



REPORT 07 OF 2018
SELECT COMMITTEE ON PUBLIC ACCOUNTS OF THE 5TH MPUMALANGA PROVINCIAL LEGISLATURE:
DEPARTMENT OF AGRICULTURE, RURAL DEVELOPMENT AND LAND ADMINISTRATION (2017/18)

1. INTRODUCTION

The Select Committee on Public Accounts (SCOPA) hereinafter referred to as 'the Committee', examined the annual report of the Department of Agriculture, Rural Development and Land Administration; 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 oversight process was aimed at assessing prudent financial management, good governance and value for money appropriated by the Legislature. The Committee identifies areas that require attention of the department and measures that can be put in place to improve service delivery.

The Committee discharged its mandate over the reports of the Department and matters raised in the report of the Auditor General.

2. COMMITTEE PROCEDURES

The Committee met on 26 October 2018 to deliberate on the above report and considered the report on 26 March 2019. The meeting of the Committee was open 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.

3. PROGRESS REPORT ON THE 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:

	<u>RESOLUTION</u>	<u>PROGRESS UP TO DATE</u>	<u>STATUS</u>
1. EMPHASIS OF MATTER	(i) The Accounting Officer must develop a strategy that will ensure quality assurance of financial statements prior to submission to Auditor General.	The Department continues to conduct its financial statements review by Finance Senior Managers including Head of Risk Management, Senior Management of the Department and Internal Audit that will conduct final quality review. The review of all documents that serve as a feeder to financial statements happens on a monthly and quarterly basis.	Ongoing
2. IRREGULAR EXPENDITURE	(i) The Accounting Officer must provide a progress report on process engaged upon to regularise the investigated irregular expenditure.	The Department has not yet received the outcome for irregular expenditure that was submitted, however, the Department has done the re-application to Provincial Treasury in order to engage National Treasury for condonation of these irregular expenditure	Ongoing

	(ii)The Accounting Officer must ensure that disciplinary measures are taken against the implicated officials following investigation(s).	The Department concluded the investigation and it was found that there was no official implicated in the irregular expenditure therefore no disciplinary action could be taken.	Closed
	(iii)The Accounting Officer must make a follow up on the matter of irregular expenditure with Governance and Compliance Advisory Committee and provide a progress report.	The Department made a follow up and requested a progress report to the Governance and Compliance Advisory Committee as constituted by Provincial Treasury. The response was that our submission was considered and subsequently submitted to National Treasury for condonation. However, the Department realizing the delay, made the re-submission to Provincial Treasury in order to engage National Treasury directly for condonation of these irregular expenditure.	Ongoing
	(vi)The Accounting Officer must provide proof that the irregular expenditure amounting to R5 466 000.00 is being investigated by	The amount of R5 466 000.00 is part of the list of irregular expenditure as indicated in 1.2 (iii) above	Closed

	MEGA and progress thereof.		
3.EXPENDITURE MANAGEMENT	(i)The Accounting Officer must provide a report on the outcome of the referral of Irregular Expenditure amounting of R76 390 000 to Governance and Compliance Advisory Committee (treatment).	The Department received a confirmation from the Governance and Compliance Advisory Committee that the matter has been referred to National Treasury for condonation as in attached annexure A under 1.2 (i) above.	Closed
4.INTERNAL CONTROLS (LEADERSHIP)	(i)The Accounting Officer must use effective monitoring controls to monitor the implementation of daily and monthly controls.	The Department is currently implementing strict internal controls and related officials have been trained accordingly. The controls are monitored through various systems that include the weekly Executive Management meetings	On-going
5.REPORT OF THE AUDIT COMMITTEE	(i)The Accounting Officer must ensure that The Department has a plan in place to adequately implement the	The Department has an audit action plan that talks to all issues raised by the AG, Internal Audit and Audit Committee. The progress on the plan is reported monthly to the Management meetings and quarterly to the Audit	Ongoing

	internal and external recommendations by the Audit Committee and other assurance bodies.	committee	
7. REPORT OF THE AUDIT COMMITTEE	The Accounting Officer must ensure that the process of paying officials transferred to the Department of Health is finalised not later than 30 September 2017.	The department has since written a letter to the Department of Health on 11 July 2017 to request back the submitted personnel files, with the intention of absorbing the excess staff into the positions that were vacated through various terminations. The department awaits the response from the Department of Health to finalise the process and progress on the matter will be reported to the Committee upon conclusion	Ongoing
	The Accounting Officer must ensure that the department has a plan in place to adequately implement the internal and external recommendations by the Audit Committee and other assurance bodies	The department has developed an Audit Action Plan and Decision Register which are monitored on a quarterly and monthly basis respectively. Progress on the plans is discussed during the Audit Committee sittings and management meetings.	Ongoing
8.ACCRUALS	(i)The Accounting Officer must ensure invoices are paid within 30 days after receipt of invoice.	The Department will continue monitoring the implementation of the invoice tracking register and furthermore, The Department has centralized the receipt of invoices and	Ongoing

		strengthen the contract management unit through secondment of an official. This official will ensure that all disputes are resolved within the reasonable time and invoices are tracked from initial to payment date. The Department has for the past two months noted an improvement in the payment period to within fourteen (14) working days.	
9.PROGRESS TOWARDS ACHIEVING A CLEAN AUDIT OPINION	(i)The Accounting Officer must ensure that there are plans to deal with prior year audit outcomes.	The Department had since improved from the audit issues raised in the prior year and there are only three issues that the Department is addressing to obtain a clean audit. The issues addressed in the prior years include amongst others; supply chain management, asset management and performance information. In addition, the Department has developed an audit action plan that talks to all issues raised by the AG, Internal Audit and Audit Committee. The progress on the plan is reported monthly to the Management meetings and quarterly to the Audit committee.	Ongoing
	(ii)The Accounting Officer must thrive to obtain a clean audit opinion.	The Department will thrive to obtain a clean audit opinion by addressing the issues that prevented the Department from obtaining a clean audit. In addressing the issues, the Department took an initiative to benchmark with better performing Provinces operating on the same sphere of operations to enhance the system of internal controls in this area. The	Ongoing

		Department ensured that key departmental officials involved in the bid processes are trained on SCM processes by the Department of Trade and Industry and National Treasury.	
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Comments by the Committee

The Committee noted with concern that the department’s record system is not properly managed, there was no accountability on the missing files that contains information relating to tenders that have been previously awarded by the department dating back to 2004. The Accounting Officer acknowledged the comments by the Committee and indicated that the departmental record keeping system has improved and all files are now kept safe with the assistance of IT. The Committee noted with appreciation that the department has improved as reported that they have plans in plans of paying service providers within 14 days.

COMMITTEE FINDINGS AND RCOMMENDATIONS

4. EMPHASIS OF MATTER

The Committee has noted that the Auditor General reported that the corresponding figures for 31 March 2016 have been restated as a result of an error discovered during 2017-18 in the financial statements of the department as at end of the year, 31 March 2018.

The Committee wanted to know why—the Department failed to review its quarterly/ interim reports during the year; in order to ensure that the final submitted financial statements are free from errors before submitting to the Auditor General. The Accounting Officer indicated that the department has strong internal control environment for review and monitoring the quarterly and annual financial statements which are supported by monthly schedules or reports. The Department does review its financial statements before submitting to Auditor-General.

The departmental reports are further reviewed by Internal Audit for quality assurance and Audit Committee in terms of compliance with internal control systems before submission to Auditor-General

4.1 RECOMMENDATIONS

The Committee recommends that the House resolve that:

- (i) The Executive Authority must take disciplinary measures against the Accounting Officer for failing to ensure that the final submitted financial statements are accurate and credible.
- (ii) The Accounting Officer must develop a strategy that will ensure quality assurance of financial statements prior to submission to Auditor General.

5. ACCRUALS AND PAYABLES

The Committee has noted that the Auditor General reported that payables that exceeded the payment term of 30 days as required in Treasury Regulation 8.2.3. amounted to **R9 911 000**. This amount, in turn, exceeded the voted funds to be surrendered of **R2 578 000** as per the statement of financial performance by **R7 333 000**. The amount of **R7 333 000** would therefore have constituted unauthorized expenditure had the amounts due been paid in a timely manner

The Committee wanted to know what prompted the Department to procure goods and services while there are no funds in the bank to pay for the services. The Department received invoices of the multi-year projects towards the end of the financial year, for projects that were meant to be completed in the next financial year, this suggested that the projects were completed earlier than planned. These projects were planned to be implemented in the current financial year (2018/19). The delay in payment was not intentional but influenced by speedily completion of planning processes for some of the projects.

The Committee enquired why the Accounting Officer intentionally contravened the Treasury Regulation 8.2.3 to avoid unauthorised expenditure.

The Accounting Officer indicated that the Department received invoices of the multi-year projects towards the end of the financial year of the projects that had been planned to be completed in the current financial year. The services were budgeted for in the current financial year.

The Committee also wanted to know why the Supply Chain Management systems or internal control systems failed to detect that the Department no longer has money in the bank to pay for goods and services procured. The Accounting Officer indicated that the Department instructed the internal engineers to start the process of planning and designing for the projects to be implemented in the following year. In executing the mandate, the internal engineers then engaged the services of appointed consulting engineers within the Department. This then led to the consulting engineers submitting invoices earlier than anticipated.

The Committee further enquired on what measures did the Accounting Officer put in place to ensure that the Department always adheres to Treasury Regulation 8.2.3. The Accounting Officer indicated that the Department has an invoice tracking system that tracks invoices from the date an invoices is submitted by the creditor until it is paid. The register is able to document reasons for delays in invoice payments. The Committee was notified that the Department is also introducing the bulk SMS notification system

with the aim of notifying creditors of their invoice payment stages and challenges with payments in order to correct problems with invoices timely to avoid late payments, Invoice receipts is centralized to ensure effective tracking of invoices and prevention of late payments. The Department has also ensure that contract management unit is strengthened to ensure that all disputes are resolved promptly.

5.1 Recommendations

The Committee recommended that:

- (i) The Executive Authority must ensure that the Accounting Officer pays invoices within 30 days and take disciplinary measure against those official(s) that have violated Treasury Regulation 8.2.3.
- (ii) The Accounting Officer must ensure that the department strictly adheres to prescript such as the PFMA to prevent the unauthorized expenditure.
- (iii) The Accounting Officer must put measures that will ensure that the Department always adhere to Treasury Regulation 8.2.3.

6. IRREGULAR EXPENDITURE

The Committee has noted that the Auditor General noted that irregular expenditure of R10 678 000 was as a result of a tender process that had not been followed. The Committee wanted to know why the Department obtained the same audit finding of irregular expenditure as was the case in the previous financial year.

The Accounting Officer indicated that an amount of **R10 678 000** of an irregular expenditure that was incurred in 2017/18 is made up of an amount of **R10 336 000** which relates to contracts that were previously declared as irregular and were reported as such, in addition an investigation was conducted and these irregularities were submitted to Governance and Compliance Advisory Committee for condonation. The Committee commended the department for taking disciplinary measures against the officials regarding the **R342 000** that were found guilty of misusing petrol card for GG

vehicles, it was further indicated to the Department that more actions must be taken for those responsible for irregular expenditure.

The Committee also wanted to know the corrective system put in place by the Accounting Officer to ensure that the reported finding does not recur in the 2018/19 financial year. The Accounting Officer indicated that the Department is continuing to train Supply Chain Management Practitioners, Bid Evaluation Committee (BEC) and Bid Adjudication Committee (BAC) members. This includes training of end users and issuing of internal circulars to ensure that all audit matters are resolved. The Department has strengthened the contract management unit through secondment of an official. The Committee was also informed that the Department will endeavour to ensure that these irregularities on non-compliance matters do not recur in the appointment of new contracts.

6.1 RECOMMENDATIONS

The Committee recommended that:

- (i) The Executive Authority must take disciplinary actions against the Accounting Officer for the irregular expenditure of **R10 678 000** due to a tender process that had not been followed.
- (ii) The Accounting Officer must ensure that disciplinary measures are taken against the implicated official/s following investigation(s) on the irregular expenditure.

7. FINANCIAL STATEMENTS, PERFORMANCE REPORT AND ANNUAL REPORT

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

The Committee wanted to know why the Accounting Officer failed to submit the financial statements that are free of material misstatements. The Accounting Officer indicated that the Department has all the controls in place, however, it must be noted that due to late communication of new development in accounting standards/framework that are introduced late in the financial year, this had an adverse effect on the performance of the Department in this regard.

The Committee also enquired on what measures did the Accounting Officer put in place to ensure that the reported finding does not recur in 2018/19 financial year.

The Accounting Officer reported that the Department will continue reviewing its financial statements before submitting to Auditor-General by the following bodies:

- Finance Directors including CFO and Head of Risk Management will conduct detailed analysis of financial statement to ensure quality assurance;
- Senior Management of the Department;
- Provincial Treasury;
- Internal Audit will conduct final quality review; and
- Audit Committee.

The Departmental committees and senior management conducts monthly and quarterly review of financial reports respectively as part of ensuring that all management assertions are considered.

7.1 Recommendations

The Committee recommended that:

- (i) The Accounting Officer must take disciplinary measures against official/s for not ensuring for not adhering to section 40 (1)(b) of the PFMA.

8. PROCUREMENT AND CONTRACT MANAGEMENT

The Committee noted that the Auditor General reported that bid documentation for the procurement of commodities designated for local content and production did not stipulate the minimum threshold for local production and content, as required by Preferential Procurement regulation 9(1).

The Committee wanted to know why the Accounting Officer contravened the Preferential Procurement Regulation 9(1). The Accounting Officer indicated that the Department acknowledges that they have contravened the Preferential Procurement regulation 9(1) which relates to inclusion of the local production and content as part of bid specification. The Department was using SBD 6.2 only as part of compliance in this regard. The Department has since provided training to management and officials involved in bid processes to ensure that there is compliance to this effect. The Committee commended that the Department is currently working with Treasury and Department of Trade and Industry to ensure that all technical aspects of local production and content are adhered to.

The Accounting Officer was required to explain why the department failed to implement effective internal control measures to prevent the contravention of the regulations. The Accounting Officer indicated that while they are preparing the bid specification for the contracts, the Department omitted an inclusion of local production and content since it was under the impression that SBD 6.2 covered this, which is attached to all Bid documents. This omission was caused by lack of training.

The Committee wanted know the system that has been put in place to ensure that the reported finding does not recur in the 2018/19 financial year. The Accounting Officer indicated that the Department has since provided training to Bid committees and management to ensure that there is compliance to this effect. The Department is currently working with Treasury and Department of Trade and Industry to ensure that all technical aspects of local production and content are adhered to.

8.1 RECOMMENDATIONS

The Committee recommended that:

- (i) The Accounting Officer must take disciplinary actions against the officials for contravening the Preferential Procurement Regulation 9(1).

- (ii) The Accounting Officer must develop adequate capacity within the Procurement, Contract Management and Infrastructure Management Section.

9. EXPENDITURE MANAGEMENT

The Committee noted that the Auditor General reported that payments were not made within 30 days or an agreed period after receipt of an invoice, as required by Treasury Regulation 8.2.3.

The Committee wanted to know why the Accounting Officer intentionally contravened the Treasury Regulation 8.2.3 by not paying creditors within 30 days as required. The Accounting Officer indicated that the payment of Service Providers outside the 30 days was due to the following key challenges:

- The Department received invoices of the multi-year projects after the cutoff date, which suggest that the projects were completed earlier than a planned period
- Failure by Service Providers to update their Central Supplier Database (CSD) status on time. Upon update, it takes two to seven days for CSD to integrate the details with BAS. Furthermore, any updates of information by suppliers on CSD results in further delays on the CSD status. This therefore affects the payment period.
- Within the year under review, there were invoices that were under dispute with the Service Providers, however, such invoices were paid after dispute resolution.

The Committee wanted to know what systems the Department has, in ensuring that all Service Providers submit invoices timeously and are paid within the agreed timeframe. The Accounting Officer indicated that, the Department has an invoice tracking system that tracks invoices from the date an invoices is submitted by the creditor until it is paid. The register is able to document reasons for delays in invoice payments. The Department has also introduced a bulk SMS notification system with the aim of notifying

creditors of their invoice payment stages and challenges with payments in order to correct problems with invoices timely to avoid late payments

9.1 Recommendations

The Committee recommended that:

- (i) The Accounting Officer must ensure that the Department pays invoices received within 30 days as prescribed by section 38(1) of the PFMA.

10. PROGRESS TOWARDS ACHIEVING A CLEAN AUDIT OPINION

The Committee noted that the Department has received an unqualified audit opinion with matters in the 2017/18 financial year, indicating no movement in terms of the audit opinion since the previous financial years. This is despite the commitments made to the Committee that the Department will receive a clean audit in the 2017/18 financial year.

The Committee wanted to know why the Department failed to obtain a clean audit opinion in the 2017/18 financial year. The Accounting Officer indicated that the Department failed to obtain a clean audit opinion due to correction of errors as a result of technical interpretation and application of modified cash standard and irregular expenditure resulting from previous contracts. The Department is implementing the Audit Action Plan in addressing these matters towards obtaining the clean audit.

The Committee enquired on the measures that have been put in place to ensure that a clean audit is achieved in the 2018/19 financial year. The Accounting Officer indicated that, the Department is monitoring all instances of control weaknesses through management meetings, Risk Committee and Audit Committee sittings (Audit Action Plan). The Department also make follow up with Provincial Treasury on the issue of ratification of previous irregular expenditure.

The Accounting Officer was required to share with the Committee on challenges envisaged by the Department that might hamper the achievement of a clean audit in 2018/19 financial year. The Accounting Officer indicated that the Department might be hampered by the continuous resignations and retirements of employees without replacements including fatigue taking its toll on officials who are performing additional responsibilities.

10.1 RECOMMENDATIONS

The Committee recommended that:

- (i) The Accounting Officer must ensure that there are plans in place to deal with prior year audit outcomes.
- (ii) The Accounting Officer must strive to obtain a clean audit opinion.

11. 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. The Chairperson extends a word of gratitude to 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.

12. ADOPTION OF THE REPORT

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

HON. VV WINDVOËL
CHAIRPERSON
SELECT COMMITTEE ON PUBLIC ACCOUNTS

DATE

11. CONCLUSION

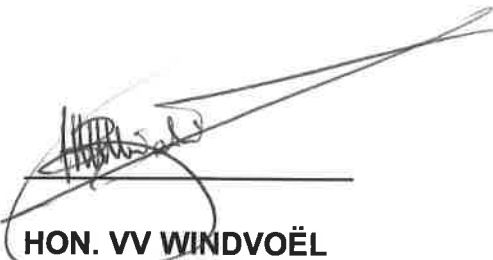
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A handwritten signature in black ink, appearing to read 'VV Windvoël', is written over a horizontal line. The signature is somewhat stylized and includes a large flourish extending upwards and to the right.

HON. VV WINDVOËL

CHAIRPERSON

SELECT COMMITTEE ON PUBLIC ACCOUNTS

02/04/2019

DATE