



**REPORT 5 OF 2014**  
**SELECT COMMITTEE ON PUBLIC ACCOUNTS OF THE 5<sup>TH</sup> MPUMALANGA PROVINCIAL LEGISLATURE:**  
**DEPARTMENT OF HUMAN SETTLEMENTS (2012/13)**

## **1. INTRODUCTION**

The Select Committee on Public Accounts (SCOPA) hereinafter referred to as a 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 08 July 2014 to deliberate on the above reports and considered on 16 September 2014. 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. COMMITTEE FINDINGS AND RECOMMENDATIONS**

#### **3.1 PREDERMINED OBJECTIVES: USEFULNESS OF INFORMATION**

The Committee has noted that the Auditor General reported that the Department failed to provide adequate and corroborating evidence for 20% of the major variances disclosed in the Annual Performance Report, furthermore it was noted by the Auditor General reported that the institution's records did not permit the application of alternative audit procedures. The Committee sought reasons with regard to the failure of the Accounting Officer to furnish the Auditor General with credible evidence for 20 % of the major variances and failure to ensure there is proper record keeping within the Department and enquired on the existence of a record management system.

Upon the findings of the Committee, the Accounting Officer presented before the Committee that inadequate monitoring and evaluation systems with regard to supporting evidence for performance information within the Department resulted in non-submission of credible evidence required by the Auditors during the audit process. The Accounting Officer further indicated that the state of poor record keeping was as a result of limited space. He however indicated to the Committee that systems and measures such as the establishment of a Monitoring and Evaluation Unit, furthermore he indicated that no actual achievement will be accepted or reported by the Monitoring and Evaluation Unit without corroborating evidence, storage in the Louisville area has been identified for the purpose of record keeping.

The Committee enquired on the type of arrangement the Accounting Officer has with the Engineers currently assisting the Department with regards to them proceeding offering expertise to the Department. The Committee enquired on whether the director who was found to be conducting business with the Department was allowed to do business with the state, the Committee required an explanation from the Accounting Officer on how he paid contractors without completion of work. The department did not respond to the question.

##### **3.1.1 Recommendations**

The Committee recommends that the House resolve that:

- (i) The Accounting Officer must ensure quality assurance over all information prior to submission to the office of the Auditor General and any other stakeholder.

- (ii) The Accounting Officer must consider taking disciplinary actions against Senior Managers who failed to submit supporting evidence for performance information (non-submission of credible evidence).
- (iii) The Accounting Officer must ensure that quarterly performance information review sessions are conducted.

### **3.1.2 RELIABILITY OF INFORMATION**

The Committee has noted that the Auditor General reported that significantly important targets with the respect of housing needs, research and planning as well as housing development were materially misstated on account of the failure to monitor the source documentation on the Annual Report of the Department. The Committee enquired whether or not the Accounting Officer has a monitoring mechanism for the source documents. The Committee further enquired on the measures put in place by the Accounting Officer to prevent misstatements from recurring.

The Accounting Officer in response to the findings of the Committee attributed this failure to the inadequate monitoring and evaluation systems. Addressing the question of remedial actions taken, the Accounting Officer informed the Committee that systems and measures such as strengthening the Monitoring and Evaluation Unit, furthermore he indicated that no actual achievement will be accepted or reported by the Monitoring and Evaluation Unit without corroborating evidence as part of the measures put in place.

The Committee enquired on whether the Accounting Officer has dealt with the issue of an adequate mechanism for the source documents in order to ensure that the finding does not recur, furthermore the Committee strongly felt the Accounting Officer's response was improper because he disagreed with the Auditor General's findings on the Department's failure to prepare their Annual Financial Statements with generally recognised accounting practice (GRAP) and further wanted to know the position of the office of the Auditor General with regard to their finding and the response provided.

The Accounting Officer reported to the Committee that the Department is facing great difficulty in establishing and maintaining performance information processes and systems as a result of the non-appointment of 14 Senior Management Services, however he indicated that as a corrective measure the Accounting Officer will ensure that no actual achievement will be accepted or reported by Monitoring and Evaluation Unit without corroborating evidence.

### **3.1.3 Recommendations**

The Committee recommends that the House resolve that:

- (i) The Accounting Officer must ensure that the Senior Manager responsible for Monitoring and Evaluation coordinate institutional Performance Review sessions on quarterly basis.
- (ii) The Accounting Officer must consider taking disciplinary actions against Members of Senior Management who failed to submit quarterly performance reports (with supporting evidence).
- (iii) The Accounting Officer must furnish the Committee with a progress report with regard to filling all vacant funded positions by 30 November 2013.

### **3.2 ACHIEVEMENT OF PLANNED TARGETS**

The Committee has noted that the Auditor General reported that the Department failed to achieve 69% of the planned targets during the year under-review, the Auditor General further reported that the Department did not apply relevant systems during the appointment of contractors for construction projects. The Committee required the Accounting Officer to provide reasons for his failure to achieve 69 % of the planned outputs yet 95 % of the budget has been spent, furthermore the Committee sought to understand the system or criteria which was applied by the Accounting Officer in appointing the contractors and a detailed breakdown of the contractors appointed to build the houses per region. The Committee enquired about the corrective steps taken by the Accounting Officer towards the contractors who delivered poor workmanship.

The Accounting Officer informed the Committee that lack of financial and works capacity by some of the contractors resulted in an under achievement on the planned targets, he further indicated that the other contributory factor to the non-achievement of planned targets was as a result of late appointment of contractors and delay in finalizing the list of beneficiaries for the 2012/13 financial year. The Accounting Officer reported to the Committee that deviation from the approved Annual Performance Plan and spending on projects which were at various milestones as at 31 March 2013 also contributed to the inconsistency between the expenditure percentage of 95% and under performance of 69%. The Accounting Officer provided the requested breakdown of the list of contractors appointed by the Department to construct houses per region. In addressing the question of corrective steps taken against contractors who

delivered poor workmanship, the Accounting Officer presented a list measures put in place in the event of the above occurring they are as follows:

- Terminate and appoint new contractors,
- Site instructions are issued by inspectors to rectify identified defects,
- All Departmental projects and houses will be enrolled with NHBRC
- Additional six (6) technicians have been appointed through the Project Management Unit to strengthen project inspection and monitoring,
- Internally blacklist contractors who are providing poor quality houses,
- Payment of retention will only be effected once the project has been completed as opposed to 2012/13 financial year arrangement of releasing retention per completed unit. Retention money will only be released after full inspection has been conducted and where poor quality has been detected such money will be utilised to rectify the defects of poor workmanship,
- Recover all costs related to poorly constructed units including demolition and removal of the rubbles from the contractors where necessary.

The Committee required an explanation from the Accounting Officer regarding the deviations whereby some tenders were not advertised prior to the appointment of contractors and the processes followed when those contractors were appointed, as well as the acts which allowed the Department to appoint contractors without advertising. The Committee enquired whether the Accounting Officer recovers the money from contractors who delivered poor workmanship and the technicians who inspected and certified those projects to be at accepted standards whereas in actual fact it turns out to have defects at a later stage.

The Accounting Officer informed the Committee that legal actions are taken against contractors who failed to deliver quality services with the aim to recover the money spent by the Department and report them to the NHBRC and furthermore indicated that the Engineer who certified the work is also made to account. With regards to the question raised by the Committee on deviations, the Accounting Officer reported that the process of appointing a contractor constitutes; placement of an advert with specifications, followed by evaluation and adjudication then after this process is concluded a contractor is appointed and all those processes were followed, hence the Accounting Officer informed the Committee that there were no deviations during the financial year under review. He further informed the Committee that the two Directors who were identified as government employees and were found to have conducted business with

the Department were authorised to conduct business by the delegated official within the South African Police Services.

The Committee could not accept that the department failed to achieve 69% of approved targets whereas it had spent 95% of its budget. The Committee is of the view that the contradiction is as a result of funding historic backlogs. The delivery of Houses remains a fundamental priority of government and the Committee commit to use public accountability to build confidence and hope on those awaiting their houses.

### **3.2.1 Recommendations**

The Committee recommends that the House resolve that:

- (i) The Accounting Officer must ensure that all planned targets as contained in the Annual Performance Plan are achieved.
- (ii) The Accounting Officer must ensure that realistic and achievable targets are set and consider taking disciplinary actions against individuals who fail to execute their duties effectively and efficiently.
- (iii) The Accounting Officer must exercise on-going control to ensure that the list of measures put in place to deal with Contractors who provided poor workmanship are effectively implemented to prevent similar matters from recurring.
- (iv) The accounting officer must ensure that penalty clauses in all contracts/service level agreements are evoked against contractors who deviate from the agreement.
- (v) The Department must ensure that credible contractors with the required expertise are appointed.
- (vi) The Department must disclose to the Committee the provincial backlog (numerical terms) with regards to delivery of houses from 2009/10 to 2013/14 by 30 October 2014.

## **4. COMPLIANCE WITH LAWS AND REGULATIONS**

### **4.1 Annual Financial Statements**

The Committee has noted that the Auditor General reported that the Department did not comply with the prescribed financial reporting framework as required by section 40(1) (b) of the PFMA when preparing the Annual Financial Statements which were submitted to the Auditor General.

The Committee sought an explanation with regard to the failure of the Accounting Officer to prepare financial statements in accordance with GRAP; the Committee further enquired whether or not the finance section of the Department is properly staffed with people who have the relevant qualifications. The Committee ascertained about the number of officials who have been rewarded with performance bonuses and further requested the Department to state the basis for the awarding of performance bonuses.

Upon the findings of the Committee the Accounting Officer maintained that the Annual Financial Statements were prepared in accordance to GRAP requirements except for one (1) error on disclosure note for commitments was identified by the office of the Auditor General and was subsequently corrected during the audit process. The Accounting Officer informed the Committee that the Finance section was not properly staffed during the year under review and that a total number of 59 officials within the finance section received bonuses during the financial year under review, he however failed to provide the basis on which these bonuses were awarded.

The Committee felt that the Accounting Officer failed to talk to the question or justify the basis on which performance bonuses were paid and further enquired on how such a large number of employees received performance bonuses whereas the Department did not do well as per the Department's performance with relation to its Annual Performance Plan, furthermore the Committee strongly felt that the Accounting Officer did not do justice in addressing the questions posed by the Committee.

The department consequently responded to the questions and indicated that;

- Performance bonuses were paid to 198 officials on salary level 1 – 12 except Senior Management Members (SMS) and Housing officials.
- basis on which these bonuses were paid were as a result of these employees who are at level 1 – 12 being assessed by their immediate supervisors.
- the responsibility of ensuring that performance is linked against targets in the Annual Performance Plan lies with the members of Senior Management Services, hence employees on the Senior Management Services were not granted performance bonuses.

The Committee concludes that the Accounting Officer had failed to keep full and proper records of financial affairs of the department as required by section 40 (a) of the PFMA and

consequently contravened section 40 (b) of the PFMA in that there was an error on disclosure note for commitments.

#### **4.1.1 Recommendations**

The Committee recommend that the House resolve that:

- (i) The Executive Authority must ensure that the Accounting Officer constantly monitors and controls compliance with laws and regulations and a copy of compliance register be submitted to the Committee on quarterly basis.
- (ii) The Executive Authority must consider taking disciplinary actions against the Accounting Officer for contravening section 40(1) (a) and (b) of the PFMA in the 2012/13 financial year.

### **5. STRATEGIC PLANNING AND PERFORMANCE MANAGEMENT**

The Committee has noted that the Auditor General reported that the Accounting Officer repudiated section 38 (1) (a) (i) of the PFMA which prescribe that “the accounting officer must ensure that the department maintains effective, efficient and transparent systems of financial risk management and internal control”. The Committee required the Accounting Officer to provide reasons for his failure to comply with section 38(1) (a) (i) of the PFMA. The Committee asked the Accounting Officer to provide reasons for failing to ensure that adequate and sufficiently skilled resources were put in place and further requested an account on the failure of the Accounting Officer to monitor performance.

The Committee requested the Accounting Officer to indicate the corrective measures with the view to ensure compliance with Section 38(1) (a) (i) of the PFMA. The Committee ascertained whether or not the Accounting Officer had authorised the payment of performance bonuses to the staff in relation to their performance and the performance of the Department for 2012/13 and further required him to indicate the justification per individual. The Committee further required the Accounting Officer to demonstrate the manner in which he has paid contractors whose work was not monitored.

Upon the findings of the Committee the Accounting Officer reported that inadequate monitoring and evaluation systems with regard to supporting evidence for performance information within the Department resulted in non-compliance to section 38(1)(a)(i) of the PFMA. He again

informed the Committee that the measures put in place will ensure that no actual achievement will be accepted or reported by the Monitoring and Evaluation Unit without corroborating evidence. The Accounting Officer reported before the Committee that, delay in filling critical and vacant senior positions in the Department is what led to failure ensure that adequate and skilled resources were put in place, he further informed the Committee that his failure to monitor performance was as a result of reported that inadequate monitoring and evaluation systems with regard to supporting evidence for performance information within the Department resulted in non-compliance to section 38(1)(a)(i) of the PFMA and provided the fact that no actual achievement will be accepted or reported by the Monitoring and Evaluation Unit without corroborating evidence and the strengthening of the Monitoring and Evaluation Unit as corrective measures put in place to ensure compliance to section 38(1)(a)(i) of the PFMA.

On the question of authorisation of payment of performance bonuses by the Accounting Officer, the department informed the Committee that performance bonuses were paid to 198 officials on salary level 1 – 12 except Senior Management Members (SMS) and Housing officials. He however partially responded to the question as he did not provide the justification as required by the question.

The Committee required the Accounting Officer to provide an explanation on how he determines who qualifies for performance bonuses, with specific reference to level 11 and 12 (Deputy Director Levels). The Committee asserted whether the Accounting Officer did comply with relevant prescripts and followed all the processes when the deviation on the Annual Performance Plan occurred. The Committee asserted whether the Accounting Officer did follow the measure the Department put in place when contractors were paid. The Committee further required the Account Officer to address the question of failing to have effective and transparent systems of financial risk management and internal control systems in place. The Committee asserted whether measures indicated by the Accounting Officer are standard procedures which are followed when contractors are paid by the Department.

The Accounting Officer informed the Committee that the positions which were determined to be at level 12 was done through a job evaluation process, of which normally are Deputy Director Positions. However the positions of Engineers also fall under these levels as a result of them being a scarce skill and the difficulties in attracting scarce skills if they are put at the same level as other administrative positions.

The Accounting Officer further informed the Committee that the basis on which these bonuses were paid were as a result of these employees who are at level 1 – 12 being assessed by their immediate supervisors and further informed the Committee that the responsibility of ensuring that performance is linked against targets in the Annual Performance Plan lies with the members of Senior Management Services, hence employees on the Senior Management Services were not granted performance bonuses as a result of failure to ensure there is a link between performance of the Department and its Annual Performance Plan.

The Accounting Officer informed the Committee that the measures indicated in their responses are indeed standard procedures which are followed when contractors are paid by the Department. In addressing the question of financial risk management, the Accounting Officer emphasised that the Auditor General raised the finding on section 38(1)(a)(i) of the PFMA was based on their performance information in terms of the Annual Report and that context is what could have caused a confusion in this regard. The Accounting Officer informed the Committee that the Department will continue to struggle with performance information and that is the one great contributory factor that will prohibit them from obtaining a clean audit.

### **5.1.1 Recommendations**

The Committee recommend that the House resolve that:

- (i) The Executive Authority must ensure that the Accounting Officer develops and implements adequate monitoring and evaluation systems to address the challenge with regards to performance information.
- (ii) The Executive Authority must ensure that the Accounting Officer maintains effective, efficient and transparent systems of financial risk management and internal control as per requirement by section 38 (1)(a)(i) of the PFMA.

## **6. HUMAN RESOURCES MANAGEMENT**

The Committee has noted that the Auditor General reported that the Accounting Officer contravened Public Service Regulation 1/V/II/1A.2 which stipulates that “a funded vacant post, other than referred to regulation C.1.A.1, shall be advertised within six months after becoming vacant”. The Committee further noted that the Auditor General reported that the Accounting Officer failed to adhere to Public Service Regulation 1/V/II/D.8 which prescribes that “before making a decision on appointing or filling of a post an Executing Authority shall satisfy himself or

herself that the candidate qualifies in all respects for the post that there claims in her application for the post have been verified and record in writing that the verification”.

The Committee requested the Account Officer to provide reasons that led to the non-compliance to Public Service Regulation 1/V/II/1A.2, the Committee enquired about the number vacant positions which could not be filled within 12 months. The Committee further enquired about the levels/grades that were affected by the Accounting Officer's omission as well as the corrective measures to ensure compliance with the Public Service Regulation 1/XVII/1A2. The Committee required the Department to provide reasons for the contravention of public service Regulation 1/XVII/D.8. Furthermore the Committee enquired whether all the appointed employees have the requisite qualifications. The Committee requested the Department to provide certified copies of the qualifications as claimed by the officials.

Upon these findings the Accounting Officer reported to the Committee that all vacant funded positions ranging from level 1 – 12 were filled as per Public Service Regulation 1/V/II/1A.2 except for Senior Management Services positions that require cabinet approval. The Accounting Officer provided the same response as indicated above when he responded to the question of the number of vacant funded positions that were not filled within 12 months. The levels/grades which were affected by the non-filling of positions are Senior Management Services at salary level 13 and 14, the Accounting Officer informed the Committee.

The Accounting Officer reported to the Committee that as part of the corrective measures taken in this regard, the Department envisaged filling the four (4) Senior Management Services positions which were re-advertised on 29 December 2013, over and above that the process of headhunting the three (3) Chief Civil Engineers as part of the recruitment and retention strategy is underway and will be finalised by 31 March 2014 and further indicated that this appointment will be on contract basis. In addressing the question on the reasons that led to failure to comply to Public Service Regulation 1/V/II/D.8 whereby a non-South African citizen was employed on permanent basis, he informed the Committee that it was due to inadequate systems and lack of capacity to verify declared citizenship of applicants resulted in the contravention of Public Service Regulations 1/V/II/D.8.

Furthermore the Committee was informed that the appointment has since been converted to contract employment as a result of shortage of scarce skills. The Accounting Officer reported that all the employees during the period under review does possess requisite and valid qualifications, he further confirmed that all these employees underwent a verification process.

As a corrective measure he committed to ensure that all employees will be verified with relevant institutions prior to permanent appointment and all Senior Manager Services members will be vetted.

## **6.1 Recommendations**

The Committee recommends that the House resolve that:

- (i) The Accounting Officer must furnish the Committee with a progress report with regard to filling all vacant funded positions by 30 November 2013 (4 Senior Managers) .
- (ii) The Accounting Officer must ensure that all declarations / claims made in applications are properly verified as per requirement by Public Service Regulations 1/VII/D.8. and consider taking disciplinary actions against officials who failed to execute their duties effectively to prevent this matter from recurring.

## **7. SERVICE DELIVERY**

The Committee has noted that the Auditor General reported that the Accounting Officer contravened section 12(2) (c) of the Division of Revenue Act (DORA), which prescribed that the relevant receiving officer must, in respect of schedule 5 or 7 allocation transferred to a province or municipality submit a quarterly non-financial performance report within 30 days after the end of each quarter to the transferring national officer or the relevant provincial treasury. The Committee further noted that the Auditor General reported that defaulting contractors or defaulting service providers were not penalized.

The Committee required the Accounting Officer to provide reasons for contravening Section 12(2) (c) of DORA, The Committee enquired whether it is good governance to contravene the prescripts and if the response is in the negative it requested the Accounting Officer to indicate measures that were put in place to ensure compliance with the law, furthermore the Committee required the Accounting Officer to provide an explanation for the omission to impose the penalties on defaulting contractors or other service providers. The Committee requested the Accounting Officer to provide detailed information about the contractors and amount of work; budget; quality of units delivered quantity of houses not in good quality and so forth, furthermore the Accounting Officer was required to indicate the responsible officials who were supposed to monitor the contractors and the possible actions taken against such officials, as well as

measures the Accounting Officer has put measures in place to redress the situation and enquired whether the Accounting Officer concluded the service level agreements with the service providers.

Upon the findings of the Committee the Accounting informed the Committee that his failure to comply with section 12(2)(c) of DORA was as a result inadequate reporting systems within the Department and reported that measures such as the establishment of a cut-off date for submission of reports to external stakeholders (DORA, Performance PFMA reports) have been put in place and further informed the Committee that the Department has set a reporting date to review all reports prior to submission to stakeholders. In addressing the question of good governance, the Accounting Officer indicated that he does not view the contravention of prescripts as good governance and reported that measures such as the establishment of a cut-off date for submission of reports to external stakeholders (DORA, Performance PFMA reports) have been put in place and further informed the Committee that the Department has set a reporting date to review all reports prior to submission to stakeholders.

The Accounting Officer reported to the Committee that poor projects and contract management resulted in non-imposition of penalties on defaulting contractors. He informed the Committee that as a control measure, a contract manager within Supply Chain Management Unit has been appointed, and a list of contractors was attached Annexure F as per request of the Committee. The Accounting Officer informed the Committee that Programme Managers, District heads and Programme Management directors were entitled with the responsibilities to monitor Projects of the Department including defaulting contractors. All these individuals were sanctioned from receiving performance bonuses, he reported. The Accounting Officer further informed the Committee that Service Level Agreements (SLA's) were concluded and that the full implementation of the signed Service Level Agreement is hampered by poor projects and contract management within the Department.

As part of corrective measures put in place the Accounting Officer reported that a contract manager within Supply Chain Management Unit has been appointed, the Department will develop, implement and monitor delivery programme for each projects and lastly formal site visits will be conducted on a monthly basis.

## **7.1 Recommendations**

The Committee recommends that the House resolve that:

- (i) The Executive Authority must ensure that the Accounting Officer develops and effectively implement adequate reporting systems and produce reports 30 days after the end of each quarter to the transferring national officer or the relevant provincial treasury as in compliance with 12(2)(c) of the Division of Revenue Act (DORA).
- (ii) The Accounting Officer must ensure that all systems and measures put in place to prevent the matter from recurring are effectively implemented and disciplinary actions be taken against officials who failed to execute their responsibilities of monitoring contractors.

## **8. INTERNAL CONTROL**

### **8.1 LEADERSHIP**

The Committee has noted that the Auditor General reported that the Accounting Officer failed to ensure that the Department implements effective human resources management. The Committee ascertained whether the Department has a Human Resource Management strategy and it required the Accounting Officer to explain the non-implementation of it if it does exist, the Committee required reasons for the failure of the Accounting Officer to exercise oversight responsibility regarding financial and performance reporting, compliance and related internal control.

The Accounting Officer informed the Committee that the Department does have a Human Resource strategy in place but the delay in the appointment of for Chief Engineers and Senior Management Services members limited the implementation of the approved Human Resources strategy. The Accounting Officer informed the Committee that the Annual Financial Statements were prepared in accordance to GRAP requirements except for one (1) error on disclosure note for commitments was identified by the office of the Auditor General and was subsequently corrected during the audit process and inadequate monitoring and evaluation systems with regard to supporting evidence for performance information within the Department resulted in non-compliance to section 38(1)(a)(i) of the PFMA which means he's failed to exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.

#### **8.1.1 Recommendations**

The Committee recommends that the House resolve that:

- (i) The Executive Authority must consider taking disciplinary actions against the Accounting Officer for contravening section 38 (1) (a) (i) of the PFMA.
- (ii) The Accounting Officer must ensure that the Human Resource Management strategy is effectively implemented and monitored, on a quarterly basis.

## **8.2 FINANCIAL PERFORMANCE MANAGEMENT**

The Committee has noted that the Auditor General reported that the Accounting Officer failed to prepare regular, accurate and complete financial reports that were supported by evidence and reliable information. The Committee further noted that the Auditor General reported that management at appropriate level failed to ensure compliance with applicable laws and regulations was adequately reviewed and monitored throughout the year. The Accounting Officer failed to ensure that on-going monitoring and supervision were undertaken to enable an assessment of the effectiveness of controls, the Committee noted.

The Committee required the Accounting Officer to provide reasons for his failure to prepare regular, accurate and complete financial and performance reports, and the reasons that led to failure to ensure that management ensured compliance with applicable laws and Regulations. The Committee requested the Accounting Officer to provide reasons for omitting to ensure on-going monitoring and supervision to enable assessment of the effectiveness of internal controls. Furthermore the Committee requested the Accounting Officer to provide reasons for omitting to ensure on-going monitoring and supervision to enable assessment of the effectiveness of internal controls. The Committee requested the Accounting Officer to provide the rationale of the accruals of R15.820 million as indicated on the Department's Annual Report and the Committee enquired about the measures that the Department has put in place to prevent accruals from recurring, the Committee asserted whether or not the Accounting Officer settles received invoices within the prescribed 30 days and if he does, then he should explain why the Department have accruals of R15.820 million.

The Committee requested the Accounting Officer to provide reasons for incurring irregular expenditure amounting to R768, 000.00. The Committee required the Department to provide reasons for its failure to repair some houses at Hluvukani at Bushbuckridge and Ward 31 at Kwaggafontein at Thembisile Hani Local Municipality, when it has incurred R15, 136 million on

Housing Disaster Relief under the year review, the Committee required the Department to indicate where it has spent the R15, 136 million on Housing Disaster Relief Grant and further provide details thereof. The Committee further required the Accounting Officer to provide a detailed account of the R86, 000.00 spent on gifts. Furthermore, the Committee requested the Department to provide a breakdown on the R5.567 million per Housing Association.

The Accounting Officer maintained that the Annual Financial Statements were prepared in accordance to GRAP requirements except for one (1) error on disclosure note for commitments, which was identified by the office of the Auditor General and was subsequently corrected during the audit process a result of the misinterpretation of Departmental projects which were in progress as at 31 March 2013. On performance information the Accounting Officer provided the same response he has provided a number of times, in which he indicated that inadequate monitoring and evaluation systems with regard to supporting evidence for performance information within the Department resulted in non-compliance to section 38(1)(a)(i) of the PFMA. The Accounting Officer informed the Committee that inadequate systems and lack of capacity to verify declared citizenship of applicants resulted in the contravention of Public Service Regulations 1/V/II/D.8. and the non-availability of dedicated Internal Audit Unit within the Department also contributed to non-compliance with laws and regulations. In addressing the question that led to him omitting to ensure on-going monitoring and supervision to enable assessment of effectiveness of internal controls, he reported to the Committee that the non-availability of dedicated Internal Audit Unit within the Department contributed to non-compliance with laws and regulations.

In responding to the requirement of the Committee for the rationale of the accruals amounting to R15.820 million, the Accounting Officer reported to the Committee that the accruals were as a result of invoices and payment certificates which were submitted for processing after the end of the financial year and provided a breakdown as follows:

- Travelling and Subsistence : R 1.0 million
- Other goods and services : R 2.530 million
- Transfers and subsidies : R 12.290 million

Programme breakdown:

- Programme 1 : R 3.059 million
- Programme 2 : R 0.312 million

- Programme 3 : R 12.449 million

The Accounting Officer further informed the Committee that as a corrective measure, the Department has established a cut-off date for printing of orders, submission of invoices and claims towards the end of the financial year. A follow up will be made with all service providers to submit their invoices after goods and services have been delivered, over and above the Accounting Officer informed the Committee that the Department will also establish a monthly cut-off date for submission of invoices for all standing payments including contractual obligations and receipt of invoices will be centralized to one dedicated unit, which is the Credit Control Unit within the financial management unit.

The Accounting Officer confirmed that invoices are settled within the prescribed 30 days and that the accruals of R 15.820 million were due to invoices and payment certificates which were submitted after processing after the end of the financial year. The Accounting Officer in addressing the question as to why he incurred an irregular expenditure of R 768, 000.00 , he reported that an amount of R 0.252 million paid by the Department on expired lease contract for Gert Sibande Regional offices resulted in an irregular expenditure, furthermore he indicated that the remaining amount of R 0.516 million of irregular expenditure was as a result of system failure and lack of capacity to verify the citizenship of acting personnel within the Human Resources Management Unit of the Department, included in the R 0.516 million the Department incurred an amount of R 0.385 million as compensation to an appointed foreign employee and R 0.132 million as acting allowance exceeding the prescribed acting period.

The Accounting Officer reported to the Committee that the allocated Disaster Relief grant of R 15.136 million was utilized for the procurement of foldable prefabricated temporary houses through Ehlanzeni District Municipality and not for repair of houses as indicated by the Committee, the Department has appointed a contractor under emergency programme to deal with disaster affected houses in Bushbuckridge Local Municipality during 2012/13 and 2013/14 financial year. The Accounting Officer further informed the Committee that the contractor for the repair of damaged houses at Thembisile Hani Local Municipality will be appointed during the 2013/14 financial year.

The Accounting Officer brought to attention of the Committee that the R 15.136 million was utilized to procure emergency relief material to 252 houses affected by disaster in Nkomazi and

Bushbuckridge Local Municipalities. The said funds were transferred to Ehlanzeni District Municipality which acted as the implementing agent for the procurement of material, the Accounting Officer reported. The Accounting Officer indicated that the Department spent R 61,000.00 in purchasing four (4) laptops R 25,000.00 on the purchase of four (4) printers for recipients of the Govan Mbeki Housing Awards during the financial year under review.

### **8.2.1 Recommendations**

The Committee recommends that the House resolve that:

- (i) The Executive Authority must consider taking disciplinary actions against the Accounting Officer for failure to prepare regular, accurate and complete financial reports supported by evidence and reliable information.
- (ii) The Accounting Officer must consider taking disciplinary actions against members of Senior Management Services (SMS) who failed to ensure compliance with applicable laws and regulations.

## **9. REPORT OF THE AUDIT COMMITTEE**

The Committee has noted that the Auditor General reported that the Audit Committee in its report raised a concern on the ineffective system in place to track all invoices received and subsequent processing thereof resulting in payments not being settled within 30 days from receipt of a valid and correct invoice. The Committee further noted that the report of the Audit Committee raised concerns on the following issues:

- Some performance indicators and targets did not satisfy the national treasury criteria and smart principles
- Unauthorized after hours and weekend usage of government vehicles
- Asset and inventory registers not updated timeously
- Inadequate filing system
- The Audit Committee also raised a concern on the failure to ensure that there is
- No formal provincial housing in respect of the housing development that has been adopted
- Poor budget controls
- Slow response by management to audit findings
- Slow expenditure on Capital assets projects due to Municipalities not cooperating.

The Committee required the Accounting Officer to demonstrate the manner in which he has responded to every issue raised by the Audit Committee, the Committee further required the Accounting Officer to outline the role of the Internal Audit Unit in ensuring that the affected sections correct the issues raised by the Audit Committee. The Committee enquired whether the audit committee conducted assessment on progress made by the Accounting Officer and/or Internal Audit Unit in implementing its recommendations. The Committee enquired whether the Audit Committee has made follow up recommendations and advice and the interventions that were conducted by the Internal Audit Unit / Risk to assist the Department deal with the situation.

The Accounting Officer reported to the Committee that the concerns raised by the Audit Committee were acknowledged and the Department has since then subsequently developed an action plan and these actions were monitored on monthly basis and followed up by the Internal Audit Unit. The Accounting Officer reported that many of the issues were addressed by the Department hence they were not discovered by the Office of the Auditor General during 2012/13 audit process. Furthermore it was brought to the attention of the Committee by the Accounting Officer that the Internal Audit Unit audited the areas as raised and identified the control deficiencies and communicated them to management, the Accounting Officer indicated that the Audit Committee did seek a progress report on the implementation of Internal Audit and Auditor General recommendations.

The Audit Committee recommended that the Department must strive to implement recommendations before 31 December 2013 and monitored the implementation its meetings. As the interventions conducted by the Internal Audit/ Risk section, follows up audits are conducted to evaluate the progress of status of implementation on a regular basis, the Department has further conducted a risk assessment and issues raised were identified and captured in the risk register. The Accounting Officer informed the Committee that mitigating controls were developed, implemented and are being monitored on a monthly basis.

## **9.1 Recommendations**

The Committee recommends that the House resolve that:

- (i) The Executive Authority must consider taking disciplinary actions against the Accounting Officer for failure to comply with section 38(1)(f) of the PFMA and Treasury Regulation 8.2.3

- (ii) The Accounting Officer must ensure that the actions plan put in place to address the Audit Committee findings is effectively implemented and exercise continuous monitoring in this regard.
- (iii) The Accounting Officer must furnish the Committee with a copy of the report requested by the Audit Committee on the status of implementation of its recommendations and those of the Office of the Auditor General.
- (iv) The Accounting Officer must ensure that all recommendations of the Audit Committee are timeously implemented.

## **10. REPORT OF THE ACCOUNTING OFFICER**

### **10.1 INVENTORIES**

The Committee has noted that the Auditor General reported that the Accounting Officer failed to transfer the Housing inventory to the value of R284, 398 million to the beneficiaries. The Committee requested the Accounting Officer to provide reasons for omitting to transfer the Housing Inventory to the beneficiaries.

The Accounting Officer indicated that the transfers could not be done due to challenges such as, the reluctance of Municipalities in issuing rates clearance certificates to beneficiaries, the delay in finalization of township establishments and the disposal state of rural land areas.

#### **10.1.1 Recommendations**

The Committee recommend that the House resolve that:

- (i) The Accounting Officer must engage with the Municipalities in order to speed up the process of transferring houses to beneficiaries.

### **10.2 CAPACITY CONSTRAINTS**

The Committee enquired whether the department has seconded an official from legal section to the Supply Chain Management Unit, furthermore the Committee enquired whether there are measures put in place to improve the beneficiary identification mechanism as highlighted by the Auditor General.

The Accounting Officer informed the Committee that the Department has appointed a dedicated official to deal with contract management within the Department, he went on to report that the

beneficiary management policy has now been approved to guide Municipalities in the identification and prioritization of potential beneficiaries and Community Development Workers (CDW's ) have been used extensively in the process of compiling beneficiary list for verification by the Municipal and Departmental officials. The Accounting Officer informed the Committee that the three (3) additional staff on contract basis will be appointed to administer beneficiaries.

#### **10.2.1 Recommendations**

The Committee recommend that the House resolve that:

- (i) The Accounting Officer must ensure that the beneficiary management policy is effectively implemented and monitored.
- (ii) The Accounting Officer must ensure that the appointed staff execute their duties effectively and consider taking disciplinary actions in the event of failure to do so.

#### **10.3 CONTINGENT LIABILITIES**

The Committee noted that the Auditor General reported that the Department had contingent liabilities with a closing balance of R12, 198 million as at the end of March of 2013 which indicates an increase from R 11, 988 million of prior year which translates to 1, 7% increase. The Committee enquired whether there are measures put in place to improve the beneficiary identification mechanism.

The Accounting Officer informed the Committee that in consultation with the Department of Justice and Constitutional Development, the Department has implemented on a larger scale the alternative dispute resolution mediation processes. The system implies that litigation is used as a last resort after alternative resolution processes have been exhausted, this will minimize opportunistic litigation against the Department.

#### **10.3.1 Recommendations**

The Committee recommends that the House resolve that:

- (i) The Accounting Officer must develop mechanisms to promptly respond to potential litigation and minimise Contingent Liabilities.

### **11. PROGRESS TOWARDS ACHIEVING CLEAN AUDIT 2014**

The Committee required the Department to indicate measures to that will enable it to attain a clean audit in 2014, the Committee required the Department to demonstrate how it will deal with

the six (6) high risk areas. The Committee further enquired whether the Department envisages challenges that could hamper the achievement of a clean audit for 2013/14 financial year. The Committee enquired whether the Department can make a commitment to the Legislature with regard to the achievement of the clean audit 2014.

The Accounting Officer informed the Committee that the Department has established a Committee which monitors the implementation of Audit Action Plans on both external and internal findings; he further reported that Risk Committee monitors implementation of mitigation actions of identified risks. The Department has developed and implemented a detailed Audit Action Plan to address and prevent the findings of the Auditor General to deal with the 6 high risk areas, the Accounting Officer reported. The non-achievement of planned targets especially houses (i.e. Audit of Predetermined objectives) might hamper the achievement of a clean audit in 2013/14 financial year. The Accounting Officer informed the Committee that no clean audit is envisaged in 2014 however he committed that the Department will improve its Planning and, Monitoring and Evaluation processes in 2014/15 financial year with the objective of achieving a clean audit.

### **11.1 Recommendations**

The Committee recommends that the House resolve that:

- (i) The Accounting Officer must ensure quality assurance over information prior to submission to Treasury, Auditor General and the Legislature.
- (ii) The Accounting Officer must implement recommendations by the Audit Committee, Internal Audit and Risk Assessment report in order to mitigate risks.

### **12. 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 Human Settlements.

The Committee emphasized on the fact that the Accounting Officer must fill all key vacant and funded positions in order to address the findings which were as a result of lack of capacity and shortage of staff in the Department.

**Unless specified differently, progress on all resolutions must be submitted to the Committee by the 30 November 2014 and on a quarterly basis afterwards.**

### **13. ADOPTION**

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

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**Hon. S I Malaza**

**Chairperson**

**Select Committee on Public Accounts**

**Mpumalanga Provincial Legislature**

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Date