



GAUTENG
LEGISLATURE

STANDING COMMITTEE ON PUBLIC ACCOUNTS

SCOPA REPORT ON THE AUDITOR-GENERAL'S REPORT ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE DEPARTMENT OF LOCAL GOVERNMENT AND HOUSING FOR THE YEAR ENDED 31 MARCH 2011 [PR166/2011]

09 March 2012

Table of Contents	Page No
1. Acronyms	3
2. Introduction and process followed	4
3. The role of SCOPA	4
4. Findings by the Auditor-General in the report	4-5
5. Deliberations and issues raised by the Committee	10
6. Analysis of the Departments performance	10
7. Acknowledgements	10
8. Adoption of the report	11

Acronyms

AGSA	Auditor General South Africa
CFO	Chief Financial Officer
GDF	Gauteng Department of Finance
GDLGH	Gauteng Department of Local Government and Housing
HOD	Head of Department
MEC	Member of the Executive Council
PFMA	Public Finance Management Act
RSA	Republic of South Africa
SCOPA	Standing Committee on Public Accounts Committees
TR	Treasury Regulations
MP	Member of Parliament

1.1 INTRODUCTION AND PROCESS FOLLOWED

The Annual Report, including the Auditor-General's (AG) Report, of the Department of Local Government and Housing) for the year ended 31 March 2011 was tabled in the Gauteng Provincial Legislature (GPL) on Thursday, 22 September 2011 and referred by the Speaker to the Standing Committee on Public Accounts (SCOPA) in terms of Section 188(1) of the Constitution of the Republic of South Africa and read with Sections 4, 5(3) and 21(3) of the Public Audit Act (Act No.25 of 2004) as well as Rule 153 of the Standing Rules of the Gauteng Provincial Legislature.

The Committee was briefed by the Auditor-General on 11th October 2011 and questions by the Committee were sent to the Department for responses. A hearing was conducted on the 04th November 2011 during which the Committee heard evidence from the Department on issues raised in the Annual reports and by the Auditor-General for the year under review. Also giving evidence at the hearing were officials from the Auditor-General and Gauteng Department of Finance.

1.2 THE ROLE OF SCOPA

The role of SCOPA is to exercise oversight over Provincial and Local Government, on behalf of the Gauteng Provincial Legislature, to ensure accountable utilization of resources and prudent financial management and to make recommendations to the Legislature. This role is complemented by the Auditor-General, whose mandate is to conduct audits of National and Provincial state departments, Local Government and other public sector bodies, and to submit reports to the Legislature, as per the requirements of the Public Audit Act, 2004 (Act No. 25 of 2004) and the Constitution of RSA.

1.3 BACKGROUND INFORMATION

A hearing was conducted on the 04th November 2011 during which the Committee heard evidence from the Department on issues raised in the Annual reports and by the Auditor-General for the year under review.

During the hearing, the Department provided fundamentally different responses to some of the questions posed, as a result of these the Committee resolved not to continue with the hearings and requested the Department to redraft the responses.

After the Department had resubmitted their revised responses, the Committee assessed the responses and did not deem it necessary to call the Department for a follow up hearing.

1.4 FINDINGS BY THE AUDITOR-GENERAL IN THE REPORT

The Auditor-General issued an unqualified audit opinion on the financial statements of the Department of Local Government and Housing. The following issues were mentioned under emphasis of matter and other matters:

1.4.1.Emphasis of matters

1.4.1.1 Significant uncertainties

1.4.1.2 Restatement of corresponding figures

1.4.1.3 Material losses

1.4.2 Pre-determined objectives

1.4.2.1 Reasons for major variances between planned and actual reported targets were not provided in the report on pre-determined objectives.

1.4.2.2 Usefulness of information

1.4.2.2 Reported objectives, indicators and targets are not complete when compared with the planned objectives, indicators and targets

1.4.2.4 Planned and reported targets are not specific

1.4.2.5 Planned and reported targets are not measurable

1.4.2.6 Planned and reported targets are not time bound

1.4.3 Compliance with laws and regulations

1.4.3.1 Annual financial statements

1.4.3.2 Procurement and contract management

1.4.3.3 Expenditure management

1.4.3.4 Transfer of funds

1.4.4 Other reports

1.4.4.1 Investigations

1.5 DELIBERATIONS AND ISSUES RAISED BY THE COMMITTEE

1.5.1 DISCUSSION: EMPHASIS OF MATTER(PARAGRAPH 8 OF THE A.G'S REPORT)

1.5.1.1 Significant uncertainties

The Committee noted that the Department is a defendant in 11 debt and damage claim related lawsuits.The Department had indicated that all the lawsuits were not yet finalised.

1.5.1.1.1 Conclusion

The Committee is concerned that the Department did not make provision for contingent liability as a result of these debt and damage claim related lawsuits.

1.5.1.1.2 Recommendation

The Department provides the Committee with a report on the outcome of each of the lawsuit within 2 weeks of the finalization thereof.

1.5.1.2 Restatement of corresponding figures

The Committee noted that the corresponding figures for 31 March 2010 were

restated as a result of an error discovered during the compilation of 2011 financial statements of the of the Gauteng Department of Local Government and Housing.

1.5.1.1.1 Conclusion

The Department provides the Committee with a progress report on the measures put in place to ensure compliance with the Standard Charts of Accounts within 30 days of adoption hereof.

1.5.1.3 Material losses

The Department acknowledged that material losses to the amount of R12 706 000 were incurred as a result of theft of moveable assets. The reason for these losses includes:

a) Vandalism and theft to Transitional Residential Units

The vandalism and theft took place at the Sethokga Hostel in Tembisa. This happened during the redevelopment of the hostel under the Alternative Tenure Programme initiated by the Department. Security guards on site were attacked by the perpetrators and were locked up, subsequently assembled units were vandalized and panels stolen. It was reported that approximately 330 Transitional Residential Units were affected by this vandalism and theft.

The Committee noted that two cases were reported with the South African Police Services in the Tembisa Police Station regarding the vandalism and theft. It was reported that one case has since been closed due to insufficient evidence and the second case is still pending.

1.5.1.3.1 Recommendation

The Department provides the Committee with a final outcome of the police investigation within 2 weeks of finalisation thereof.

1.5.2 DISCUSSION: REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1.5.2.1 Pre-determined objectives

The Committee noted the following on selected programmes:

- 30% of the reported targets with major variances were not adequately explained;
- Reported performance information was deficient in respect of the following criteria; Consistency and Measurability;
- 31% of all planned objectives, indicators/targets specified in the annual performance plan for the year under review were not included in the report on predetermined objectives submitted for audit purposes;

- 25% of the planned and reported targets were not specific in clearly identifying the nature and the required level of performance;
- 25% of the planned and reported targets were not measurable in identifying the required performance; and
- 100% of the planned and reported targets were not time bound in specifying the time period or deadline for delivery.

1.5.2.1.1 Conclusion

The Committee is not convinced that the Department has proactive systems and or control mechanisms in place to prevent the weaknesses identified in the annual report as planned and reported performance targets were not specific, measurable, well defined and time bound.

1.5.2.1.3 Recommendation

That the MEC submit to the Committee a report on how each finding in the predetermined objectives will be addressed within 30 days of adoption hereof.

1.5.3 DISCUSSION: COMPLIANCE WITH LAWS AND REGULATIONS

1.5.3.1 Annual Financial statements

The Committee noted that the financial statements submitted for audit did not comply with section 40(1) of the PFMA as material misstatements were identified during the audit and corrected by management.

1.5.3.1.1 Conclusion

The Committee is concerned that financial statements are not regularly reconciled to avoid material misstatements.

1.5.3.1.2 Recommendation

That the Department provide the Committee with a progress report on the mechanisms and systems put in place to ensure compliance with section 40(1) of the PFMA within 30 days of adoption hereof.

1.5.3.2 Procurement and contract management

The Committee noted that contrary to the requirements of National Treasury Practice note 6 of 2007-08, the department did not report procurement deviations greater than R1 000 000 to the Auditor-General within 10 days.

1.5.3.2.1 Conclusion

The Committee is concerned that the Department did not report procurement deviations greater than R1 000 000 to the Auditor-General within 10 days.

1.5.3.2 Recommendation

The Department provides the Committee with a progress report of measures put in place to monitor adequacy of internal controls in order to avoid recurrence of non-compliance with applicable legislation within 30 days of adoption hereof.

1.5.3.3 Expenditure management

1.5.3.3.1 Irregular expenditure totaling R9 448 126

The Department incurred irregular expenditure amounting to R9 448 126 contrary to the requirements section 38(1) (c) (ii) of the PFMA. The irregular expenditure was made up as follows:

- R7 407 516 related to housing subsidies paid to beneficiaries not appearing on the Housing Subsidy System.
- R2 040 610 related to the payment made to two consultants namely:
 - SM Xulu – who assisted in preparation of AFS and was paid R1 745 643.
 - Makgala Ngatane – who was unable to provide tax or NHBRC certificate and was paid R294 967.

1.5.3.3.1.1 Conclusion

The Committee is concerned that whilst the waiting list for housing is growing annually, subsidies for housing are being transferred to people who are not qualified and approved beneficiaries.

1.5.3.3.1.2 Recommendations

That the MEC conduct a forensic investigation into the Housing Subsidy System and report the outcome of each investigation on or before 3 months from adoption hereof.

The Department provides the Committee with copies of tax clearance and the NHBRC certificates of Makgala Ngatane within 30 days of adoption hereof.

1.5.3.3.2 Unauthorised Expenditure totaling R23 767 000

The Department incurred unauthorised expenditure amounting to R23 767 000 contrary to the requirements of section 39 (1) (b) of the PFMA. The unauthorised expenditure related to the over expenditure of goods and services economic classification.

The Department had indicated the following as the major contributors of the over expenditure:

- Statutory expenses

- Fixed contractual expenses; and
- Other necessary operational expenses.

1.5.3.3.2.1 Conclusion

The Committee is concerned that whilst the Department anticipated the unauthorized expenditure, nothing was done to prevent the recurrence of this.

1.5.3.3.2.2 Recommendation

That the unauthorized expenditure of R23 767 000 not be approved.

1.5.3.3.3 Payment of service providers

The Committee noted that not all payments due to creditors were settled within 30 days from receipt of an invoice, as per the requirements of section 38(1)(f) of the PFMA and Treasury Regulation (TR) 8.2.3.

1.5.3.3.3.1 Conclusions

The Committee is concerned that the Department did not always effect payment to creditors within 30 days of receipt of invoices as required by Treasury Regulation 8.2.3. The non-payment of creditors within 30 days may also have a negative impact on the growth of SMMEs, service delivery and economic growth.

The Committee noted that this late payment of service providers is recurring from the past financial years.

This is viewed as being contrary to the Premier's Policy statement on "Operation Bhadala".

The Committee is concerned that had all payments been made within 30 days in compliance with applicable regulations, this would have significantly increased the unauthorised expenditure reported by the Auditor-General.

1.5.3.3.3.2 Recommendation

That the MEC ensure that the Accounting Officer complies with the requirement of all applicable legislation to ensure that creditors are paid within the stipulated timeframes as required by section 38(1)(f) of the PFMA and Treasury Regulation (TR) 8.2.3 and submit a progress report within 30 days of adoption hereof.

1.5.3.3.4 Transfer of funds

The Department did not ensure that the municipalities implemented adequate measures and internal control systems before transfer of funds as proof that the municipality utilize the funds for housing projects contrary to section 38 (1)(j) and Treasury Regulation 8.4.1.

The Department acknowledged that their internal control systems were not adequate to monitor the use of funds transferred to municipalities.

The transfer of R100 million was made to Merafong Local Municipality by the Department as a schedule 7 grant for the purpose of eradication of rural sanitation backlogs targeted at existing households without access to sanitation and waste.

The Committee noted that a funding agreement exists between the Department and the municipality. The funding agreements details the objectives, responsibilities as well as the conditions of funding provided.

1.5.3.3.4.1 Recommendation

That the Department provides the Committee with a progress report on measures put in place to prevent the recurrence of this.

1.5.4 DISCUSSION: OTHER REPORTS

1.5.4.1 Investigations

The Committee noted the progress report provided by the Department on investigations completed and the ones in progress.

1.5.4.2 Recommendation

That the MEC submit quarterly progress reports on each investigation conducted commencing 30 days upon the adoption hereof and as well as the final outcome of these investigations within 30 days of receipt thereof.

1.6 ANALYSIS OF THE AUDIT OPINION IN THE PAST FIVE YEARS

The table below indicates the analysis of the performance of the Department of Local Government and Housing for the past five years regarding financial management.

Financial Year	Audit Opinion	No. of issues raised under Emphasis of Matter	No. of sub-issues raised under Emphasis of Matter	No. of issues raised under Other Matters	Unauthorized Expenditure
2006/2007	Unqualified	1	n/a	5	R3 000
2007/2008	Unqualified	n/a	n/a	2	R7 059 000
2008/2009	Unqualified	1	n/a	3	R9 676 000
2009/2010	Unqualified	0	0	2	R0
2010/2011	Unqualified	3	2	20	R23 767 000

1.7 ACKNOWLEDGEMENTS

I would like to thank the following Members: RN Ndzuta; DZ Senokoanyane; TW Nkabinde; N Nhlapo; GJ Steyn; PSR Willemburg; N Kalipa and the late Hon. KZ Batyi for their diligent deliberations during this process.

I would also like to express my appreciation to the Business Executive and his team from the Auditor-General; Officials from the GPL and Officials from Gauteng Department of Finance; as well as to the Acting Group Committee Coordinator; Timothy Bodibe for tabling the report; Senior Committee Coordinator; Simon Magolego; Senior Committee Coordinator; Mompoti Gaonnwe; Committee Coordinator; Catherine Thobejane; Committee Researchers; Bongsi Dlamini; Mbali Toyana Administrative Assistants; Sizakele Mthembu and Gcinile Dlamini Service Officer; Nkanyiso Mbonane and the Hansard Operator; John Moloi without whom this process would not have been successfully completed.

1.8 ADOPTION OF THE REPORT

After due deliberations, the Standing Committee on Public Accounts (SCOPA) unanimously adopted its report on the Annual Report and the Report of the Auditor-General on the Financial Statements of the Department of Local Government and Housing for the year ended 31 March 2011.

In terms of Rule 168, the Committee presents to this House the abovementioned report for consideration and adoption.

Mr. SJ Makama

Chairperson: Standing Committee on Public Accounts