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PARLIAMENT
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Briefing Note for the 2016/17 Annual report of Parliament of Republic of South Africa

Purpose

The Purpose of this briefing is to highlight some anomalies emanating from the 2016/17 Annual Report. The rationale is to get a clarity or an explanation from the management of Parliament with regard to the identified anomalies or concerns. Since these afore-said anomalies or concerns are emanating from both non-Financial Performance and Financial Performance, therefore, this brief will have two main headings, dealing with non-financial information and financial information and they are as follows:

1. **Non-financial Information**

1.1 Non-achievement of critical planned targets

For the 206/17 financial year, Parliament has not achieved most of its critical planned targets. Critical in this context refers to targets, which are either linked to the core mandate of Parliament, or broader objectives of the country such as targets set in the National Development Plan (NDP)

In Programme 2, the Parliament planned to achieve 100% of compliance with prescripts and regulations for the 2016/17 financial year. At the end of the financial year, Parliament achieved 50 percent of this planned target. The concern is that the other 50%, which was not achieved, included non-achievement of 100% payment of suppliers (creditors) within 30 days (see page 64 of AR). It is worrisome that Parliament as a leading institution cannot comply with critical target like this. In its oversight role, the Parliament has held executive to account on non-compliance to pay suppliers within 30 days. Therefore, it is just unfortunate that it cannot not lead by an example. Further, this target is critical because it links to the NDP targets of SMME development, which are envisaged to create 90 percent of 11 million jobs by 2030.

In Programme 3: Core Business, only achieved 32 percent of the planned targets. The poor performance recorded under this programme is worrisome because this programme is an engine of Parliament, so its failure deems Parliament ineffective. It is reported that a significant percentage of minutes and reports were not submitted in time as planned. For example, Parliament planned to submit all (100%) committee minutes within 3 days and all (100%) reports within 8 days, but instead it has submitted 84% of minutes within 3 days and 92% of reports within 8 days. Importantly, the failure to submit timeously and quality minutes hampers the oversight role of Parliament since minutes and reports are oversight tools/instruments used by Parliament to conduct its oversight role.

1.2 Lack of consistency and clarity of reporting

In some cases, there is a disjuncture between planned targets reported in the Annual Report and Annual Performance Plan. For example, the Parliament planned to submit 100% of reports from committees within 10 days in its Annual Performance Plan. However, when it reported the planned target has changed from 10 days to 8 days. Further, under Programme 2 (see page 71 of AR), the Parliament reported that it achieved 76% of 100% planned targets for information requested on time. On the other hand, it also reported that this target has been performing at 100% throughout the quarters of 2016/17 financial year. Then, the clarity should be sought on how come that the Parliament achieved 76 % of this target whilst it was performing at 100% through the year. These are some of examples of inconsistency and ambiguity of Parliament in reporting.

1.3. Non-alignment between targets and actual performance

There is a noticeable trend of non-alignment of planned targets and the actual performance target reported. For example, the Parliament planned to implement the integrated seamless service at the end of 2016/17 financial year. It has, however managed to complete seamless design framework report. Interestingly, the target was recorded as achieved despite having mismatching between what was planned and what was achieved.

1.4. Non-alignment between the reasons for not achieving targets and mitigation plans

In cases whereby the mitigation plans are given aiming to mitigate the recurrence of non-achievement of set targets, the challenge is that some of the mitigation plans proposed are not addressing the reported cause/s. To substantiate this, since the Parliament has not achieved its set targets with regard to timeous submission of minutes and reports. The reasons/causes attributed to non-achievement of set targets was reported to be due to capacity constraints and ineffective monitoring system. Subsequently, the Parliament proposes to implement a broader capacity plan and effective performance management. Despite the ambiguity of reasons given for not achieving these targets, the mitigation plan are also not addressing the cause/s for not achieving these targets. There is no clear correlation between ineffective monitoring and implementation of effective performance management. Further capacity constraints may have different meanings, it may mean lack of proper skills and competencies to perform the required job, or shortage of staff to perform the required duties, therefore, the Parliament should have been specific on which capacity constraints it refers to. Then this would have assisted them to craft a specific mitigation plan. This will also assist the Committee to be able to oversee the implementation of these mitigation plans. In this current form, the Committee will be unable to monitor the implementation of the broader capacity plan as action plan- what does *"Broader capacity Plan" mean.*

1.5. General Performance

For the 2015/16 and 2016/17 financial years, the Parliament achieved an overall performance of less than 50 percent, that is, at 45, 45% and 49% respectively. This is despite that the Parliament has spent a significant percentage of its total budget for both financial years. For 2015/16 financial year, it spent 102 percent (overspending by 2 percent) of its budget allocation and spent 89.5 percent of its allocation for the 2016/17 financial year. These trends clearly show that there is a lack of correlation between achievement of predetermined objectives and the financial performance. Further, it is worrisome that Parliament performs at less than 50 percent for the afore-said financial years and yet it has frozen vacant positions totaling to 327 of which most of them are highly skilled production –Committee Secretaries and Researchers. Given the reasons forwarded to the non-achievement of, some of performance targets in core business such as oversight instruments-minutes and reports as explained in the previous paragraphs, it became much more confusing to attribute some of reasons such as capacity constraints whilst relevant vacant positions are frozen. The Parliament's Annual Report shows that 141 vacant potions under

Band C –which is linked to the production of minutes and reports, are frozen; this makes this band to be the highest of all bands having frozen positions

2. Financial information

2.1. Compensation of employees

For the 2016/17 financial year, the Parliament has overspent on its compensation of employees by R102 176 million or 12 percent. In Note 34.2 of its financial statement, the Parliament acknowledges that compensation of employees has always less than the value of filled positions and the shortfall has been funded through the unspent funds of the previous financial years.

There are two possible reasons, which might cause such devastating situation. Firstly, due to a Parliament reaching salary agreement which are significant above to the budgeted salary increment. Lastly, that not following necessary processes and requirements to create some positions, hence National Treasury would not fund them and only fund positions which proper processes were followed in their creation and got its approval. Therefore, both reasons can potentially create a shortfall to compensation of employees, as it is the case in Parliament.

Flowing from above, this brief suggests that the current challenge of shortfall in compensation of employees is because of the last reason, which is, positions, which were created without following proper processes, such as submitting a business case to the National Treasury for the approval of those positions. The motive to rule out the first possible reason is the fact that National Treasury funds any difference occurred because of reaching salary increment above the initial budget. Then such difference should have been adjusted to Parliament during the Adjustment Budget period. Moreover, there is an existence of a situation which supports the first view whereby the Parliament Protection Service employees are litigated Parliament for the appointment of Chamber Support Officers (Bouncers). They alleged that proper processes were not followed in creating these positions, and recruitment policies were flouted and such it discriminated against them.

However, a clarity will need to be sought from Parliament on what precise cause/s this shortfall over the years.

Importantly, Parliament will have to give a sound and relevant action plan on how it plans to resolve this challenge because; it puts the Parliament operation into risk. Therefore, the Committee should be briefed before the worst scenario happens such as drying up of unspent funds and as such unable to fund the shortfall on compensation of employees.

2.2. Prepayments vs Accruals

At the end of 2016/17 financial year, prepayments amounted to R7,5 million. This amount constituted an amount of R5,7 million (76%) for expenses paid in advance. This significant share of prepaid expenses is concerning due to the following:

- This represents lost opportunity for which Parliament could have earned interest on this amount should, it was left in its the bank account not paid for the expenses which were still yet to be incurred. An income derived from interest received by Parliament from a favourable bank balance constitutes more than 90 percent of Parliament Own Revenue. Therefore, this shows how crucial it is to ensure that Parliament earns interest as much as it can.
- In addition, it is worrisome that the Parliament recorded this significant amount of prepaid expense whilst it also unable to pay incurred expenses on time. For the 2016/17 financial year, the Parliament recorded an accrued expenses amounted to R47,1 million. This could lead to unnecessary funds being spent on interest charged due to timeous nonpayment of these expenses, in the form of interest expense. Actually, this is a financial negligence and such this is an expense that could have been avoided if proper plans such as ***Payment Schedule Plans*** were in place.

2.3. Current Employee Benefits

The Parliament reported that at the beginning of the 2016/17 financial year, it has budgeted an amount of ***R21,3 million*** for performance bonuses. This amount is calculated on 3 percent of the total package of employees who completed 12 months service for the 2016/17 financial year. The Parliament Financial Statements show that this amount has been reversed during the 2016/17 financial year. The reason provided was that the management of Parliament and organized labour (NEHAWU) reached an agreement to cancel the no work no pay deductions, refund the deductions made in March 2016 and all employees of Parliament will forfeit the 2015/16 and 2016/17 performance bonus.

Flowing from above, the information given to the recording of this transaction deems this transaction to fall outside the reported period because the agreement was signed on 6 July 2017, which falls outside the 2016/17 financial years. Therefore, this contravenes with the accounting policies of Parliament to include this transaction, which falls outside the reported period. In fact, both the reversal of Performance bonus transaction as recorded in note 14 of the financial statements and No work No Pay debt written off recorded in note 38 of the financial statements contravene accounting policies of Parliament (see page 118 and 120 of AR). The unpaid performance bonuses at the end of the year (31 March 2016) should have been recorded as an expense (accrued expense) under Financial Performance and as Trade and other payables under Financial position.

Further, as per the agreement reached by Parliament and NEHAWU, as alluded in the above, it was reported that the Parliament has refunded all employees, which their salary were deducted as a result unprotected strike in 2015. However, there is still an amount of R2,6 million, which still not yet refunded to employees (see note 12, Page 130 of AR). Therefore, the Committee will have to request Parliament to explain on this and if there are, some employees who were not refunded their money, Why?

2.4. Irregular expenditure and wasteful and fruitless expenditure

At the end of the 2016/17 financial year, the Parliament has recorded an Irregular expenditure of R2 million, down from R15 million from 2015/16 financial year. During the 2016/17 financial year, irregular expenditure amounting to R13, 1 million was condoned from R15, million recorded at the beginning of the 2016/17 financial year. This brief raises the following concern with regard to irregular expenditure:

- Section 65 (4) of the Financial Management of Parliament and Provincial Legislatures Act (2009) FMPLA requires the Executive Authority to submit written reasons for condonation to the oversight mechanism. No submission with regard to that has been submitted to the oversight mechanism, regardless that the Executive Authority has condoned irregular expenditure.

For the 2016/17 financial year, the Parliament has recorded a wasteful and fruitless expenditure amounted to R1, 067 million. This amount represents about a 29 percent increase when it is compared to R830 000 recorded in the previous financial year. Further, during for 2016/17 financial year, the Parliament reported that it has ***condoned*** an amount of R18 000. In spite of this, it is interesting to know the basis on which Parliament has "condoned" fruitless and wasteful expenditure. It is the understanding of this brief that a fruitless and wasteful expenditure cannot be condoned, but it should be recovered or if it is not possible to recover it, it should be written off.

Importantly, section 56(2)(d)(iii) of the FMPLA requires that notes to the financial statements must provide particulars of any disciplinary or criminal steps instituted as a result of such losses or unauthorized, irregular or fruitless and wasteful expenditures. The 2016/17 notes to the financial statements of Parliament as contained in its 2016/17 Annual Report excluded information on the any disciplinary actions, nor criminal steps instituted by Parliament in order to recover loss monies as a result of both irregular and fruitless and wasteful expenditure reported by Parliament. The exclusion of this critical information from the Parliament reporting deprives the opportunity for the Committee to ensure that Parliament implements consequence management. Thus, the Committee will have to request Parliament to brief it in this regard so that it can closely monitor the implementation of consequence management.

3. Conclusion

The Parliament has recorded the overall performance of 49 percent for 2016/17 financial year, which up by about 3 percent compared to 45,45 percent achieved in 2015/16 financial year. Of the concern is that the Parliament spent 89.5 percent of its total budget despite achieving less than 50 percent of its planned targets. Some discrepancies have been identified in its reporting of predetermined objectives against the actual performance. These include, amongst, non-alignment between targets and actual performance, lack of consistency and clarity in reporting and non-achievement of critical targets.

This brief concludes that Parliament has flouted its accounting policies in recording some transactions and further fail to comply with some requirements of FMPLA

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Parliament:
2016/17 Annual Report

Parliamentary Budget Office

Contents

Annual Report Guide for National and Provincial Departments

The guide provides guidance on the non-financial information requirements of the annual report i.e.: all sections of the annual report except the Annual Financial Statements. The Annual Financial Statements (AFS) section is dealt with in a separate guide, namely the Departmental Financial Reporting Framework Guide issued by the Office of the Accountant-General (OAG).

The annual report guide is supplemented by a specimen annual report, which should be used in the preparation of the annual report.

Parliament did not adhere to the format of the guide. This might result in Parliament not covering all aspects of their activities.

For example: The following information is not presented in the Accounting Officer's (AO's)report.

The AO's overview would include the following:

- Overview of the operations of the department:
  - Overview of the results and challenges for the, briefly commenting on significant events and projects for the year.
- Overview of the financial results of the department:
  - Departmental receipts

Departments must provide a summary of the revenue collected in comparison to the budgeted amount both for the current year and the previous year. Describe in some detail how they have delivered on the plans for collecting departmental revenue. The information must agree to the annual financial statements. Include the narratives after the table.

- Programme Expenditure

Departments must provide a summary of the actual expenditure in comparison to the adjusted appropriation for both the current year and previous year. The information must be provided at a programme level and must agree to the appropriation statement of the audited financial statements. Discuss the reasons for under/(over) expenditure. In instances where there is overspending, what corrective action has the department put in place to prevent the recurrence in future years.

(Tables are provided in the guide for the disclosure of revenue and expenditure)

Revenue and expenditure

Table 1 compares the actual outcome with the final budget and the allocated budget. The allocated budget reflects the numbers reported on in the in-year management reports. Under collection on revenue amounts to R7.2 million. Under expenditure on the final budget amounts to R34.3 million.

Table 1: Departmental revenue and expenditure against budget

	2016/17 Final budget	2016/17 Budget allocated	2016/17 Actual outcome	Difference
Revenue				
Annual appropriations	1 659 631	1 659 631	1 659 631	0
Statutory appropriation	529 798	529 798	529 798	0
Departmental receipts	36 213	36 213	29 015	-7 198
Donations				
Total revenue	**2 225 642**	**2 225 642**	**2 218 444**	**-7 198**
Expenditure				
Compensation of employees	778 816	910 250	880 992	-102 1[illegible]
Compensation of members	529 798	529 798	436 488	
Goods and services	482 629	513 649	430 650	51 979
Capital payments		30 390		
Transfers to non-profit institutions	394 428	398 355	403 264	-8 836
Total expenditure	**2 185 671**	**2 382 442**	**2 151 394**	**34 277**
Difference	39 971	-156 800	67 050	27 079

Source: National Treasury data and Annual Financial Statements

Human Resource Management

Staff are required to sign performance agreements in terms of the performance management policy of Parliament. The objective of the policy on performance management is to reward high performance and manage poor performance.

Section 5.5 (9170-171) on performance bonuses and notch progression in the 2016/17 Annual Report reflects none on all categories. This occurrence is despite performance agreements between officials and management in terms of the policy.