

COMMITTEE REPORTS:

National Assembly:

1. **Eleventh Report of the Standing Committee on Public Accounts, dated 31 October 2001:**

The Standing Committee on Public Accounts, having heard and considered evidence on the Report of the Auditor-General on the financial statements of Vote 15—Health for the year ended 31 March 2000 [RP 124-2000], and certain papers referred to it, reports as follows:

A. Financial management and PFMA

1. Fraud Prevention Plan

The Committee took cognisance of the process to develop a Fraud Prevention Plan, and also of the establishment of a fraud hotline.

Nevertheless, the Committee recommends that everything possible be done to implement the proposed Fraud Prevention Plan by 31 December 2001 and to report back to the Committee on the successful implementation of the Fraud Prevention Plan.

2. Audit Committee

The Committee took note that the Audit Committee is fully functioning in the Department.

The Committee, having been made aware of the investigation into the UNISA Board, recommends that the Department consider the appropriateness of members of the Audit Committee when the membership of the Audit Committee is reviewed during 2002.

3. Internal audit

The Committee noted that, after revision of the Internal Audit structure, the staff establishment of the Internal Audit Unit comprised of 13 posts, of which only five are filled at present. Furthermore, the Committee also took note that the Head of the Internal Audit Unit of the Department is involved in the Internal Audit Unit of the Department of Public Service and Administration and in a

project with the Internal Audit Sections of all other government departments and provinces.

It came to the attention of the Committee that the Internal Audit Unit lacked capacity and that the Department's major problem is the recruitment of staff. Whilst supporting the notion of best practice sharing between departments, the Committee wishes to register that this practice should not be allowed to impact on the effectiveness of the principal department.

The Committee further took note of the Accounting Officer's concern about the limited financial management expertise available in the public sector. Given the implementation of the Public Finance Management Act (PFMA), this expertise is becoming available only at a premium that may not be affordable in terms of the public sector salary scales.

The Committee recommends that the Accounting Officer:

- (a) Persevere with the actions aimed at improved financial management, specifically in bringing the Internal Audit Component up to full strength and ensuring continuation of professional training for relevant staff.

The Accounting Officer should seek advice from the Monitoring Unit: Internal Audit and Audit Committees, established within the Office of the Accountant-General, on the adequacy of the staffing of the Department's Internal Audit Unit in terms of generally accepted benchmarks, and should report to the Committee in this regard by 31 December 2001.

- (b) Ensure that staff of the Internal Audit Unit be utilised only at other departments if there is no lack of capacity in their own auditing environment, both in respect of auditing and supervision.

4. *Asset management*

After considering evidence presented by the Department, the Committee took cognisance of the fact that the National Treasury is reviewing the current systems to address the needs of departments.

The Committee therefore recommends that the National Treasury increase resources to speed up the process and that the Department of Health implement interim measures to improve the other control measures.

B. Sarafina II

The issue has taken a long time to be satisfactorily resolved—it started in 1995. However, it is the Committee's view that appropriate measures should be taken to bring this issue to a close.

After giving due consideration to all the information on the matter regarding the unauthorised expenditure emanating from

the Sarafina II saga, as well as considering a comprehensive report from the Accounting Officer, as requested during the hearing of 29 August 2001, and consulting with the Parliamentary Law Advisers, the Committee wish to note the following:

1. From the unauthorised amount of R10 519 202,30 that was paid, an amount of R2 211 138,79 was recovered and a further amount of R8 308 063,51 remains outstanding.
2. As some form of services were rendered, it is important to determine the approximate amount which should be regarded as either fruitless or wasteful expenditure and which has to be recovered.
3. The findings of all the investigations indicate a serious lack of financial discipline and control, amounting to negligence, on the part of the two individuals concerned.
4. Action could have been taken by the Accounting Officer to prevent, or at least reduce, the extent of the unauthorised expenditure.
5. Until the date of adoption of this Report, an amount of R576 595,59 has already been spent on legal costs in an attempt to recover the loss suffered by the State.
6. Work conducted by investigating agencies such as the Public Protector, the KPMG Forensic Auditors and the Special Investigating Unit was of great help in identifying serious irregularities and unauthorised expenditure.
7. Sufficient measures and actions were not taken by the Department to recover the money from the two individuals concerned.
8. Directors-General are appointed as accounting officers, and as such have a very specific and direct responsibility to act as custodian of tax-payers' money.
9. Parliament is tasked with the responsibility to authorise unauthorised expenditure if sufficient grounds exist and evidence indicates that the circumstances which gave rise to the unauthorised expenditure, were both urgent and unavoidable.
10. The asset base of those responsible for the expenditure might be insufficient to recover the full amount lost.
11. In the opinion of the Parliamentary Law Advisers, grounds exist, on the merits, to obtain a judgement against the individuals responsible for the unauthorised expenditure.

It is the Committee's firm belief that Parliament does not only have a mandate to oversee financial management compliance, but must be seen to be guarding the best interest of tax-payers and the most effective and efficient use of limited state resources.

The Committee therefore recommends that:

- (a) The Department immediately proceed with legal steps with the objective of securing judgement against the individuals concerned.
- (b) The type of judgement provide the State with an extended period of right to recover the money from the individuals concerned, as was the case with the GCIS recently.
- (c) The State attorneys endeavour to secure a cost judgement.
- (d) The Department proceed with the above action within the shortest possible timeframe, and report back to the Committee by not later than the end of February 2002.

C. Protein Energy Malnutrition Scheme

The Department has been involved in various projects to alleviate malnutrition and improve nutrition among South African children since 1991. The Auditor-General has been reporting on weaknesses in the programmes since 1994. Problems identified included the following:

1. A lack of supporting vouchers.
2. Inadequate monitoring procedures.
3. Failure to comply with standards prescribed by the Department.

On 1 August 1995 the President appointed a Commission of Inquiry into the Protein Energy Malnutrition Scheme. The Commission consisted of three persons and was appointed specifically to look into the allocation of contracts, expenditure on contracts and the supervision of the Protein Energy Malnutrition and other related schemes. The Commission is, however, disturbed about the costs incurred in respect of the Commission that amounted to R9 156 377 as at 31 March 2000, as well as the failure of the Department's adherence to the recommendations of the Commission.

Having received the "Summary of the report by the Commission of Inquiry into the Protein Energy Malnutrition Scheme and other Nutrition Programmes and Feeding Schemes administered by the National Department of Health", and given its awareness of problems experienced currently with the implementation of nutrition schemes, the Committee recommends that it be informed about the implementation of the recommendations made by the Commission with regard to:

- (a) The efficient handling of all matters of fraud or mismanagement in each province.
- (b) The blacklisting of individuals who were incriminated in the programmes and a register to be kept preventing them from conducting business with any programme in any province.
- (c) Programmes on strengthening human and institutional capacity to reduce the unacceptably high levels of childhood malnutrition in South Africa.

The Committee requests a report on these matters by the end of January 2002.

Report to be considered.

2. **Twelfth Report of the Standing Committee on Public Accounts, dated 31 October 2001:**

The Standing Committee on Public Accounts, having heard and considered evidence on the Reports of the Auditor-General on the financial statements of Vote 37—Welfare for the year ended 31 March 1999 [RP 161-99] and Vote 36—Welfare for the year ended 31 March 2000 [RP 145-2000], and certain papers referred to it, reports as follows:

A. Unauthorised expenditure

1. 1998-99 financial year, R173 551,50

Unauthorised expenditure amounting to R173 551,50 was incurred during the 1998-99 financial year, and comprises the following:

- (a) An amount of R135 859,50 was paid during August 1998 to a company for a radio advertising campaign to introduce the new Child Support Grant without adhering to tender procedures.
- (b) An amount of R37 692 was paid for the extension of the contract, without prior approval from the State Tender Board, for a consultant to assist the Department with the re-registration and clean-up process with regard to the Social Security function.

2. 1999-2000 financial year, R223 969

Unauthorised expenditure totalling R223 969 was incurred and comprises the following:

- (a) An amount of R187 375 was paid from donor funding in respect of contracts concluded with individuals from non-governmental organisations, who were involved in developing quality assurance pilot projects within residential care facilities during the period January to December 1999. Proper tender procedures had not been followed and the State Tender Board declined a request for ex post facto approval.
- (b) An amount of R36 594 was paid for catering services at the National Conference on Victim Empowerment. Although the State Tender Board granted ex post facto approval for the expenditure, proper departmental procedures had not been followed.

Although the Committee is satisfied with the explanations provided by the Accounting Officer regarding each instance of unauthorised expenditure reported and the efforts of the Department to train staff to deal with matters according to the correct procurement procedures, the Committee express its dissatisfaction at the Department's

disregard for State Tender Board directives. It is unacceptable that rules and regulations are contravened, even in cases where the projects achieve a desirable objective.

In expressing the above sentiments, the Committee notes that with regard to the unauthorised expenditure for the years mentioned, the following issues need to be borne in mind:

- * Technical non-compliance.
- * Services/goods were rendered/received.
- * Value for money was received.
- * The State suffered no loss.

The Committee therefore recommends that the unauthorised expenditure for the 1998-99 financial year (R173 551,50) and for the 1999-2000 financial year (R223 969) be authorised by Parliament.

B. Financial management

The Committee wishes to commend the Department on the drastic and dramatic improvement in the general and financial management of the Department.

Nevertheless, the Committee wishes to report on the following matters dealt with during the hearing, which the Accounting Officer should attend to:

1. Fraud Prevention Plan

The Committee took note that the policy document was submitted to the Audit Committee during May 2001 and that the Department is awaiting their comment.

It is recommended that the Department report back to the Committee by 31 December 2001 on comments by the Audit Committee and implementation of the Fraud Prevention Plan.

2. Risk assessment

The Committee took note that consultants were contracted during September 2000, as part of the existing Financial Management Expert Contract, to conduct a risk assessment for the Department.

The Committee recommends that a comprehensive report be submitted to it by 31 December 2001 on the outcomes of the risk assessment and the measures implemented.

3. Financial Management Expert Contract

The Committee is encouraged by the establishment of the Steering Committee to oversee the contract, and by the fact that the consultants have to report every six weeks on progress made. The Committee also noted the measures already implemented on national as well as provincial level on recommendations by the consultants.

However, the Committee recommends that the Accounting Officer ensure that:

- (a) The contract be revised according to the requirements of the PFMA.
- (b) The requirements regarding the skills transfer are adhered to.
- (c) The matter regarding the capacity constraints in the provinces, as a matter of urgency, be addressed to prevent the undermining of the effectiveness of the contract.
- (d) The process and progress made by the consultants in the Western Cape be properly monitored and that the norms and standards, as set by the national department, be adhered to.

C. Asset management

The Committee took note that the Department only implemented the LOGIS system during May 2000, and is in the process of finalising specification for the appointment of a service provider to number all individual assets of the Department with item control numbers. The Committee would like to bring to the attention of the Accounting Officer that, since the implementation of the PFMA, the responsibility, should there be any deficits or surplus stock, is that of the Accounting Officer.

The Committee therefore recommends that:

1. The Accounting Officer adhere to section 38(1)(d) of the PFMA and Treasury Regulation 10.1.
2. A comprehensive report be submitted to the Committee by the end of the 2001-02 financial year on the progress made with regard to the safeguarding of all departmental assets.

D. Unspent funds

With regard to the unspent funds, the Committee notes the following:

1. During the 1998-99 financial year, the overall underspending in the Department was 78,5% and underspending regarding poverty relief funds, was 97%.
2. During the 1999-2000 financial year, the overall underspending in the Department was 24,1% and underspending regarding poverty relief funds, was 15,3%.

Having noted this, the Committee is acknowledging the improvement in the ability of the Department to spend the budgeted amount in the financial year. However, the Committee remains concerned whether the money actually reaches the intended beneficiaries and that value for money is received.

The Committee further took note that the Accounting Officer has recognised that it is critical to exercise appropriate control over these payments and that such control should not be obviated by the autonomy of the receiving institutions.

[Wednesday, 14 November 2001

The Committee therefore recommends that:

- (a) The need for training in financial management and project management with communities be addressed as a matter of urgency.
- (b) The envisaged monitoring system be put in place and that the process of evaluation include mechanisms to assess whether value for money is received from the funds made available for poverty relief.
- (c) A comprehensive report be submitted to the Committee by the end of the 2001-02 financial year on the matters raised in the above paragraphs.

Report to be considered.