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**Briefing Note for the 2018/19 Annual report of Parliament of Republic of South Africa**

**Purpose**

The purpose of this brief is to highlight some anomalies or concerns emanating from the 2018/19 Annual Report of the Republic of South Africa. The rationale is to get a clarity or an explanation from the management of the Parliament with regard to the identified anomalies or concerns. Further, some of the concerns raised require deliberations of the Committee and thereby recommendations will have to be drawn from those deliberations. Therefore, this brief is divided as follows:

1. **Overview of 208/19 Annual Report of Parliament**

The performance of Parliament has steadily increased over the years. It increases from 45, 87% achieved in 2015/16 to 78,57% in 2018/19 financial year. This increased performance was achieved despite the fact that Parliament’s operational budget has declined over the same period. Such good performance can be ascribed to a number of factors, include, amongst others, improvement in governance of Parliament, process improvements in the delivery of products and services provided by the Parliamentary administration and the methods used to measure administrative activities and outputs.

In light of the above, the Parliament has planned to achieve fourteen (14) key performance targets, of which it actually achieved eleven (11) of the set targets, and missed three (3) targets. The targets missed were from Programme 4: Support Services and Programme 5: Associated Services. These targets include *Client satisfaction level (% of clients satisfied with service levels) and Average number of days to reimburse Members.*

For the Client satisfaction level, the Parliament planned to achieve 75% of clients satisfied with service levels received from Parliament, of which it only managed to achieve 67,10%. This target measures client satisfaction in the area of institutional support services including household, catering protection services, artwork and safety, which all has shown a decline in the performance according to the client satisfaction survey. On the other hand, the Parliament has set to take 2.4 days to reimburse Members for their payments due to them. However, it managed to spend an average of 2.53 days to reimburse Members, the reason being the lack of capacity.

Importantly, there are other programmes/outputs, which Parliament achieved as collective with other legislatures, which means as a sector. As the Legislative Sector, the Parliament has ensured that a Legislative Sector Bill was endorsed by the Speaker’s Forum and it was referred to Parliament during 2018/19 financial year for introduction into the formal legislative process as a Section 76 Bill. Further, the Legislative Sector developed the Legislature oversight strategies, and the NDP tracking template which integrates Provincial Development Plans (PDPs), local government Integrated Development Plans (IDPs).

For the 2018/19 financial year, the Parliament has reported that it recorded a R230 082 Deficit for the year. This means that the total expenditure was more than the total revenue generated for the year- the Parliament spent more than what it had. It is worth noting that it was not the first time the Parliament recorded or generated a Deficit for the year, for the 2017/18 financial year, it also generated a Deficit of R260 444 million. Further, the reserves- cash and cash equivalents for the Parliament were reduced from R282 311 million in the 2017/18 financial year to R148 145 million for the 208/19 financial year. Thus, it can be concluded that the Deficit for the year, generated by the Parliament was financed through the reserves hence they are decreasing.

**2. Issues/concerns raised by the brief**

**2.1. Decrease in cash and cash equivalents vs increase in deficit generated by the Parliament**

As alluded above, the Parliament has recorded a deficit to its financial performance for the 2018/19 and 2017/18 financial years. Such deficit was accompanied by the reduction in cash and cash equivalent, i.e. Parliament reserves. As reported in the above, the Parliament had cash of R282 311 million for the 2017/18 financial year. This amount has since decreased to R148 145 million at 31 March 2019.

Flowing from the above, it is concerning the fact that the retained income/reserves are depleting because, some of critical functions are funded through these retained funds. For example, during the 2018/19 financial year, the Parliament Budget Office (PBO) and the Office on Institutions Supporting Democracy (OISD) were not funded from the fiscus but through these reserves. Therefore, if these reserves keep on depleting due to the fact that they fund deficit, this poses a financial threat to Parliament specially to continue functioning optimally.

**It is therefore against this background that the Committee should ask about whether or not the management of Parliament have plans to mitigate this potential threat. If yes, what are those plans to ensure that programmes and functions, which are currently financed by the cash reserves are getting it a way to be financed by fiscus? If not, Why?**

**2.2. Accumulated Deficit**

For the 208/19 financial year, the Parliament has recorded a net deficit of R1 468 billion. This means that its total liabilities were more than total assets. This is due to R1.2 billion provision made to the post-retirement medical aid benefits for current and former members of Parliament and Provincial legislatures. Even though this amount is sufficiently budgeted by the Parliament, and the Parliament is wholly dependent on the National Treasury for the continued operations, it still possesses concern with regard to the going concern of the Parliament as an institution. Further, it paints a blink picture about the financial position of Parliament. *Thus, it will be important for the Committee to get a clarity on whether there could be no other alternative to keep this money, such as, the provincial legislatures taking this function for their Members, or National Treasury takes the control of this budget. It is the understanding of this brief that, currently, there is no existing legislation, which compels the Parliament to provide this amount from its financial statements. However, it would be good if a clarity can be sought from the management of Parliament on whether or not is there any compelling reason for Parliament to provide this amount on its financial books****.* (see page 82-Statement of Financial Position)**

**2.3. Trade payable:**

At the end of the 2018/19 financial year, an amount of R19. 163 million was owed to different service providers (creditors) who rendered services to the Parliament. This amount includes an amount of R3.192 million owed to the Department of Justice, DPW and the South African Police. This raises the following concerns*: What services, which were rendered by these government departments to Parliament, which Parliament did not pay for them? Why Parliament has failed to pay these government departments? Further, it is critical to pay creditors on time. The State has adopted a 30-Day Payment Policy to crystallise the importance of paying creditors on time. Thus, the Parliament should lead by an example in this regard. Moreover, paying creditors on time also lead to prudent financial management by avoiding paying interest on overdue accounts.*

**2.4. Material irregularity- Irregular and fruitless expenditure**

Table 1: Irregular expenditure and fruitless and wasteful expenditure



Source: 2018/19 Annual Report of Parliament

The Table above shows that for the 2018/19 financial year, irregular expenditure amounted to R336 000, while fruitless and wasteful expenditure recorded an amount of R299 000. It further reveals that for the 2018/19 financial year, the Parliament has not incurred irregular expenditure and fruitless and wasteful expenditure. The current balances were incurred in the previous financial year, i.e. 2017/18. Importantly, it is concerning the fact that these material irregularities were not dealt with during the period under review. The Parliament should have investigated the causes of these expenditures and identify the culprits and recover the monies wasted where necessary or write off/condone these expenditures. *The failure of Parliament to act on these material irregularities shows a lack of consequence management. Thus, the Committee should get a clarity on what causes such delay to take actions? What is difficult to recover money from a person responsible for traffic fines or interest on late payments for example? Does Parliament have an internal control system in place to deal with the treatment of irregular and fruitless and wasteful expenditures?*

Lastly, section 56 (2) (d)(iii) requires that notes to the financial statements must provide any disciplinary or criminal steps instituted as a result of unauthorised expenditure, irregular expenditure, fruitless and wasteful expenditure. Currently, the notes to the financial statement does not provide this information. This information is important for the Committee to ascertain whether Parliament implements consequence management and assess progress in dealing with these material irregularities.

**2.5. Trade and other receivables**

At the end of 2018/19 financial year, Trade receivables (debtors) amounted to R 1,899 million. This amount included an amount of R12 000 owed by the Government departments to Parliament for catering. Those institutions were South African Police and the Department of Sports and Recreation. Therefore, the Committee should get a clarity on what made it difficult for Parliament to collect these outstanding debts from these government departments **(see page 98: Notes to financial statements**) **Further, the Committee should also get a clarity on the nature of the amount of R2, 429 million owed to Parliament by Staff and Members to Parliament.**

**2.6. Repairs and maintenance**

By the end of 208/19 financial year, the Parliament spent an amount of R6.235 million for repairs and maintenance. Of the total amount spent, R973 000 was spent on repairs and maintenance of buildings. It is worth noting that the Government Immovable Asset Management Act, 2007, gives the responsibility for repairs maintenance of state building to the Department of Public Works. Thus, it is expected that the budget for such be allocated under the DPW to follow a financial mantra, i.e. funds follow function. Therefore, the Committee should get a clarity on why the Parliament spent such amount (R973 000) on the function, which is budgeted under the DPW? Further, the Committee should find out about whether or not this amount was budgeted from Parliament, if not, why it cannot be regarded as an unauthorised expenditure? (**see page 112: Note 27 of the financial Statement)**

**2.7. Donation from European Union**

At the end of 2018/19 financial year, an amount of R52 308 million was donated to Parliament for deepening public participation and representation, strengthening capacity in law making and oversight, building an efficient and effective legislative sector and to strengthen the sector’s capacity to engage, participate in, and oversee international relations. Thus, the Committee should get a clarity on programmes, which were funded by this donation, which are in line with the objectives and conditions of this donation

**2.8. Cost containment measures**

In its endeavour to contain costs, the Parliament has introduced My Parliament APP, aiming to cut costs of printing and stationery. By the end of March 2019, the Parliament reported that 302 Members of Parliament had the App installed on their mobile devices and were trained in its use. It is also envisaged that the App will again be installed for all Members in the Sixth Parliament.

In spite of the above, the printing and stationery costs remain significantly high. For the 2016/17 financial year, the costs of printing and stationery amounted to R14 425 million, and amounted to R15 097 million and R15 725 million for the 2017/18 and 2018/19 financial years, respectively **(see page 113: Notes to the Financial Statements**) Further, the spending line item: Computer software *(which includes payment of licence fees for My Parliament App),* the Parliament has paid an additional amount of R3,253 million for the 2018/19 financial year. Therefore, it is concerning the fact that the Parliament will have to pay significant costs for both My Parliament App and Printing and stationery costs, then this defeats the whole purpose of this App. Therefore, what Parliament does in ensuring that the printing and stationery costs are reduced and My Parliament App is used optimally? Also, why Parliament allowed such this kind of wastage of scarce resources to continue for the whole year?

**2.9. Transfer to non-profit institutions**



The Parliament makes transfer payments to political parties represented in Parliament in proportion to their representation, to enable the parties to effectively perform their functions in terms of the section 57 of the Constitution and section 35 of the Financial Management of Parliament and Provincial Legislatures Act (FMPLA). As shown in the Table 2 above, it is reported that the Parliament has budgeted an amount of R455 860 million at the beginning of the 2018/19 financial year, of which R454 327 million was spent. However, as far as the understanding of this brief, the approved budget for Transfers to non-profit institutions (transfer payments to Political Parties) was R 438 743 at the beginning of the 2018/19 financial year as opposed to the R455, 860 million reported by the Parliament. ***(see page 86: Statement of comparison of Budget and Actual Amounts)***

In spite of the above, during the 2018/19 third quarter performance reporting, the Parliament indicated that they projected an overspending of R15, 400 million for transfer to political parties as such they have started to shift funds to defray such projected expenditure. The Committee raised some concerns with regard to such proposal of allocating additional funding to Political Parties and suggested that those funds be shifted to fund other critical programmes of Parliament. In fact, the Committee did not support such proposal at that time. **(see Annexure 1)** Currently, the Annual Report shows that the Parliament has indeed allocated an additional funding of R17 117 million to fund Transfers to Political Parties. Then, the Committee should find out about the reason for incorrectly disclosing of information with regard to the Approved Budget for Transfers to non-profit institutions for the 2018/19 financial year. Further, what reason led to such additional funding being allocated to Transfers to Political parties despite the suggestion made by the Committee? and who approved such adjustments? Which programmes, were these funds shifted from?