1. **Report of the Joint Standing Committee on the Financial Management of Parliament on the Parliament of the Republic of South Africa’s 2017/18 Annual Report, dated 21 November 2018**

The Joint Standing Committee on the Financial Management of Parliament, having considered the Parliament of the Republic of South Africa’s 2017/18 Annual 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. In addition, section 4 of the FMPPLA mandates the Committee to, amongst others, consider Parliament’s Annual Report.

1.2 Parliament’s 2017/18 Annual Report was referred to the Committee on 1 September 2018 for its consideration. In its consideration of the report, the Committee received input from the Auditor General of South Africa (AGSA), the Committee Researcher and the Committee Content Advisor. The Acting Secretary to Parliament—the accounting officer—and her senior management team appeared before the Committee in a meeting held on 31 October 2018 during which 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 2017/18 Annual Performance Plan and budget, as well as the institution’s 2017/18 Annual Report.

1.4 This report comprises four parts: Part A contains a summary of the institution’s financial and performance information for the period under review; Part B contains the Auditor General South Africa’s key findings; and Part C contains the Committee’s observations and recommendations.

**PART A: PERFORMANCE IN THE 2017/18 FINANCIAL YEAR**

**2. Mandate**

2.1 Parliament derives its mandate from:

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

- the FMPPLA which regulates the institution’s financial management;

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

- the Powers, Privileges and Immunities of Parliament and Provincial Legislatures 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 has identified six values according to which 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 Fifth 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 inter-governmental 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 year under review**

Parliament received an unqualified audit report with no material findings on performance information and compliance with laws and regulations for the 2017/18 financial year. At the end of the period under review, Parliament had spent R2.233 billion of a final appropriation of R2.268 billion, which resulted in an under expenditure of R34.790 million.

Table 1 below provides an overview of Parliament’s expenditure per economic classification for the period under review.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Line Item** | **Final Budget R’000** | **Actual Amounts** | **Variance** | **Variance in percentage** |
| Compensation of employees | 785,503 | 829,782 | -44.279 | -6% |
| Compensation of members | 556,288 | 455,520 | 100,768 | 18% |
| Goods and Services | 505,207 | 489,220 | 15,987 | 3% |
| Transfers to non-profit organisations | 417,331 | 435,098 | -17,767 | -4.26% |
| Acquisition of property, plant and equipment | 3,906 | 23,699 | -19,793 | -507% |
| Purchase of intangible assets | - | 126 | -126 | -100% |
| **Total** | **2,268,235** | **2,233,445** | **34,790** | **1.5%** |

**Table 2: Statement of comparison of budget and actual amounts** (Source: Parliament of the Republic of South Africa, 2018)

**3.1 Variances**

The reported reasons for variances over 5 per cent per economic classification are outlined below.

3.1.1 The budget for compensation of employees has been less than the compensation value of positions filled by Parliament at the end of 2017/18 financial year. This resulted to an over expenditure R44.279 million or 6 per cent of the allocated R785,503 million for the period under review. The resultant shortfall was funded from retained unspent funds from previous years in line with section 23 (1) of the FMPPLA. The said underfunding has been referred by the Executive Authority to the Minister of Finance for consideration of a baseline review in the 2018 Medium Term Budget Policy Statement (MTBPS) and 2019/20 budget allocation.

3.1.2 Under compensation for members, an under expenditure of R100,768 million or 18 per cent was recorded against at the final budget of R556,288 million at the end of the 2017/18 financial year. The baseline for compensation of members has been overstated since the 2009/10 financial year. Part of this underspending was surrendered to the National Revenue Fund (NRF) in terms of section 23(4) of the FMPPLA. Of which an amount of R95 million has been shifted to Compensation of Employees for the 2018/19 financial year.

3.1.3 In terms of acquisition of property, plant and equipment, Parliament has recorded an over expenditure of R19,739 million or 507 per cent from a budget of R3,906 million. This was due to the budget for property, plant and equipment being less than the required funds for capital expenditure. The reported shortfall would be funded from unspent funds of previous years which were retained in terms of section 23(1) of the FMPPLA. The said underfunding has been referred by the Executive Authority to the Minister of Finance for consideration of a baseline review in the 2018 Medium Term Budget Policy Statement (MTBPS) and 2019/20 budget allocation.

3.1.4 Parliament recorded a 100 per cent variance in terms of the Purchase of intangible and heritage assets. No budget has been allocated for intangible assets (computer software) for the 2017/18 financial year. The reported shortfall would be funded from unspent funds of previous years which were retained in terms of section 23(1) of the FMPPLA. The said underfunding has been referred by the Executive Authority to the Minister of Finance for consideration of a baseline review in the 2018 Medium Term Budget Policy Statement (MTBPS) and 2019/20 budget allocation.

**3.2 Disclosures**

3.2.1 The reported irregular expenditure for the 2017/18 financial year was R336 thousand. The total irregular expenditure incurred in 2016/17 amounted to R2.443 million. This represents an 86 per cent decrease in irregular expenditure incurred in 2016/17. The reduction was due to the Executive Authority condoning R2.446 million in the period under review. The total irregular expenditure for the 2017/18 financial year related to; an award made to a member of Parliament (R20 thousand); and local content not specified in advertisements (R316 thousand). Parliament reported that it has established a Governance Assurance Committee to ensure the effective processing of irregular expenditure in the future.

3.2.2 In the period under review the institution incurred fruitless and wasteful expenditure amounting to R271 thousand. This represents a decrease of 75 per cent when compared to the R1,067 million fruitless and wasteful expenditure recorded in the 2016/17 financial year. The fruitless and wasteful expenditure incurred in 2017/18 comprises: R28 thousand in cancellation fees; R192 thousand as a result of damages to/loss of hired goods; R116 thousand due to unaccredited courses; R2 thousand in traffic fine administration fees; and R49 thousand for ‘other’ reasons. The Executive Authority has written off R1,053 million in fruitless and wasteful expenditure in 2017/18.

3.2.3 The reported contingent liabilities for the 2017/18 financial year amounted to R5 million for staff litigation (labour-related disputes and claims by former and current employees) and R12,250 million for other litigation. When compared to 2016/17, staff litigation decreased by R43,481 million whilst other litigation has increased by R2,666 million. The decrease recorded under staff litigation was due to an arbitration amounting to R38 million, which was initially awarded to the Researchers in the 2015/16 financial year, which the Parliament appealed the ruling in the Labour Court and won. The other possible litigation against Parliament increased by 28 per cent due to more pending cases.

3.2.4 In terms of the balance sheet, total assets of R440,633 million were recorded against total liabilities of R1,684 billion, resulting in an accumulated deficit of R1.243 billion at the end of the 2017/18 financial year. The deficit resulted mainly from the provision made for post-retirement medical benefits for current and former members of Parliament and provincial legislatures. The total number of former Members of Parliament receiving the benefit currently totalled 961 at the end of the 2017/18 financial year. The contribution made by Parliament through the annual appropriation for 2017/18 was R56,726 million. Should Parliament no longer be responsible for the post-retirement medical aid liability, its net asset position would amount to R99,738 million. It is for this reason that Parliament continues to be regarded as a going concern.

**4. Performance across programmes**

Although the institution showed a slight improvement in its performance, it still failed to achieve the majority of its targets. Of the 19 targets set, only 11 were achieved (57,89 per cent). This section summarises the purpose of each of the five programmes, as well as the reported performance against targets.

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

4.1.1 This programme provides for political and strategic leadership, governance and institutional policy, executive communication and co-ordination, and oversight of the development and implementation of Parliament’s strategic plan, annual performance plan and budget. Programme one comprises the Office of the Speaker of the National Assembly, the Office of the Chairperson of the National Council of Provinces (NCOP), the Parliamentary Budget Office (PBO), the Treasury Advice Office and the Office for Institutions Supporting Democracy (OISD).

4.1.2 The strategic objectives under this programme are:

- to improve strategic, advisory, executive, administrative and logistical support to the Executive Authority; and

- to improve independent, objective and professional analysis and advice related to the budget and other money bills tabled in Parliament.

4.1.3 Only one of the three targets set under this programme was achieved i.e. the institution set out to table 22 analytical reports, and succeeded in tabling 45. The two targets that were not achieved related to the implementation of governance schedules, and the tabling and referral of governance documents. The over-performance in relation to the analytical reports was ascribed to increased demands from Members of Parliament for analytical reports, resulting in the PBO’s services being extended beyond the Finance and Appropriations committees.

4.1.4 The 25 per cent under performance in relation to the governance schedule was ascribed to executive committee meetings not taking place according to the planned schedule: none took place in the first half of 2017/18.

4.1.5 Only 15 of the 20 governance reports tabled in the period under review, were tabled and referred timeously. The tabling procedures have since been reviewed, and this should address the under-performance.

**4.2 Programme 2: Administration**

4.2.1 This programme provides for strategic leadership support and management, institutional policy and governance, development of programmes for parliamentarians, overall management and administration, internal audit and financial management, and the Registrar of Members’ Interests.

4.2.2 The strategic objectives under this programme are:

- to develop and implement the Members Capacity Building and Development Strategy by 2019 so as to improve the usefulness, relevance and accessibility of integrated development programmes for parliamentarians;

- to implement a revised Sector Strategy aimed at improving inter-governmental relations between Parliament and provincial legislatures by 2019;

- to develop and implement efficiency measures to reduce inefficiencies by 1 per cent annually; and

- to implement the FMPPLA in order to strengthen strategic management, governance and compliance.

4.2.3 All eight targets in relation to the number of capacity-building programmes for parliamentarians were met. Capacity building programmes were developed with the University of Johannesburg (continuing education programmes), Nelson Mandela Metropolitan University (certificate in human settlement) and the University of London (post graduate programmes).

4.2.4 The targeted 15 per cent completion rate was exceeded by 25 per cent. The overachievement was attributed to the performance of those registered for the Continuing Education Programmes. Those enrolled at the Nelson Mandela Metropolitan University and the University of Johannesburg will complete their qualifications in 2019.

4.2.5 All targets set in relation to the actioning of resolutions of the Speakers Forum and Secretaries’ Association of the Legislatures of South Africa (SALSA) were met.

4.2.6 The institution failed to achieve 100 per cent compliance with prescripts and regulations. The 5 per cent under-performance was ascribed to lack of administrative coordination in the submission of governance documents.

4.2.7 The institution failed to achieve 100 per cent compliance in respect of the submission of governance documents in compliance of the FMPPLA. The Committee was not provided with a reason for the under-performance.

**4.3 Programme 3: Core Business**

4.3.1 This programme provides for procedural and legal advice, analysis, information and research, language, content and secretarial and legislative drafting services for meetings of the National Assembly and National Council of Provinces and their committees. The programme aims to:

- improve the timeliness and quality of advisory and information services;

- implement the oversight and accountability model;

- develop and implement models to improve the quality of legislation and improved oversight and cooperative governance;

- improve access and participation in parliamentary processes;

- improve support for Parliament’s international engagement;

- increase Parliament’s oversight capacity to monitor the implementation of international agreements; and

- provide professional protocol and ceremonial services.

4.3.2 The institution reported 100 per cent achievement of the following targets under this programme:

- all House Papers available on days of sittings;

- timeous response to all information requests in terms of the Promotion of Access to Information Act 2 of 2000 (PAIA);

- legal advice provided within seven days; and

- 10 per cent of the population having access to participate in Parliament.

It should be noted that the target in relation to public access to Parliament was set below the actual performance of 11,5 per cent that was reported in 2016/17.

4.3.3 The institution exceeded the targets set in relation to the following indicators:

- research delivered within the prescribed time period (99,74 per cent i.e. exceeded by 4,74 per cent);

- improved internal controls led to an over-achievement in terms of information requests being attended to within the allocated time (97,77 per cent i.e. exceeded by 2,77 per cent);

- draft minutes delivered within 3 days (95,84 per cent, i.e. exceeded by 5,84 per cent);

- official report of the unrevised Hansard within 5 days (100 per cent, i.e. exceeded by 5 per cent); and

- translations delivered within agreed time (95,11 per cent i.e. exceeded by 0,11 per cent).

4.3.4 The institution under-performed in relation to the following indicators:

- vacancies and increased work volumes led to under-performance in relation to service provision in line with the service charter (90,85 per cent i.e. 4,15 per cent under performance);

- procedural advice provided within seven days (99,89 per cent i.e., 0.11 under-performance);

- the absence of a tracking system resulted in the performance in terms of policy advice provided within seven days not being measured in the first half of the year (43,86 per cent i.e. 56.14 per cent under-performance);

- vacancies and competing priorities resulted in reports not being delivered within eight days (91,91 per cent i.e. 5,84 under-performance);

- the under-performance in relation to the provision of interpretation services was ascribed to high staff turnover and the unavailability of interpreters (56,74 per cent, i.e. under-performance of 38,26 per cent); and

- population participating in parliamentary processes (6 per cent, i.e., under-performance of 4 per cent).

4.3.5 The target set in relation to the Office of the Leader of Government Business tracking of published documents was set at 100 per cent. Performance could not be reported on however because the monitoring measure was unclear.

**4.4 Programme 4: Support Services**

4.4.1 This programme provides for institutional communication services, human resource management, information communication technology, institutional support services, and Members’ support services.

4.4.2 The strategic objectives under this programme are:

- to develop and implement a stakeholder management plan, and an integrated and independent scientific survey of Members’ satisfaction by 2019 in order to improve relationships with stakeholders;

- to develop and implement a comprehensive communications strategy by 2019 so as to increase public involvement through better communication of Parliament’s business;

- to increase Members and employees’ universal access to integrated information services from 40 to 80 per cent by 2019 by leveraging current and innovative technologies;

- to create a conducive working environment by optimising facilities usage and provide adequate and appropriate space so as to increase employee satisfaction from 68 to 85 per cent by 2019; and

- to develop and increase performance on the talent management index by 15 per cent by 2019 so as to increase the availability of strategic competencies, talent and skills.

4.4.3 The client satisfaction survey conducted under strategic objective 1 was concluded in March 2018. According to the internal survey, 70 per cent of Members and employees who participated were satisfied with the services. This amounted to a 3,5 per cent under performance which will hopefully be addressed when the Stakeholder Management Plan was implemented in full.

4.4.4 The client satisfaction survey measuring satisfaction with the Institutional Support Services Division (ISSD) revealed that 69,7 per cent of those who participated were satisfied with the services. The 0,3 per cent under-performance will be addressed through various interventions around catering, Safety, Health and Environment, and facilities management.

4.4.5 The institution reported over achievement in relation to the following targets:

- percentage of the population aware of the business of Parliament (23 per cent i.e. 12,25 per cent over-achievement)

- percentage of members who have universal access to Information Communication Technology (72 per cent i.e. 2 per cent over-achievement); and

- increase performance in terms of the talent management index (9 per cent i.e. 3 per cent over-achievement).

**4.5 Programme 5: Associated Services**

4.5.1 This programme provides travel, communication and other facilities to Members of Parliament to fulfil their duties as elected public representatives. It also provides for financial support to represented political parties, their leaders and constituency offices. According to the Annual Report all four targets under this programme were met.

4.5.2 The strategic objectives under the programme are:

- to review the Members’ needs and integrated services in a seamless support service by 2018 so as to ensure greater effectiveness;

- to reduce the average turnaround time for the processing and payment of reimbursements to Members; and

- to improve the payment and compliance of transfer payments for effective financial management.

4.5.3 The institution failed to meet targets set in relation to implementation of the integrated service strategy. Of the seven milestones, only six were met: the milestone set in relation to the refurbishment of the Members’ service lounge was not met.

4.5.4 The institution met the target set in relation to the publication of the Handbook. It was published by 31 October 2018.

4.5.5 The targets set in relation to the average number of days to reimburse parliamentarians was 2,37 days i.e. 0,3 shorter than targeted.

4.5.6 The institution succeeded in making 100 per cent of all payments to political parties and other institutions within the prescribed timeframes.

**5. Human Resource-related information**

5.1 Parliament’s establishment comprised a total of 1 414 posts in the 2017/18 financial year. A total of 1 274 posts were filled, and 140 were active and vacant, resulting in a vacancy rate of 9.9 per cent.

Table 3 below provides an overview of the vacancies at the end of the 2017/18 financial year per programme.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Programme** | **Number of posts** | **Number of posts filled** | **Active vacant** | **Vacancy rate** |
| Strategic Leadership and Governance | 89 | 81 | 8 | 0.6% |
| Administration | 137 | 122 | 15 | 1.1% |
| Core Business | 675 | 612 | 63 | 4.5% |
| Support Services | 513 | 459 | 54 | 3.8% |
| Associated Services | 0 | 0 | 0 | 0.0% |
| **Total** | **1 414** | **1 274** | **140** | **9.9%** |

5.2 From the total number of vacancies, the majority resided under highly skilled production or Level C category. From the total number of posts, 746 were under the Level C category of which 677 were filled and 69 or 4.88 per cent were vacant. The administration indicates that the fixed term employment contract and the high cost of living in Cape Town were some of the reasons for the high staff turnover reported.

**PART B: REPORT OF THE AUDITOR GENERAL OF SOUTH AFRICA**

**6. Audit Outcome**

6.1 The AGSA submitted that Parliament has sustained its unqualified audit outcome with no material findings of the past four financial years. The positive outcome notwithstanding, the AGSA raised concerns about the quality of financial statements submitted.

**7. Financial health**

7.1 In terms of the institution’s financial health, AGSA stated that that there was a continuous decrease in the cash and cash equivalents as a result of Parliament using its retained earnings to fund the shortfalls in the budget. AGSA cautioned that this was not sustainable in the longer term and further highlighted the net liability position which continued to be realised even though this was mainly caused by the provisions relating to direct charges. AGSA also suggested that Parliament should closely monitor expenditure as an operating deficit was realised in the 2017/18 financial year.

**PART C: OBSERVATIONS AND RECOMMENDATIONS**

**8. Observations**

**8.1 Compliance with legislative requirements**

8.1.1 The Committee welcomes the unqualified outcome with no material findings, which the institution has sustained for the past four financial years. The Committee further notes that Parliament’s commitment to maintain and further improve the internal control environment should result in the audit outcome being sustained.

**8.2 Performance and expenditure**

8.2.1 The Committee notes with concern that the institution only succeeded in meeting 11 of its 19 targets it had set for the period under review. This points to a discord between expenditure and performance as the institutions almost spent its entire budget allocation for the 2017/18 financial year. This may be indicative of inadequate planning and target-setting which does not conform to SMART (Specific, Measurable, Achievable, Realistic, Time-bound) principles.

**8.3 Financial Management**

8.3.1 The Committee notes and welcomes the substantial reductions in irregular, fruitless and wasteful expenditure during the 2017/18 financial year. The Committee is however of the view that proper investigations need to be conducted before the Executive Authority condone or write off deviations in terms of the FMPLA. The Committee strongly advises that fruitless and wasteful expenditure incurred due to indiscretions relating to the management of Parliament’s finances not be condoned. Instead, the monies in question should be recovered, or written off where recovery is not possible.

8.3.2 The Committee welcomes the considerable reduction in the contingent liabilities related to staff litigation when compared to the 2016/17 financial year. The contingent liabilities related to staff litigations during 2016/17 amounted to R48,481 million. Other litigations have, however, increased by 28 per cent from R9,584 million in 2016/17 to R12,250 million in 2017/18 and needed to be monitored closely as it could pose a risk to the financial sustainability of the institution.

8.3.3 The Committee notes with concern that that Parliament’s net liability totalled R1.243 billion at the end of the 2017/18 financial year mainly due to the provision of the post-retirement medical provision for former Members of Parliament and provincial legislatures. The said net liability increased substantially when compared to the previous financial year where it totalled R855.062 million

8.3.4 The Committee notes that at the end of the period under review 961 former members qualified for the post-retirement medical subsidy referred to above. The Committee is of the view that this subsidy poses a risk to the financial sustainability of the institution and should be addressed expeditiously.

**8.4 Vacancies**

8.4.1 The institution reported 140 or 9.9 per cent active vacancies at the end the period under review. The Committee is concerned about the high number of resignations under the Level C category (Highly Skilled Production).

8.4.2 The vacancy rate is a cause for concern, as it has in all likelihood contributed to the institution’s poor performance against pre-determined targets.

**9. Recommendations**

The Committee’s recommendations to Parliament follow below. The Executive Authority should, by 28 February 2019, provide the Committee with a report on the implementation of the undermentioned, and /or the reasons why implementation is not possible.

**9.1 Compliance with legislative requirements**

9.1.1 The Executive Authority should ensure that action plans are implemented to ensure that the monthly financial statements, and quarterly financial and performance reports are tabled within the legislated timeframes.

9.1.2 The Treasury Advice Office, which was created for the purpose of advising the Executive Authority with regard to the implementation of the FMPPLA should be established as a matter of urgency.

**9.2 Performance and expenditure**

9.2.1 The Executive Authority should ensure that the annual performance plan and budget are aligned, and that performance targets are specific, measurable, achievable, realistic and time-bound (SMART).

**9.3 Financial Management**

9.3.1 The Executive Authority should ensure that Parliament strengthens its mechanisms relating to the preparation of financial statements for submission to/auditing by the AGSA.

9.3.3 Although Parliament is viewed as a going concern, the Committee is of the opinion that measures should be explored to contain the net liability and deficit which poses future risks to the institution’s viability.

**9.4 Filling of vacancies**

9.4.1 Parliament should identify and fill all critical vacancies. The Committee proposes that those posts that would be impacted directly by the size of the cabinet should not be filled until the Sixth Parliament, when the new administration/government has been elected and the cabinet has been reconfigured.

9.4.2 Further, Parliament should ensure that it improves the management of contracts for managers and highly-skilled specialists. Consideration should be given to converting fixed term contracts to performance based renewable contracts, and to ensure that a contract management regime is put in place.

**9.5 Labour relations**

9.5.1 Parliament should expedite all disciplinary proceedings including the one into the Secretary to Parliament so as to ensure stability within the organisation.

9.5.2 The Committee recommends that an inquiry be conducted into administration of the Fifth Parliament in order to establish the root causes of the strained labour relations that characterised the institution in that period. The inquiry should be conducted to ensure that the causes are addressed before the Sixth Parliament commences.

**Report to be considered.**