

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

2017/18 ANNUAL REPORT OF THE PROVINCIAL TREASURY

1. INTRODUCTION

The Portfolio Committee on Premier's Office; Finance; Economic Development and Tourism (the Committee) has a mandate as per Section 114(2) (b) of the Constitution of the Republic of South Africa, 1996, read with Rule 131 (b) (c) (d) of the Rules and Orders of the Mpumalanga Provincial Legislature (the rules), to oversee the performance of the Provincial Treasury (the treasury). Thus the tabling of the 2017/18 Annual Report of the Provincial Treasury was in compliance with Section 65(a) of the Public Finance Management Act, 1999 (PFMA).

The consideration and scrutiny of the 2017/18 Annual Report of the Provincial Treasury was for the Committee to satisfy itself that the treasury's performance is in line with its approved 2017/18 Annual Performance Plan (APP); and the budget that is 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 treasury 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 treasury. The Executive Authority was held to account for the treasury's performance in the 2017/18 financial year.

2. METHOD OF WORK

The MEC tabled the 2017/18 Annual Report in accordance with Section 65(a) of the PFMA and the Hon Speaker subsequently applied rule 219(3) by referring the report to the Committee for consideration and report back to the House.

On 12 October 2018, the Committee considered a detailed analysis of the 2017/18 Annual Report and raised key observations and questions that were sent to the treasury for written responses.

Thereafter, on 16 October 2018, the Committee interacted with the MEC, Head Official and the Senior Management team of the treasury. The Committee met again on 31 October to consider its draft report.

3. OVERVIEW BY THE MEC

The MEC gave a brief overview on the treasury's performance for the 2017/18 financial year. The following was noted on the presentation made:

- a. The MEC reported that the government has a plan to address the many challenges facing the municipalities. However, its success is dependent on active citizenry and effective oversight;
- b. He emphasised that in order for the municipalities to improve, those who can afford it, must pay for the services municipalities provide to them;
- c. He reported that the treasury will now be compelled to invoke Section 18(2)(g) of the PFMA and intervene by taking appropriate steps, which may include the withholding of funds, to address a serious or persistent material breach of this Act by a provincial departments or a public entity that are still owing municipalities for rates and taxes.
- d. The MEC reported that during the period under review, the treasury finalised the procurement of the relevant panel of experts on various financial management skills set to support municipalities.
- e. The MEC reported that there is a court judgement which has forced a mandatory intervention on eMalahleni Local Municipality in terms of Section 139(5) of the Constitution.
- f. Cabinet extended the Mandate to the other four (4) municipalities that are struggling, which are Lekwa, Thaba Chweu, Dipaliseng and Govan Mbeki.
- g. The treasury deployed technical support service to the five (5) municipalities, some of which have been listed as distressed by the Minister of Cooperative Governance and Traditional Affairs.
- h. The treasury is aware of the many challenges faced by municipalities, especially where revenue collection rates is at its lowest levels despite the ever increasing suppliers accounts for Eskom and water Boards.
- i. The MEC reported that the treasury achieved all, but one target during the period under review.

The Committee deliberated on the MEC's overview and raised the following:

- a. The Committee appreciated the support provided by the treasury to the municipalities. The Committee raised a concern that despite the effort that is put in place by the treasury to assist the municipalities, there are a number of challenges that are faced by the municipalities, which include amongst others the following:

- i. Poor financial management;
 - ii. Excessive use of contractors;
 - iii. Poor service delivery;
 - iv. Lack of consequence management and
 - v. High vacancy rate
- b. The Committee raised a concern that the treasury should have identified the need for intervention in the five municipalities before the court case.

4. PART A: GENERAL INFORMATION

4.1. Compliance to the National Treasury Guide on the Preparation of the Annual Report

The Provincial Treasury complied with the National Treasury Guide on the preparation and compilation of the Annual Report.

4.2. Strategic Outcome Oriented Goals

As part of the oversight exercise, the Committee sought to evaluate the extent to which the treasury's planned activities during the year under review were guided by its strategic objective and key policy priorities, as well as the national and provincial government policy priorities.

Strategic Outcome Oriented Goals

Strategic Goals	Progress towards achievements of goals
Administrative Support Services	Provided prompt, continuous, effective and efficient administrative support to all line function in the Provincial Treasury.
Efficient and effective financial ICT and corporate governance in the Province	Ensure efficient, and effective financial, ICT and corporate governance in the Province in line with Legislation and Policies.

The Provincial Treasury provides an essential support and advice to service delivery departments on fiscal, Supply Chain Management and financial governance as provided for in Outcomes 9 and 12.

- **Outcome 9:** Responsive, Accountable, Effective and Efficient Local Government system. **Sub-outcome 3:** Sound financial and administrative management.
- **Outcome 12:** An Efficient, Effective and Development Oriented Public Service and an Empowered, Fair and Inclusive Citizenship. **Sub-outcome 4:** Effective and Development Oriented Public Service and **Sub-outcome 5:** Procurement System that deliver value for money.

4.3. Treasury's Performance against Policy Statements

Performance of the treasury against Policy Statements

SONA/SOPA Pronouncements 2017	Treasury's Commitments/ MEC's Budget Speech Commitments	Treasury's Performance Against The Priorities
The Premier in his state of Province address (2017) paragraph 83 indicated that government will commence with the implementation of key economic transformation initiative to drive the development of black –owned business.	Provincial Treasury committed to lead the Provincial Government's initiatives of leveraging state procurement power to ensure radical socio-economic transformation within the context of the amended Preferential Procurement Regulation.	The treasury reported that it supported Municipalities on the implementation of supply chain framework which included the provision of reviews, recommendations and opinion to inform decision making on several aspect of procurements process.
In paragraph 181 of the State of the Province address, Premier indicated that whilst the delivery of basic services remains the competence of our Municipalities, it is for the Government to guide and intercede where availability and quality of public service is faltering due to mismanagement and capacity constraints.	The treasury committed to improve public confidence and transparency in Municipal budgeting and reporting by ensuring that the Municipal Standard Chart of Accountants is being implemented by all Municipalities with effect from 1 July 2017. The introduction of this system will ensure consistency in financial information and that all spheres of government are accountable for spending on public funds.	The treasury reported that during the year under review, Municipalities were monitored on the implementation of transversal financial system reforms, including the Municipal Standard Chart of Accounts (mSCOA) and Provincial transversal contacts.
In paragraph 33 of the state of the Province address the Premier indicated that CoGTA, the Office of the Premier	The treasury committed to support other Municipalities to reach the levels of the Ehlanzeni and Nkangala	Treasury reported that it supported municipalities and departments on preparation of financial statements.

<p>and Provincial Treasury will support identified Municipalities in respect of Good Governance, Financial Management, Revenue Collection, Institutional Capacity and Administrative Capability to ensure that they are better positioned to discharge their service delivery mandate.</p>	<p>Districts as well as Steve Tshwete local municipality which remain a shining example when it comes to audit outcomes.</p>	
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i. Support to municipalities

Noting the above information, the Committee enquired how the treasury has supported other Municipalities to reach the level of the Ehlanzeni and Nkangala Districts and Steve Tshwete Local Municipality when it comes to audit outcomes. Treasury reported that it analyses all audit improvement plans of municipalities and provide recommendations for improvement to ensure that all plans are complete in terms of audit findings and that the content is correct.

Furthermore, treasury assist municipalities to improve the effectiveness of Governance structures such as Audit and Risk Management Committees, provide hand-on support by performing risk assessments and also provide training to Committee members, internal auditors and risk officers.

The treasury is in a process of supporting the six municipalities that received a qualified audit opinion (Emakhazeni, Mkhondo, Dr. JS Moroka, Lekwa, Victor Khanye and Emalahleni Local Municipalities) and one municipality that received a Disclaimed Audit Opinion (Thaba Chweu Local Municipality).

The Committee raised a concern that the Thaba Chweu Local Municipality) has been receiving a Disclaimed Audit Opinion for some time. The Committee urged the treasury to consider some of the work that have been done to assist the municipality including the forensic audit that was conducted through a Council Resolution of the Municipality.

The support is in line with the six game changers (funded budgets, audit support, revenue management, asset management, supply chain management and mSCOA).

ii. Monitoring role on municipal expenditure

The Committee enquired how treasury is planning to improve its monitoring role on municipal expenditure. The treasury reported that monthly and quarterly budget and expenditure reported as uploaded in the National Treasury's data base are reviewed. The data is analysed and written

feedback reports are provided monthly to municipalities with findings and recommendations for improvement.

The treasury annually reviews the municipal tabled budgets for credibility, sustainability and relevance and provides feedback through budget benchmark engagements with all delegated municipalities. Formal feedback reports are also submitted to the municipal managers.

The improvements that treasury will introduce, will be to submit the treasury's findings and recommendations to Council so that a Council Resolution can be adopted and monitored for implementation.

Eight municipalities were identified i.e Thaba Chweu, Emalahleni, Emakhazeni, Victor Khanye, Govan Mbeki, Msukaligwa, Lekwa and Mkhondo local municipalities for the development of financial recovery plans, which includes the improvement of controls on expenditure management. Implementation of expenditure management, Standard Operating Procedures and Cash Flow Management is key in the financial recovery plans.

The treasury with the support of National Treasury, National and Provincial Departments of Cooperative Governance and Traditional Affairs started the process of assessment of status quo which will lead to the development of financial Recovery Plan for Emalahleni Local Municipality.

iii. Prevention of irregular expenditure by municipalities

The Committee enquired on the extent the treasury is supporting municipalities to prevent the occurrence of Irregular Expenditure. Treasury reported that an ongoing programme of training and development programme has been developed for municipal Supply Chain Management (SCM) staff on SCM regulations, policies, guidelines and circulars. The SCM support is not limited to the above seven municipalities. It is rolled-out to the rest of the delegated municipalities in the province to ensure uniform approach to SCM. To date nine (9) municipalities have already been visited and guided in terms of the above. These municipalities are Emakhazeni, Dr. Pixley Ka Isaka Seme, Victor Khanye, Nkomazi, Thembisile Hani, Dr. JS Moroka, Govan Mbeki, Emalahleni and Lekwa local municipalities. Furthermore, the treasury reported that municipalities are supported on the implementation of e-tender portal. The above nine municipalities have already been guided on this activity and have already implemented e-tender portal system.

The above nine municipalities have been provided with a template and guided on the contract register. Implementation of effective contract management at these municipalities is still work in progress and more support will be provided.

These municipalities have been trained on the alignment of the supply chain management activities, business processes and systems to the SCM policy. SCM compliance checklist and

best practice guidelines have been provided to the nine municipalities and detailed discussions have taken place during the process of providing guidance.

iv. Support by the Department of Cooperative Governance and Traditional Affairs (CoGTA)

The Committee wanted to know the extent of support by the CoGTA towards enforcing municipalities to abide by the recommendations made by the treasury. Treasury reported that CoGTA supports the treasury through the integrated municipal support plan. In addition, the treasury reported that technical MuniMan and MuniMec provide a platform to engage with municipalities on all areas of non-compliance, CoGTA and Provincial Treasury are jointly having Steering Committee meetings and present joint reports at the Cluster and CPF Committees.

5. PART B: OVERVIEW OF TREASURY'S PERFORMANCE

5.1. FINANCIAL PERFORMANCE

Two Years Expenditure Pattern

Financial year	2016/17	2017/18
	R'000	R'000
Main Appropriation	287 466	289 945
Adjusted Appropriation	287 466	289 945
Actual Amount Spent	286 270	287 542
(Over) Under Expenditure	1 196	2 403
Percentage Expenditure	99.6%	99.2%

The treasury was allocated a budget of **R289 954 000.00** at the beginning of the 2017/18 financial year. This budget was not adjusted during the budget adjustment period. The treasury spent **R287 542 000.00** which is 99.2% of its budget for the 2017/18 financial year.

5.2. TWO YEAR EXPENDITURE PER ECONOMIC CLASSIFICATION

2016/17 Expenditure per Economic Classification

Programme R'000	Main Appropriation	Adjusted Budget	Actual Expenditure	Spending %
Compensation of Employees	162 716	162 716	162 714	100.0%
Goods and Services	108 445	108 445	107 654	99.3%
Transfer and subsidies	2 887	2 887	2 463	85.3%

Payments for capital assets	13 415	13 415	13 436	100.2%
Payments for financial assets	3	3	3	100.0%
Totals	287 466	287 466	286 270	99.6%

2017/18 Expenditure per Economic Classification

Programme R'000	Main Appropriation	Adjusted Budget	Actual Expenditure	Spending %
Compensation of Employees	171 006	169 764	169 718	100.0%
Goods and Services	112 409	111 922	110 254	98.5%
Transfer and subsidies	705	968	981	101.3%
Payments for capital assets	5 825	7 291	6 589	90.4%
Payments for financial assets	-	-	-	-
Totals	289 945	289 945	287 542	99.2%

For the year under review, the treasury under spent on its budget for Goods and Services as well as on Payment for Capital Assets by 15% and 9.6% respectively.

5.3. AUDIT OPINION

Audit Opinion for the two years

2016/17	2017/18
Clean Audit	Clean Audit

Provincial Treasury maintained the clean audit opinion. This indicates that the treasury is doing well in terms of complying with key legislation, reporting on performance information and the internal controls are being implemented.

6. PROGRAMME ANALYSIS

6.1. PROGRAMME 1: ADMINISTRATION

This programme is responsible to provide political, financial and administrative management to the treasury. It provides effective and efficient administrative support to all line functions in the treasury.

a) Spending Pattern

Spending for Programme 1

Programme R'000	Final Budget 2017/18	Expenditure 2017/18	(Over)/ Under Expenditure	%
Member of Executive Council	0	0	0	0%
Management Services	38 712	38 632	80	99.8%
Financial Management	43 920	43 880	40	99.9%
Internal Audit	4 955	4 755	200	96.0%
Total	87 587	87 267	320	99.6%

The Programme under spent on its budget by less than a percent. This translates to an amount of **R320 000.00**. The programme underspent on the budget allocated to Payment for Capital Assets by 12% (**R183 000.00**). It overspent on Compensation of Employees by **R95 000.00** (100.2%) and on Transfers and Subsidies by **R13 000.00** (101.7%).

b) Programme Performance

The programme achieved all planned targets (13 of 13) for the period under review. When comparing with the programme's expenditure trends, the performance is correlating with the expenditure of the programmes.

6.2. PROGRAMME 2: SUSTAINABLE RESOURCE MANAGEMENT

This programme exists to promote optimal and effective provincial resource allocation and utilisation, efficient budget management, accurate financial reporting on provincial revenue generation and maximisation, provide quality and accurate socio-economic research reports to inform the provincial budget and planning process, promote efficient planning, implementation and management of infrastructure by provincial departments and municipalities; and provide technical support to delegated municipalities on the implementation of the MFMA.

a) Programme Expenditure

Spending for Programme 2

Programme R'000	Final Budget 2017/18	Expenditure 2017/18	(Over)/ Under Expenditure	%
Programme Support	1 533	1 519	14	99.1%

Provincial Administration Fiscal Discipline	9 265	9 182	83	99.1%
Budget and Expenditure Management	10 315	10 244	71	99.3%
Municipal Finance	22 126	21 914	212	99.0%
Infrastructure Co-Ordination	4 293	4 190	103	
Total	47 532	47 049	483	99.0%

The Programme spent 99% of its budget for the 2017/18 financial year. This translates to an under expenditure of **R483 000.00**. The programme underspent on Goods and Services by **R674 000.00** (7.9%) and overspent on Compensation of Employees by **R191 000.00** (0.5%).

b) Programme Performance

The Committee noted that the programme achieved 93% (14 of its 15) of its targets for the 2017/18 financial year.

The Committee noted that the Programme failed to produce a Mid-Year Budget and Performance Assessment Engagements for Govan Mbeki Local Municipality and enquired on the reasons for the non-achievement of the target how the performance of the municipality was affected. The treasury reported that the municipality experienced challenges which started with the implementation of a new financial system to comply with mSCOA requirements. The municipality with the support of VESTA (service provider) could not successfully implement the reforms and comply with mSCOA. The municipality with support from the National and Provincial Treasury terminated the services of the service provider. Subsequently, a new service provider was appointed. The system challenges were corrected and the municipality is currently transacting and reporting in terms of the mSCOA requirement. On how the non-achievement affected the performance of the municipality, treasury reported that municipality could not perform monthly reconciliations, which resulted in the inability to submit Annual Financial Statements by the end of August 2018.

6.3. PROGRAMME 3: ASSETS AND LIABILITIES MANAGEMENT

This programme is responsible for the monitoring and support on Assets, Liabilities, Provincial Supply Chain Management, Public Private Partnerships, Transversal Systems and Information Technology Services as well as the provisioning of Information Technology Infrastructure to Votes.

a) Programme Expenditure

Spending for Programme 3

Programme R'000	Final Budget 2017/18	Expenditure 2017/18	(Over)/ Under Expenditure	%
Programme Support	234	207	27	88.5%
Provincial Supply Chain Management	16 469	16 153	316	98.1%
Public Sector Liability	4 971	4 891	80	98.4%
Physical Assets Management	6 952	6 950	2	100.1%
Interlinked Financial System	11 771	11 730	41	99.6%
Information Technology	87 725	87 085	640	99.3%
Total	128 122	127 016	1 106	99.1%

The Programme underspent on its budget by **R1 106 000.00** (0.9%). The sub-programme with the huge underspending is Programme Support, which underspent by 11.5%. The programme underspent on Payment for Capital Assets by **R519 000.00** (9%).

b) Programme Performance

The programme achieved 87.5% (7 of 8) planned targets during the financial year under review.

i. Helpdesk system

The Committee noted that the Helpdesk was discontinued due to a litigation case in place. The Committee requested the treasury to provide details of the litigation case on the helpdesk system and its current status. The treasury reported that three hundred (300) Help Desk Bundles were bought from Columbus and therefore liable to pay licenses on an Agent Based Model in 2010. Columbus alleged that the model agreed upon was on an End-User Model and to which it has increased to approximately six thousands (6 000) users over a four year period and amounted to **R3 962 165.00** at the time of the claim, a version which the Provincial Treasury is disputing. The treasury is defending the case through the Office of the State Attorney.

6.4. PROGRAMME 4: FINANCIAL GOVERNANCE

This programme serves to facilitate, monitor, support and provide professional advice to ensure good governance in the Province.

a) Programme Expenditure

Spending for Programme 4

Programme R'000	Final Budget	Expenditure	(Over)/ Under	%
Programme Support	3 105	2 997	108	96.5%
Accounting Services	5 406	5 248	158	97.1%
Norms and Standards	12 398	12 259	139	98.9%
Risk Management	2 715	2 700	15	99.4%
Provincial Internal Audit	3 080	3 006	74	97.6%
Total	26 704	26 210	494	98.1%

The Programme underspent on its budget by **R494 000.00** (1.9%).

b) Programme Performance

The programme achieved 100% (20 out of 20) planned targets for the period under review.

7. PART C: GOVERNANCE

7.1. RISK MANAGEMENT

The treasury reported that it has an approved Risk Management Policy and Strategy in place. Furthermore, the treasury reported that Risk Assessment is conducted regularly to identify new and emerging risks. A Risk Management Committee that advises management on the overall system of risk management has also been appointed. Treasury reported that the Risk Management Committee as well as the Audit Committee advises the treasury on risk management and independently monitors the effectiveness of the system of risk management.

The Committee enquired on the effectiveness of the Risk Management Committee. Treasury reported that the Risk Management Committee is effective in that it operates and deals with matters within its mandate and in line with the approved Risk Management and Ethics Management Committee Charter which is in line with the Public Sector Risk management Framework and other related prescripts. On the impact of the Risk Management Committee, treasury reported that there is a significant impact made by the inputs from the Committee as risk management processes keep on improving within the treasury. This is evident from the improved ratings over the quarters. The latter is also supported by the MPAT scoring for the period under review which is at three (3) out of a rating of four (4) meaning fully compliant.

7.2. FRAUD AND CORRUPTION

The treasury reported that it has an approved Fraud Prevention Policy and Plan in place. It also reported that, during the year under review, awareness sessions were conducted by Risk Management section on Policy, Plan and Responsibilities of staff on Fraud Prevention as well as the reporting mechanisms. The treasury further stated that an approved whistle blowing policy is in place to guide staff on the processes to follow in reporting cases of suspected Fraud and Corruption.

8. PART D: HUMAN RESOURCE MANAGEMENT

8.1. ORGANIZATIONAL STRUCTURE

The treasury reported that the approved organizational structure has 433 posts. However, the implementation of the moratorium in filling of vacant posts and requirement to abolish all vacant posts led to a shortage of staff due to subsequent resignations, transfer promotions and deaths.

The Committee noted that the treasury operated with 328 posts which comprises of 285 permanent and 43 contract workers i.e. interns, learners and Municipal Specialists. Furthermore, the Committee noted that six (6) officials were appointed to act in higher posts as per an EXCO Resolution of August 2017.

8.2. HUMAN RESOURCE OVERSIGHT STATISTICS

The treasury reported that it had 294 approved post and 285 of those posts were filled at the end of the 2017/18 financial year translating to a 3.1% vacancy rate. At the beginning of the financial year the treasury had 289 employees. Four (4) employees left the treasury during the 2017/18 financial year, it was reported that all four (4) employees resigned and there were no employees who joined the treasury over the course of the year.

9. PART E: FINANCIAL INFORMATION

The report of the Auditor-General in Mpumalanga on the treasury's financial conduct in the period under review; as well as the treasury financial statements for the period under review were included in the Annual Report.

10. FINDINGS

- 10.1. The Provincial Treasury obtained a clean audit opinion for the past 7 financial years.
- 10.2. There is a court judgement which has forced a mandatory intervention on eMalahleni Local Municipality in terms of Section 139(5) of the PFMA. Cabinet has extended the intervention to Lekwa, Thaba Chweu, Govan Mbeki and Dipaleseng Local Municipalities.
- 10.3. The Helpdesk was discontinued due to a litigation case in place.
- 10.4. Section 30 of the Skills Development Act, 97 of 1998 provides that each public service employer in the national and provincial spheres of government- must budget for at least one percent of its payroll with effect from 1 April 2001 for training and education of its employees; and may contribute funds to a SETA.

11. RECOMMENDATIONS

After the deliberations, the Committee recommends that:

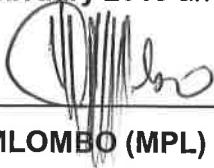
- 11.1. The Provincial Treasury must maintain the clean audit opinion and strengthen its support to departments, public entities and municipalities that did not receive a clean audit during the 2017/18 financial year.
- 11.2. The Provincial Treasury must on a quarterly basis submit a progress report on the intervention to the above mentioned municipalities.
- 11.3. The Provincial Treasury must provide a report on progress towards finalising the court case with Columbus.
- 11.4. The provincial Treasury must disclose the figure spent during the year under review for training and education of its employees as required by the Act. Furthermore, the treasury must provide the list of capacity development training programmes that were attended by employees during the 2017/18 financial year.

12. CONCLUSION

In conclusion, the Chairperson would like to thank the Honourable Members of the Portfolio Committee on Premier's Office; Finance; Economic Development and Tourism, the MEC, Head Official and her management team and the support staff of the Legislature for their availability, dedication and commitment shown during the deliberations.

This Committee report on the 2017/18 Annual Report of the Provincial Treasury is hereby tabled to the House with a request to adopt the report with its recommendations for implementation by

the treasury and report back by the MEC to the Honourable Speaker of the Legislature by no later than **28 February 2019** and thereafter, on a quarterly basis.



HON FV MLOMBO (MPL)

**CHAIRPERSON: PORTFOLIO COMMITTEE
ON PREMIER'S OFFICE; FINANCE;
ECONOMIC DEVELOPMENT AND TOURISM**

01. 11. 2018

DATE

