



REPORT 8 of 2018
SELECT COMMITTEE ON PUBLIC ACCOUNTS OF THE 5TH MPUMALANGA PROVINCIAL LEGISLATURE:
DEPARTMENT OF ECONOMIC DEVELOPMENT, ENVIRONMENT AND TOURISM (2017/18)

1. INTRODUCTION

The Select Committee on Public Accounts (SCOPA) hereinafter referred to as a Committee, examined the annual report of the Department of Economic Development, Environment and Tourism; 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 26 October 2018 to deliberate on the above reports and considered the report on 26 March 2019. Meetings of the Committee were 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.

3. PROGRESS REPORT ON SCOPA RESOLUTION 2016/17 FINANCIAL YEAR

The Committee has noted that the department received a clean audit opinion for the 2016/17 financial year. Based on the above-mentioned, the Committee required the Accounting Officer to indicate the plans that have been put in place to ensure that the Department maintains a clean audit opinion in the financial year; 2017/18.

3.1 IMPLEMENTATION OF THE 2017/18 AUDIT ACTION PLAN

The Committee asked the Accounting Officer to provide the progress report on the implementation of the 2017/18 Audit Action Plan.

The Accounting Officer indicated that a remedial action plan has been prepared and submitted to Provincial Treasury. Progress in respect of this action plan is being monitored on an ongoing basis. The Accounting Officer further stated that most recent version of the 2017/18 audit action plan has been developed and attached for the Committee's attention.

4. IRREGULAR AS WELL AS FRUITLESS AND WASTEFUL EXPENDITURE

The Committee noted that Auditor General on page 125 of the annual report raised a concern on the irregular as well as the fruitless and wasteful expenditure which was incurred by the department in previous years which had to be cleared. The Accounting Officer indicated that the department did not incur any of these expenditures in the financial year under review and these cases were not incurred in the two previous financial years. These are amounts of **R9 317 000** for irregular expenditure and **R3 936 000** for fruitless and wasteful expenditure. The department has stated that there

are investigations currently taking place. The similar concern was raised in the previous financial year by the Select Committee.

The Committee noted that some of the investigations mentioned above span back as far as three to six years and it raised concerns as to why has it not been finalised.

The Accounting Officer indicated that the reason for not finalising the investigations on irregular, fruitless and wasteful expenditure was tabulated as follows:

	Nature of irregularity	Reason for not finalising the investigations and progress to date	Amount R
1.	Performance bonuses paid to SMS employees who had not signed service level agreements	The Accounting Officer indicated that the evidence was missing from the files and further indicated that the department would investigate and take appropriate measures	62 000
2.	Payment of out of Court settlement for services rendered in relation to Maputo Dev. Corridor Flaship.	The Accounting Officer indicated that the case was transferred to the National Department of Tourism (NDT) after the responsible official had joined that Department. Follow-ups would be made with the NAT to determine how the matter was handled.	1 151 000
3.	Payment of expired lease contracts. (Actual amount –R92 914 .42)	The evidence of any investigation is missing from the files.	93 000
5.	Non-compliance with SCM guidelines. SBD4	Disciplinary processes were concluded and	309 000

	forms not signed by service providers.	warning letter issued to the responsible official. The department intends to apply for condonation	
6.	Department traded with suppliers prohibited to trade with the State and with official in service with no declaration of interest.	The evidence of any investigation is missing from the files. The department will investigate and take appropriate measures.	2 807 000
7.	Procurement of goods and services without inviting three written quotations and approval thereof not granted by the delegated person.	The evidence of any investigation is missing from the files. The department will investigate and take appropriate measures.	266 000
8.	Contracts awarded to bidders whose bids were received after the closing date.	Disciplinary processes were concluded and warning letter issued to the responsible official. The department intends to apply for condonation.	2 999 000
9.	Awards made to bids not scoring the highest points. Objective criteria not used to justify grounds for not selecting bids with the highest points.	Disciplinary processes were concluded and warning letter issued to the responsible official. The department intends to apply for condonation.	458 000
REGISTER OF FRUITLESS EXPENDITURE			
N	Nature of irregularity	Progress to date	Amount
o			
i.	Ubuka Trading	Disciplinary processes were concluded and warning letter issued to the responsible official.	1 053 000

		The Department will apply for condonation. Environmental Services when transferred to the department	
ii.	Ubuka Trading Rental for vacant office building and security services in Lieliweg park Ermelo. Offices were subsequently occupied	Disciplinary processes were concluded and warning letter issued to the responsible official. The Department will apply for condonation.	1 538 000
iii.	Silulu Inv Rental for vacant office building and security services in Venter street, Nelspruit. Offices were subsequently occupied	Disciplinary processes were concluded and warning letter issued to the responsible official. The Department will apply for condonation.	1 345 000
			3 936 000

The Committee asked the department on the plans in place to expedite the process of the investigations.

The Committee was informed by the Accounting Officer that the department would request a written update from Directorate of Priority Crime Investigation (DPC) on all criminal complaints that were lodged and not yet concluded. The Accounting Officer further stated that the Office of the State Attorney would be requested to provide written opinions on the cases in which recovery prospects remain reasonable but there were delays; where prospects are not good, a formal request would be submitted through the Accounting Officer for writing off/condonation of certain transactions, particularly those with amounts that cannot justify further expenditure in attempts to recover and the responsible persons are no longer in the state's employ.

4.1 RECOMMENDATIONS

The Committee recommends the House to resolve that:

- i. The Accounting Officer must submit a progress report on all the investigations of irregularities in the department.
- ii. The Accounting Officer must ensure that investigations are done and implement disciplinary actions against officials who caused the department irregular; fruitless and wasteful expenditure amounting to **R9 317 000** and **R3 936 000** respectively.
- iii. The Accounting Officer must take disciplinary actions against official(s) who failed to secure the files and documents of the department.
- iv. The Accounting Officer must expedite all pending investigations and provide the Committee with a report.

5. PROCUREMENT AND CONTRACT MANAGEMENT

The Committee noted that the Auditor General further stated on page 123 of the annual report disclosed in note 21 of their report to the financial statements, that the department incurred irregular expenditure of R 8 080 000 in the financial year under review as it did not follow a proper tender process. The following contravention were noted by the AG.

The Accounting Officer indicated that goods and services with a transaction value below R500 000 were procured without obtaining the required price quotations, as required by Treasury Regulation 16A6.1; furthermore 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 asked why the department contravene Treasury Regulation 16A6.1 and Preferential Procurement Regulation.

No	Nature of Procurement	Reason for Contravention	Amount R
1	Property leases by Department of Public Works Roads and Transport (DPWRT)	Property leases concluded by PWRT for the DEDT were allowed to continue on a month to month basis without advertising. This is outside of the control of the DEDT	2 301 000
2	Photocopy contracts not advertised in open tender (Nashua and Xerox)	This transgression was identified during the audit process, and is still to be investigated.	4 405 000
3.	Econometrix	The deviation request as prepared was deemed as inadequate	74 000
4.	Ledwaba Inc	Payment to legal advisors appointed by OTP. This is outside of the control of the DEDT. The transgression was identified during the audit process, and is still to be investigated.	41 000
5.	Non - compliance with local content	The regulations relating to local content were interpreted incorrectly. The affected transactions related to the procurement of furniture and uniforms. All furniture and uniforms were procured from BBBEE compliant SMME businesses operating within	1 259 000

		Mpumalanga. It was assumed by the department that this was sufficient to comply with the local content requirement. This transgression was identified during the audit process and is still to investigated.	
			8 080 000

The Committee noted that the regulations relating to local content were interpreted incorrectly. The affected transactions related to the procurement of furniture and uniforms. All furniture and uniforms were from BBBEE compliant SMME businesses operating within Mpumalanga. It was assumed by the department that this was sufficient to comply with the local content requirement.

5.1 RECOMMENDATIONS

The Committee recommends the House to resolve that:

- i. The Accounting Officer must take disciplinary actions against official(s) who contravened Treasury Regulation 16A6.1 for failing to ensure that goods and services with a transaction value below **R500 000** were procured without obtaining the required price quotations.
- ii. The Accounting Officer must take disciplinary actions against official(s) who contravened preferential procurement regulation 9(1) for failing to ensure that bid documentation for the procurement of commodities designated for local content and production stipulate the minimum threshold.
- iii. The Accounting Officer must ensure that corrective measures are put in place to avoid recurrence of the finding.

6. FINANCIAL STATEMENTS, PERFORMANCE REPORT AND ANNUAL REPORT

The Committee has noted that the Auditor General reported in page 125 of the annual report that the financial statements submitted for auditing were not prepared in accordance with prescribed financial reporting framework and supported by full and proper records, as required by Section 40(1) (a) and (b) of the PFMA. Disclosure identified by auditors had to be corrected and supporting records were provided subsequently, resulting in the financial statements receiving an unqualified opinion.

The Committee asked why the department contravened Section 40(1) (a) and (b) of the PFMA by not ensuring that annual financial statements are compiled according to the required standard.

The Committee was informed by the Accounting Officer that the failure to comply was as a result of capacity challenges in the Office of the Chief Financial Officer.

The Committee enquired whether the cause was as a result of the resignation of the Chief Financial Officer in the year under review.

The Accounting Officer indicated that there were no formal handover from the former Chief Financial Officer to the official appointed to act on the position in the department.

The Committee enquired about the steps the department would put in place to ensure that this does not occur in the next financial year.

The Accounting Officer indicated that continuous training on Modified Cash Standards (MCS) will be provided for the officials in the office of the Chief Financial Officer to improve capacity in the preparation of financial statements. The audit committee will review the interim (Midterm or third quarter) financial statements of the department. The AGSA has also been approached in connection with the submission of the interim (midterm or third quarter) financial statements of the department for review.

6.1 RECOMMENDATIONS

The Committee recommends the House to resolve that:

- i. The Accounting Officer must ensure that financial statements are prepared in accordance with the prescribed financial reporting framework and supported by full and proper records, as required by Section 40(1) (a) and (b) of the PFMA.
- ii. The Accounting Officer must take disciplinary actions against official(s) who contravened Section 40(1) (a) and (b) of the PFMA.

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 Economic Development, Environment and Tourism.

The Committee has satisfied the requirements of the Mpumalanga Provincial Legislature Rules and Orders of conducting oversight over the financial statements of the Department Economic Development, Environment and Tourism. The Chairperson would like to express his heartfelt gratitude to Honourable 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.

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

02/04/2019
DATE