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FINANCIAL PERFORMANCE REVIEW OF PARLIAMENT AS AT THE END OF THE 2016/17 FINANCIAL YEAR

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2. Introduction

The Auditor-General (AG) of South Africa assessed the stewardship of public funds in Parliament and performance of Parliament policies as well as compliance with the financial Management Act of Parliament and regulations on Supply Chain Management (SCM) in an objective manner. The scope of the annual audit performed by the AG for Parliament is prescribed in the Public Audit Act 25 of 2004, which includes:

- Providing the assurance that the financial statements are free from misstatements.
- Reporting on the usefulness and reliability of the information in the annual performance report of Parliament.
- Reporting on material noncompliance with the Financial Management Act of Parliament and Parliament policies and accounting standards.
- Identified the key internal controls deficiency that should be addressed in order to achieve an unqualified audit.

However, the performance audit or value for money audit was not performed to determine if Parliament procured its resources economically and there is no assurance if those resources were used effectively and efficiently. Due to the limitation in the audit scope of the AG, there is

an unavoidable risk, such as value for money issues in the Parliament annual report. The accuracy and the completeness of the information reported could not be guaranteed.

The unqualified audit opinion that Parliament obtained relates to only the following three aspects, that:

- The financial statements are free from material misstatements;
- There are no material findings on the annual performance report;
- There are no material findings on compliance with key legislation and regulation.

The purpose of this paper is to highlight issues in the set of financial statements that were out of the audit scope of the AG but it does not dispute the findings of the AG.

2. Review of Financial Statements

The set of the financial statements of Parliament consists of the following statements:

- a. The appropriation statement;
- b. Cash flow statement;
- c. Statement of changes in net assets;
- d. Statement of financial performance;
- e. Statement of financial position.

2.1 Appropriation Statement

The following table indicates the annual appropriations and receivables of Parliament for the 2016/7 financial year:

Revenue	Projected Revenue	Actual Revenue	Variance
Main Appropriation	1,659,631	1,659,631	0
Statutory Appropriation	529,798	529,798	0
Receivables	36,213	29,015	(7,198)
Total	2,225,642	2,218,444	(7,198)

The main annual appropriation of Parliament amounted to R1,659,631 in 2016/17 and the statutory appropriation or Members' remuneration amounted to R529,798 (million). The main annual appropriation and statutory appropriation altogether amounted to R2,189,429 (billion). The receivables were projected to R36,213 (million), however, the actual receivables amounted to R29,015 (million) decreasing by R7,198 (million). The receivables includes departmental receipts such as sales and interest received. The total revenue of Parliament in 2016/17 amounted to R2,218,444 (billion) which includes main annual appropriation, Statutory Appropriation and departmental receipts and interest received.

2.2 Financial performance

Compensation of employees – the statement of comparison of budget and actual reveals that the compensation of employees was projected at R778,816 (million) at the start of the 2016/17 financial year. However, at the end of the financial year the actual expenditure on the compensation of employees amounted to R880,992 (million) overspending by R102,176 (million).

The over-expenditure of R102,176 (million) on compensation of employees should be regarded as the unauthorized expenditure because it exceeds the appropriated expenditure for compensation of employees at the start of the financial year.

The overspending of R102,176 (million) on compensation of employees, among other things could be attributed to positions that were not budgeted for.

Goods and services – goods and services were projected to R482,629 (million) at the start of the 2016/17 financial year. However, the actual expenditure on goods and services amounted to R430,2064 (million) underspending by R51,979 (million).

The underspending on goods and service could be attributed to projects that were not completed by the end of the financial year. The Accounting Officer should explain as to why there is an under expenditure variance of R51,979 (million) or 34.4 per cent in goods and services.

Transfers to non-profit institutions –non-profit institutions include represented political parties in Parliament, of which the approved budget amounted to R394,428 (million). This figure was adjusted upwards by R8,836 (million) after the budget was approved.

The Accounting Officer should explain as to why there was upward adjustment after the approval of the budget. The Accounting Officer should also indicate if the adjustment was approved by Parliament.

Compensation of Members – the statutory appropriation which is provided for the remuneration of Members underspent by R93,314 (million). Section 23(4) of the Financial Management of Parliament and Provincial Legislatures Act requires that the underspending of the statutory appropriation be returned to the National Revenue Fund. However, Parliament returned to the NRF only R62,836 (million) instead of R93,314 (million) that was underspent.

The Accounting Officer should explain why only the amount of R62,836 (million) was returned to the NRF instead of the total of R93,314 (million). The Accounting Officer should also indicate what happened to the amount of R30,474 (million) that according to the Act should have been surrendered to the NRF.

Cash and cash equivalent – the cash flow statement reflects the amount of R311,605 (million) as cash on hand, bank balance and short-term deposits as at 31 March 2017. This figure includes the money that is committed to incomplete projects and other revenue.

Departmental receipts – the statement of financial performance reflects the amount of R3,625 (million) as sales of goods; the amount of R82,000 (thousands) as other revenue; R407,000 (thousand) as received commission; the amount of R24,000 (thousand) reflected as bad debts recovered; and interest received of R25,777 (million).

The bigger amount (R25,777 million) of departmental receipts derived from interest received, however sales of goods which include catering generated the revenue of R3,625 (million) of which the bigger amount of departmental receipts should the sales of goods such as catering service in which Parliament spends huge amount of money.

The Accounting Officer should indicate the cost of running catering services to generate a profit of R3,625 (million). Parliament is not a profit-making institution, however, it sells food at profit, not at cost price. Therefore, the management should be innovative in this area of catering services in order to make profit. The money spent on catering services should not only count the cost of food, it must also include the cost of employing people in catering services. The profit of R3,625 (million) will indicate a loss if compared to the cost of running catering service section.

Debt owed by staff written off – the amount of R16,799 (million) owed by the employees who participated in strike which resulted from the no work no pay rule being applied. However, Nehawu and the management reached the agreement to write off the debt of R16,799 (million) owed by staff.

Performance bonuses for 2015/16 and 2016/17 – settlement reached with Nehawu for employees to forfeit their performance bonuses for the 2015/16 and 2016/17 financial years.

Surplus – the statement of financial performance reflects the accumulated surplus of R121,966 (million) as at 31 March 2017 improving from a deficit of R109,734 (million) in 2015/16.

Surplus could be attributed to the savings on performance bonuses in 2015/16 and 2016/17. The Accounting Officer should break down the surplus of R121,966 to indicate the areas of saving.

2.3 Statement of financial position

The following table indicates the financial position of Parliament in the short term:

Current Assets in 2016/17 R'000	Current Liabilities in 2016/17 R'000	Variance between Current Assets and Current Liabilities in 2016/17 R'000
325,624	213,800	111,824

Current Assets versus Current Liabilities – the above table indicates that Parliament after paying all its short term obligations will still remain with an amount R111,824 (million) but in the short term obligation which excludes Members compensation and employees compensation.

The following table indicates the financial position of Parliament in the long term:

Total Assets in 2016/17 R'000	Total Liabilities in 2016/17 R'000	Variance between Total Assets and Total Liabilities in 2016/17 R'000
489,336	1,344,398	(855,062)

Total Assets versus Total Liabilities – the above table indicates that total assets of Parliament was less than its total liabilities, the difference amounts to (R855,062). The total assets exclude the main appropriation and statutory appropriation revenues. This means Parliament's funding depended on the provisions of the national budget, therefore the negative variance of R855,062 (million) was funded by both the main appropriation and the statutory appropriation in 2016/17. This could be a low risk due to the fact that Parliament is guaranteed to receive money from the National Revenue Fund in each financial year.

3. Disclosure items

The following section reflects the disclosed irregular expenditure:

3.1 Irregular Expenditure

Incurring irregular expenditure	2017 R'000	2016 R'000
Tax certificate not provided	164	191
Supply chain management process not followed	1,756	2,384
Use of service provider after contract expired -		11,751
Procurement of goods without prior approval -		470
Procurement without formal contract -		11
Awarded to Member of Parliament	20	
Local content not specified	503	191
No approval to deviate	-	33
Total	2,443	15,031

The accumulated irregular expenditure incurred in 2016/17 amounts to R2,443 and irregular expenditure incurred in previous years amounts to R15,031 (million). The amount of R13,116 (million) was condoned during the 2016/17 financial year. Therefore, the accumulated irregular expenditure amounts to R2,443 (million).

The following table reflects the disclosed fruitless and wasteful expenditure:

3.2 Fruitless and Wasteful Expenditure

	2017	2016
Fruitless and Wasteful expenditure		
Cancellation fees - under investigation	206	206
Interest on late payments	218	218
Damaged/lost hired goods	207	18
Unaccredited course	116	116
Traffic fine admin fees	14	3
Backlog due to unavailability of Parliament staff	257	257
Other	49	2
Total	1,067	830

4 Issues to be considered by the Committee

- Audit Committee indicated that improvement was still needed in terms of the financial controls of Parliament.
- The performance management and quarterly performance reporting systems needed to be strengthened to ensure quality reporting.
- Overspending of R102,176 (million) on compensation of employees should be regarded as unauthorized expenditure because it exceeds the approved budget for the compensation of employees in 2016/17.
- The overspending on compensation of employees could be attributed to positions that were not budgeted for.
- Parliament underspent on goods and services by R51,979 (million). The underspending could be attributed to incomplete projects in 2016/17.
- The transfers to non-profit institutions was adjusted upwards by R8,836 (million) after the approval of budget. The Accounting Officer should explain as to why the transfers to non profit institutions was adjusted and should indicate if the adjustment was approved by Parliament.
- The statutory appropriation underspent by R93,314 (million) according to section 23(4) of the FMPPLA the underspent statutory appropriation fund should be surrendered to the NRF.
- Parliament surrendered only R62,836 (million) to the NRF instead of R93,314 (million), the Accounting Officer should explain what happened to the amount of R30,474 (million) that according to the FMPPLA must be surrendered to the NRF.

- The catering service generated a profit of R3,625 (million), this amount should be smaller compared to the cost of running catering service.
- The Accounting Officer should indicate the cost of running catering services to generate a profit of R3,625 (million). Although Parliament is not a profit-making institution, it sells food at profit and not at cost price. Therefore, the management is innovative in this area of catering services in order to make profit. The money spent on catering services should not only count the cost of food, it should also include the cost of employing people in catering services. The profit of R3,625 (million) will indicate a loss if compared to the cost of running catering service section.
- Surplus – the statement of financial performance reflects the accumulated surplus of R121,966 (million) as at 31 March 2017 improving from a deficit of R109,734 (million) in 2015/16.
- Surplus could be attributed to the savings on performance bonuses in 2015/16 and 2016/17. The Accounting Officer should give a break down the surplus of R121,966 to indicate the areas of saving.
- Parliament funding is derived from the national budget. This could be viewed as low risk due to the fact that Parliament is guaranteed to receive money from the National Revenue Fund in each financial year. Irregular expenditure incurred in 2016/17 amounts to R528 thousand and irregular expenditure incurred in previous years amounts to R15,031 (million). The amount of R13,116 (million) condoned in 2016/17. Therefore, the accumulated irregular expenditure amounts to R2,443 (million) in 2016/17.
- Fruitless and wasteful expenditure amounts to R1,067 (million) in 2016/17 accumulating from R830 (thousand) in 2015/16.
- The Accounting Officer should indicate if there is incurred unauthorized expenditure, because the compensation on employees allocation overspent by R102 (million) therefore this overspending should be classified as the unauthorized expenditure.

Reference

Financial Management of Parliament and Provincial Legislatures Act 10 of 2009 as Amended
Parliament (2017) Annual Report

