

# PRESENTATION TO THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

*Section 100 (1) (b) intervention in Limpopo*

| National Treasury | 12 June 2012



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

# Background to intervention

- LIMPOPO

- Cabinet implemented section 100 (1) (b) of the Constitution in respect of 5 departments (Provincial Treasury, Education, Health, Public Works, and Roads & Transport).
- This is a direct intervention by the national executive in respect of the operational affairs of the relevant departments.
- HODs have thus surrendered their accounting officer functions in terms of section 36 of the PFMA
- In 2011/12 the provincial government accumulated un-authorized expenditure of R2.7 billion.
- Despite numerous warnings from the National Treasury during the first half of the year, the situation was not addressed.
- As a result, by 31 October 2011, the province exhausted its overdraft limit with its commercial banker (R500 million) and the SARB (R757 million).
- In addition to the above, a number of departments (Education, Health, and Roads and Transport) were found to be engaging in irregular supply chain/ procurement practices that were further draining provincial resources.
- The department of Public Works was unable to provide basic management services in respect of infrastructure contract management and provincial property management.

# Background - Issues related to Limpopo EDUCATION

- 2010/11 Audit Outcome: QUALIFIED
- At the time of initiating the intervention, the largest problems for the education department was the management of the HR function
  - Over 2400 excess educators in the HR system.
  - 200 teachers registered on the HR system but physically unaccounted for (number could be higher)
  - This cost the department approximately R1 billion a year
- Accumulated unauthorised expenditure was R2.2 billion (audited AFS)
- Accruals were at R189 million (of which R27.5 million was more than 30 days)
- As at 31 October 2011, the department projected to overspend by R120m.

# Background - Issues related to Limpopo HEALTH

- 2010/11 Audit Outcome: DISCLAIMER due to:
  - R400m in IRREGULAR EXPENDITURE of goods and services (mostly medical equipment) in contravention of supply chain regulations, which was omitted in the original financial statements submitted to AGSA.
  - R138.2m in unpaid accruals.
  - Insufficient audit evidence for commitments totalling R2.9bn.
  - R427.7m in assets with no supporting documents.
  - Accumulated unauthorised of R340 million at the end of March 2011
- As at 31 October 2011, the department has spent 59.2 per cent of the budget, and was projecting to overspend by R420m

# Background - Issues related to Limpopo PUBLIC WORKS

- 2010/11 audit outcome: QUALIFIED due to:
  - ASSET MANAGEMENT: There is a difference of R115m between the assets appearing in the underlying audit records and those being reported in the financial statements.
  - The actual cost of the assets being reported (over R2.7bn) cannot be verified.
  - Numerous violations of supply chain regulations, including:
    - Awarding tenders without a competitive bidding process;
    - Modification of existing contracts so as to increase the tender value as originally advertised during the bidding process;
    - Awarding tenders without ensuring that bidders were either employed by the state or were connected to individuals employed by the state
- As at 31 October 2011, the department had spent 58.3 per cent and were projecting to break-even at the end of the financial year

# Background - Issues related to Limpopo ROADS & TRANSPORT

- 2010/11 audit outcomes: QUALIFIED due to:
  - No contract management system in place.
  - Commitments amounting to R84.5m could not be verified.
  - INTERNAL CONTROL (statement in AG report): “The accounting officer did not adequately exercise oversight responsibility”
    - This include proper oversight over the Limpopo Roads Agency
  - Accumulated un-authorized expenditure of R67 million at the end of 31 March 2011
- As at 31 October 2011, the department had spent 56.8 per cent of its budget and was projecting to break-even at the end of the financial year.

# Background - Issues related to Limpopo PROVINCIAL TREASURY

- 2010/11 audit outcome: UNQUALIFIED
- Nevertheless, the Provincial Treasury (PT) has numerous challenges:
  - *Banking and cash management* functions not performing adequately. The PT requested an additional R1bn overdraft extension due to inability to make various payments, including payment of salaries.
  - The *public finance* (or sustainable resource management) function was dysfunctional and had serious capacity challenges, leading to poor expenditure monitoring, and poor budget planning.
  - Infrastructure monitoring is poor, which contributes to poor delivery by provincial departments (in particular, Health).
  - Vacancies in key areas that have not been filled for some time, including:
    - Senior manager for Budget planning;
    - Senior manager for performance monitoring;
    - Senior manager for infrastructure monitoring.
  - Supply chain management processes were not in line with legal prescripts:
    - EXCO endorsed illegal procurement processes
    - Evidence of illegal payments and irregular lease agreements
  - There was no *Risk management* function in the PT

# Financial status as at 31 March 2012

- LIMPOPO (Provincial Treasury)
  - Improved from a negative position in November 2011 to close at a positive R231 million overall at the end of March 2012.
  - The liquidity and solvency crisis is thus effectively solved.
  - Payments to suppliers are normalising.
  - Although the total payments outstanding are R1.1 billion in terms of the AFS, the bank balances now exceed this amount,
  - Therefore, a notice has been posted in the local media for suppliers still awaiting payment to submit their invoices and purchase orders directly to the Provincial Treasury, so that these can be verified and settled.
  - Going forward, the payment intervals of the province will be aligned to receipts from national government in order to avoid future liquidity problems.
  - A credible budget was drafted and tabled on 06 March 2012
  - A revenue enhancement strategy is being finalised and HR Task team to control personnel related pressures has been established.
  - A detailed plan has been developed to capacitate the budget planning and cash management functions within the provincial treasury.
  - A recruitment process is underway to fill the vacant HOD position and other critical positions in the provincial treasury, and
  - An integrated support plan to departments is being finalised

# Other issues - Audit Rectification

- Provincial Treasury
  - Funds have been set aside to deal with (ie. clear) the accumulated unauthorised expenditure of Education and Health in a phased manner over the next three (3) to four (4) years.
  - Nevertheless, the Provincial Treasury is awaiting authorisation approval from the provincial SCOPA committee, in respect of approving a finance bill. It is not clear at this stage when the sitting to address this matter will take place
  - Risk management
  - Internal control
  - Personnel monitoring across the province: the PT is currently drafting a support and capacitation plan which will include proposals to appoint a senior analyst appointed within the PT to issues related to HR management and compliance, as well as the PERSAL system

# Financial status as at 31 March 2012

- LIMPOPO (Education)

Table: Limpopo: Education expenditure as at 31 March 2012 (S32)

	Main budget	Adjusted budget	Preliminary outcome	Preliminary outcome as at 31 March 2012	Actual spending as % of adjusted budget	(Over)	Under	%(Over)/ under of adjusted budget
<b>R thousand</b>								
Current payments	18 937 537	19 118 954	19 081 453	19 081 453	99.8%	–	37 501	0.2%
Compensation of employees	17 055 572	17 168 362	17 291 130	17 291 130	100.7%	-122 768	–	-0.7%
Goods and services	1 881 965	1 950 592	1 790 323	1 790 323	91.8%	–	160 269	8.2%
Interest and rent on land	–	–	–	–	–	–	–	–
Transfers and subsidies	626 167	666 437	848 609	848 609	127.3%	-182 172	–	-27.3%
Payments for capital asset	1 295 615	1 282 769	1 231 643	1 231 643	96.0%	–	51 126	4.0%
Payments for financial assets	–	–	–	–	–	–	–	–
<i>of which: MFNC</i>	2 508 132	2 617 029	2 638 932	2 638 932	100.8%	-21 903	–	-0.8%
<b>Total</b>	<b>20 859 319</b>	<b>21 068 160</b>	<b>21 161 705</b>	<b>21 161 705</b>	<b>100.4%</b>	<b>-182 172</b>	<b>88 627</b>	<b>-0.4%</b>

- The department over-spent the 2011/12 budget by 0.4 per cent. This is a significant improvement on the 2.6 per cent over-expenditure of 2010/11.
- Combined with the improved cash position, this means the department will not be overwhelmed by outstanding accruals.
- Outstanding textbooks to learners are being delivered during June 2012.

# Measures to strengthen the department and audit rectification

- LIMPOPO (Education)
  - Project of verification of learner and educator numbers is a critical next step in stabilising the future resourcing of this department.
  - Funds have been allocated by the Provincial Treasury in order to address:
    - PERSAL clean-up (staff details, leave, etc.);
    - The supply chain management policies and delegations are currently under review;
    - Contract management.
  - The personnel structure of the finance and budgeting section is being reviewed and strengthened.
  - Education department has drafted a plan, which includes:
    - Financial and budget management,
    - Internal control, procedures and practices.
    - Learner transport and LTSM
  - ASSET MANAGEMENT has been a significant reason for qualification. Verification teams have been deployed to every districts, but this needs to be firmed up.

# Financial status as at 31 March 2012

- LIMPOPO (Health)

Table: Limpopo: Health expenditure as at 31 March 2012 (S32)

	Main budget	Adjusted budget	Preliminary outcome	Preliminary outcome as at 31 March 2012	Actual spending as % of adjusted budget	(Over)	Under	% (Over)/ under of adjusted budget
R thousand								
Current payments	9 993 921	9 991 473	10 035 291	10 035 291	100.4%	-43 818	-	-0.4%
Compensation of employees	7 147 605	7 359 270	7 737 160	7 737 160	105.1%	-377 890	-	-5.1%
Goods and services	2 846 316	2 632 203	2 298 131	2 298 131	87.3%	-	334 072	12.7%
Interest and rent on land	-	-	-	-	-	-	-	-
Transfers and subsidies	433 441	460 103	384 467	384 467	83.6%	-	75 636	16.4%
Payments for capital asset	1 160 539	1 220 109	955 129	955 129	78.3%	-	264 980	21.7%
Payments for financial asset	-	-	-	-	-	-	-	-
of which: NPNC	3 279 757	3 092 306	2 682 598	2 682 598	86.8%	-	409 708	13.2%
<b>Total</b>	<b>11 587 901</b>	<b>11 671 685</b>	<b>11 374 887</b>	<b>11 374 887</b>	<b>97.5%</b>	<b>-43 818</b>	<b>340 616</b>	<b>2.5%</b>

- Departmental accruals amount to R440 million, which accounts for the G&S and CAPEX under-expenditure

# Measures to strengthen the department and audit rectification

- LIMPOPO (Health)
  - Headcount verification and PERSAL clean-up
  - A new organisational structure is envisaged as a result of
    - The Persal clean-up project; and
    - Appropriate job descriptions aligned sector goals and objectives.
  - Asset management has been a significant reason for qualification. A service provider was appointed to assist with asset verification and asset register clean-up.
  - Revised financial and procurement delegations are being drafted.
  - A new contract management process (contracts life cycle management and early warning system) is being implemented.
  - A new verification process for payments will be internalised within the finance structures of the Department.
  - An improved record management system is being designed.
  - The department is reverting to in-house pharmaceutical depot management. This was previously decentralised.
  - Increased capacity in financial management, human resources and information management.

# Financial status as at 31 March 2012

- LIMPOPO (Public Works)

Table: Limpopo: Public Works expenditure as at 31 March 2012 (S32)

	Main budget	Adjusted budget	Preliminary outcome	Preliminary outcome as at 31 March 2012	Actual spending as % of adjusted budget	(Over)	Under	% (Over)/ under of adjusted budget
<i>Rthousand</i>								
Current payments	731 262	731 607	718 246	718 246	98.2%	–	13 361	1.8%
Compensation of employees	575 314	575 314	567 155	567 155	98.6%	–	8 159	1.4%
Goods and services	155 948	156 293	151 091	151 091	96.7%	–	5 202	3.3%
Interest and rent on land	–	–	–	–	–	–	–	–
Transfers and subsidies	53 155	53 579	45 339	45 339	84.6%	–	8 240	15.4%
Payments for capital asset:	52 647	52 647	24 274	24 274	46.1%	–	28 373	53.9%
Payments for financial asset:	–	–	2	2	–	–2	–	–
<i>of which: MFNC</i>	<i>209 103</i>	<i>209 872</i>	<i>196 432</i>	<i>196 432</i>	<i>93.6%</i>	<i>–</i>	<i>13 440</i>	<i>6.4%</i>
<b>Total</b>	<b>837 064</b>	<b>837 833</b>	<b>787 861</b>	<b>787 861</b>	<b>94.0%</b>	<b>-2</b>	<b>49 974</b>	<b>6.0%</b>

- Departmental accruals exceed R40 million, so the under-expenditure is a reflection of late disbursement (payments) of cash rather than non-delivery of services.

# Measures to strengthen the department and audit rectification

## LIMPOPO (Public Works)

- The most critical element of the intervention is addressing irregularities in respect of lease and asset management:
  - The department is paying higher than market rates for property leases/rentals.
  - The second is immovable asset management, wherein some departments have acquired (purchased) property without registering these in the provincial asset register.
- The intervention team is currently reviewing the rental agreements and the addressing inflated rates for leases.
- The functional structure for these objectives is already in place.
- The department needs to exercise effective controls, build capacity and enhance processes that relate to:
  - Supply chain management;
  - Immoveable asset management; and
  - Contractual management

# Financial status as at 31 March 2012

- LIMPOPO (Roads and Transport)

Table: Limpopo: Roads And Transport expenditure as at 31 March 2012 (S32)

	Main budget	Adjusted budget	Preliminary outcome	Preliminary outcome as at 31 March 2012	Actual spending as % of adjusted budget	(Over)	Under	%(Over)/ under of adjusted budget
<b>R thousand</b>								
<b>Current payments</b>	<b>1 765 265</b>	<b>1 911 700</b>	<b>1 724 715</b>	<b>1 724 715</b>	<b>90.2%</b>	<b>-</b>	<b>186 985</b>	<b>9.8%</b>
Compensation of employees	867 303	878 121	864 576	864 576	98.5%	-	13 545	1.5%
Goods and services	897 962	1 033 579	860 139	860 139	83.2%	-	173 440	16.8%
Interest and rent on land	-	-	-	-	-	-	-	-
<b>Transfers and subsidies</b>	<b>1 352 540</b>	<b>1 420 843</b>	<b>1 428 011</b>	<b>1 428 011</b>	<b>100.5%</b>	<b>-7 168</b>	<b>-</b>	<b>-0.5%</b>
<b>Payments for capital assets</b>	<b>512 529</b>	<b>336 533</b>	<b>299 484</b>	<b>299 484</b>	<b>89.0%</b>	<b>-</b>	<b>37 049</b>	<b>11.0%</b>
<b>Payments for financial assets</b>	<b>-</b>	<b>2 500</b>	<b>1 580</b>	<b>1 580</b>	<b>63.2%</b>	<b>-</b>	<b>920</b>	<b>36.8%</b>
<i>of which: NPNC</i>	<i>2 250 502</i>	<i>2 456 922</i>	<i>2 289 730</i>	<i>2 289 730</i>	<i>93.2%</i>	<i>-</i>	<i>167 192</i>	<i>6.8%</i>
<b>Total</b>	<b>3 630 334</b>	<b>3 671 576</b>	<b>3 453 790</b>	<b>3 453 790</b>	<b>94.1%</b>	<b>-7 168</b>	<b>224 954</b>	<b>5.9%</b>

- The low expenditure outcomes are a reflection of a focus on improving the quality of expenditure to cut out waste and corrupt activities.
- Specifically, the 2010/11 audit outcomes identified a lack of contract management, poor internal controls and the absence of supporting documents for financial commitments to the value of R84.5 million.
- Therefore, the intervention has led to the gradual elimination of frivolous and irregular items that have been drawing funds away from critical service requirements in respect of the province's road network.

# Measures to strengthen the department and audit rectification

- LIMPOPO (Roads and Transport)
  - A review is under-way and its main aim is a new organisational structure, appropriate job descriptions, and a project-based learning programme.
  - Alignment of actual expenditure with the Annual Performance Plan and the Strategic Plan of the department and a new monitoring tool is being implemented.
  - Other objectives of the turnaround plan include:
    - An appropriate contract management system for major “cost driving” projects
    - A procurement and reporting facility with adequate audit trail (for contracts)
    - Implemented sustainable transport policies, strategies and systems.
    - Currently implementing monitoring systems for public entities
    - New payment of suppliers’ compliance process linked to cash allocations

# Way forward

- Urgent financial stabilisation measures (provincial liquidity, solvency, budget management, etc.) have been implemented and yielded significant results.
- Departmental annual financial statements (AFS) were submitted to the Auditor-General by end-May 2012.
- A number of the audit issues (such as asset management, and the implementation of internal control measures) will take time to address as they require a combination of capacity-building, system implementation, process re-engineering, and systematic enforcement of discipline and a new organisational culture.
- An ultimate exit strategy will have to address the change management imperatives, such as skills transfer, capability of the provincial government to function effectively, and institutionalising new standard operating procedures.

THANK YOU