COMMITTEE REPORT OF THE PORTFOLIO COMMITTEE ON PREMIER'S OFFICE; FINANCE; ECONOMIC DEVELOPMENT AND TOURISM

ANNUAL REPORT FOR THE 2016/17 FINANCIAL YEAR – MPUMALANGA LIQUOR AUTHORITY (MLA)

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1. INTRODUCTION

The **Portfolio Committee on Premier's Office; Finance; Economic Development and Tourism** (the Committee) has a Constitutional mandate, in terms of Section 114(2) (b) of the Constitution of the Republic of South Africa read with Rule 131 (1)(b) of the Mpumalanga Provincial Legislature to oversee the performance of the Mpumalanga Gambling Board (the entity) and hold it accountable through various measures.

Section 133(3)(b) of the Constitution requires the Member of the Executive Council (MEC) to provide the Legislature with full and regular reports concerning matters under their control. Thus the tabling of the 2016/17 Annual Report of the Mpumalanga Liquor Authority (MLA) was in compliance with section 65(a) of the Public Finance Management Act (Act 1 of 1999) (PFMA).

The consideration and scrutiny of the 2016/17 Annual Report of the entity was for the Committee to satisfy itself that the entity's performance was in line with its approved 2016/17 Annual Performance Plan (APP); and the budget that was appropriated for the financial year under review. The Annual Report oversight exercise is a mechanism of the Committee to ensure that public funds allocated to the entity in the year under review, are used economically, efficiently, equitably and effectively. There should ultimately be value for money in any activity undertaken by the entity. Thus, the Executive Authority was held to account for the entity's performance in the 2016/17 financial year.

2. METHOD OF WORK

The MEC tabled the 2016/17 Annual Report in accordance with Section 65(a) of the PFMA and Rule 219(1)(2) of the Rules and Orders of the Mpumalanga Provincial Legislature; subsequently the Speaker referred the tabled report to the Committee for consideration and report back to the House.

On 17 October 2017, the Committee considered a detailed Research and Legal analysis of the 2016/17 Annual Report and raised key observations and questions that were sent to the entity for written responses.

Subsequently on 31 October 2017, the Committee interacted with the HOD, the Senior Management team of the department and entities, the Acting CEO of the entity and the Senior Management of the entity on the 2016/17 Annual Report; an apology was formally submitted by the MEC of the department, Mr SE Kholwane. The Committee then met on 08 November 2017 to consider and adopt the draft Committee report.

3. GENERAL OBSERVATIONS

The entity has appointed an interim Board that will look into the affairs of the newly merged entity. The entity received an unqualified Audit Opinion with matters of emphasis in the 2016/17 financial year. This is the first Annual Report produced by the entity. The entity received a grant amounting to R13 001 000.00 from the Department of Economic Development and Tourism (DEDT) and an additional R1 215 470.00 as donated assets and expenses paid for by DEDET, making the total revenue to be at R14 291 024.00 for the 2016/17 financial year. The entity spent 93% of the allocated budget indicating a surplus of R1 037 425.00. The entity over-spent on two (2) programmes, namely Compliance and Enforcement and Company Secretary; and Legal Services has spent 100% of the budget on the other two (2) programmes. Overall there is no correlation between the spent budget and the performance on predetermined objectives.

The entity achieved 35% or eight (8) targets planned for the financial year and could not achieve 65% or fifteen (15) of the targets during the year under review. Most of the targets are reportedly not achieved due to budget constraints and the MGB/ MLA merger process. Overall the entity did not perform well in terms of financial management and achievement of planned targets.

Due to the merger, the entity will now become part of MGB which has clean financial and performance records. MLA will join MGB with an irregular expenditure amounting to R5 398 641.00, thus affecting the financial statements of the new entity (Mpumalanga Economic Regulator). It is therefore, important that MLA investigates and condones the irregular expenditure before it affects the new entity.

4. ANALYSIS OF THE ENTITY'S 2016/17 ANNUAL REPORT

4.1. COMPLIANCE TO ANNUAL REPORT GUIDE

The Annual Report of the entity complied with the National Treasury Guide on preparation of annual reports for public entities. There are, however, certain instances where the guide requires explanations, but those explanations are not provided. The identified issue is indicated below:

- The entity did not include the narrative after the table discussing how expenditure contributed to the achievement of outputs during the period under review.

i. The Committee requested the entity to explain how the incurred expenditure per programme contributed to the achievement of outputs during the year under review. The entity indicated that the expenditures were only incurred in accordance with the approved Annual Performance Plans (APPs); and accordingly, the budget served as a necessary resource in implementing the APPs.

4.2. SERVICE DELIVERY ENVIRONMENT

4.2.1. Strategic Outcome-Oriented Goals

Entity Strategic Outcome Goals	Targets for 2016/17	Achievements/challenges
Effective regulation	- Implementation of provincial Liquor laws.	- Granted 263 applications for liquor licences in the province.
Governance **Public awareness** **Operations**	- Enforcing compliance and creating awareness around the social ills of alcohol abuse and educate licence holders and communities.	- Conducted 49 awareness programmes. - Developed and implemented a new licencing procedure.

During the year under review, the entity reported that it operated in an environment where it was constrained by limited resources, both financial and human capacity to fulfill its mandate.

MLA believes that the new entity (Mpumalanga Economic Regulator) is now well positioned to ensure the smooth implementation of the Liquor Licensing Act. As an intervention to some of the Liquor license operational challenges, the entity is planning to develop a Liquor License Register to increase MLA's operational efficiency and enable the geo-coding of all registered liquor outlets in the Province and their proximity to educational institutions and places of worship.

i. The Committee requested the entity to report on the progress made so far in the development of a Liquor License Register. The entity indicated that the liquor license register has since been compiled and will be available on the website once all merger processes have been concluded.

5. OVERVIEW OF ENTITY'S PERFORMANCE

5.1. Audit Opinion

2016/17
Unqualified Audit finding with matters

The entity received an unqualified Audit Opinion in the 2016/17 financial year. The Auditor General (AG) raised findings on reported predetermined objectives of Programme 1, due to the failure of the entity to record all applications considered in the Annual report. The AG also raised a finding on compliance with legislation and on internal control deficiencies.

5.2. Expenditure per programme

Programme Expenditure	Annual Budget	Actual Expenditure	Under/(Over)-spending	% Expenditure
Compliance and Enforcement	7 557 137	7 714 589	-157 452	102,1
Corporate services	4 561 802	4 561 802	0	100

Social Responsibility	459 291	459 291	0	100
Company Secretary and Legal Services	497 324	517 917	-20 593	104,1
Total programmes expenditure.	13 075 554	13 253 599	-178 045	101,4
Donated Assets and Expenses paid by DEDET.	1 215 470	0	1215470	0
Total	14 291 024	13 253 599	1 037 425	93%

The Committee noted that the entity received a grant amounting to R13 001 000.00 from DEDET and an additional R1 215 470.00 as donated assets and expenses paid for by DEDET, making the total revenue to be at R14 291 024.00 for the 2016/17 financial year. The entity spent 93% of the allocated budget indicating a surplus of R1 037 425.00. The entity over-spent on its two (2) programmes, namely Compliance and Enforcement and Company Secretary; and Legal Services has spent 100% of the budget on the other two (2) programmes. The 1% over-expenditure occurred, while more than half of the targets have not been achieved during the year under review. Overall there is no correlation between the spent budget and the entity's performance on predetermined objectives.

In 2015/16 financial year, the entity had irregular expenditure amounting to R1 866 903.00 and had to be investigated by the entity. The irregular expenditure has now increased to R 5 398 641.00 due to an additional R3 531 738.00 disclosed during the 2016/17 financial year, but relates to the 2015/16 financial year. Such an irregular expenditure requires that the entity conducts an investigation on the circumstances and request for condonation when a liable person is not found.

i. The entity was requested to provide the Committee with a report on the investigations conducted in relation to the disclosed irregular expenditure amounting to R5 398 641.00. The entity reported that it has sought the information and currently awaiting the advice of the Internal Auditors, in view of the nature and context of the matter.

5.3. Revenue collection

Revenue	Estimate	Actual	Over/Under
R'000	**2016/17**	**2016/17**	**2016/17**
Total	10 000 000	5 724 523	4 275 477

The Committee noted that the entity did not perform well in terms of revenue collection. The entity collected an overall revenue of R5 724 523.00 which is below the estimated revenue of R10 000 000.00. This means that the entity under-collected revenue by R4 275 477.00.

6. PROGRAMME ANALYSIS

Programme 1: Compliance and Enforcement

The purpose of the programme is to enhance total oversight by improving the licencing process. Implementing a robust registry system and establishing an in-depth inspection criteria that is guided by a related policy.

The Committee noted that the programme has achieved 2 of its 6 targets which translate to 33% (page 19 of Annual Report). A total of four (4) targets have not been achieved, and the non-achieved targets are as follows: conducting 909 inspections; publish revised liquor licence issuing criteria; implementing EXCO approved corrective action plan on licensing software; and developing MLA oversight policy. As an intervention it is reported that the non-achieved targets will be considered after the finalization of the merger.

On page 46 of the Auditor General's report it is reported that the sufficient appropriate audit evidence for the reported target of the achievement of a minimum 263 licence applications could not be confirmed. This is because of the failure of the entity to record all applications considered in the Annual Performance Report.

i. The Committee requested the entity to indicate the measures that will be implemented to improve the recording of achieved targets in the programme. In response, the entity indicated that the merger of MLA and MGB, which brings about capacity and resources, is set to improve performance which will address the gaps identified.

Expenditure Analysis

Compliance and Enforcement	Final	Actual expenditure	Over/Under	%
Compensation	6 883 687	7 041 149	-157 462	102,3
Goods and Services	673 450	673 440	10	100,0
Total	7 557 137	7 714 589	-157 452	102,1

The Committee noted that the programme over-spent on the allocated budget by 2.1% or R157 452.00 out of the allocated budget of R7 557 137.00.

This is despite the reported non-achievement of targets due to budget constraints in the programme. The reasons for the over-expenditure of the allocated budget are not indicated in the report.

i. According to the entity, the budget for the entity for the 2016/17 financial year was not sufficient from the beginning. At some point during the financial year, the programme had to stop completely performing its tasks, while still incurring expenditure, such as remuneration.

ii. As measures to improve performance in the programme in terms of financial management and achievement of planned targets, the entity reported that the merger of MLA and MGB, which brings about capacity and resources, is set to improve performance which will address the gaps identified.

Programme 2: Corporate services

The purpose of the programme is to administer finance, Human Resources and ICT.

The Committee noted that the programme has achieved 4 out of 9 targets planned for the 2016/17 financial year (page 20-21 of Annual Report). This translates to 44% achievement of the planned targets. A total of 5 targets have not been achieved and are as follows: development of 2016/17 operational plan; development and implementation of a five year financial model; development of draft SCM policy; development and implementation of IT strategy; and develop and implement IT governance framework. Most of the targets were put on hold due to the merger of MLA and MGB. There are no reported interventions on how the programme's performance is going to be improved in the 2017/18 financial year.

Expenditure Analysis

Corporate services	Final	Actual	Over/Under	%
Compensation	3 821 536	3 821 536	0	100
Goods and Services	740 266	740 266	0	100
Total	4 561 802	4 561 802	0	100

The Committee noted that the programme spent 100% of the budget allocated for the 2016/17 financial year, despite the non-achievement of the planned 5 targets. The programme spent 100% on Compensation of Employees and 100% on Goods and Services.

Programme 3: Social Responsibility

The purpose of the programme is ensuring strategy and stakeholder management.

The Committee noted that the programme achieved 1 target out of the 6 targets planned for the year under review (page 22 of Annual Report). This translates to 17% achievement of planned targets. A total of 5 targets have not been achieved and are as follows: development and implementation of a three (3) year CEO approved plan; development of an EXCO approved two (2) year industry communication plan; mapping of customer high level processes; advertising RFI on customer relations software; development and implementation of a three (3) year plan to influence industry transformation. The reported reason is that the targets were put on hold pending the merger of MGB and MLA. There are no reported interventions to ensure achievement of the planned targets.

Expenditure Analysis

Social Responsibility	Final	Actual	Over/Under	%
Compensation	376 347	376 347	0	100
Goods and Services	82 944	82 944	0	100
Total	459 291	459 291	0	100

The Committee noted that the programme spent 100% of the budget allocated during the year under review. This is despite the 6 non-achieved targets planned for the programme.

Programme 4: Company secretary and Legal Services

The purpose of the programme is to improve organizational effectiveness through improved governance and to ensure that appropriate regulations are established.

The Committee noted that the programme achieved 1 of its 2 planned targets that were planned for the 2016/17 financial year (page 24 of Annual Report). This translates to 50% achievement of targets. The non-achieved target is the administration of Board workshops to improve effectiveness due to budgetary constraints.

Expenditure Analysis

Company Secretary and Legal services	Final	Actual	Over/Under	%
Compensation	301 939	322 883	-20 944	106,9

Goods and Services	195 385	195 034	351	99,8
Total	497 324	517 917	-20 593	104,1

The Committee noted that the programme over-spent by 4.1% or R20 593.00 out of the budget allocated for the 2016/17 financial year of R497 321.00. The programme over-spent on Compensation of Employees, during the year under review. The reasons for the over-expenditure of the allocated budget are not indicated despite the reported non-achievement of planned targets due to budgetary constraints.

i. The Committee requested the entity to indicate the reasons for the 4.1% over-expenditure of the budget allocated to the programme during the year under review. According to the entity, the budgeting and planning process for the entity had no history as base for budgeting and the variances experienced were as a result of zero based budgeting.

7. GOVERNANCE

The entity has reported in the Annual Report that it has affirmed its principles of good governance as prescribed in the King Report on Corporate Governance. The governance part of the Annual report discusses the various committees that are in existence in MLA and their roles in improving the governance issues of the entity. Some of the Committees include the Corporate Services Committee; Audit Committee; and Compliance Committee. The Audit Committee reported that the MLA's system of internal control over financial and risk management is effective, efficient and transparent. The Audit Committee reported that systems of internal financial controls are effective.

8. HUMAN RESOURCE MANAGEMENT

8.1. Organisational Structure

As at 31 March 2017, the total staff complement comprised of 22 employees out of the approved 49 posts on the organogram.

8.2. Human Resource Oversight Statistics

The entity spent R8 157 462.00 on Compensation of Employees during the year under review which is 62% of the total expenditure for the entity. This relates to the 22 employees that existed as of the end of the financial year. The vacancy rate in the entity was 55% or 27 as of the end of the financial year.

A total of R464 055.00 has been spent on performance rewards, but the number of paid employees are not indicated in the report.

i. The entity reported that only bonuses were paid to all staff during the financial year under review.

8.3. Employment equity targets

The entity has not reported on employment equity targets in the Annual Report. It is reported that this item was centralized within DEDT.

9. LEGAL ANALYSIS OF THE ENTITY'S 2016/17 ANNUAL REPORT

9.1. COMPLIANCE WITH KEY LEGISLATION

Skills Development Act No. 97 of 1998

Section 30A of the Act provides that if 80% or more of the expenditure of a national or provincial public entity is annually defrayed directly or indirectly from funds voted by Parliament, that entity:

- Must annually budget at least1% of its payroll for the training and education of its employees; and
- May contribute funds to a SETA.

i. The Committee requested the entity to explain how much of its budget allocated for Compensation of Employees was spent during the year under review for training and education of its employees as required by the Act. The entity reported that it has spent 0.4% of the Compensation of Employees which is below the 5% requirement, due to financial constrains experienced during the financial year.

ii. Furthermore, the entity reported that it did not train its employees during the 2016/17 financial year in line with the Skills Development Act.

10. FINDINGS

After the interaction with the entity, the Committee made the following findings:

10.1. The entity has received an unqualified Audit Opinion in the 2016/17 financial year and the Auditor General also raised amongst another, a finding on compliance with legislation and on internal control deficiencies.

10.2. The Committee requested the entity to report on the progress made so far in the development of a Liquor License Register. The entity indicated that the liquor license register has since been compiled.

11. RECOMMENDATIONS

The Committee made the following recommendations:

11.1. Noting that MGB will merge with MLA and operate as a single entity, it is important that the MLA complies with key legislation so as to maintain the clean audit status of MGB when merged into one entity.

11.2. The entity must provide the Committee with the Liquor License Register after the merger process as indicated by the entity during the deliberations with the Portfolio Committee.

The Committee moves that the House adopts the report with the above recommendations.

13. CONCLUSION

The Chairperson wishes to express his gratitude to the HOD Mr MW Mkhize, the Acting CEO, the CFO and the senior officials of the Mpumalanga Liquor Authority (MLA) for their availability, dedication and commitment during the deliberations with the entity.

The Chairperson further wishes to thank the Hon. Members of the Committee for their sterling participation and input during the deliberations on MLA's 2016/17 Annual Report and also thanked the Legislature staff for their support and contribution towards the production of this report.

Unless otherwise stated a report detailing progress in the implementation of all recommendations in this report should be forwarded to the Committee by 28 February 2018 and thereafter on a quarterly basis.

14- 11- 2017

HON FV MLOMBO (MPL),
CHAIRPERSON:
PORTFOLIO COMMITTEE ON PREMIER'S OFFICE;
FINANCE; ECONOMIC DEVELOPMENT AND TOURISM

DATE