**Report of the Standing Committee on Finance on the Oversight Visit to the Government Pensions Administration Agency, dated 02 May 2023.**

1. **INTRODUCTION AND BACKGROUND**
   1. The Standing Committee on Finance (SCOF/the Committee) undertook an oversight visit to the Government Pensions Administration Agency (GPAA)on 30 March 2023 in Gauteng. The purpose of the visit to GPAA was to get a briefing on its audit action plan for 2021/22. GPAA received an unqualified audit opinion with findings.
   2. The Auditor General of South Africa (AGSA) said that GPAA continued to struggle on compliance with legislation as prior year action plans failed to adequately address significant internal control deficiencies. AGSA explained that the prevalent instances of non-compliance were in the areas of expenditure management, supply chain management (SCM), consequence management, and material misstatements in the annual financial statements (AFS) submitted for auditing.
   3. GPAA is a government component that reports to the Minister of Finance and administers funds and schemes on behalf of the Government Employees Pension Fund (GEPF), the largest pension fund in Africa. It administers the pension affairs of approximately 1,7 million government employees and pensioners, as well as the affairs of their spouses and dependants.
   4. AGSA briefed the SCOF on 21 February 2023 about the audit outcomes of the finance portfolio for 2021/22. A decision was taken by the Committee to conduct an oversight visit to the National Treasury and all entities that had negative audit outcomes for 2021/22. The Committee conducted the same exercise last year with regards to the audit outcomes of 2020/21 financial year.
   5. The entities visited on 29 and 30 March 2023 were the National Treasury, Cooperative Banks Development Agency (CBDA), FAIS Ombud, Financial and Fiscal Commission (FFC), Financial Intelligence Centre (FIC), the Office of the Pension Funds Adjudicator (OPFA), Government Technical Advisory Centre (GTAC), Government Pensions Administration Agency (GPAA) and Public Investment Corporation (PIC).
2. **DELEGATION**

Parliamentary Delegation

* 1. The Committee delegation comprised of the following members: Mr MJ Maswanganyi (Chairperson of the Committee, ANC), Ms P Abraham (ANC), Ms D Mabiletsa (ANC), Mr G Skosana (ANC), Ms W Alexander (DA), Mr F Shivambu (EFF) and Mr W Wessels (FF+). The delegation was accompanied by the following parliamentary officials: Mr A Wicomb (Committee Secretary), Ms Cele-Ntshinka (Committee Assistant), Dr Z Hlophe (Content Advisor), and Ms A Manamela (Researcher).

National Treasury and GPAA Delegation

2.2. The NT delegation comprised of: Mr E Godongwana (Minister of Finance), Ms L Mseme (Acting Chief Operations Officer), Mr L Batwa (Parliamentary Officer), Ms N Mahori (Parliamentary Officer), Mr K Bosoga (IT Support), and Mr M Khan (Director).

2.3. The GPAA delegation comprised of: Ms K Madiehe (Chief Executive Officer), Mr K Molibatsi (Acting Chief Finance Officer), and Mr E Morudu (General Manager).

AGSA Delegation

2.4. The Auditor-General delegation comprised of: Ms M Madondo (Senior Manager), Mr L Kuse (Senior Manager), Ms N Matanzima (Business Unit Leader), Ms K Naicker (Deputy Business Unit Leader), Ms A Whitfield (Senior Manager), and Mr M Jimmy (Acting Product Champion).

**3. OVERVIEW OF GPAA 2021/22 AUDIT OUTCOMES**

3.1 On procurement and contract management, AGSA identified GPAA’s non-compliance in the procurement processes of various tenders. This non-compliance was in relation to the evaluation of competitive bids and non-compliance with the requirements of local content where commodities designated for local content and production were procured from suppliers who did not submit a declaration on local production and content.

3.2 On expenditure management, AGSA found that GPAA’s payments were not made within 30 days or on the agreed period after receipt of an invoice, as required by Treasury Regulations 8.2.3. AGSA also found that GPAA had prepayments for services where there was no evidence to support such prepayment contractual arrangement contrary to Treasury Regulation 15.10.1.2.

3.3 On annual financial statements, the AGSA found that GPAA submitted statement for auditing which were not prepared in accordance with the prescribed financial reporting framework as required by section 40(1) of the PFMA. It said that material misstatements of the commitments disclosure note identified by the auditors in the submitted financial statements were corrected, resulting in the financial statements receiving an unqualified audit opinion.

3.4 On consequence management, AGSA said it was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against the officials who had incurred irregular as well as fruitless and wasteful expenditure as required by section 38(1)(h) (iii) of the PFMA. This was because investigations into irregular as well as fruitless and wasteful expenditure were not performed.

1. **GPAA 2021/22 AUDIT ACTION PLAN**

Expenditure management

* 1. On expenditure management, GPAA said that there was irregular expenditure to the amount of R43 million because of contracts that were awarded without following proper SMC policies and processes. GPAA said it was taking steps to review and tighten controls and improve the capacity of its SMC structures.

Procurement and contract management (SCM)

* 1. GPAA reported that it was improving its internal control and review and was reviewing its Standard Operating Procedures. It said that it was also focussing on preventive controls and had initiated its internal audit review on SCM.

Consequence management

* 1. GPAA reported that it had initiated numerous consequence management in the past few months. It said that it had finalised 74% of cases and plans were ongoing to finalise the remaining 9 cases.

Material misstatements

* 1. GPAA reported that the Acting CFO was appointed on 1 December 2022 and was in a process of improving its capacity in Finance. It also reported that it has enhanced the review and monitoring of its financial statements using its internal and external audit capacity.

1. **COMMITTEE OBSERVATIONS AND RECOMMENDATIONS**
   1. The Committee notes that GPAA is the administrator of pension benefits on behalf of the Government Employees Pension Fund (GEPF), a defined benefit fund that manages pensions and related benefits on behalf of government employees. GPAA therefore plays a critical role in building a capable state, both as a government component and as the administrator of pension benefits for public servants.
   2. The Committee notes that GPAA only achieved 11 out of 17 planned indicators (65% achievement) in 2021/22. In relation to ensuring adherence to payment turn-around times of pension benefits, GPAA achieved only 3 of the 8 indicators (38%). The reasons for non-achievement of targets on the payment of benefits, according to AGSA, were that: exit documents were submitted late or with errors, thereby causing a delay in the payment of benefits and eventually impacting negatively on service delivery; large claim volumes were received late from employer departments; manual processes currently utilised internally lead to delays and; critical vacancies in leadership positions (CEO, CFO, COO). AGSA said that all these main reasons resulted in delays in the payment of benefits to beneficiaries and impacted negatively on service delivery and client satisfaction. The Committee is concerned about all these challenges and underperformance which lead to delayed payment of pension benefits – affecting mostly vulnerable members of society.
   3. The Committee recommends that GPAA should expedite the implementation of its Modernisation Programme that is aimed at automating its core business processes and expanding the electronic outreach that will provide clients and customers with secure access to services.
   4. The Committee further urges GPAA to fill the critical vacancies as it has had vacancies at executive or senior levels for extended periods of time. The position of accounting officer (CEO) was only filled on 1 November 2022. Other senior positions have been vacant for extended periods of time such as the CFO (vacant since 2013), Deputy Director General (DDG) Operations (COO) (vacant since 2013), and DDG Corporate Services. It is unacceptable that GPAA has vacancies that span over 10 years. The Committee requires the Minister of Finance to heighten his oversight and ensure that all vacant strategic positions are filled as soon as possible.
   5. The Committee further requires to be supplied with a list of all senior vacancies at GPAA, the period they have been vacant for, steps being taken to fill them and timelines/deadlines. This list should be submitted to the Committee Secretariat within seven days of the adoption of this report by Parliament.
   6. The Committee is concerned about laxity on expenditure management which results in prepayment for services. It is unclear what kind of services would require GPAA to make advance payments.
   7. The Committee is further concerned that in its presentation to the Committee, GPAA did not explain clearly what actions are being implemented to resolve expenditure management issues. The Public Finance Management Act framework requires irregular expenditure to be resolved through condonation or recovery. In its presentation of the audit action plan to the Committee, GPAA made no mention of such processes being undertaken to resolve these issues. AGSA said that GPAA had provided no evidence that it conducts investigations to ensure consequence management.
   8. The Committee requires the Minister of Finance to heighten his oversight over GPAA as its audit findings highlight gross control deficiencies which impact service delivery.

The Standing Committee on Finance asks the National Assembly to adopt this Oversight Report.

Report to be considered.

The DA reserves its position.