**2. Report of the Joint Standing Committee on Financial Management of Parliament on the 2016/17 Mid-Year Report of Parliament of the Republic of South Africa, DATED 16 MARCH 2017**

The Joint Standing Committee on the Financial Management of Parliament, having considered the Parliament of the Republic of South Africa’s 2016/17 mid-year report, reports as follows:

**1. INTRODUCTION**

1.1 Section 4 of the Financial Management of Parliament and Provincial Legislatures Act (No 10 of 2009) (FMPPLA) provides for the establishment of an oversight mechanism to maintain oversight of the financial management of Parliament. The Joint Standing Committee on the Financial Management of Parliament (the Committee) was established in terms of the Joint Rules of Parliament. The Committee has the powers afforded to parliamentary committees under sections 56 and 69 of the Constitution.

1.2 Parliament’s 2016/17 Mid-year Report was tabled and referred to the Committee on 8 November 2016 for consideration in terms of section 54(2) of the Act. The Secretary to Parliament—the accounting officer—and his senior management team appeared before the Committee in a meeting held on 23 November 2016 where the institution’s performance for the period under review was interrogated.

1.3 This report should be read along with Parliament’s 2014-2019 Strategic Plan, the 2016/17 Annual Performance Plan and budget, as well as the 2015/16 Annual Report.

1.4 This report comprises two parts: Part A containing a summary of the institution’s financial and non-financial performance information for the period under review; and Part B containing the Committee’s observations and recommendations.

**PART A: PERFORMANCE AT THE END OF THE SECOND QUARTER OF THE 2016/17 FINANCIAL YEAR**

**2. Mandate**

2.1 Parliament derives its mandate from:

- Chapter 4 of the Constitution of the Republic of South Africa, 1996 (Act No 108 of 1996), which sets out its composition, powers and functions;

- the Financial Management of Parliament and Provincial Legislatures Act, 2009 (Act No 10 of 2009) which regulates the institution’s financial management;

- the Money Bills Amendment Procedure and Related Matters Act, 2009 (Act No 9 of 2009) which provides procedures to amend money bills; and

- the Powers, Privileges and Immunities of Parliament and Provincial Legislatures Act of 2004 (Act No 4 of 2004) which defines and declares the national and provincial legislatures’ powers, privileges and immunities.

**2.2 Mission and vision**

2.2.1 The institution identified six values which serve to guide it on how it conducts its business: openness; responsiveness; accountability; teamwork; professionalism; and integrity.

2.2.2 In pursuit of its vision to be “activist and responsive” so as to improve the quality of life in South Africa and to ensure enduring equality, the institution has, as its mission, to provide, amongst others, “an innovative, transformative, effective and efficient parliamentary service and administration that enables Members of Parliament to fulfil their constitutional responsibilities”.

**2.3 Strategic Priorities 2014-2019/Strategic Goals in the year under review**

2.3.1 The institution’s five strategic priorities are:

- strengthening oversight and accountability;

- enhancing public involvement;

- deepening engagement in international fora;

- strengthening co-operative governance; and

- strengthening its legislative capacity.

2.3.2 To achieve the above, the 5th Parliament adopted the following strategic outcome-oriented goals:

- to enhance Parliament’s oversight and accountability over the work of the executive to ensure implementation of the objectives of the Medium Term Strategic Framework (MTSF) 2014-2019;

- to co-operate and collaborate with other spheres of government on matters of common interest and ensure co-operative and sound intergovernmental relations;

- to enhance public involvement in the processes of Parliament to realise participatory democracy through the implementation of the public involvement model by 2019;

- to enhance parliamentary international engagement and co-operation;

- to enhance the ability of Parliament to exercise its legislative power through consolidation and implementation of integrated legislative processes by 2019 in order to fulfil its constitutional responsibility; and

- to build a capable and productive parliamentary service that delivers enhanced support to Members of Parliament in order that they may efficiently fulfil their constitutional functions.

**3. Financial performance in the period under review**

At the end of the period under review, Parliament has spent R1.049 billion of the budgeted R1.191 billion resulting in an under expenditure of R141.347 million. In terms of the annual budget for 2016/17 of R2.382 billion, Parliament projects to spend R2.320 billion or R62.324 million less at the end of the financial year. Table 1 below gives an overview of Parliament’s expenditure performance as at 30 September 2016.

**Table 1:** Expenditure performance as at 30 September 2016

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **April to September 2016** | | | | **Annual** | | |
|  | **Budget**  **R’000** | **Expenditure**  **R’000** | **Spent %** | **Available**  **R’000** | **Budget**  **R’000** | **Projections**  **R’000** | **Variance**  **R’000** |
| Strategic Leadership and Governance | 54 660 | 49 775 | 91% | 4 885 | 109 320 | 109 320 | 0 |
| Administration | 95 947 | 76 554 | 80% | 19 393 | 191 894 | 191 894 | 0 |
| Core Business | 285 794 | 246 405 | 86% | 39 389 | 571 587 | 571 587 | 0 |
| Support Service | 184 697 | 158 498 | 86% | 26 199 | 369 395 | 369 395 | 0 |
| Associated Service | 305 224 | 303 740 | 100% | 1 484 | 610 448 | 620 974 | (10 526) |
| **Total** | **926 322** | **834 972** | **90%** | **91 350** | **1 852 644** | **1 863 170** | **(10 526)** |
| Direct Charges | 264 899 | 214 901 | 81% | 49 998 | 529 798 | 456 948 | 72 850 |
| **Total** | **1 191 221** | **1 049 873** | **88%** | **141 347** | **2 382 442** | **2 320 118** | **62 324** |

*Source: Parliament of the Republic of South Africa (2016)*

**3.1 Details on expenditure performance**

The details in terms of the expenditure performance of Parliament per programme as at the end of the second quarter of the 2016/17 financial year follows hereunder. Parliament did not report on the reasons for the variances in its submission to the Committee.

3.1.1 **Strategic Leadership and Governance:** Anexpenditure of R49.775 million or 91 per cent of the projected R54.660 million was recorded at the end of the period under review resulting in an under expenditure of R4.885 million.

In terms of the annual budget allocation of R109.320 million for the programme, Parliament had spent 46 per cent of the Programme’s allocations as at the end of September 2016. Expenditure at the end of the first quarter was R23.9 million or 21 per cent. Parliament reported that no variances were expected in terms of the Programme’s budget allocation at the end of the financial year.

3.1.2 **Administration:** An expenditure of R76.554 million or 80 per cent of the projected R95.947 million was recorded at the end of the period under review. Expenditure at the end of the First Quarter for the 2016/17 financial year was R35.7 million or 19 per cent of the annual budget allocation of R190.668 million. Parliament reported that no variances were expected in terms of the Programme’s budget allocation at the end of the financial year.

3.1.3 **Core Business:** An expenditure of R246.405 million or 86 per cent of the projected R285.794 million was recorded at the end of the period under review. In terms of the annual budget allocation of R571.587 million for the programme, Parliament had spent 43 per cent of the Programme’s allocations as at the end of the second quarter of 2016. Expenditure at the end of the first quarter for the 2016/17 financial year was R124.873 million or 22 per cent. Parliament reported that no variances were expected in terms of the Programme’s budget allocation at the end of the financial year.

3.1.4 **Support Services:** An expenditure of R158.499 million or 86 per cent of the projected R184.697 million was recorded at the end of the period under review. In terms of the annual budget allocation of R370.621 million for the programme, Parliament had spent 42 per cent of the Programme’s allocations as at the end of the second quarter of 2016. Expenditure at the end of the first quarter for the 2016/17 financial year was R77.014 million or 21 per cent. Parliament reported that no variances were expected in terms of the Programme’s budget allocation at the end of the financial year.

3.1.5 **Associated Services:** An expenditure of R303.751 or 100 per cent of the projected budget was recorded at the end of the period under review. In terms of the annual budget allocation of R610.448 million for the programme, Parliament had spent 50 per cent of the Programme’s allocations as at the end of the second quarter of 2016. Expenditure at the end of the first quarter for the 2016/17 financial year was R156.158 million or 26 per cent. Parliament reported that indications were that this allocation would be over spent by about R10.5 million at the end of the 2016/17 financial year.

3.1.6 With regard to the under expenditure on **Direct Charges**, Parliament reported that there were indications that R72.8 million will be surrendered to the National Revenue Fund at the end of the 2016/17 financial year. A higher budget has been allocated on an incremental basis since 2009.

**3.2 Expenditure by Economic Classification**

**Table 2:** Expenditure performance by economic classification as at 30 September 2016

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **April to September 2016** | | | | **Annual** | | |
|  | **Budget**  **R’000** | **Expenditure**  **R’000** | **Spent %** | **Available**  **R’000** | **Budget**  **R’000** | **Projections**  **R’000** | **Variance**  **R’000** |
| Compensation of Members | 264 899 | 214 901 | 81% | 49 998 | 529 798 | 456 948 | 72 850 |
| Compensation of Employees | 460 731 | 433 205 | 94% | 27 526 | 921 462 | 921 462 | 0 |
| Goods and Services | 258 350 | 193 853 | 75% | 64 497 | 516 700 | 516 700 | 0 |
| Capital | 14 502 | 11 866 | 82% | 2 636 | 29 004 | 29 004 | 0 |
| Transfers | 192 739 | 196 049 | 102% | (3 310) | 385 478 | 396 004 | (10 526) |
| **Total** | **1 191 221** | **1 049 873** | **88%** | **141 347** | **2 382 442** | **2 320 118** | **62 324** |

*Source: Parliament of the Republic of South Africa (2016)*

In terms of the expenditure performance by economic classification, it was reported that the total appropriated allocation of R778.816 million for 2016/17 for Compensation of Employees had to be augmented by R142.646 million from retained earnings, which has become depleted. It was reported that no additional allocations have been made to Parliament for vacant positions and that the 2016/17 budget allocation for compensation of employees was based on filled positions as at the end of February 2016.

1. **Performance across programmes**

The institution succeeded in meeting only 13 or 52 per cent of the planned 25 targets it had set for the period under review. It should be noted Parliament also has 16 annual targets which will only be reported on upon the completion of the 2016/17 financial year thus amounting to a total of 41 targets for the financial year.

**4.1 Programme 1: Strategic Leadership and Governance**

4.1.1 This programme is aimed at providing political and strategic leadership; governance and institutional policy, executive communication and co-ordination; overseeing development and implementation of the strategic plan, annual performance plan, and budget as well as the Parliamentary Budget Office and the Office Supporting Institutions Supporting Democracy.

4.1.2 Three of the four targets under this programme were achieved. The achieved targets relate to the number of analysis reports presented to the Finance and Appropriations Committees in both Houses, the implementation of the governance schedule and the tabling of governance documents.

4.1.3 The target not met related to the implementation of the capacitation plan for the Parliamentary Budget Office. The budget cuts initiated by National Treasury were cited as the reasons for the underperformance.

**4.2 Programme 2: Administration**

4.2.1 The purpose of this programme is to provide strategic leadership support and management, support institutional policy and governance, provide development programme for Members of Parliament, overall management and administration, internal audit and financial management, and Register of Members’ Interest.

4.2.2 Three out of four targets under this programme were achieved. The target not achieved relates to the percentage compliance with prescripts and regulations, in particular, the payment of suppliers within 30 days and the awarding of tenders within 90 days.

4.2.3 In response to enquiries regarding the variance on the 30 day payment of invoices in 4.2.2 above, Parliament reported that it has paid 24,926 invoices during the period 1 April to 30 September 2016, and only 985 invoices or 3.95% were not paid within 30 days. The delays are largely due to queries with invoices mainly for travelling where travel agents will submit invoices without travel warrants or the information on the travel warrant and the invoice are not the same.

Where there are no reasons for the delay the Accounting Officer writes letters to relevant managers for explanations. The payment of invoices within 30 days is also included in performance contracts of all managers. Parliament will ensure that the situation is improved and that the number of suppliers not paid within 30 days will be reduced to only where there are queries.

4.2.4 In respect of the variance on the awarding of tenders within 90 days, Parliament reported that when bids are advertised, a validity period of 90 days is stipulated to bidders in the terms of reference. Should the bid not be finalised within this period, the consent of the bidders is obtained to extend such validity period at no additional cost to Parliament. Other reasons provided includes cases wherein Parliament identified potential collusion.

**4.3 Programme 3: Core Business**

4.3.1 This programme is aimed at procedural and legal advice; information and research; as well as language, content, and secretarial and legislative drafting services for meetings of the National Assembly, National Council of Provinces and the Committees; and to provide analysis, advice and content support for parliamentary international engagement.

4.3.2 There were eight targets under this programme for the period under review from which seven were met. The target which was not met relates to the completion and availability of documents and activities undertaken as per the Service Charter and will be discussed in hereunder.

* + 1. In terms of the required 100 percent target of reports prepared within eight days, Parliament managed to achieve 91 per cent due to a lack of a standardised Standard Operating Procedure. The process of developing a Standard Operating Procedure is underway.
    2. The target in relation to information requests for committee work or members’ individual studies, was not met. The institution only succeeded in responding to such information requests within the required timeframe in 98 per cent of instances instead of the targeted 100 per cent. Performance was negatively affected in the period under review due to the required information not being available in the Parliamentary Information Centre collection, however, no negative impact on the client was reported.
    3. With regard to the production of minutes, the institution had aimed to produce 100 per cent of its minutes within three days. This target was not met. Although all draft minutes were available, only 84 per cent was produced within the required timeframe due to consecutive meetings, competing demands as well as oversight activities. A plan to improve coordination and timely allocation of staff has been developed.
    4. Parliament managed to achieve 94 per cent of the 100 per cent target in relation to the production of the official record of House-proceedings. This target was not met due to unavailability of staff during the unprotected strike in September 2016 and co-dependency on translation services. The Minimum Service Agreement with organised labour is in the process of being finalised.
    5. With regard to language services, targets set in relation to interpretation and translation were not met. Interpretation was only available in 88 per cent of the instances in which it was required. The 12 per cent under-performance was due to the unavailability of equipment in the Old Assembly Chamber as well as unavailability of staff during the unprotected strike in September 2016. Parliament indicated that managers and controllers are to be adequately skilled and proper management processes are to be introduced to ensure business continuity in the absence of staff. Translation services were available 99.6 per cent of the required 100 per cent target due to the industrial action in 2016. Mechanisms relating to the reallocation of work have been refined and continuous and timeous communication with clients has been developed to ensure the seamless provision of services.

4.4 **Programme 4: Support Services**

4.4.1 This programme is aimed at providing institutional communication services, human resource management, information communication technology, institutional support services and Members’ support services.

4.4.2 From the eight targets under this programme for the period under review, one target was not met while four were partially achieved and three were achieved. The targets not met will be discussed hereunder.

4.4.3 In terms of the Phase of Strategy implementation indicator, Parliament had intended to approve a Comprehensive Communication Strategy and to conduct a communication training session for managers. This target was not met.

4.4.4 The targets which were partially achieved relate to the oversight system, appropriate tools for Members and staff, video-broadcasting infrastructure, and the organisational alignment of to the Strategic Plan of the 5th Parliament.

**4.5 Programme 5: Associated Services**

4.5.1 The purpose of this programme is to provide travel, communication and other facilities for Members of Parliament to fulfil their duties as elected public representatives; and to provide financial support to political parties represented in Parliament, their leaders and constituency offices.

4.5.2 This programme has two targets for the period under review from which one has been achieved. The target not achieved relates to the average number of days to reimburse Members. The performance target of 2.7 days was not met as a result of system downtime during August 2016.

**PART B: OBSERVATIONS AND RECOMMENDATIONS**

**5. Observations**

**5.1 *Compliance with prescripts and regulations***

5.1.1 The Committee notes with concern the reported non-compliance with prescripts and regulations by Parliament in terms of the payment of suppliers within 30 days after the receipt of invoices and the awarding of tenders within 90 days. The Committee is of the view that Parliament, given its constitutionally mandated function of overseeing the effective of management public finances, should lead by example and emphasises the need for urgent improvements in this regard.

5.1.2 The Committee further enquired about the motivation as well as the costs associated with the planned introduction of a new Enterprise Resource Planning (ERP) system within Parliament given the current implementation of cost saving measures within Parliament.

**5.2 *Expenditure Performance***

5.2.1 The Committee notes with concern that Parliament has recorded an under expenditure of R141.347 million at the end of the period under review. The year-to-date expenditure as at the end of the 2nd quarter of the 2016/17 financial year was 45.1 per cent which was substantially below the norm of 50 per cent. Whist the Committee notes the reported reasons for the under expenditure, it emphasised the importance of aligning expenditure with budget projections during the course of the financial year.

5.2.2 The Committee is of the view that that Parliament needs to be more systematic and transparent in its reporting on budget expenditure of appropriated and donor funds. The Committee notes that Parliament reports in line with the prescripts of the FMPPLA and not necessarily in line with the reporting templates as provided by the Department of Planning, Monitoring and Evaluation and National Treasury. However, the Committee is of the view that these reporting templates as prescribed by the Department of Planning, Monitoring and Evaluation and National Treasury are more user-friendly and transparent and enhance the oversight process and public accountability.

5.2.3 The Committee is concerned with the amount of resources allocated towards support for individual Members of Parliament when compared to other national legislatures and requested that this be addressed expeditiously. The Committee though notes that the Secretary to Parliament agreed that there was a need for improvements around support for individual Members of Parliament and that National Treasury will be engaged with a view to securing more funding to address the matter.

**5.3 *2015/16 Annual Report information***

5.3.1 The Committee notes with concern the reported inaccurate information contained in the Annual Report for the 2015/16 financial year. Specific reference was made to information on performance rewards, particularly with respect to Level D personnel and on performance rewards for senior and top management.

5.3.2 Parliament reported in its written response to the above-mentioned matter that the Annual Financial Statements are prepared in accordance with Generally Recognised Accounting Practice (GRAP) and expenses are recognised when incurred and not when paid. The performance bonus appearing under note 31 are provisions (constructive obligation) and must be read in conjunction with note 14 and the Statement of Financial Position (SOFP). The performance bonus is reflected as current employee obligations under current liabilities of the SOFP which means that the amount was still not paid out at the reporting period (31 March 2016).

***5.4 Relations between Parliament and Organised Labour***

5.4.1 After enquiry by the Committee, Parliament reported that a relationship building workshop facilitated by the Commission for Conciliation, Mediation and Arbitration was held on 20 and 21 October 2016 between management and organised labour. The monthly NEHAWU-Management meetings have also resumed with parties engaging robustly on pertinent issues. In respect of the Return to Work Agreement concluded on 05 December 2015, Parliament reported that two items which remain unresolved are the implementation of “No work, No Pay” deductions and the negotiations on the performance bonus percentages for 2015/16 and 2016/17, under the auspices of an external facilitator.

5.4.2 While the Committee notes the report by Parliament in 5.4.1 above, it maintains that all outstanding issues between the two parties need to be addressed expeditiously.

* 1. ***Reporting Format for Parliament***

5.5.1. The Committee expressed its dissatisfaction at the reporting format used by Parliament and stated that it was not user friendly and lacked the requisite level of transparency. The Committee was of the view that it was difficult to link Parliament’s expenditure to non-financial performance in the current reporting format which impacted negatively on the effectiveness of oversight over Parliament.

* + 1. The Committee noted that the Annual Report of Parliament for the 2015/16 financial year did not include a consolidated summary of financial statements which made it difficult to assess the current expenditure performance against the spending performance outcomes contained in the Annual Report.
    2. The Committee notes the undertaking by Parliament that it will improve on the issues raised by the Committee regarding the reporting format as well as the inconsistencies in the presentations. Parliament assured the Committee that more line item information would be made available in terms of budget and expenditure reporting.
    3. The Committee further stressed the need for more specific and detailed information around performance information and that the actual number of planned targets *vis-à-vis* those achieved as well as percentages, for each programme, be reflected in future presentations. Parliament noted the afore-mentioned request by the Committee and undertook to henceforth improve in this area.

**6. Recommendations**

The Joint Standing Committee on the Financial Management of Parliament having engaged with the Parliament of the Republic of South Africa on its mid-year performance for the 2016/17 financial year, reports as follows:

6.1. The Executive Authority should ensure that Parliament’s reporting format to the Committee in terms of expenditure and non-financial performance is in line with the Department of Planning, Monitoring and Evaluation and National Treasury’s reporting guidelines.

6.2 The Executive Authority should ensure that Parliament furnish the Committee with information on its budget and expenditure per line item in its future reports so as to allow for more effective oversight and transparency.

6.3The Executive Authority should ensure that annual performance plans and budgets are properly aligned, and that performance targets are specific, measurable, achievable, relevant and time-bound (SMART). This issue was also raised in the Committee’s report on Parliament’s Annual Report for 2015/16.

Report to be considered.