and other assurance bodies		
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Comments by the Committee

The Committee noted with concern that the department did not fully implement the House Resolutions and the same matter was raised in the last financial year. The department acknowledged the concern raised by the Committee that the House Resolutions were not fully implemented and indicated that they will improve in future. The Committee also noted with concern that the department could not finalized the process of transferring officials to the Department of Health and urged the department to speed up the matter. The Accounting Officer indicated the department takes the responsibility of ensuring that the process is finalized and they are continuously engaging with the Department of Health.

The Committee further emphasized that the department must take disciplinary measures against responsible officials for irregular expenditure and the department must also ensure that money is recovered against those responsible officials. The Accounting Officer acknowledged and indicated that the department will provide progress report on all the investigations conducted by the department after completion and money will be recovered where individuals are found liable in law.

AUDIT ACTION PLAN FINDINGS 2016/17

3. EMPHASIS OF MATTER

The Committee has noted that the Auditor General reported that the corresponding figures for 31 March 2016 have been restated as a result of an error discovered during 2016-17 in the financial statements of the department as at end of the year, 31 March 2017.

The Accounting Officer indicated that department has contravened section 40 (1) (a) due to the changes that were announced by National Treasury to all Departments Agriculture in the 9 provinces. The transfer of grants was classified under transfers and subsidies by National. National Treasury later picked the mistake and the department was requested to correct it and

classify the funds under goods and services. The department had to reclassify all the transfers and subsidies to goods and services on the current and prior year.

It was indicated that department through its Internal Audit Unit and Audit Committee reviews its quarterly/interim reports, and subsequently the Provincial Accountant General Office conducts its review on the reports before submitting to Auditor-General. The Committee was also informed that most of the errors are due to the interpretation of the Modified Cash Standards between Auditor-General, Treasury and the correction of errors are not due to omission but reclassification of reported expenditure.

The department is engaging with Treasury and Auditor-General on the interpretation of the Standards and the guide has been updated with new changes. The department is embarking on the exercise to correct the reclassification of expenditure to be in line with the updated guide and it will strengthen the internal controls.

3.1 RECOMMENDATIONS

The Committee recommends that the House resolve that:

- (i) The Accounting Officer must develop a strategy that will ensure quality assurance of financial statements prior to submission to Auditor General.

4. IRREGULAR EXPENDITURE

The Committee has noted that the Auditor General has noted that irregular expenditure of R20 661 000.00 incurred in previous years had not been investigated. The Committee wanted to know why did the Accounting Officer failed to investigate the irregular expenditure amounting to R20 661 000.00 incurred in the previous years.

The Accounting Officer indicated that investigation was conducted for the incurred irregular expenditure; the outcome indicated that there is lack of institutional memory or information for scrutiny with regards to 2004/05, 2006/07 and 2008/09 financial years, amounting to R880 000, R1 592 000 and R12 636 000 respectively. It was reported that these matters have been referred to the Governance and Compliance Advisory Committee for further assistance and guidance. The Committee was also informed that the **2013/14 Irregular Expenditure of R107 000**, investigation was conducted and necessary disciplinary process was taken and responsible officials received

written warning. The **2014/15 Irregular expenditure of R5 446 000**, the department is waiting for an investigation report from MEGA. The Committee was not satisfied with the responses by the department and indicated that the matters raised by the AG are long overdue and the department must take disciplinary action against persons found responsible through investigations and engage on a correct process to regularize the expenditure.

4.1 RECOMMENDATIONS

The Committee recommends that the House resolve that:

- (i) The Accounting Officer must provide a progress report on process engaged upon to regularise the investigated irregular expenditure
- (ii) The Accounting Officer must ensure that disciplinary measures are taken against the implicated officials following investigation(s).
- (i) The Accounting Officer must make a follow up on the matter of irregular expenditure with Governance and Compliance Advisory Committee and provide a progress report.
- (iii) The Accounting Officer must provide a proof that the irregular expenditure amounting to R5 466 000.00 is being investigated by MEGA and progress thereof.

6. EXPENDITURE MANAGEMENT

The Committee has noted that the Auditor General reported that effective steps were not taken to prevent irregular expenditure amounting to **R22 233 000** as disclosed in note 22 to the financial statements, as required by section 38(1) (c) (ii) of the PFMA and Treasury Regulation 9.1.1. Most of the irregular expenditure was as a result of the contravention of section 2(1) (f) of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act no 5 of 2000), which requires that a contract be awarded to the tenderer who scores the highest points.

The Committee wanted to know why the department having the same audit finding on irregular expenditure, while a commitment was made in the previous financial year that officials have been trained on CIDB and financial management. The Accounting Officer indicated that the above funding is carried over from the previous financial year, and this has to be continuously disclosed until there it is regularised or condoned.

The Committee wanted know why did the Accounting Officer allow the department to incur an irregular expenditure amounting to **R22 233 000**. The Accounting Officer reported that the outcome of the report indicates that most of the issues raised as irregular expenditure were compliance matters, the investigation report conducted by the Internal Audit was circulated to the Department.

The Committee enquired whether did the Accounting Officer take any disciplinary action against official(s) or committee members who caused the department to incur the irregular expenditure amounting R22 233 000 as required by Treasury Regulation 9.1.3. The Accounting Officer has indicated that the department has given the responsible official verbal warning for failing to ensure that the matter is reported to the Provincial Treasury within specified timeframe as well as the Auditor General.

The Accounting Officer also indicated that the department is aware that the irregular expenditure is increasing and has conducted the investigation and took necessary disciplinary steps where necessary. The total amount of R76 390 000 was referred to Governance and Compliance Advisory Committee for condonation. The Committee could not except the explanation by the Accounting Officer and insisted that the department must do what is right and recover all the monies against the officials responsible for irregular expenditure.

6.1 RECOMMENDATIONS

The Committee recommends that the House resolve that:

- (i) The Accounting Officer must provide a report on the outcome of the referral of Irregular Expenditure amounting of R76 390 000 to Governance and Compliance Advisory Committee (treatment).

7. INTERNAL CONTROLS

7.1 LEADERSHIP

The Committee noted that the Auditor General has reported that the lists the key weaknesses on internal control deficiencies which resulted in key findings on compliance with legislation in the department. Most of the findings on internal controls are recurring issues relating to the failure of the Accounting Officer to use effective monitoring controls to monitor the implementation of daily

and monthly controls. Furthermore the Auditor General noted that action plans to address internal control deficiencies did not have adequate activities to address the root causes.

The Accounting Officer indicated that the department continues to strengthen the current internal control systems to ensure improvements on the reporting of financial and non-financial performance.

7.1 RECOMMENDATIONS

The Committee recommends that the House resolve that:

- (i) The Accounting Officer must use effective monitoring controls to monitor the implementation of daily and monthly controls

8. REPORT OF THE AUDIT COMMITTEE

The report of the audit Committee raised issues on the effectiveness of internal controls in the department. The areas of concern are as follows:

- High risk exposure on internal control based on the existing moratorium.
- Supply chain management.

The Accounting Officer was required to share with the Committee the progress made so far in implementing the recommendations made by the Audit Committee on the areas of concern raised above.

- **High risk exposure on internal control based on the existing moratorium**

The Accounting Officer indicated that the department has performed a risk impact analysis to reflect how the moratorium affects the service delivery and compliance requirements on each programme. The Audit Committee made a recommendation that the matter must be taken to the Audit Committee forum where they meet with Provincial Treasury to provide guidance.

- **Supply Chain Management**

The Accounting Officer reported that the Audit Committee recommended that Supply Chain Management must be a standing item on each Audit Committee sitting and provide a report on implementation of the audit recommendations and current procurement practices. The Department has included the Supply Chain Management on the Agenda for Audit Committee

sittings and presentation is made on the implementation status of audit recommendation together with current procurement practices.

8.1 RECOMMENDATIONS

The Committee recommends that the House resolve that:

- (i) The Accounting Officer must ensure that the department has a plan in place to adequately implement the internal and external recommendations by the Audit Committee and other assurance bodies.

9. ACCRUALS

The Committee noted that the Auditor General has reported that the department had accruals amounting to R11 830 000 of which R10 858 000 were within 30 days and invoices amounting to R972 000 were more than 30 days. As a result the department spent the 2017/18 financial year's budget to settle the accruals for 2016/17 financial year, which is negatively affecting service delivery in the 2017/18 financial year and this is in violation of Treasury Regulation 8.2.3 which provides that "Unless determined otherwise in a contract or other agreement, all payments due to creditors must be settled within 30 days from receipt of an invoice.

The Accounting Officer indicated that the department notes that most suppliers submit invoices before work done is certified by relevant project managers and hence the payment of the said submitted invoices were delayed. The Committee was informed that these accruals were in relation to projects overlapping to the current financial years which were budgeted for and these did not have any negative impact to the current year plans.

9.1 RECOMMENDATIONS

The Committee recommends that the House resolve that:

- (i) The Accounting Officer must ensure invoices are paid within 30 days after receipt of invoice.

10. PROGRESS TOWARDS ACHIEVING A CLEAN AUDIT OPINION

The Committee noted that the department has received an unqualified audit opinion with matters in the 2016/17 financial year, indicating that the department remained stagnant in terms of the audit opinion. This is despite the commitments made to the Committee that the department will receive a clean audit in the 2017/18 financial year.

The Committee wanted to know why the department failed to obtain a clean audit opinion in the 2016/17 financial year. The Accounting Officer indicated that Department always strive for clean audit; there have been unforeseen developments from Accountant General together with Auditor General on application of Modified Cash Standards with regard to accounting for Transfers and Subsidies which had a retrospective effect to the Financial Statements (Prior period errors) for 2016/17. The department received an unqualified audit opinion with a significant decrease on matters of emphasis which is an indication that the department has improved in terms of internal controls.

The Committee enquired on what measures has the Accounting Officer put in place to ensure that a clean audit is achieved in the 2017/18 financial year. The Accounting Officer indicated that the department has developed an audit action plan to address the Departmental control weakness identified by the Auditor General. The Department has ensured that from the limited resources, provision is made to deal with the issues of Transfers and Subsidies and irregular expenditure which are the issues that derailed the department from obtaining a clean audit.

10.1 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 outcomes.
- (ii) The Accounting Officer must thrive to obtain a clean audit opinion.

11. 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 Agriculture, Rural Development and Land Administration.

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.

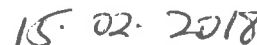
Unless specified differently, progress on all resolutions must be submitted to the Committee by the 30 March 2018 and on a quarterly basis afterwards.

12. 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



Date