

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

2019/20 FIRST QUARTER REPORT OF THE PROVINCIAL TREASURY (VOTE 03)

1. INTRODUCTION

Rule 218 (1)(2) and (3) of the Rules and Orders of the Mpumalanga Provincial Legislature requires the Member of the Executive Council responsible for a provincial department to table quarterly reports to the Speaker, within thirty (30) calendar days after the end of the quarter.

The Portfolio Committee on Premier's Office, Finance, Economic Development and Tourism has a mandate in terms of Section 114 (2)(b) of the Constitution of South Africa, 1996 to oversee the performance of the Provincial Treasury (the treasury) and hold it accountable.

The consideration and scrutiny of the First Quarter Performance Report for the 2019/20 financial year (the report) of the treasury is the tool the Committee uses to determine whether the treasury has proper plans and programmes to realise its strategic objectives.

2. METHOD OF WORK

The MEC tabled the report that was subsequently referred by the Speaker of the Legislature to the Committee for deliberations and report back to the House, in accordance with Rule 218 of the Rules and Orders of the Mpumalanga Provincial Legislature (the rules).

The Committee considered a detailed analysis of report and raised key observations and questions that were sent to the treasury for written responses. Thereafter, on 29 August 2019, the Committee interacted with the MEC, the Acting Head Official and the senior management team of the treasury on the report. The Committee met again to consider its draft report.

3. GENERAL OBSERVATION

The Committee made the following general observations:

- a) The 2019/20 First Quarter Report was correctly Tabled by the Honourable MEC within 30 days after the quarter as required by the rules;
- b) The treasury achieved 95% (40 of 42) planned targets during the period under review and spent 19% of the allocated budget of **R365 692 000.00**.

4. UPDATED PROGRESS REPORT ON HOUSE RESOLUTIONS

The Committee considered an updated progress report in relation to the implementation of the House Resolutions emanating from the Committee reports for the treasury's 4th Quarterly Performance Report for the 2018/19 financial year and the 2019/20 Annual Performance Plan. The Committee had to check the relevance of the progress the treasury submitted against Resolutions of the House (see Annexure A & B).

5. ACHIEVEMENT OF TARGETS AND SPENDING PER PROGRAMME

The table below outlines the achievement of targets and spending per programme

Spending per programme

Programme R'000	Planned Target	Target Achieved	% Target Achieved	Budget 2019/20	Expenditure	% of Expenditure
Administration	8	8	100%	108 895	23 152	21.3%
Sustainable Resource Management	8	8	100%	65 076	11 123	17.1%
Assets and Liabilities Management	14	12	86%	159 928	27 691	17.3%
Financial Governance	12	12	100%	31 793	7 431	23.4%
Total	42	40	95%	365 692	69 397	19.0%

The allocated budget for the 2019/20 financial year is **R365 692 000.00**. The treasury spent 19% of this budget as at the end of the first quarter.

i. Under expenditure on Goods and Services

Noting that the treasury has underspent on Goods and Services as well as on Payment for Capital Assets due to late finalisation of procurement plans, the Committee requested the treasury to provide the list of expenses affected by the late approval of procurement plans. The treasury reported that the procurement plan was approved on time. However, the procurement plan implementation and finalisation of the bid specifications documents for procurement of services contributed to the delays

in procurement of Goods and Services as planned in the procurement plan. Currently the Bid Committees are in process and procurement should be finalised by the end of the third quarter. Furthermore, the treasury reported that the services that were affected are:

- Automation of business processes;
- Renewal of Information Technology Licenses;
- Procurement of Computer Equipment and
- Municipal Support Services.

In responding to what impact the late finalisation of procurement processes will have on the performance of the treasury; the treasury reported that controls have been put in place to ensure that procurement of goods and services is done within the stipulated period of finalising procurement by the end of the third quarter.

ii. Over expenditure on Transfers and Subsidies

The Committee noted that the expenditure on Transfers and Subsidies was at 119.5% as at the end of the 1st quarter of the 2019/20 financial year. The Committee requested the treasury to indicate measures that have been implemented to ensure that actual expenditure for this item is contained within the allocated budget at the end of the financial year. The treasury reported that a provision has been made to shift funds within the programmes to ensure that the Transfers and Subsidies does not overspend at year-end.

6. INTERACTION WITH THE PROVINCIAL TREASURY

6.1. PROGRAMME 1: ADMINISTRATION

Programme purpose

This Programme is responsible for the political, financial and administrative management of the treasury. The programme provides prompt, continuous and effective and efficient administration support to all line functions in treasury.

The Committee noted the following on Programme 1:

a) Spending Pattern

Budget expenditure per Economic Classification

Programme R'000	Main Budget 2019/20	Expenditure	Over/Under expenditure %
Compensation of Employees	70 634	16 022	22.7%
Goods and Services	34 026	6 905	20.3%
Total transfer for subsidies	605	225	37.2%
Payment for Capital Assets	3 630	0	0.0%
Total	108 895	23 152	21.3%

This programme was allocated a budget of **R108 895 000.00** for the 2019/20 financial year and spent 21.3% of the budget in the 1st quarter.

b) Programme Performance

This programme achieved 100% (8 of its 8) targets in the 1st quarter of the 2019/20 financial year.

6.2. PROGRAMME 2: SUSTAINABLE RESOURCE MANAGEMENT

Programme purpose

The Programme exists to promote optimal and effective Provincial and Municipal fiscal policy in line with applicable financial management prescript.

The Committee noted the following on Programme 2:

a) Spending Pattern

Budget expenditure per Economic Classification

Programme R'000	Main budget 2019/20	Expenditure	Over/Under expenditure %
Compensation of Employees	51 585	9 866	19.1%
Goods and Services	13 491	1 257	9.3%
Total Transfer for Subsidies	0	0	0.0%

Total	65 076	11 123	17.1%
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This programme was allocated a budget of **R65 076 000.00** for the 2019/20 financial year and has spent 17.1% of the budget in the first quarter.

b) Programme Performance

This programme achieved 100% (8 of its 8) targets during the first quarter of the 2019/20 financial year.

i. Support to Municipalities

The treasury reported that the underspending on Goods and Services was due to a budget allocated to support Municipalities, which was not spent due to late finalisation of procurement plans. The Committee enquired on the reasons the treasury failed to prioritize Municipalities since they are institutions which require more support. The treasury reported that the following in providing support to municipalities:

- Municipalities who received adverse, disclaimed and qualified audit opinions from the Auditor General on the 2017/18 financial year were identified for support on audit related matters.
- The treasury established three (3) multidisciplinary teams for this support, that consist of all disciplines in the treasury, i.e. Accounting Services, Asset Management, Supply Chain Management, Liabilities Management, Provincial Risk Management, Provincial Internal Audit, Municipal Finance and Information Technology.
- The teams analysed the audit action plans according to the audit report findings and identified gaps per Municipality in terms of root causes, actions to be taken and activities to be undertaken to operationalize the actions and due dates.
- The findings of the teams per audit finding and per Municipality were summarized and have been used to compile letters to the affected Municipalities. The Head: COGTA and the relevant District Municipal Managers also received copies of these letters.
- The three Teams are visiting the municipalities to assist and monitor the implementation of the audit action plans.

- Provincial Treasury further identified five (5) municipalities who were in financial distress to support them with the development of financial recovery plans. Emalahleni, Thaba Chweu, Msukaligwa, Lekwa and Govan Mbeki Local Municipalities.
- The plan for Emalahleni Local Municipality was approved during February 2019 and the Provincial Treasury in process to support with implementation of the plan.
- The Financial Recovery Plans for Thaba Chweu, Msukaligwa, Lekwa and Govan Mbeki Local Municipalities was developed and is in a process to be considered for approval by the MEC.
- Two more municipalities were identified for support in development of Financial Recovery Plans. Mkhondo and Victor Khanye Local Municipalities.
- Provincial Treasury further prioritized Mkhondo, Govan Mbeki and Lekwa Local Municipalities for specific support on revenue management.

In responding to whether the 100% achievement of planned targets translate to better municipal Audit outcomes in the Province in the 2019/20 financial year, the treasury reported that the following:

- The Audit Steering Committee was established, which is supported by the multi-disciplinary support teams to monitor and support municipalities with the purpose to improve the audit outcomes.
- The implementation of the Audit Action Plans however remains the responsibility of the municipal Accounting Officer and his or her team.
- A Joint MFMA Steering Committee was established, which includes Provincial Treasury, CoGTA, SALGA and the three (3) district municipalities.
- The aim of this Committee is to finally bring to an end the current duplication of efforts to support municipalities.
- The Committee will:
 - Discuss on a quarterly basis the reports as analysed by the treasury on the financial performance of municipalities.
 - Discuss and agree on the status of municipalities in terms of the financial performance and intervention triggers as informed by the MFMA
 - Discuss and agree on the training needs for municipalities
 - Discuss and agree on the support needed by municipalities
 - Discuss and agree on responsibilities of support by relevant role players

- Collectively monitor and assess progress on all municipal interventions
- Provincial Treasury coordinated the first Joint MFMA Steering Committee on 2 August 2019.
- The draft TOR was distributed and discussed.
- All stakeholders were requested to provide inputs towards the enhancement of the TOR.
- All stakeholders also presented their support initiatives for municipalities.

The Committee enquired on the targeted milestones to be achieved by the interventions to Municipalities. The treasury reported that through the treasury's interventions, it is envisaged that there will be an improvement in the identified municipalities in the areas of the Audit Outcomes, Financial Viability and services delivery improvement. However, these are subject to municipalities embracing the support and ensuring that recommendations and plans are implemented. Furthermore, the treasury reported that Council oversight is critical in ensuring impact is achieved.

6.3. PROGRAMME 3: ASSETS AND LIABILITIES

Programme purpose

This Programme is responsible for the monitoring and support in terms of Transversal Systems, Information Technology Services, Assets, Liabilities, Public Private Partnerships and Provincial Supply Chain Management to departments, public entities and municipalities.

The Committee noted the following on Programme 3:

a) Spending Pattern

Budget expenditure per Economic Classification

Programme R'000	Main budget 2019/20	Expenditure	Over/Under expenditure %
Compensation of Employees	62 397	14 349	23.0%
Goods and Services	87 699	12 862	14.7%
Total transfer for subsidies	0	336	
Payment for Capital Assets	9 832	144	1.5%
Total	159 928	27 691	17.3%

This programme was allocated a budget of **R159 928 000.00** for the 2019/20 financial year and spent 17.3% of the budget in the 1st quarter.

b) Programme Performance

This programme achieved 86% (12 of the 14) planned targets during the 1st quarter of the 2019/20 financial year.

i. Transversal Contract

The treasury reported that two (2) Bid Specifications (Bottled water and Catering Services) were withheld for presentation to PMC (Provincial Management Committee). A feasibility study to identify commodities to be implemented as transversal contracts has been requested. The Committee enquired on the status quo of the feasibility study. The treasury reported that a broad assessment has been done on commodities, which can be packaged into transversal contracting in support to departments. In addition, the treasury reported that this includes a review of the current contract on travel and accommodation to deduce lessons so that in implementing new transversal contracts the lessons become a basis for improvements.

ii. Liability Information

The Committee noted that *Sub-programme; Public Sector Liabilities* could not monitor compliance to liability management guideline for MRTT, Mkhondo, Dr Pixley ka Seme, Dr JS Moroka, Dipaliseng and Thembisie Hani Local Municipalities due to late submission of liability information. The treasury reported that the six (6) institutions were monitored to ensure compliance to liability management guideline. There is general improvements in the management of these liabilities which includes leave liability and leases. Furthermore, the treasury reported that it will continue to ensure a close focus to ensure that these liabilities are monitored without failure and that there is no regression.

7.4. PROGRAMME 4: FINANCIAL GOVERNANCE

Programme purpose

The objective of this Programme is to facilitate, monitor, support and provide professional advice to ensure good governance in the Province.

The Committee noted the following on Programme 4:

a) Spending Pattern

Budget expenditure per Economic Classification

Programme R'000	Main budget 2019/20	Expenditure	Over/Under expenditure %
Compensation of Employees	62 397	14 349	23.0%
Goods and Services	87 699	12 862	14.7%
Total transfer for subsidies	0	336	
Payment for Capital Assets	9 832	144	1.5%
Total	159 928	27 691	17.3%

This programme is allocated a budget of **R159 928 000.00** for the 2019/20 financial year and spent 17.3% of the budget in the first quarter.

b) Programme Performance

The programme achieved 12 of its 12 (100%) planned targets during the 1st quarter of the 2019/20 financial year.

i. Financial Governance for the Province

The Committee enquired on the status of the Financial Governance status in the province. The treasury reported that all Departments, Public Entities and Municipalities have established Internal Audit and Risk Management functions and also functional Audit and Risk Management Committees. Furthermore, the treasury assists these functions by evaluating the effectiveness of the Committees and providing recommendations where necessary for improvement. Internal audit plans and risk assessment plans are also evaluated in terms of set criteria and areas of improvement are highlighted to Accounting Officers.

8. FINDINGS

- 8.1. The Provincial Treasury spent 19% of its budget and achieved 40 out of 42 planned targets during the 1st quarter of the 2019/20 financial year.
- 8.2. The Committee notes that the underspending on Goods and Services was due to a budget allocated to support Municipalities, which was not spent due to late finalisation of procurement plans

9. RECOMMENDATIONS

- 9.1. The Provincial Treasury must improve in its spending to avoid a possible March-spike.
- 9.2. The Provincial Treasury must develop a plan with achievable targets and timeframes to support municipalities improve their audit outcomes.

10. CONCLUSION

The Chairperson takes this opportunity to thank the Members of the Portfolio Committee for their active participation and constructive contributions during the deliberations on the Provincial Treasury's First Quarter Performance Report for the 2019/20 financial year.

In addition, the Chairperson extends a word of thanks to the acting Head Official and senior management officials for availing themselves to deliberate on matters pertaining to the treasury. The Chairperson would also like to thank the support staff for contributing to the production of this report.

Unless otherwise stated, a report detailing progress on the implementation of all recommendations in this report should be forwarded to the Committee by 31 October 2019, unless stated otherwise, and thereafter on a quarterly basis.



HON M LATCHMINARIAN, (MPL)
CHAIRPERSON: PORTFOLIO COMMITTEE ON
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DEVELOPMENT AND TOURISM

11.09-2019

DATE

ANNEXURE A: PROGRESS REPORT ON THE IMPLEMENTATION OF HOUSE RESOLUTIONS EMANATING FROM THE 2018/19 FOURTH QUARTER REPORT

HOUSE RESOLUTION	PROGRESS REPORTED	STATUS
<p>Notwithstanding the good performance noted during the period under review, the treasury must strengthen its support to other government departments, municipalities and public entities to ensure that there is improvement in their performance.</p>	<p>1. Treasury is implementing an integrated audit support process comprised of officials from different sub-programmes i.e. supply chain, asset management, liabilities management and others to assist in resolving audit matters;</p> <p>2. Treasury is also involved in capacity building issues relating to all financial, supply chain management and governance areas;</p> <p>3. Treasury intensified support for municipalities with the implementation of Audit Action plans, revenue management, and development of financial recovery plans.</p> <p>4. During the 2018/19 audit, treasury assisted departments and public entities by:</p> <p style="padding-left: 40px;">a. Attending Audit Steering Committee meetings and provide guidance to auditees on disclosures during the audit process;</p>	<p>On-going</p>

	<p>b. Have regular technical meetings with the Auditor General regarding interpretation of accounting standards to assist during the audit process;</p> <p>c. Review the Annual Financial Statements and provide inputs to correct disclosures before submission to the AG.</p>	
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ANNEXURE B: PROGRESS REPORT ON THE IMPLEMENTATION OF HOUSE RESOLUTIONS EMANATING FROM THE 2019/20 APP AND BUDGET

HOUSE RESOLUTION	PROGRESS REPORTED	STATUS
Provincial Treasury must consider invoking Section 18(2)(g) of the PFMA which states that “a Provincial Treasury must intervene by taking appropriate steps, which may include the withholding of funds, to address a serious or persistent material breach of this Act” on government institutions that are failing to pay Municipal services.	Treasury issued a circular to all Departments indicating the consequences in terms of Section 18(2)(g) of the PFMA for not paying the outstanding municipal debt and requested departments to verify and sign off all Government debt owed to municipalities. Treasury will consider the recommendation if departments continue to	On-going

	delay payments without reason.	
The Provincial Treasury must pay more attention and assist municipalities that are struggling to pay off their debts with Eskom i.e. eMalahleni, Govan Mbeki and Lekwa Local Municipalities.	Municipalities are monitored in terms of Section 41 of the MFMA and support is provided with tariff setting and improvement of revenue management. EMalahleni, Govan Mbeki and Lekwa Local Municipalities were prioritised for support.	Implemented
The Provincial Treasury must fill these critical funded vacant positions immediately after approval from EXCO has been received.	Recruitment plan will be developed and adopted accordingly to ensure filling of critical posts within the applicable turnaround time.	On-going

