



**REPORT 12 OF 2017**  
**SELECT COMMITTEE ON PUBLIC ACCOUNTS OF THE 5<sup>th</sup> MPUMALANGA**  
**PROVINCIAL LEGISLATURE: COMMUNITY SAFETY, SECURITY AND LIAISON**  
**(2016/17)**

## **1. INTRODUCTION**

The Select Committee on Public Accounts (SCOPA) hereinafter referred to as 'the Committee', examined the annual report of the Department of Community Safety, Security and Liaison; 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 that were subsequently presented to the Committee. This transparent process of engagement was aimed at assisting and guiding the Department on areas that require improvement and monitoring into the future.

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

## **2. COMMITTEE PROCEDURES**

The Committee met on 07 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, Act No. 108 of 1996.

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

**A. PROGRESS REPORT ON THE IMPLEMENTATION OF HOUSE RESOLUTIONS  
2014/15 FINANCIAL YEAR**

<b>NUMBER</b>	<b>RESOLUTION</b>	<b>PROGRESS REPORTED</b>	<b>STATUS</b>
3.4.1	(iii) The Accounting Officer must consider implementing austerity measures until the Departmental cash flow improves and/all accruals are cleared	R6 million was identified through austerity measures towards clearing accruals.	On-going A report on accruals must be submitted (2014/15 2015/16)
3.5.1	(i) The Accounting Officer must ensure that the department has capacity to settle its contractual obligations or invoices within 30 days as required by law	The Department continues to pay its contractual obligations within 30 days	On-going
3.10.1	(i) The Accounting Officer must ensure that there is sufficient budget before implementing projects for client departments	The Department does not deploy additional security without written confirmation from the client Departments that budget is available and will be transferred through Provincial Treasury.	Closed Committee note commitment to ensure effective management of the security contract
3.11.1	(i) The Accounting Officer must ensure that all internal controls and systems in place are enhanced and properly implemented	The department continues to review the current internal controls and systems.	Closed

**B. PROGRESS REPORT ON THE IMPLEMENTATION OF HOUSE RESOLUTIONS  
2015/16 FINANCIAL YEAR**

<b>NUMBER</b>	<b>RESOLUTION</b>	<b>PROGRESS REPORTED</b>	<b>STATUS</b>
3.5.1	(i) The Executive Authority must take disciplinary action against the Accounting Officer for contravening Section 38(1)(c) (ii) of the PFMA and Treasury Regulations 9.1.1	Investigation on the irregular expenditure relating to the appointment of 17 security companies was conducted and finalised. The investigation revealed that there were no elements of corruption to necessitate taking disciplinary actions against Accounting Officer.	Closed Committee noted that disciplinary action was taken against other official (See Res.3.5.1.ii)
	(ii) The Accounting Officer must take disciplinary actions against official(s) who were involved or permitted that security personnel be added without written approval.	The alleged official who committed misconduct of adding security personnel without written approval was disciplined and his services terminated.	Closed
3.5.1	(i) The Executive Authority must take disciplinary action against the Accounting Officer for contravening with Section 38 (1) (c) (ii) of the PFMA	The Executive Authority could not take disciplinary action against the Accounting Officer after it was discovered that the Accounting Officer took appropriate steps to ensure that the official involved was charged and dismissed. An amount of R1.3 million was recovered from the security company	Closed

		which benefited unduly from the unauthorised deployment	
	(ii) The Accounting Officer must inform the Committee of the outcomes of the on-going investigation.	The official was charged and dismissed. The investigation revealed the non-availability of internal controls on the management of security contact at that time contributed to the problem lack of deployment schedules for additional security requested. Internal controls have since been developed and implemented.	Closed
4.8.1.1	(i) The Accounting Officer must seek approval from Cabinet to fill critical vacant positions in the Department i.e. Tax Revenue Section	The Department has appointed nine State Accountants for Revenue section and a request to fill other critical posts has been submitted to the DG's office for consideration.	Ongoing
4.8.2.	The Accounting Officer must ensure that Treasury Regulation 16A9. (d) and Preferential Procurement Regulations adhered to.	The Accounting Officer notes the recommendations and will implement it, National Treasury has made the situation to be easier, Departments are now compelled to utilise the centralized supplier database (CSD which will provides supplier's compliance information and the	Closed Committee note commitment to implement Resolution

		Department has started using it as well.	
4.8.3	(i) The Executive Authority must take disciplinary actions against the Accounting Officer for contravening Section 38 (1) (c) (i) of the PFMA and Treasury Regulation 11.211, 15.10.1.2(a) and 15.10.1.2(e)	The Accounting Officer took reasonable efforts by engaging the Municipalities on the payment plans to settle outstanding revenue which the Municipalities did not honor, this include the none provisioning of face value documents to the owing Municipalities. The problem of Municipalities not paying continued until this matter was referred to the Executive Council where a resolution was taken to withdraw the licensing function from the non-complaint Municipalities. The Department has taken over the function from 7 (seven) Municipalities. Generally, the collection of revenue due to the Department has improved drastically in all the Municipalities.	Ongoing Committee will monitor the improvement on Revenue Collection. Department required to submit a report on Revenue.
	(ii) The Executive Authority must take disciplinary actions against the Accounting Officer for	The Executive authority has assisted management to procure the Revenue Management Systems (RIMS) which will be	Ongoing Committee will monitor the improvement on Revenue

	contravening Treasury Regulation 7.2.1	implemented before the end of the financial year 2017/18. The systems will assist to record and reconcile transaction which will make revenue management challenges a thing of the past.	Collection. Department required to submit a report on Revenue.
4.8.4	(i) The Executive Authority must take disciplinary actions against the Accounting Officer for contravening Section 38(1) (h) (iii) of the PFMA and Treasury Regulation 9.13	On the Irregular expenditure the investigation was conducted revealed that there were no elements of fraud nor corruption that is why the Executive Authority could not take disciplinary action against the Accounting Officer.	Closed
	(ii) The Executive Authority must take disciplinary actions against the Accounting Officer for contravening Section 38(1) (f) of the PFMA and Treasury Regulation 8.2	The historical background of accruals in the Department has created a cash flow problem where it was sometimes difficult for the Department to have enough budget to pay contractual obligations within 30 days. The key observations by the Auditor General were that the shortage of personnel and the accruals which are not cash backed were the main challenges for the Department which	Ongoing

		contributed to negative audit findings.	
5.1.1	The Accounting Officer must ensure that all internal controls and systems in place are enhanced and properly implemented.	The Department continues to utilise the existing personnel to implement internal controls but the shortage of personnel remains a challenge to effectively implement the internal controls.	Ongoing
5.2.1	(i) The Executive Authority must take disciplinary actions against the Accounting Officer for contravening Section 38 (a)(i) of the PFMA	The reason for the Accounting Officer failing to maintain effective transparent systems of financial and risk management and internal control is because of shortage of personnel and the non-availability of electronic system, in some other areas there are situations where segregation of duties in terms of the financial prescripts could not be implemented due to this problem, where one official can receive, record and deposit money or revenue received.	Ongoing
	(ii) The Executive Authority must take disciplinary actions against the Accounting Officer for contravening Section 38(1)	The historical background of accruals in the Department has created a cash flow problem where it was sometimes difficult for the	Ongoing

	(f) and Treasury Regulation 8.2.3	Department to have enough budget to pay contractual obligations within 30 days. The key observations by the Auditor General were that the shortage of personnel and the accruals which are not cash backed were the main challenges for the Department which contributed to negative audit findings.	
5.3.1	The Accounting Officer must ensure that management implements all recommendations of the Internal Audit and timely consequences for failure to adhere.	The recommendation of the committee is noted and will be implemented.	Ongoing



### **3. COMMITTEE FINDINGS AND RECOMMENDATIONS**

#### **3.1. IMPLEMENTATION OF 2016/17 AUDIT ACTION PLAN**

The committee required an update regarding implementing of the 2016/17 Audit Action Plan. The Accounting Officer presented progress made in implementing the 2016/17 Audit Action Plan and all programmes are required to make submissions on quarterly basis. The Committee noted the submitted progress and encouraged the department to be deliberate about implementing the action plan.

##### **3.1.1. RECOMMENDATION**

The Committee recommend that the House must resolve that the Accounting Officer submit to the Committee a progress report on the implementation of the Audit Action Plan (2016/17)

#### **3.2. AUDIT OPINION**

The Committee has noted that the Auditor General discovered on page 91 of the Annual Report. The department did not recognise revenue as required by the MCS. Traffic fines indicated as received in the bank statement were not recorded in the fines sub-system, and were consequently not included in the accounting system, resulting in a misstatements of R71 134 292 ,consequently fines, penalties and forfeits of R61 130 000 (2016:R46 738 000) as disclosed in note 2 to the financial statements were misstated.

Additionally, there were differences between the supporting documents provided and the department, resulting in misstatements of tax revenue to R190 420 725.

Consequently, the Auditor General was unable to determine whether any further adjustment was necessary to tax revenue of R677 890 000 (2016:R384 288 000) as disclosed in note 2 to the financial statements. The department received a Qualification as a result of the above findings and other matters such as failure to recognise revenue.as required by the MCS which led financial statements being misstated as disclosed in note 2 and differences between the supporting documents provided and the reconciliations performed by the department.

In response, the Accounting officer mentioned to the committee that the Department is struggling to adequately support the revenue opening balances inherited from the transfer of function from the Department of Public Works Roads and Transport.

The Department had difficulties in providing supporting documents for revenue collected from 2013 to 2016/17; this is due to the Departments' having a serious shortage of personnel that needs to be addressed in order to move out of the qualification; a request to fill critical vacant posts has been sent to the Director General's office as well as the approval of the Revised Revenue Management Structure. The Department is also in the process of procuring the new Revenue Information Management System (RIMS).

The Accounting Officer stated to the Committee that, the misstatements were as a result of the discrepancy between the Bank Statements and TRAFMAN system due to delay of capturing of the bank statement to the audit dump. The shortage of personnel has an impact on the immediate capturing of the bank statements since they are done manually, this results to inaccuracies on the revenue recognised. There are no supporting documents for the years 2013/14, this led to misstatements since the collected and accrued revenue could not be supported with source documents including all the outstanding revenues before the transfer of functions from the Department of Public Works Roads and Transport any source documents that could not be traced affected both the opening and closing balances of the Departments' revenue.

The Committee required the Accounting Officer to give an explanation on why the department submitted Financial Statements with errors as it contravenes section 40 (1) of the PFMA. The Committee sought clarity if the Accounting Officer and Chief Financial Officer properly reviewed the AFS prior to submission for audit to the Auditor General and the measures in place in the Department to detect errors in their AFS as the matter is recurring.

In response, the Accounting Officer mentioned to the Committee that; due to the shortage of personnel it becomes difficult for the Department to review all the transactions accurately to comply with section 40 (1) (a) of the PFMA before submission to Auditor General. The amount of transactions that are taking place in the Department, especially on the Revenue Management Section, adequate and skilled personnel is required.

The Accounting Officer and the Chief Financial Officer reviewed the AFS prior to submission, he mentioned the shortage of personnel as a challenge the time between the completion of the Annual Financial Statements and this makes it difficult to properly review the Financial Statements before submission.

It was further indicated that the Department has established a Departmental Trial Balance Committee that reviews financial transactions in the trial balance and interim financial statements on a quarterly basis.

The Committee further raised another concern on accruals and payables not recognised. The Committee required a clarity on what impact will the R28 903 000 have on the service delivery should it be paid using the 2017/18 voted funds and further give clarity to why the departments' payables are more than its surrendered funds.

The Accounting officer further mentioned to the Committee that; the payment of the R28 million has created a budget shortfall and increased the accruals which are not cash backed these will impact negatively on service delivery. The Department has been facing budget shortfalls emanating from the historic accruals of security and fleet management, although the department implemented cost curtailment measures to yield savings to address the identified cash shortfall these efforts could not generate enough savings to address all the budget shortfalls. The Accounting Officer reported an error and stated that the Department developed a policy to regulate unallocated revenue due to non-availability of source documents. This policy is now guiding the Department on how and when should unallocated revenue be recognised and disclosed.

Furthermore the Committee posed questions as to why did the Accounting Officer fail to take effective steps to prevent unauthorised, irregular and fruitless and wasteful expenditure as required by the section 38(1) (c) (ii) of the PFMA and Treasury Regulation 9.1.1 and why did the Accounting Officer fail to settle all contractual obligations and money owed by the department within 30 days or agreed period as required by the section 38(1) (f) of the PFMA and Treasury Regulations 8.2.3.

The Accounting Officer mentioned that the matter relates to the previous security contract where additional security deployment was not accompanied by an approval by the Accounting Officers. There were no clear guidelines directing how additional security deployment should be managed. Hence, the client Departments could request additional security deployment without committing themselves to the transfer of the related budget.

The Department currently request a written confirmation from the client departments that the additional security deployment budget will be transferred to the department during budget adjustment.

Irregular Expenditure incurred by the Department was as a result of security contract where the highest scoring bidder could not be awarded all the clusters that the bidder was eligible for, to ensure a fair distribution of economic empowerment opportunities and failure to declare certain goods as local content by the bidders in the designated sectors. The Accounting Officer mentioned to the Committee that the department could not settle all contractual obligations as required by section 38(1) (f) of the PFMA and Treasury Regulations 8.2.3, this was due to budgetary constraints and lead to persisting accruals that affects the financial performance of the Department.

Based on the responses given by the Accounting Officer, the committee raised a concern about the recurring matter of virements/roll that was shifted from Security Management and mentioned that it has become a norm in most Departments that they will shift funds from key programmes knowing that Treasury will be able to give replacement. The Committee mentioned with disappointment the manner on which the Department dealt with the case of Mr Mthimunye, it somehow reflected weakness of Consequence Management in the Department.

The Committee noted and further sought clarity about “annexure C” which was tabled to the meeting and only made references to the affected Security Officer and nothing about the Security Company.

The Accounting Officer indicated that the Department underwent a settlement process as advised by the Treasury and confirmed that the implicated employee is no longer working for the department.

### **3.2.1. Recommendations**

The Committee recommends the House to resolve that;

- (i) The Accounting Officer must develop a turnaround strategy for revenue management in the department.

- (ii) The Accounting Officer must submit a progress report on the implementation of the Auditor General Remedial Action Plan 2016/17.

### **3.3. FRUITLESS AND WASTEFUL EXPENDITURE**

The Committee has noted that the Auditor General has found that the department has reported a total amount of R17 627 000 as fruitless and wasteful expenditure incurred in the prior year was not investigated in the current year (AR: 163 note 24).

Upon this finding, the Committee sought clarity on why did the Accounting Officer incurred fruitless and wasteful expenditure amounting R17 627 000, and whether he conducted any investigation or attempts to recover the money from implicated officials. The Accounting Officer reported that the matter relates to the previous security contract where additional security deployment was not accompanied by an approval by the Accounting Officers. There were no clear guidelines directing how additional security deployment should be managed. Hence, the client Departments could request additional security deployment without committing themselves to the transfer of the related budget. The Department currently request a written confirmation from the client departments that the additional security deployment budget will be transferred to the department during budget adjustment.

The Accounting Officer investigated the fruitless and wasteful expenditure but the deployment letters could not be found due to filing problems however client Departments have certified that they received the services. It was indicated that only an amount of R1 456 897.14 was recovered from the security service providers who benefited unduly through the additional deployment of security officers.

The Committee required the Accounting Office to provide proof per incident that disciplinary action were taken against official(s) for causing the department to incur Fruitless and Wasteful Expenditure as required by section 38(1)(h)(iii) of the PFMA and if was reported as required by Treasury Regulation 9.1.2.

In response, the Accounting Officer mentioned to the Committee that there was one official who was found to be involved and was charged and dismissed, he was found guilty by

internal investigations, he took the matter further with higher authorities outside the Department; a bargain settlement was made advised by Treasury however the official is no longer working for the Department.

The Committee noted that the department implemented consequence management in this regard and encourage the department to timely act and discipline officials who contravene legislations or policies.

### **3.3.1 Recommendations**

The Committee recommends the House to resolve that:

- (i) The Accounting Officer must make sure that a Culture of consequence management is developed, implemented and continuously monitored in the department.

## **4. COMPLIANCE**

The Committee noted the following specific areas of the department where the Auditor General identified material findings in key legislation.

### **4.1. Annual Financial statement, performance report and annual report.**

On page 88; the Auditor General has reported that the Annual Financial Statement submitted for auditing were not prepared in accordance with prescribed financial reporting framework , as required by Section 40(1)(a) and (b) of thee PFMA. Material misstatements identified by the auditors in submitted financial statements were not adequately corrected which resulted into the Financial Statements receiving a qualified audit opinion.

The Committee required the Accounting Officer to indicate the root causes that led to financial statement not prepared accordingly; since this is a recurring finding by the AG, what has been done in the prior year to ensure that this finding does not recur in 2017/18. The Accounting Officer was required indicate the turnaround strategy is in place to ensure that this finding does not recur.

In response, the Accounting Officer mentioned to the Committee that; it was due to the shortage of personnel and the time between the completion of the Annual Financial

Statements and the submission made it difficult to properly review the Financial Statements before submission, hence there were misstatements identified during the audit. The Department has established a Departmental Trial Balance Committee that reviews financial transactions in the trial balance and interim financial statements on a quarterly basis.

The Accounting Officer further mentioned that; the Department has requested to fill critical vacant posts subject to budget availability and approval of the revised revenue management structure to the Director General's office. The review of procedure manuals and process flows has already started.

#### **4.2. Revenue Management**

The Auditor General reported that Appropriate processes were not always implemented to provide for the identification, collection, recording, reconciliation and safeguarding of information about revenue, as required by TR 7.2.1. Although steps were taken to collect money due, it did not result in all money due being collected, as required by section 38(1) (c) (i) of the PFMA and TR11.2.1,15.10.1.2(a) and 15.10.1.2(e)

The Accounting Officer mentioned to the Committee that the shortage of staff and resources remains a challenge in all aspects of revenue management. Regardless of the efforts put by the Department to ensure that Municipalities transfer the revenue owed to the Department, the municipalities continue to defy the transfer of the owed revenue, hence the takeover of the registration and licensing function from some municipalities. It was further indicated that the Department has planned the takeover of the licensing function from the six (06) Municipalities, this is a pilot project that will be used as a test case on whether there can be an improvement on revenue collection. If it proves to be working, the department will consider taking all the functions from the different municipalities.

#### **4.2.1. Recommendation**

The Committee recommends the House to resolve that:

- (i) The Accounting Officer must submit a report of the piloting study (Licensing function 6 municipalities)
- (ii) The Accounting Officer must collect all money due to the department required by Section 38(1) (c) (i) of the PFMA and TR11.2.1, 15.10.1.2(a) and 15.10.1.2(e).

#### **4.3. Expenditure Management**

The Committee has noted that the Auditor General reported that the Accounting Officer did not take effective and appropriate steps to prevent irregular expenditure of R419 324 00 as disclosed in note 23 to the Financial Statements, as required by Section 38(1) (c)(ii) of the PFMA and Treasury Regulation 9.1.

Responding to the statement made by the Committee on expenditure management, the Accounting Officer mentioned to the Committee that; the Irregular expenditure incurred by the Department was as a result of security contracts wherein the highest scoring bidder could not be awarded all the clusters that the bidder was eligible for and failure to declare certain goods as local content by the bidders in the designated sectors. The Accounting Officer indicated that there was misinterpretation of the PPPFA that all bidders on designated sectors should complete declaration of local content form (SBD6.1).

#### **4.3.1. Recommendations**

**The Committee recommends the House to resolve that:**

- (i) The Executive Authority must take steps against the Accounting Officer for contravening Section 38(1) (c) (ii) of the PFMA and Treasury Regulation 9.1.
- (ii) The Executive Authority must take disciplinary steps against the Accounting Officer for failure to correctly award security contract(s) to the highest scoring bidder.
- (iii) The Executive Authority must take disciplinary action against the Accounting Officer for incurring Irregular Expenditure amounting R419 324 00.



- (iv) The Accounting Officer must ensure that Preferential Procurement Regulation 9(1) is adhered to.

## **INTERNAL CONTROL**

### **5.1 Leadership**

The Committee noted with disappointment the Accounting Officers had failed to ensure on-going monitoring and supervision to enable an assessment of the effectiveness of internal control; the failure to evaluate whether management has implemented effective internal control as identified by the Auditor General as well as failing to make sure that the department has and maintains effective, efficient and transparent systems of financial, risk management and internal controls as required by section 38(a) (l) of the PFMA. Committee required assurance that the matter does not recur.

The Accounting Officer mentioned to the Committee that shortage of staff has a negative impact on the effective implementation and monitoring of internal controls such as the segregation of duties amongst others, however ensured that the department has effective, efficient and transparent systems of financial, risk management and internal controls as required by section 38(a) (l) of the PFMA. The Accounting Officer further mentioned that the department has requested to fill critical vacant posts subjects to budget availability and approval of the revised revenue management structure to the Director General's office. The review of procedure manuals and process flows has already started.

The Committee could not accept that the Accounting Officer had delegated his inherent responsibilities delegated the implementation of daily and monthly control to management

#### **5.1.1 Recommendation**

The Committee recommends the House to resolve that:

- (i) The Executive Authority must take disciplinary action against the Accounting Officer for failure to ensure that the department has effective, efficient and transparent systems of financial, risk management and internal controls as required by section 38(a) (l) of the PFMA.

## **5.2 Financial and performance management**

The Committee noted that the Auditor General reported that Management did not implement its daily and monthly controls as designated for the department's business processes in that:-

- Revenue reconciliations were prepared, but the information in the reconciliation was not accurate.
- Asset reconciliations were prepared, but the information in the reconciliation was not accurate

Based on the Auditor Generals findings, the Committee required explanation on why did management failed to prepare regular, accurate and complete financial performance reports that are supported and evidenced with reliable information to ensure that compliance with applicable laws and regulations are reviewed and monitored throughout the year as well as to reviewing the accuracy and completeness of the information submitted to the AG for auditing purposes. Which disciplinary action were taken by the Accounting Officer against management that failed to execute their task and contributed to the failure of the department.

In responding to the above mentioned questions, the Accounting Officer mentioned to the Committee that, the Department prepared financial performance reports however the accuracy and completeness were affected by the non-availability of source documents which could not be traced from the Department of Public Works, Roads and Transport and the shortage of personnel.

The Accounting Officer further mentioned that management ensured compliance to applicable laws and regulations however the shortage of personnel and the non-availability of systems impacted negatively on the performance of the Department. Continuous review of accuracy and completeness of the information submitted to the Auditor General for auditing purposes was also affected in this regard.

The Committee could not accept that accurate information or evidence couldn't be made available due non availability of source documents and personnel.

### 5.2.1 Recommendation

The Committee recommends the House to resolve that:

- (i) The Executive Authority must take disciplinary actions against the Accounting Officer for contravening Section 38(a) (i) of the PFMA.

### 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 Department of Community Safety, Security and Liaison.

### 7. 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**



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Date