



REPORT 6 OF 2018
SELECT COMMITTEE ON PUBLIC ACCOUNTS OF THE 5TH MPUMALANGA PROVINCIAL LEGISLATURE:
DEPARTMENT OF SOCIAL DEVELOPMENT (2017/18)

1. INTRODUCTION

The Constitution of the Republic of South Africa, Act 108 of 1996 empowers Provincial Legislatures to establish mechanisms to maintain oversight on provincial executive authority and organs of state. The Legislature through its Standing Rules and Orders has established the Select Committee on Public Accounts (SCOPA) hereinafter referred to as 'the Committee', and entrusted it with the responsibility to conduct financial scrutiny and examination of all financial statements and reports of the Auditor-General tabled before the House.

The Committee sent preliminary questions to the Department of Social Development and received responses which were subsequently presented during a hearing of the Committee. 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 and wish to report as follows;

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 section 118 (1) (b) of the Constitution of the Republic of South Africa, Act No. 108 of 1996 and in line with the Standing Rules and Orders of the Mpumalanga Provincial Legislature, 2013.

3. PROGRESS REPORT ON HOUSE RESOLUTIONS 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	Findings	Resolution	Progress	Status
1	Predetermined Objectives	The Accounting Officer must conduct quarterly review on performance information and ensure that evidence is verified per target	The department has conducted scheduled performance information verification at all three districts for the first quarter. After the verifications the department conducted a review session where at the challenges identified are discussed and new interventions are developed. As it is, the department will be conducting district-based review sessions with the view to dealing with challenges at that level prior to a much broader and bigger provincial session.	Ongoing

No	Findings	Resolution	Progress	Status
2	IRREGULAR EXPENDITURE	<p>(i) The Accounting Officer must provide a progress report on investigation on irregular expenditure and progress made towards condonation of the Irregular Expenditure.</p> <p>(ii) The Accounting Officer must ensure that disciplinary measures are taken against officials who caused the irregular expenditure.</p>	<p>The department is still waiting for the investigation report from the Office of the Premier (OTP). The department will take appropriate action once the report is received.</p> <p>No official in the Department is guilty of causing the irregular expenditure. The irregular expenditure has been caused by the Rapid Implementation Unit (RIU), which failed to comply with proper Supply Chain management processes when procuring social Infrastructure projects on behalf of the Department.</p>	Ongoing

3.	ACCRUALS	The Accounting Officer must develop a plan that will ensure that invoices are paid within 30 days after receipt of invoice.	Accruals are managed monthly through analysis of commitment reports, payment registers and performance of reconciliation of invoices received and paid. The reports, registers and reconciliation are done monthly.	Ongoing
4	PROGRESS TOWARDS ACHIEVING CLEAN AUDIT	The Accounting Officer must ensure that there are plans to deal with prior year audit findings issues raised by Audit Committee, that the department implements all the remedial actions as raised by Auditor General in the management report and as per audit remedial action plan	The Department developed an Audit Action Plan to address matters raised in 2016/17 AG management report which is fully monitored and reported on to Provincial Treasury on a monthly basis. The Department also identifies areas of weaknesses during its own operations, through its M&E Unit, Internal Control Unit and Internal Audit Unit, and strengthens such areas	Ongoing

4. COMMITTEE FINDINGS AND RECOMMENDATIONS

5. AUDIT OPINION 2017/18

The Committee has noted that the Auditor General reported that the Department of Social Development received an "unqualified audit opinion with findings on pre-determined objectives and compliance" in the 2017/18 financial year. The Accounting Officer was required to outline the contributing factors that have influenced the lack of movement in terms of the unqualified audit opinion with findings which has been the same as that of the 2016/17 financial year.

The Accounting Officer indicated that the lack of movement in terms of the unqualified audit opinion was caused by material misstatements in the annual financial statements. It was also indicated that they emanated from the classification of transactions where funds were transferred to NPOs for services rendered in relation to their area of work. The transactions were classified as transfers and subsidies to NPOs, however during the audit, following circular 21 of National Treasury which was issued on 28 May 2018. The Accounting Officer further indicated that some of the transactions were found not to be meeting all the criteria to be classified as transfers but goods and services.

5.1. RECOMMENDATIONS

The Committee recommended that:

- (i) The Executive Authority must ensure that the Accounting Officer develops a plan that will assist the Department to obtain a clean audit in the 2018/19 financial year.

6. Restatement of corresponding figures

The Committee noted that the Auditor General reported that in note 44 to the financial statements that the corresponding figures for 31 March 2017 have been restated as a result of an error in the financial statements of the department for the year ended in 31 March 2018. The Committee wanted to know why the Accounting Officer failed to ensure that the reported achievement of targets is supported by reliable evidence.

The Accounting Officer indicated that adequate controls were implemented through the verification of departmental performance information every quarter; and strengthening the collaboration with other directorate responsible for information management to ensure that correct use of information collection tools are used. It was also indicated to the Committee that this will assist in ensuring that correct portfolio of evidence submitted are aligned to the approved means of verification in the Technical Indicator Descriptions as approved by the Accounting Officer.

6.1 RECOMMENDATIONS

The Committee recommended that:

- (i) The Accounting Officer must take disciplinary measures against official/s for not ensuring that the corresponding figures are accurate and credible.

7. Adjustment of Material Misstatements

The Committee noted that the Auditor General reported identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of the social welfare services, the children and families, and the development and research programmes.

The Committee wanted to know the different strategies that have been used by the Accounting Officer to turn around the situation and prevent material misstatements as

the previous strategies have evidently failed to address the matter. In response, the Accounting Officer indicated that adequate controls were implemented through the reconciliation of departmental accounts every month and implementation of circulars for changes with regard to the Standard Chart of Accounts. The classification circular was issued on 28 May 2018 and applied retrospectively; and all transactions processed prior to the circular had to be re-classified after the accounting systems had closed for year-end.

The Accounting Officer was further required to give details on the internal controls measures put in place to mitigate material misstatements. The Committee was informed that adequate controls were implemented through the reconciliation of departmental accounts every month and implementation of circulars for changes with regard to the Standard Chart of Accounts.

7.1 RECOMMENDATIONS

The Committee recommend the House to resolve that:

- (i) The Executive Authority must ensure that the Accounting Officer take disciplinary measures against official/s for identified material misstatements in the annual performance report that were not submitted for auditing.

8. Compliance with Legislation

The Committee noted that the Auditor General reported that financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework, as required by section 40(1)(a) and (b) of the PFMA. Material misstatements of transfers and subsidies identified by the auditors in the submitted financial statements were corrected, resulting in the financial statements receiving an unqualified opinion.

The Committee wanted to know why the department submitted incorrect financial statements as prescribed by financial reporting framework required by the PFMA and Treasury Regulation while a committee which reviews and monitor the preparation of annual financial statements has been established. The Accounting Officer indicated that

material misstatements in the Annual Financial Statements emanate from classification of transactions where funds were transferred to NPOs for services in relation to their area of work.

8.1 RECOMMENDATION

The Committee recommended that;

- (i) The Accounting Officer must take disciplinary measures against official/s who failed to ensure that financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework, as required by section 40(1)(a) and (b) of the PFMA.

9. Consequence Management

The Committee noted that the Auditor General has found that there were transgressions identified in the period under review in relation to improper conduct in Supply Chain Management by suppliers that must be investigated and disciplinary steps taken based on the results of the investigations. The Accounting Officer was requested to provide reasons which led to the high number of employees transgressing Supply Chain Management processes.

The Accounting Officer indicated that transgression of Supply Chain Management processes relates to the use of service providers by the Office of the Premier to handle litigation matters. The award of the tender was found to be irregular due to the fact that points were incorrectly calculated.

9.1 Recommendations

The Committee recommended that the House resolve that:

- (i) The Accounting Officer must take disciplinary action/s against official/s within the SCM for irregular expenditure due to the fact that points were incorrectly calculated

10. IRREGULAR EXPENDITURE

The Committee noted that the Auditor General reported that the department incurred an irregular expenditure amounting to **R 95 692 000** compared to that of 2016/17 which amounted to R 95 401 000 indicating an escalation of **R 291 000.00**, awaiting condonation from treasury.

The Committee wanted to know the basis of the escalation of the irregular expenditure by **R291 000.00**. The Committee was notified that the escalation relates to the use of service providers appointed to handle legal matters of the Province. The award of the tender was found to be irregular due to the fact that points were incorrectly calculated.

The Committee enquired on the progress with regard to the investigation in respect of the **R 95 692 000** irregular expenditure. The Accounting Officer indicated that the matter was referred to the Office of the Premier together with supporting documents for investigation of which the Department is awaiting the report. The Accounting Officer was required to share with the Committee on the corrective measures put in place to prevent the recurrence of irregular expenditure. The Accounting Officer indicated that the Department is represented in the Bid Committees of the Department of Public Works, Roads and Transport for evaluation and adjudication of Social Development infrastructure projects.

10.1 RECOMMENDATIONS

The Committee recommended that the House resolve that:

- (i) The Accounting Officer must provide a progress report on the investigation of the irregular expenditure amounts to **R 95 692 000** and progress made towards condonation of the irregular expenditure.
- (ii) The Accounting Officer must make a follow up on the matter of irregular expenditure with the Office of the Premier.

11. FRUITLESS AND WASTEFUL EXPENDITURE

The Committee noted that the Auditor General reported that the department incurred a fruitless and wasteful expenditure amounting to **R 1 000 000** as a result of interest charged due to late payments. The Accounting Officer was required to explain why the department contravened Treasury Regulation 8.2.3 of 30 days payments.

The Accounting Officer indicated that the amount incurred for fruitless and wasteful expenditure as reported is being under investigation in the annual financial statements amount to R4 000.00. The amount of **R2 000.00** has been recovered and a balance of **R2 000.00** is reflected in the annual financial statements which is still to be recovered. The expenditure was incurred in settlement of penalties for late payment of a Court Order.

11.1 Recommendations

The Committee recommended that the House resolve that:

- (i) The Executive Authority must ensure that the Accounting Officer provide a progress report on the investigation of the fruitless and wasteful expenditure.
- (ii) The Accounting Officer must take disciplinary measures against the responsible official/s who contravened Treasury Regulation 8.2.3 of 30 days payments

12. ACCRUALS

The Committee noted that the Auditor General reported that the department has accruals amounting to **R 3 208 000** which is an increment of **R 2 207 000** in contrast

with the total accruals of **R1 001 000** incurred in the **2016/17** financial year. The Accounting Officer was required to provide reasons for the accruals of **R3 208 000** as incurred by the department.

The Accounting Officer indicated that the accruals amounting to the total of **R 3 208 326** were incurred as a result of goods and services (**R 984 404**) and work done on infrastructure projects (**R 2 223 923**), for which invoices had not been received by the end of March 2018. Invoices for both the goods and services, and infrastructure were received and paid during the first quarter in the 2018/19 financial year.

12.1 Recommendations

The Committee recommended that the House resolve that:

- (i) The Accounting Officer must take disciplinary actions against official(s) for incurring accruals that were not cash backed.

13. PROGRESS TOWARDS ACHIEVING A CLEAN AUDIT

The Committee noted that the department has received an unqualified audit opinion in the 2017/18 financial year. The Committee wanted to know what measures has the Accounting Officer put in place to ensure that a clean audit is achieved in the 2018/19 financial year.

The Accounting Officer indicated that the department will continuously review the implementation and effectiveness of the current internal control systems and the implementation of circulars for changes with regard to the Standard Chart of Accounts.

The Committee enquired on what challenges the Accounting Officer envisages that might hamper the achievement of a clean audit in 2018/19 financial year. The Accounting Officer indicated that the departmental internal controls might be compromised by high vacancy rates particularly in strategic positions.

13.1 RECOMMENDATIONS

The Committee recommended that the House resolve that:

- (i) The Accounting Officer must ensure that there are plans to deal with prior year audit outcomes.
- (ii) The Executive Authority must ensure that the Accounting Officer submit a plan that will ensure that the department obtains a clean audit.
- (iii) The Accounting Officer must strengthen the internal control systems and the implementation of circulars for changes with regard to the Standard Chart of Accounts

14. CONCLUSION

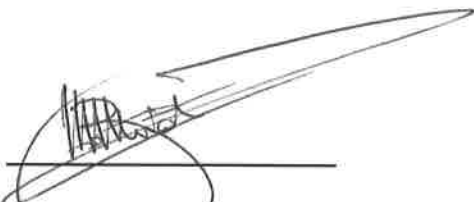
The Committee has satisfied the requirements of the Mpumalanga Provincial Legislature Rules and Orders of conducting oversight over the financial statements of the entity. The Chairperson would like to express his heartfelt gratitude to Honorable Members of the Committee, MEC, HOD and Senior Management 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 otherwise stated a report detailing progress made in the implementation of all recommendations in this report should be forwarded to the Legislature by 26 June 2019 and thereafter on quarterly basis.

15. ADOPTION OF THE REPORT

The Select Committee on Public Accounts recommends that the House adopt the report with its recommendations.



HON. VV WINDVOËL

CHAIRPERSON

SELECT COMMITTEE ON PUBLIC ACCOUNTS

02/04/2019

DATE