



## **REPORT 1 OF 2015**

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

#### **1. INTRODUCTION**

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

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

This transparent process of engagement is aimed at assisting and guiding the department on areas that require improvement and monitoring.

The Committee discharged its mandate of ensuring prudent financial management over the report of the department.

#### **2. COMMITTEE PROCEDURE**

The Committee met on 10 February 2015 to deliberate on the above reports. Meetings of the Committee were open sessions for the public including the media as required by Standing Rule 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. Some of the responses were not responded to correctly, the committee requested the entity to re-submit some of the responses.

### 3. COMMITTEE FINDINGS AND RECOMENDATIONS

#### PROGRESS REPORT ON SCOPA RESOLUTION 2011/12 FINANCIAL YEAR

	<b><u>RESOLUTION</u></b>	<b><u>PROGRESS JANUARY 2015</u></b>	<b><u>STATUS</u></b>
3.1.1	The Accounting Authority must ensure that measures and systems are put in place to enable the entity to recover debts timeously.	Account statements are issued to debtors (learners) by 7 <sup>th</sup> of each month. Learners who do not pay their outstanding tuition are <b>not allowed to attend classes.</b>	On-going
3.2.1	The Accounting Authority must finalise the transferring of the Ekandustria and Siyabuswa properties and ensure proper management and reporting on the transfers.	As at March 2013 the transfer of Ekandustria and Siyabuswa properties were officially transferred from MRTT to MEGA and the necessary transactions affected in the books (fixed asset register and balance sheet) of both entities. Provincial Treasury accordingly notified (s42of PFMA)	Closed
4.1.1.	(i) The Accounting Authority must develop systems and procedures to manage, monitor and report on Performance Information in the public entity	The AA has developed a Performance Information Policy and the Standard Operating Procedure to manage, monitor and report on Performance Information in the public entity.	On-going
4.1.1	(ii) The Accounting Authority must ensure that senior management review financial and performance information after the end of each quarter.	The AA exercise oversight responsibility by conducting quarterly review sessions regarding financial and Performance Reporting in addition to the normal quarterly meetings. The CEO chairs SMCO meetings	On-going

		on monthly and quarterly basis wherein rigorous review of reports (financial and on financial) and monitoring implementation of action plans is under taken to address internal control deficiencies. Audit Committee also reviews the financial and Performance Information after the end of each quarter.	
4.2.1	(i) The Accounting Authority must put systems and measures to ensure that the objectives and plans outlined in the Annual Performance Plan are well executed and achieved.	The AA has put systems and measures in place to ensure that objectives and plans outlined in the APP are well executed by: (i)evaluating the planned targets against actual achievement, determined variance and mitigating factors for each programme and sub-programme  The entity's performance has since improved in terms of achieving planned targets and constant monitoring is done to ensure further improvements.	On-going
	(ii)The Accounting Authority must fill vacant funded positions in the Performance Information Unit.	The employees have been appointed on basis after finalization of the realignment of the organizational structure which provide for the establishment of the Performance Information Unit.	Closed
	(iii)The Accounting Authority must ensure that all programmes offered are accredited by relevant bodies i.e. CETA and SAQA	The accounting authority has assured that all programmes offered are accredited by relevant bodies.	On-going
5.1.1	(i) The Accounting Authority must put measures to conduct quality assurance on documents and statutory reports of the public	the AA has put measures to conduct quality assurance on documents and statutory reports of MRTT by ensuring that the Senior Management Committee; Internal Auditors;	On-going

	entity.	Audit Committee thoroughly review the financial statements before being issued for auditing	
	(ii)The Audit Committee must monitor that MRTT implement the action plan to address previous findings and House resolutions.	The Audit Committee meets quarterly to monitor the implementation of the action plan to address previous findings and House Resolutions	On-going
5.2.1.	(i)The Accounting Authority must put measures and systems that will ensure that the Internal Auditor and the Audit Committee of the entity are able to detect non- compliance with legislations and rectify it timely	Internal audit work is done on a sample basis and not 100% of the population, so it might be possible that certain things not in the sample tested might be picked up by the external audit when they also select their samples. Internal audit will liaise closely with the external auditors to avoid unnecessary duplication of audit effort, and facilitate sharing of audit plans and working papers. Liaison with the External Auditors will include holding regular meetings to allow them to consider and conclude on the level of reliance that they will place on the internal audit work. Internal audit will conduct continuous follow-ups with management to ensure all issues identified in each quarter are resolved.	On-going
	(ii)The Accounting Authority must review and improve the MRTT Finance policy in line with the PFMA and Companies Act as a whole.	The AA has reviewed and improved the MRTT Finance Policy in-line with the PFMA and Companies Act as a whole. (annexure F)	On-going
5.3.1	(i). The Accounting Authority must put measures and systems to ensure that there was compliance	The entity has put measures and systems in place to ensure that there is compliance with PFMA and Treasury Regulations by supplying	On-going

	with the PFMA and Treasury Regulations.	SBD(4 forms to all prospective service providers during tender process.	
	(ii) The Accounting Authority must ensure that there are serious consequences for transgressions committed by officials (non-compliance).	The AA has noted the seriousness of the matter and found it appropriate to send the officials for training on SCM since they were not previously trained.	On-going
5.4.1.	(i) The accounting authority must ensure that effective measures and mechanism are put in place to ensure that the all monies due to the entity are collected as required by section 51(1)(b) of the PFMA	Long outstanding debtors are handed over to the entity's attorneys	On-going
	(ii) the accounting authority (AA) must submit a report on the investigation conducted on violation of section 51(1)(b)(i) of the PFMA and Treasury Regulation 31.1.2 (a) and 31.1.2 €	The report has been put together by the accounting authority for the Committee to consider. <i>Annexure 'G' was attached to submission</i>	On-going
6.1.1	(i) The Accounting Authority must develop effective systems to identify and prevent irregular expenditure and timely discipline officials for transgressions and/or accept liability on their behalf.	the AA has developed effective systems to identify and prevent irregular expenditure by developing a Standard Operating Procedure (SOP) that outlines preventative measures; detection, and reaction to irregular expenditure. Furthermore a register to record all incidents of irregular expenditure is in place.	Closed
	(ii)The Accounting Authority must take steps against the Accounting Officer for incurring an irregular	The AA has taken steps against the Accounting Officer for incurring the irregular expenditure amounting R1775 519.00 during	On-going

	expenditure amounting R 1 775 519.00 during the 2011/12 financial year.	2011/12 FY	
6.2.1	(i) The Accounting Authority must develop effective systems to identify and prevent fruitless and wasteful expenditure and keep a register of such.	SOP on fruitless and wasteful expenditure attached as annexure "H"	On-going
	(ii) The Accounting Authority must recover the monies spend without value for money and submit a report to the committee.	The case numbers are 58/8/2011 opened at Witbank Police Station and 05/08/2011	On-going
7.1	The Accounting Authority must ensure that the Internal Audit unit must be able to detect and prevent audit queries before they are picked up by the Auditor General.	Internal audit work is done on a sample basis and not 100% of the population, so it might be possible that certain things not in the sample tested might be picked up by the external audit when they also select their samples. Internal audit will liaise closely with the external auditors to avoid unnecessary duplication of audit effort, and facilitate sharing of audit plans and working papers. Liaison with the External Auditors will include holding regular meetings to allow them to consider and conclude on the level of reliance that they will place on the internal audit work. Internal audit will conduct continuous follow-ups with management to ensure all issues identified in each quarter are resolved.	On-going
8.1	The Accounting Authority must ensure that the outstanding amount owed by the Accounting	The finance & Human Resource division have since recalculated the salary package of the CEO and found that in fact he did not owe	On-going

	Officer is recovered within reasonable time.	MRTT. The reported overpayment on the salary of the CEO was an error in the VIP payroll system which was originally construed as overpayment whereas it was underpayment. The translation agreement and the new salary package of the CEO were based on the incorrect amount. The outcome of the recalculation of the CEO's salary actually shows that the CEO is owed money since his salary had to be cut due to the initial incorrect calculation.	
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### 3. EMPHASIS OF MATTERS

#### 3.1 MATERIAL IMPAIRMENT

The Committee noted that Auditor General reported that material impairments of R2 800 000 was incurred as a result of the provision for doubtful debts. The Committee requested the Accounting Authority to explain why the entity incurred material impairments. The Accounting Authority indicated that the Impairment trade account receivable is determined in accordance with GRAP 108 (IAS 39); the collectability of trade receivables reviewed on an ongoing basis. A provision for impairments of receivable is established when there is objective evidence that the entity will not be able to collect all the amounts due according to the original terms of the receivables.

The Accounting Authority reported that a large proportion of its debtor's book is from learners who come from indigent families who fail to pay the tuition fees registering for the various programmes. It was indicated that the probability of collecting the outstanding students debts become challenging since the legal processes of collecting the individual learner becomes expensive i.e. engaging the services of a sheriff in serving summons. The impaired amount was largely from learners who failed to make payments.

The Accounting Authority further ~~added~~ reported that the entity has also assessed a group for debtors with similar credit risk characteristics and collectively assessed them for impairment. Debtors that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment in impairment.

The Accounting authority also indicated that impairment was recognised for estimated losses on individual significant trade receivables and on a group of trade receivables with similar credit risk that are assessed to be impaired based on objective evidence that the company will not be able to collect all amounts due according to the original terms of receivables as a result of one or more events that occurred during the reporting year. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial recognition, and default or delinquency in payment are considered indicators that the debtor is impaired.

The Committee enquired whether the Accounting Officer has taken any corrective steps to ensure that this situation is corrected. The Accounting Officer indicated that the entity has taken steps to correct the situation **by increasing the deposit before the course can begin** and stringent collection measures be put in place internal controls of ensuring collection are also being implemented monthly through distribution of statements of account to learners by the seventh of every month. **Learners results are withheld** until full payments of outstanding fees are paid, the entity will where possible request a certain percentage of payments upfront before services are rendered.

The Committee noted that this matter has been recurring from the prior financial year, the Committee asked the Accounting Authority to explain whether there is capacity in place to deal with this matter. The Accounting Authority indicated that there is capacity to deal with the issues, however the amount has been accumulating over a period of five years while at the time efforts are made to recover the outstanding debts. The entity



has planned to write-off the debts that are over 365 days in line with of section 76(1)(e) and 76 (4)(a) of the PFMA.

The Committee is of the view that the entity must consider a study on how it can attract funders/sponsors who can assist learners with bursaries or funding. It is of the view that like TVET Colleges the entity should lobby funding its learners by National Student Financial Aid scheme.

### **3.1.1 RECOMMENDATION**

The Committee recommended that the House resolve that:

- (i) The Accounting Authorities must take effective and appropriate steps to collect outstanding debts due to the public entity.
- (ii) The entity engage potential sponsors to fund needy learners i.e. NSFAS

## **4. UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE**

### **4.1 IRREGULAR EXPENDITURE (R954 346)**

The Committee noted that an Irregular Expenditure was incurred during the financial year due to non-compliance with Treasury Regulations 16A6.3(c), As of the 31 March 2014 an amounting of R954 436 (32 March 2013: R1 434 795) was paid to JDT Construction CC who was awarded a tender to build 130 RDP houses in Mkhondo Local Municipality. The Committee asked the Accounting Officer why he failed to comply with Treasury Regulation 16A6.3 (c). The Accounting Officer indicate that he failed to comply WITH Treasury Regulations which require that advertisement of tenders should be at least 21 days on the Government Tender Bulletin, the Accounting Officer in consultation with his management regarded the building of the RDP houses in Mkhondo Local Municipality as urgent which gave them limited time to advertise for the prescribed time.

The Committee asked the Accounting Office why did the Entity incurred an irregular expenditure with a programme that was not on the Entity's Annual Performance Plan.

The Accounting Officer indicated that the Entity has been requested by the Mpumalanga Department of Agriculture, Rural Development and Land Administration (DARDLA) to provide training to 290 community member in line with the identified required trades under CRDP. The Department indicated that it will co-ordinate the financing of the project, MRTT accepted the request and submitted the quotation of skills development for the community around Driefontein at Mkhondo Local Municipality. The fees to be paid by the Department for service rendered in terms of the agreement was R5 500 000 and the amount was paid in four equal instalments. A service Level Agreement was signed between the Provincial Department of Human Settlement, Provincial Department of Agriculture and Rural Development Land Reform, MRTT on the 10 August 2010 and the National Department of Rural Development and Land Reform was signed on the 06 September 2010.

The Committee further asked the entity on was there action taken against the officials who could not comply with Treasury Regulation 9.1.3. The Accounting officer indicated that written warning were issued against the officials involved in the irregular expenditure, namely the Chief Executive Officer, Chief Financial Officer and Supply Chain Manager.

The Committee noted that the matter had been considered and resolved on by the House in the 4<sup>th</sup> Legislature and disciplinary action had been taken against official(s) on the same matter in the past. The Committee accepts the action taken in the past and expect the entity to treat the irregular expenditure in line with its policies.

#### **4.1.1 RECOMMENDATION**

The Committee recommended that the House resolve that:

- (i) The Accounting Authority must treat the irregular expenditure amounting R954 436 be treated in line with the Irregular Expenditure policy of the entity.

## **4.2 FRUITLESS AND WASTEFUL EXPENDITURE (R2 002)**

The Committee noted that the Entity incurred a Fruitless and Wasteful Expenditure on Penalties and interest amounting to R2 002 was paid to suppliers as a result of late payment made during the financial year under review. The Committee asked the Entity on the reason that led to failure of payment to suppliers within 30 days. The Accounting Officer indicated payments that led to the Fruitless and Wasteful expenditure was paid to Telkom, this came about as a result of late receipts of invoices that Telkom emails to the Entity. The Entity has since made arrangements with Telkom with regards to physically collecting the statement of accounts and invoices from Telkom accounts department in order to avoid time delays.

The committee further asked the Accounting Officer whether the entity has a plan to recover the penalties from the officials who could not perform their duties to ensure that the payments are done on time. The Accounting Officer indicated that the process of recovering the penalties from the creditor's clerk will unfold. The Committee was not satisfied with the response of the Accounting Officer and further asked the Accounting Officer on what steps that has been taken by the entity to ensure that the reported matter does not recur. The Accounting Officer indicated that the entity now collects statement of accounts and invoices directly from Telkom offices to curb late payments. Invoices from service providers are stamped with the days stamps with a view to tract and avoid time lags between receipts and processing for payments.

### **4.2.1 RECOMMENDATION**

The Committee recommended that the House resolve that:

- (i) the Accounting Officer must take disciplinary action against the official(s) who caused the entity to incur fruitless and wasteful expenditure (TELKOM) in contravention of section 38(h)(iii) of the PFMA
- (ii) The Accounting Officer must recover the Fruitless and Wasteful expenditure from the officials who failed to prevent the expenditure.

### **4.3 CONTINGENT LIABILITIES (R106 956)**

The Committee noted that there is a labour court matter between MRTT and former employees who is contesting compensation after being dismissed. The Committee asked the Accounting Officer to give reason that led to the dismissal of the employee and on what basis is the dismissed employee contesting an amount of R106 956. The Accounting Officer indicated that the former employees was found guilty of misappropriation of funds in an internal disciplinary hearing, however the dismissed employee referred the matter to the CCMA which then awarded an amount of R106 956. The Entity in consultation with its attorneys felt that the award was inappropriate and unjustifiable and it referred the matter to the Labour Court for review. The dismissed employee is contesting an amount o R106 956 because the employee (Ms Pertunia Ramotsehoa) is of the view that the award is justifiable.

#### **4.3.1 RECOMMENDATION**

The Committee recommended that the House resolve that;

- (i) The Accounting Officer must minimise contingent liabilities in the entity.

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

The Committee asked the Accounting Officer the plans the entity has put in places to ensure that the clean audit outcome which the entity has achieved is sustained in the 2014/15 financial year. The Accounting Officer indicated that the entity has developed an Audit Action plan on reported Audit findings (both the Auditor General and Internal Auditors) the previous year's Management letters are revisited with a view to mitigate findings that could re-surface in the current financial year. Furthermore; monitoring and evaluation is done at the Senior Management Committee, Audit Committee, Board of Directors and Internal Auditors. The Business process of the entity have been intensified with a view to strengthen internal control systems and mitigate business risk

#### **5.1 RECOMMENDATION**

The Committee recommended that the House resolve that;

(i) The Accounting Authority must ensure that the plans to deal with prior year findings, issue raised by Audit Committee, Programme Performance Reviews, Budget Expenditure Reviews, Compliance with Legislations and Unwanted expenditures are adhered to.

## **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 Entity.

**Unless otherwise stated a report detailing progress made in the implementation of all recommendations in this report should be forwarded to the Committee by 30 June 2015 and thereafter on quarterly basis.**

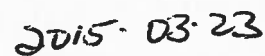
The Committee would like to commend the entity for the continued improvement in its internal control environment and the audit outcomes received on the 2013/14 financial year.

## **7. ADOPTION OF THE REPORT**

The Select Committee on Public Accounts recommends that the House adopt this report.



**HON. SI MALAZA  
CHAIRPERSON  
SELECT COMMITTEE ON PUBLIC ACCOUNTS**



**DATE**

