**2. REPORT OF THE STANDING COMMITTEE ON APPROPRIATIONS ON THE FIRST QUARTER EXPENDITURE PATTERNS FOR THE 2018/19 FINANCIAL YEAR, DATED 16 OCTOBER 2018**

The Standing Committee on Appropriations, having heard briefings and having considered the first quarter expenditure patterns of national departments for the 2018/19 financial year, reports as follows:

1. **Introduction**

The Standing Committee on Appropriations (the Committee) was established in terms of section 4(3) of the Money Bills Amendment Procedure and Related Matters Act, No.9 of 2009. The Act requires the Committee to consider and report on spending issues, and on actual expenditure published by the National Treasury.

The Committee has adopted a tradition of inviting both National Treasury and the affected departments to account on government spending. This consultative approach gives the Committee an opportunity to interrogate departments on their spending with a view to identify and strengthen gaps in public spending. The Committee is established as a strategic centre to flag issues, which might impact negatively on service delivery through scrutiny of government spending. As such, the Committee has taken a decision to move swiftly towards balancing its expenditure monitoring with actual performance.

The Committee has also identified the importance of proper procurement planning and practices in achieving value for money in public spending and preventing negative audit findings. The Committee has therefore started a practice of inviting National Treasury   
(Office of the Chief Procurement Officer) to report quarterly on procurement deviations and expansions in order to flag departments or entities with procurement challenges. The Committee is of the view that this will also help improve transparency and accountability in the procurement of goods and services.

This report provides an overview of government spending for the period 1 April 2018 to 30 June 2018 and also an overview of departments or entities that requested approval for a high number of deviations from National Treasury during the same period. It highlights spending patterns of national departments and draws the attention of Parliament and the Executive to findings and recommendations made for improved public spending performance.

1. **Expenditure Overview**

As at the end of the first quarter of the 2018/19 financial year, departments have spent R177.9 billion or 21.9 per cent of the available budget of R812.6 billion. This translates to an underspending of R9.9 billion or 5.3 per cent of the R187.8 billion projected expenditure for the first quarter of the 2018/19 financial year.

Table 1 below shows the budget and expenditure per vote allocation for the first quarter of the 2018/19 financial year.

Table 1: Budget and Expenditure Summary by Vote for the 1st Quarter of 2018/19

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| R million | | **Main Appropriation** | | **Available Budget** | **Q1 Actual expenditure** | **Expenditure as % of Available Budget** | **Q1 Projected expenditure** | **Variance from projected expenditure** | **% variance from projected expenditure** |
| **Departments** | |  | |  |  |  |  |  |  |
| 1 | The Presidency | 505.6 | | 505.6 | 99.4 | 19.7% | 120.3 | 20.9 | 17.3% |
| 3 | Communications | 1 513.1 | | 1 513.1 | 347.0 | 22.9% | 352.6 | 5.6 | 1.6% |
| 4 | Cooperative Governance and Traditional Affairs | 83 651.9 | | 83 651.9 | 1 034.0 | 1.2% | 1 495.9 | 461.9 | 30.9% |
| 5 | Home Affairs | 7 915.4 | | 7 915.4 | 2 150.7 | 27.2% | 2 007.1 | -143.7 | -7.2% |
| 6 | International Relations and Cooperation | 6 552.8 | | 6 552.8 | 1 437.4 | 21.9% | 1 925.3 | 487.9 | 25.3% |
| 7 | National Treasury | 29 358.4 | | 29 358.4 | 5 038.6 | 17.2% | 5 148.4 | 109.8 | 2.1% |
| 8 | Planning, Monitoring and Evaluation | 927.4 | | 927.4 | 187.5 | 20.2% | 226.3 | 38.8 | 17.1% |
| 9 | Public Enterprises | 273.9 | | 273.9 | 49.3 | 18.0% | 65.4 | 16.0 | 24.5% |
| 10 | Public Service and Administration | 956.7 | | 956.7 | 201.9 | 21.1% | 236.1 | 34.2 | 14.5% |
| 11 | Public Works | 7 453.3 | | 7 453.3 | 1 986.3 | 26.7% | 1 977.4 | -8.9 | -0.4% |
| 12 | Statistics South Africa | 2 271.7 | | 2 271.7 | 491.4 | 21.6% | 573.8 | 82.3 | 14.3% |
| 13 | Women | 230.2 | | 230.2 | 47.7 | 20.7% | 58.2 | 10.5 | 18.1% |
| 14 | Basic Education | 22 722.4 | | 22 722.4 | 7 785.9 | 34.3% | 8 069.0 | 283.2 | 3.5% |
| 15 | Higher Education and Training | 73 020.6 | | 73 020.6 | 32 695.5 | 44.8% | 34 732.1 | 2 036.6 | 5.9% |
| 16 | Health | 47 142.9 | | 47 142.9 | 11 455.5 | 24.3% | 11 710.5 | 255.0 | 2.2% |
| 17 | Social Development | 172 901.6 | | 172 901.6 | 42 200.4 | 24.4% | 42 524.6 | 324.2 | 0.8% |
| 18 | Correctional Services | 23 848.5 | | 23 848.5 | 4 891.8 | 20.5% | 5 869.1 | 977.3 | 16.7% |
| 19 | Defence and Military Veterans | 47 949.7 | | 47 949.7 | 10 692.5 | 22.3% | 10 507.2 | -185.3 | -1.8% |
| 20 | Independent Police Investigative Directorate | 315.1 | | 315.1 | 65.6 | 20.8% | 88.9 | 23.3 | 26.2% |
| 21 | Justice and Constitutional Development | 17 049.4 | | 17 049.4 | 3 935.2 | 23.1% | 4 116.8 | 181.5 | 4.4% |
| 22 | Office of the Chief Justice and Judicial Administration | | 1 119.7 | 1 119.7 | 210.8 | 18.8% | 277.1 | 66.3 | 23.9% |
| 23 | Police | 91 834.2 | | 91 834.2 | 20 611.3 | 22.4% | 22 369.5 | 1 758.3 | 7.9% |
| 24 | Agriculture, Forestry and Fisheries | 7 165.0 | | 7 165.0 | 1 823.5 | 25.4% | 2 266.2 | 442.7 | 19.5% |
| 25 | Economic Development | 1 072.6 | | 1 072.6 | 225.9 | 21.1% | 230.2 | 4.3 | 1.9% |
| 26 | Energy | 7 045.0 | | 7 045.0 | 889.2 | 12.6% | 1 502.0 | 612.8 | 40.8% |
| 27 | Environmental Affairs | 7 112.5 | | 7 112.5 | 1 194.3 | 16.8% | 1 526.9 | 332.6 | 21.8% |
| 28 | Labour | 3 295.2 | | 3 295.2 | 683.3 | 20.7% | 816.8 | 133.5 | 16.3% |
| 29 | Mineral Resources | 1 890.7 | | 1 890.7 | 517.3 | 27.4% | 534.9 | 17.6 | 3.3% |
| 30 | Science and Technology | 7 790.5 | | 7 790.5 | 2 120.1 | 27.2% | 1 778.9 | -341.1 | -19.2% |
| 31 | Small Business Development | 1 488.5 | | 1 488.5 | 380.2 | 25.5% | 421.4 | 41.1 | 9.8% |
| 32 | Telecommunications and Postal Services | 923.4 | | 923.4 | 374.3 | 40.5% | 409.6 | 35.3 | 8.6% |
| 33 | Tourism | 2 261.8 | | 2 261.8 | 1 125.8 | 49.8% | 1 208.9 | 83.0 | 6.9% |
| 34 | Trade and Industry | 9 462.6 | | 9 462.6 | 1 728.6 | 18.3% | 2 124.3 | 395.7 | 18.6% |
| 35 | Transport | 59 798.3 | | 59 798.3 | 9 915.9 | 16.6% | 9 210.1 | -705.8 | -7.7% |
| 36 | Water and Sanitation | 15 571.5 | | 15 571.5 | 2 261.9 | 14.5% | 3 332.5 | 1 070.6 | 32.1% |
| 37 | Arts and Culture | 4 372.3 | | 4 372.3 | 919.1 | 21.0% | 1 047.5 | 128.4 | 12.3% |
| 38 | Human Settlements | 32 355.7 | | 32 355.7 | 4 304.9 | 13.3% | 4 419.4 | 114.5 | 2.6% |
| 39 | Rural Development and Land Reform | 10 425.2 | | 10 425.2 | 1 744.2 | 16.7% | 2 220.4 | 476.2 | 21.4% |
| 40 | Sport and Recreation South Africa | 1 090.8 | | 1 090.8 | 74.1 | 6.8% | 257.5 | 183.4 | 71.2% |
| **Total** |  | **812 636.2** | | **812 636.2** | **177 898.5** | **21.9%** | **187 759.0** | **9 860.5** | **5.3%** |

*Source: National Treasury 2018*

Spending in terms of economic classification indicates that departments have spent   
R1.6 billion or 4.1 per cent less than the projected expenditure on compensation of employees; R2.7 billion or 18.8 per cent less than the projected expenditure on goods and services and R3.8 billion or 2.9 per cent less than the projected expenditure on transfers and subsidies. Payments for capital assets resulted in an underspending of R1.7 billion or 46.3 per cent.

The following are Departments that underspent and recorded the largest variances (in rand value) between projected expenditure and actual expenditure:

* Higher Education and Training with underspending of R2.0 billion or 5.9 per cent;
* Police with underspending of R1.8 billion or 7.9 per cent;
* Water and Sanitation with underspending of R1.1 billion or 32.1 per cent;
* Correctional Services with underspending of R977.3 million or 16.7 per cent; and
* Energy with underspending of R612.8 million or 40.8 per cent.

Upon examination of the expenditure patterns by departments, the following Departments have spent more than their projections for the first quarter of the 2018/19 financial year:

* Transport – R705.8 million or 7.7 per cent;
* Science and Technology – R341.1 million or 19.2 per cent;
* Defence and Military Veterans – R185.3 million or 1.8 per cent; and
* Home Affairs – R143.7 million or 7.2 per cent.

1. **Deviations and Expansions**

The National Treasury Instruction Note on Supply Chain Management (SCM Instruction Note 3 of 2016/17) prescribes the use of deviations from inviting competitive bids only in the case of an emergency and sole supplier status. Any other deviation is allowed in exceptional cases subject to prior written approval from National Treasury. In terms of expansions or variations from orders, the Instruction note stipulates that contracts should not be varied by more than 20 per cent or R20 million including VAT for construction related goods and services whilst the threshold for other goods and services is 15 per cent or R15 million including VAT. Expansions in excess of the prescribed thresholds are allowed in exceptional cases subject to prior written approval from National Treasury.

Table 2 hereunder highlights departments or entities that requested approval for a high number of deviations from National Treasury during the first quarter of the 2018/19 financial year. The table also reflects whether the deviations were supported or not supported by National Treasury.

Table 2: Deviations –Supported/Not Supported

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Department or Entity** | **Total  Deviations Requested** | **Supported** | **Not Supported** | **Noting** | **Pending** |
| ESKOM | 11 | 2 | 8 | 0 | 1 |
| Public Works | 11 | 1 | 2 | 4 | 4 |
| South African Revenue Service (SARS) | 7 | 1 | 5 | 0 | 1 |
| South African Social Security Agency (SASSA) | 7 | 3 | 4 | 0 | 0 |
| Medical Research Council (MRC) of RSA | 6 | 4 | 2 | 0 | 0 |
| Road Accident Fund (RAF) | 6 | 3 | 1 | 1 | 1 |
| South African Weather Services (SAWS) | 5 | 1 | 1 | 3 | 0 |
| Wholesale and Retail SETA | 5 | 0 | 5 | 0 | 0 |
| Labour | 4 | 2 | 0 | 0 | 0 |
| National Home Builders Registration Council (NHBRC) | 4 | 3 | 1 | 0 | 0 |

Source: National Treasury 2018

Table 3 below highlights departments or entities that requested approval for a high number of expansions from National Treasury during the first quarter of the 2018/19 financial year. The table also reflects whether the expansions were supported or not supported by National Treasury.

Table 3: Expansions –Supported/Not Supported

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Department or Entity** | **Total  Deviations Requested** | **Supported** | **Not Supported** | **Pending** | **Withdrawn** |
| ESKOM | 47 | 24 | 16 | 6 | 0 |
| National Home Builders Registration Council (NHBRC) | 11 | 3 | 8 | 0 | 0 |
| State Information Technology Agency (SITA) | 9 | 4 | 2 | 2 | 1 |
| Education, Training and Development Practices (ETDP) SETA | 8 | 8 | 0 | 0 | 0 |
| National Credit Regulator (NCR) | 7 | 2 | 1 | 4 | 0 |
| South African Postal Office (POSA) Ltd | 7 | 1 | 1 | 5 | 0 |
| Independent Police Investigative Directorate (IPID) | 6 | 6 | 0 | 0 | 0 |
| South African Revenue Service (SARS) | 5 | 3 | 1 | 1 | 0 |
| South African Social Security Agency (SASSA) | 4 | 1 | 3 | 0 | 0 |
| South African National Roads Agency SOC Ltd (SANRAL) | 4 | 0 | 3 | 1 | 0 |
| Environmental Affairs | 4 | 0 | 1 | 2 | 0 |
| South African Tourism | 4 | 3 | 0 | 1 | 0 |

Source: National Treasury 2018

National Treasury reported the following concerns regarding the abuse of deviations and expansions by departments and entities:

* Deviations below competitive bids are not reported (no obligation to report) by institutions. Abuse is picked up by the Auditor General during audits;
* Some departments and entities deviate and participate in contracts arranged by other institutions. There is no obligation to report these deviations;
* Some departments and entities use the emergency provision to enter into long term contracts;
* Some departments and entities think the role of National Treasury is to approve the appointment of a supplier, whereas the role of National Treasury is to allow an institution not to advertise a bid but invite as many suppliers as possible and assess the proposals or quotations through bid committees;
* Some departments and entities procure through deviation even though National Treasury has said no to such a deviation; and
* Some departments and entities do not request prior approval from National Treasury for single source procurements.

1. **Invited Departments**

The Committee invited the following departments for hearings on the First Quarter Expenditure for the 2018/19 financial year:

* 1. **Department of Water and Sanitation (Vote 36)**

The Department of Water and Sanitation (DWS) spent R2.3 billion or 14.5 per cent of its total allocated budget of R15.6 billion in the first quarter of the 2018/19 financial year. This represent underspending of R1.1 billion or 32.1 per cent against the projected expenditure of R3.3 billion for the first quarter. The underspending was mainly attributed to delays in the payment of outstanding cost of living adjustments and pay progressions, vacant posts across all four programmes of the DWS; outstanding transfers to the Water Trading Entity and Water Boards; and delays in the verification and approval of payments of invoices in respect of work done on the Indirect (Schedule 6B) Regional Bulk Infrastructure as well as the Water Services Infrastructure Grant.

The Department also reported on its performance against the targets as per the 2018/19 Annual Performance Plan. The DWS submitted that 65 percent of the targets for the first quarter were achieved, while 16 per percent were partially achieved and 19 per cent were not achieved. In terms of the Water Trading Entity, it was reported that 50 per cent of the targets were achieved while the other 50 per cent were partially achieved during quarter 1 of the 2018/19 financial year.

* 1. **Department of Higher Education and Training (Vote 15)**

The Department of Higher Education and Training spent R32.7 billion or 44.8 per cent of its total allocated budget of R73.0 billion in the first quarter of the 2018/19 financial year. This represents an underspending of R2.0 billion or 5.9 per cent against the projected expenditure for the first quarter. The underspending is mainly attributed to delays in the transfers of the earmarked grants to higher education institutions (i.e. Clinical Training; Infrastructure and Efficiency; University Capacity Development; New University Establishment Costs; and Historically Disadvantaged Institutions) and the Infrastructure and Efficiency Grant (EIG) earmarked for infrastructure refurbishment and maintenance in Technical and Vocational Education and Training (TVET) colleges.

In terms of performance on its targets as per the Annual Performance Plan, the Department has a total of 110 targets of which 75 are direct outputs of the Department and 35 relate to performance of the Post School Education and Training (PSET) system. During the first quarter the Department met 21 milestones which contribute towards the attainment of annual targets. The Department also reported that in 2017/18 the following targets were not achieved: disciplinary cases, filling of advertised posts, and payment of creditors within 30 days.

* 1. **Department of Energy (Vote 26)**

The Department of Energy spent R889.2 million or 12.6 per cent of its total allocated budget of R7.0 billion in the first quarter of the 2018/19 financial year. This represent underspending of R612.8 million or 40.8 per cent against the projected expenditure of R1.5 billion for the first quarter. The underspending was mainly attributed to the following:

* delays in the implementation of the 2018 wage agreement and filling of vacant posts;
* late receipt of invoices in respect of operating leases for office accommodation as well as international membership fees to the African Power Pool Association;
* delayed payments to Eskom and non-grid households in respect of the Integrated National Electrification Progamme (INEP);
* outstanding claims from the State Attorney in respect of Earthlife judgement delivered against the Department with costs; and
* delayed disbursements in respect of the Clean Energy Programme pending finalisation of Supply Chain Management (SCM) processes.

In terms of performance on its targets as per the 2018/19 Annual Performance Plan, the Department had 30 quarterly targets from which 18 or 60 per cent were achieved, 2 or 7 per cent were partially achieved, while 10 or 33 per cent were not achieved.

* 1. **Department of Agriculture, Forestry and Fisheries (Vote 24)**

As at the end of the first quarter of the 2018/19 financial year, the Department of Agriculture, Forestry and Fisheries spent R1.8 billion or 25.4 per cent of its allocated budget of R7.2 billion. This represent underspending of R442.7 million or 19.5 per cent against the projected expenditure for the first quarter. The underspending is mainly attributed to vacancies, slow implementation of the agricultural census and farmer register project and delayed transfer of earmarked funds to the Land Bank for the support of small emerging farmers and black economic empowerment in the sector (AgriBEE).

In terms of performance on its targets as per the Annual Performance Plan, the Department has a total of 67 annual targets and in the first quarter there were 43 milestones to be met towards the attainment of the annual targets. The Department met 32 milestones while 10 were in progress and one milestone was not met.

1. **Findings**

The Standing Committee on Appropriations, having engaged with National Treasury and deliberated with the invited departments on the first quarter expenditure patterns for the 2018/19 financial year, makes the following findings:

**5.1 Overall Spending Performance as at end of First Quarter 2018/19**

**5.1.1** The Committee found the following challenges that contribute towards under spending and the non-achievement of target across departments and public entities:

* Inadequate application of Medium Term Expenditure Framework planning tools and mechanisms;
* Delays in the filling of critical and funded positions;
* Non-payment of suppliers within 30 days from receipt of an invoice; and
* Capacity challenges in departments for the effective implementation of sound financial administration and management.

**5.1.2** The Committee found that the practice of payment of accruals from the previous year using the current year budget still persists. The Committee was concerned about this diversion of allocated funds from their intended purpose. The Committee viewed this as a sign of poor planning and financial management.

**5.1.3** The Committee found that there were challenges in procurement planning and supply chain management across departments and entities. Some of the challenges include:

* Poor demand and procurement planning;
* Abuse of deviations;
* Poor bid specifications and amendments thereto during bidding process;
* Contract overruns/Expansions due to poor planning; and
* Incorrect application of the policies.

**5.1.4** The Committee found that in general there is minimal consequence management in national departments for non-compliance and transgression of the Public Financial Management Act (PFMA) and Treasury regulations. The Committee emphasised that implementing punitive measures as prescribed by the PFMA will curb trends in non-compliance that results in irregular expenditure, fruitless and wasteful expenditure and the non-payment of suppliers within 30 days from receipt of an invoice.

* 1. **Department of Water and Sanitation (Vote 36)**
     1. The Committee found that the Department is facing significant fiscal difficulties, which undermine the effective and efficient performance of its functions. The Department reported that it has no budget for contractual obligations, transfers and recurrent expenditure such as audit fees, computer services, etc. The Department also has current liabilities arising from unfunded projects including the War on Leaks Programme.
     2. The Committee noted with concern the Department’s accruals and payables, which totalled R2.0 billion. The Committee highlighted that the reported accruals seriously compromised the ability of the Department to function and to achieve its targets as per the 2018/19 Annual Performance Plan (APP). The Department had spent R1.7 billion towards the accruals in the first quarter of 2018/19. The actual expenditure of the Department excluding the accruals paid was only 3 per cent of the total allocation at the first quarter of 2018/19.
     3. Transfers totalling R222.8 million could not be made in the 2017/18 financial year to the following institutions:
* Sub Fees to the African Ministers’ Council on Water (R140 thousand);
* Regional Bulk Infrastructure Direct Grant (R36.0 million);
* Water Services Infrastructure Grant (R24.2 million);
* Magalies Water Board (R6.2 million);
* Sedibeng Water Board (R70.0 million); and
* Infrastructure Komai Basin Water Authority (R86.3 million).
  + 1. The Committee noted that the Department of Water and Sanitation would table a revised 2018/19 Annual Performance Plan before the Portfolio Committee on Water and Sanitation before the end of September 2018.
    2. The Committee was concerned about the discrepancy between budget expenditure and performance against pre-determined targets. The Committee was of the view that the underperformance of the Department would affect the overall budget expenditure at the end of the 2018/19 financial year.
    3. The Committee noted with concern the report from the Department that 26 or 46 per cent of the 56 targets for the 2018/19 financial may not be achieved due to the current financial constraints.
    4. The Committee was concerned about the current liabilities, which arose from unfunded projects including the War on Leaks programme where R580.3 million has been paid to date through shifting funds from various programmes within the budget vote. The Committee attributed the challenge of unfunded projects to poor planning by the Department and was of the view that these would add to the accruals and payables.
    5. The Committee was concerned about the R551.7 million in invoices which have not been paid within 30 days from receipt of invoices from suppliers. The Committee viewed compliance with Treasury Regulations and legislation as non-negotiable.
    6. The Committee also highlighted the recurring issue of project cost escalations and used the Giyani project as an example where the project escalated to R3 billion.
    7. The Committee viewed the debtors’ age analysis of the Water Trading Entity as a cause for serious concern, particularly given that it amounted to R12.3 billion at the end of June 2018.
  1. **Department of Higher Education and Training (Vote 15)**
     1. The Committee noted with concern the delays in transfer of earmarked grants to higher education institutions and TVET colleges especially those related to infrastructure development. The Committee was concerned about the impact of these delays on students’ needs for accommodation as well as the need for equipment in TVET colleges. The Department indicated that the delays were to ensure that the funds would be spent in accordance with grants criteria and requirements and assured the Committee that funds would be transferred and that there were no service delivery implications within the first quarter for the reported underspending.
     2. The Committee noted the challenges about the implementation of the new National Student Financial Aid Scheme (NSFAS) bursary scheme and was concerned about funding not reaching students timeously given that the academic year was already in the second semester. The Department highlighted that challenges relate to a lack of data integration between the NSFAS systems and the institutions’ systems. The Committee welcomed the appointment of an Administrator by the Minister of Higher Education and Training to ensure that the funding decisions and disbursements for 2018 were carried out and to also develop a plan for the 2019 funding cycle.
     3. The Committee was concerned that the Department did not achieve the target of paying invoices within 30 days of receipt from suppliers. The Department highlighted challenges with verification of banking details and indicated that the envisaged improvements on the National Treasury Supplier database would assist in this regard. The Committee viewed this non-compliance as concerning given the negative effect of non-payment on the sustainability of Small, Medium and Micro-sized Enterprises (SMMEs).
     4. The Committee noted that the Department projects overspending on Examination Services in the 2018/19 financial year. The Department was not able to quantify this projected overspending when it appeared before the Committee. The Department reported that the projected overspending would be provided for in the Adjustments process. The Committee viewed this as indicative of poor budgeting and planning.
     5. The Committee was concerned about the significant number of vacancies in the Department especially in Technical Vocational Education and Training (TVET) Colleges and viewed this as counter-productive in closing the skills gap in the country. The Committee noted that the Department receives huge volumes of applications for vacancies and that it does not have enough human resource capacity for processing these applications. The Committee also noted that the Department is currently utilising an external service provider to fast track the processing of applications.
     6. The Committee noted and commended the Department’s improvement on the issuing of graduation certificates to students, especially at TVET Colleges.
  2. **Department of Energy (Vote 26)**
     1. The Committee was concerned about the R612 million under expenditure against the projected expenditure of R1.5 billion at the end of the first quarter of the 2018/19 financial year. The Committee viewed this as raising doubts about the Department’s ability to spend its allocation and achieve its targets for the financial year.
     2. The Committee noted that the significant variance in expenditure as at the end of the period under review were due to lack of capacity within the Department and its entities. The Department reported that there was a correlation between the targets which were not met at the end of the period under review and the shortage of skilled personnel. Specific reference was made to programme 2, Energy Policy and Planning, where none of the seven targets for the first quarter were met. The Committee noted that a report has been compiled for the Minister of Energy in this regard with a view to finding a lasting solution to the problem.
     3. The Committee was concerned about the reported theft of materials, especially at Eskom, and urged the Department to address the security issues urgently.
     4. The Committee noted with concern the report that PetroSA had a shortfall of R8.8 billion for its decommissioning liabilities.
     5. The Committee expressed that serious concerns about the report that almost all strategic entities reporting under the Department of Energy have vacancies in critical positions. The Committee’s main concern was with PetroSA, which is operating with an interim Board and most of the Executive Management positions remain vacant. The Department reported that it has compiled a comprehensive report to the Minister, and that it has identified key entities and key positions that should be filled as a matter of priority.
     6. The Committee also noted with concern that the Central Energy Fund has not submitted its Corporate Plan for the 2018/19 financial year.
  3. **Department of Agriculture, Forestry and Fisheries (Vote 24)**
     1. The Committee noted with concern the reported underspending resulting from delays in transferring funds earmarked for smallholder farmers support and for the AgriBEE fund. The Committee cautioned that this undermines the role of the Department and the agricultural sector in the growth and transformation of the economy.
     2. The Committee noted the high vacancy rate of 16 per cent within the Department and specifically the vacancy rate of 35.3 per cent within the Internal Audit component. This raised serious concerns given the role of internal audit in ensuring that internal controls are in place within the Department for proper financial management.
     3. The Committee noted that the Department overspent by R122 million under the Administration programme (Programme 1) due to accruals related to accommodation charges and municipal fees which were paid within the first quarter. The Committee viewed accruals as a diversion from the purpose that funds were appropriated for. The Committee was also concerned about the effect of the delayed payments on the sustainability of municipal finances.

1. **Recommendations**

The Standing Committee on Appropriations having engaged with the invited departments on the first quarter expenditure report for the 2018/19 financial year, recommends as follows:

* 1. The Minister of Water and Sanitation and the Minister of Finance should ensure that:
     1. The Department of Water and Sanitation in consultation with National Treasury urgently develops and implements a financial recovery plan for the improvement of the Department’s financial position and service delivery performance. The recovery plan must, amongst other things, encompass the following components:
* A review and strengthening of governance and monitoring mechanisms;
* A review of internal controls and delegations regarding financial management;
* A review and implementation of expenditure management systems including continuous scrutiny of all areas of spending to identify additional savings;
* A review of Supply Chain Management practices and implementation of proper controls and risk management practices;
* A review and implementation of efficient and effective revenue management and debt recovery systems to maximise revenue generation and revenue performance;
* A review of all liabilities, long and short-term, and conclude payment arrangements with creditors;
* A review of the Water Infrastructure Development unit to ensure that skills and capabilities are aligned to the infrastructure value chain for ensuring value for money in infrastructure spending.
  + 1. National Treasury considers secondment of the Government Technical Advisory Centre officials to assist the Department of Water and Sanitation with the development and implementation of a financial recovery plan.
    2. The Department of Water and Sanitation ensures that officials comply with all relevant legislative instruments and that the Accounting Officer applies the appropriate sanctions as per Chapter 10 of the Public Financial Management Act for all transgression of legislative prescripts and any financial misconduct by officials.
  1. The Minister of Higher Education and Training should ensure that:
     1. The Department of Higher Education and Training puts in place mechanisms for improvement of the payment of suppliers within 30 days from receipt of an invoice.
     2. The Accounting Officer takes full responsibility for non-payment of invoices within 30 days.
     3. The Department of Higher Education and Training reviews the efficiency and efficacy of centralisation of the recruitment function in order to facilitate the filling of all critical, funded vacant posts timeously.
     4. The Department of Higher Education and Training improves its planning and works closely with higher education institutions including TVET colleges to ensure that earmarked grants, especially those related to infrastructure development and maintenance, are transferred timeously.
  2. The Minister of Energy should ensure that:
     1. The Department of Energy urgently addresses the capacity challenges and shortage of skills that are impacting negatively on the spending and the attainment of performance targets.
     2. Public Entities reporting to the Department of Energy prioritise resolving governance issues and filling of critical and strategic positions in order to improve delivery capacity. In particular, PetroSA should urgently resolves the on-going governance and capacity challenges by, among other things, appointing of a full-time Board and filling all Executive Management positions.
     3. The Department of Energy improves its expenditure and achievement of targets to avoid underperformance at the end of the financial year. This should be prioritised given that in the past the Department of Energy experienced budget cuts resulting mainly from underspending and underperformance.
     4. PetroSA implements a workable and sustainable solution to the reported challenge of R8.8 billion shortfall for its decommissioning liabilities.
  3. The Minister of Agriculture, Forestry and Fisheries should ensure that:
     1. The Department of Agriculture, Forestry and Fisheries prioritises the filling of vacancies within the Internal Audit unit and ensure that all other critical vacant posts are filled timeously.
     2. The Department of Agriculture, Forestry and Fisheries puts in place proper planning, budgeting and financial management mechanisms to prevent accruals.
     3. The Department of Agriculture, Forestry and Fisheries works closely with the Land Bank to ensure that funds earmarked for smallholder farmers support and the AgriBEE fund are transferred in line with the agreed schedule and conditions set out in the Division of Revenue Act. This should include timeous completion of the memorandum of agreements between the Department and the Land Bank.

1. **Conclusion**

The responses to the recommendations as set out in section 6 above by the relevant Executive Authorities must be sent to Parliament within 60 days of the adoption of this report by the National Assembly.

Report to be considered.