



REPORT 4 of 2018
SELECT COMMITTEE ON PUBLIC ACCOUNTS OF THE 5TH MPUMALANGA PROVINCIAL LEGISLATURE:
DEPARTMENT OF HUMAN SETTLEMENTS (2017/18 AUDIT FINDINGS)

1. INTRODUCTION

The Select Committee on Public Accounts (SCOPA) hereinafter referred to as 'the Committee', examined the annual report of the Department of Human Settlements; 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 which were subsequently presented during a hearing. This transparent process of engagement was aimed at assisting and guiding the Department on areas that require improvement and monitoring.

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

2. COMMITTEE PROCEDURES

The Committee met on 25 October 2018 to deliberate on the above reports and considered the report on 26 March 2019. Meetings of the Committee are 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 the delegation responded to various questions posed by the Committee during the hearing.

3. PROGRESS REPORT ON THE IMPLEMENTATION OF HOUSE RESOLUTIONS FOR 2016/17 FINANCIAL YEAR

The Committee considered progress made by the department in implementing previous House Resolutions relating to the 2016/17 financial year. The progress per House Resolutions is contained in the table below:

NO.	RESOLUTION	PROGRESS REPORTED	STATUS
OVERALL OBSERVATION (CLEAN AUDIT)			
ACHIEVING CLEAN AUDIT			
(i)	The Accounting Officer must provide the report on the investigation (Irregular Expenditure/sourcing on database)	The Accounting Officer received the final signed off report of the investigation on irregular expenditure from the Office of the Premier and presented to SCOPA. The Department has written to the Provincial Treasury regarding condonement of the Irregular expenditure in line with the conclusions of the investigation report.	Ongoing
COMPLIANCE WITH LEGISLATION			
EXPENDITURE MANAGEMENT (IRREGULAR EXPENDITURE)			
(i)	The Accounting Officer must take steps against those who are responsible for the Irregular Expenditure.	The investigation report indicates that there is no official liable in terms of law for the irregular expenditure thus the Accounting Officer has requested condonement of the Irregular Expenditure as per recommendations of the report.	Ongoing
(ii)	The Accounting Officer must provide to the Committee a progress report regarding the Request for Condonation of the Irregular Expenditure	The Department is awaiting a response from the provincial treasury regarding the condonation of irregular expenditure.	

PROCUREMENT AND CONTRACT MANAGEMENT			
(i)	The Accounting Officer must align the process flow for sourcing service providers in the database with the Supply Chain Management Policy, Preferential Procurement Act and report to the Committee with documentary evidence.	The Accounting Officer has developed a process flow for procurement of construction of Low-income earners housing units (RDP houses) which is aligned with the process utilized by the National Treasury in procuring transversal term contracts.	
FRUITLESS AND WASTEFUL EXPENDITURE			
(i)	The Accounting Officer must treat the Fruitless and Wasteful Expenditure in accordance with the policies of the department and on conclusion provide a report to the Committee.	The Department is in a process of writing off the Fruitless and Wasteful expenditure amounting to R331,000.00	

3.1. IMPLEMENTATION OF 2016/17 AUDIT ACTION PLAN

The Committee requested the Accounting Officer to provide a progress report on the implementation of the 2016/17 Audit Action Plan.

In response, the Accounting Officer mentioned to the Committee that the 2016/17 Audit Action Plan was fully implemented.

Two (2) of the thirty- seven (37) findings are yet to be resolved, however, the Department is currently working with the Office of the Premier to finalise the structure that will be submitted to DPSA for concurrence.

Recommendation

The Committee recommends that the House resolve that:

- (i) The Accounting Officer must provide progress made in implementing the outstanding two (2) findings in the Audit Action Plan.

4. COMMITTEE FINDINGS AND RECOMMENDATIONS

4.1. 2017/18 ANNUAL REPORT AUDIT FINDINGS

The Committee noted that the Auditor General reported that the department obtained an unqualified audit opinion with findings on Predetermined Objectives and Compliance for the 2017/18 financial year, further noting with disappointment that the department has maintained the same opinion for the past three financial years.

The Committee sought clarity on the Department's undertaking to obtain a Clean Audit Opinion in 2018/19 financial year.

In giving clarity, the department has developed and implementing a procurement strategy and a process flow responsive to the mandate of the sector where a standard price is predetermined. Once the bid is concluded, current running projects will be migrated into the new panel of contractors. The bid is however under evaluation by the Bid Evaluation Committee for finalisation.

Recommendation

The Committee recommends that the House resolve that:

- (i) The Accounting Officer must provide the Committee with the Bid Evaluation Report.

5. COMPLIANCE WITH LEGISLATION

5.1. PROCUREMENT AND CONTRACT MANAGEMENT

The Committee noted that the Auditor General reported that the Department procured Goods and Services with a value above R500 000 without following a process that is fair, equitable, transparent, competitive and cost effective as required by treasury regulations 16A3.2 (a).

The Committee questioned the accounting officer on the failure to adhere to the requirements of Treasury Regulation 16A3.2 (a), noting that this finding occurred in

the previous financial year, the action taken by the Accounting Officer to ensure that the reported matter is prevented from recurring in the 2018/19 financial year.

If approval to procure those goods without following the correct supply chain prescripts was granted, the Accounting Officer must provide proof or evidence of the approvals which were granted to deviate from the prescripts and provide a list of all projects/contracts that were awarded above R500 000.00 without following the correct process as required by Treasury Regulations 16A3.2(a)

Responding to the question, the Accounting Officer mentioned to the Committee that, the complexity of compliance with Treasury Regulation 16A3.2(a) where the price is given and Black Economic Empowerment rating is the same required ample time to consult both Auditor General of South Africa and Provincial Treasury on a better lasting solutions. The Department engaged in processes of developing a process-flow adequate to the mandate of the sector, however contractors who had remaining work with the Department that were contracted in the previous financial year continued to finish their contracted work.

The Accounting Officer has further mentioned that in consultation with the Auditor General of South Africa and Provincial Treasury developed a new procurement strategy and a process-flow for establishing a panel of service providers to ensure full compliance with Treasury Regulation 16A3.2(a). The Department has advertised the bid for construction of top structures in line with the procurement sourcing strategy and process flow.

The Department did not seek approval for deviation from the Provincial Treasury due to the matter not meeting both criteria for deviation which are sole Service Provider or when it is an emergency.

The Committee noted that the Department did not provide the correct list of all projects awarded above R5000 00.00 without following the correct processes as required by the Treasury Regulations 16A3.2.

Recommendations

The Committee recommends that the House resolve that:

- (i) The Accounting Officer must take disciplinary action against officials who failed to adhere to the Treasury Regulations 162A3.2
- (ii) The Accounting Officer must implement the Procurement Strategy and provide a progress report to the Committee.
- (iii) The Accounting Officer must take action against officials who did not adhere to the prescripts on awarding of all projects/contracts above the amount of R500 000.00

5.2. EXPENDITURE MANAGEMENT (IRREGULAR EXPENDITURE)

The Committee noted that the Auditor General of South Africa highlighted that the department incurred an irregular expenditure in the 2017/18 financial year of **R 984 535 000.00**. The Irregular expenditure is mainly a result of the selection process followed in appointing service providers for the construction of low cost housing units from the database not being transparent, fair and equitable. The irregular expenditure has now increased to **R2 945 048 000.00** emanating from the 2016/17 financial year which was R1 960 513 000.00

Based on the highlighted results by the AGSA, the Committee sought clarity on why the Department incurred an Irregular Expenditure amounting to **R984 535 000.00**, further required a detailed breakdown of the Expenditure, including names of contractors, number of units and locations as well as a proof of register that the Expenditure was reported to Treasury for condonation.

In giving clarity, the Accounting Officer mentioned to the Committee that the Department was engaged in a process of developing a process-flow adequate to the mandate of the sector. Contractors appointed previously and had remaining work with the Department, continued to finish their contracted work. The Accounting Officer referred the Committee to an attached letter of condonation written to Treasury as well as the Irregular Expenditure workbook for 2017/18.

Furthermore, the Committee wanted to know the progress made by the Accounting Officer in terms of regularizing the Irregular Expenditure of 2016/17 financial year amounting R1 960 513 000.00.

In response, the Accounting Officer mentioned that a full blown investigation was conducted and concluded in line with the guidelines on Irregular Expenditure. Recommendations of the report were used to seek approval for condonation from the Provincial Treasury.

Recommendations

The Committee recommends that the House resolve that:

- (i) The Accounting Officer must take steps against those who are responsible for the recurrence of Irregular Expenditure.
- (ii) The Accounting Officer must submit to the Committee the report of the investigation conducted.
- (iii) The Accounting Officer must conduct a forensic investigation on the R2 945 048.00.00 due to appointment of service providers not being transparent, fair and equitable.

6. PROGRESS TOWARDS ACHIEVING A CLEAN AUDIT

The Committee wanted to know what commitment the Accounting Officer makes to the Legislature in achieving a clean audit by the year 2019.

The Accounting Officer indicated that, the Department will be using the new sourcing strategy envisaged to commence in the fourth quarter of 2018/19 financial year.

Recommendations

The Committee recommends that the House resolve that:

- (i) The Accounting Officer must provide the Committee with a progress report on the implemented Procurement Strategy in working towards clean audit.

7. CONCLUSION

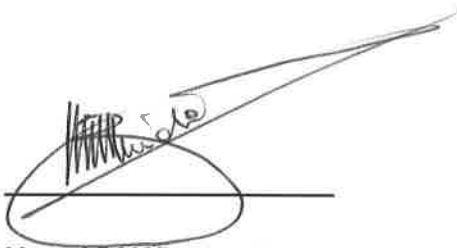
The Committee has satisfied the requirements of the Mpumalanga Provincial Legislature Rules and Orders of conducting oversight over the financial statements of the Department of Health. The Chairperson would like to express his heartfelt gratitude Honorable Members of the Committee, MEC, HOD and Senior Management for availing themselves to deliberate on matters pertaining to the Department.

The Chairperson would also like to thank the support staff for contributing to the production of this report.

Unless specified differently, progress on all resolutions must be submitted to the Legislature by the 26 June 2019 and on a quarterly basis afterwards.

8. ADOPTION

The Select Committee on Public Accounts recommends that the House adopt this report and its recommendations as House Resolutions.



Hon. VV Windvoël

**Chairperson: Select Committee on Public Accounts
Mpumalanga Provincial Legislature**

02/04/2019

Date