



27 November 2012

Notes on responses from PSIRA regarding questions by Members of the PCOP during Annual Report hearings

1. Purpose

The purpose of this report is to provide Members of the Portfolio Committee on Police with notes on the discrepancies identified during the 2012 Annual Report hearing of PSIRA and an analysis of the responses provided by PSIRA on questions by Members during the 2012 Annual Report hearings held on 20 and 21 November 2012.

2. Appointment of Senior Management

The Job Evaluation and Grading exercise of PSIRA was started in 2009 and conducted by *Price Waterhouse Cooper (PwC)* for the entire establishment of PSIRA. The Authority reported that *PwC* used the Paterson Grading System as it is 'one of the preferred Job Evaluation (JE) systems in the South African Market' for a variety of reasons.¹ It is important to note that this grading system is different to the Equate Grading System used in the public sector, in other words, by the Department of Public Service and Administration (DPSA) for the job grading of all government departments and public entities. The Authority reported that an amount of R40,710 was paid to *PwC* in 2010/11 and a further R12,540 in 2011/12 for the job evaluation and grading.

In the responses received from the Authority, it was stated that 'it is factual that their [Directorate] packages are, at current, outside of the same categories in respect of the salary structure of the Public Service. The salaries structure of the entity, since its inception, was never based on the structure of the Public Service.'² The Authority further reported in the responses received that the Chairperson of the Council signed off on all salary packages for the Senior Management Structure (SMS) and that for all of these 'there are no Council minutes in respect this decision on record', which indicates that the approval of salary packages for the SMS was based on an unilateral decision of the Chairperson of the Council.

It should be further noted that National Treasury also expressed concern regarding the use of private sector consultant to conduct job grading (basically to determine salaries) and job evaluations for public entities as the mechanism for oversight and accountability is largely lost through the process chosen by PSIRA.

2.1 Director of PSIRA – Mr. MS Chauke

The post of Director was evaluated and graded on salary grade E4 (Paterson Grading System) which is equivalent to salary grade 16 (Equate Grading System), or a Director General in the Public Service. Due to budgetary constraints the Director was offered a salary grade E3 or Grade 15 (Deputy Director General) to the value of R976,317 thousand (cost to company) and was

¹ Response from PSIRA dated 23 November 2012, p.2

² Ibid, p.4



appointed on 01 September 2010. The Authority further reported that the 'salary package of the Director was signed off by the Chairperson of the Council' and further that 'there are no Council minutes in respect this decision on record'.³ Since the appointment, the Director received a salary increase of 13.8% and currently earns a cost-to-company salary package of R1,111,438 million per annum.⁴

2.2 Deputy Director: Finance and Administration – Mr. DKN Ligege

The Deputy Director: Finance and Administration was appointed on 01 October 2010. The post was graded by PwC on salary grade E2, which is equivalent to salary grade 15 or Deputy Director General in the Public Service. However, due to financial constraints the DD was offered a salary grade E1, which is equivalent to salary grade 14 (Chief Director) in the Public Service. The Authority further reported that the 'salary package of the Director was signed off by the Chairperson of the Council' and further that 'there are no Council minutes in respect this decision on record'.⁵ The Authority reported that no adequate candidates were sourced from the advertisement for the position and a candidate headhunt was done. The original salary package offered was to the amount of R790,953 thousand, but the DD was appointed at an annual cost-to-company salary package of R845,934 thousand in 2010. (The Authority must explain the fact that the discrepancy in the table provided). Since the appointment, the DD received a 22.3% increase and is currently earning a cost-to-company salary package of R1,035,135 million per annum.

2.3 Deputy Director: Law Enforcement – Mr. PP Mthethwa

The Deputy Director: Law Enforcement was appointed in 01 December 2010. The post was graded by PwC on salary grade E1, which is equivalent to salary grade 14 (Chief Director) in the Public Service. The Authority did not report on the annual cost-to-company salary package on which the DD was appointed. However, the employment contract of the Deputy Director indicates that his cost-to-company salary package on appointment was R845,934, as is approved for all Deputy Directors in PSIRA and is currently earning a cost-to-company package of R923,478 per annum, which is an increase of 8% since 2010. The Authority further reported that the 'salary package of the Director was signed off by the Director and the Chairperson of the Council' and further that 'there are no Council minutes in respect this decision on record'.⁶

3. Lease agreement

The Council of PSIRA approved entering into the lease for the Head Office premise in Centurion by ways of a round robin resolution. A copy of the signed round robin resolution was provided by PSIRA as per Annexure B. The Director entered into the lease agreement on behalf of the Authority as per a resolution of the Council (part of round robin resolution) giving the Director the mandate to do so. Copy of lease agreement also provided as per Annexure C.

³ Ibid, p.2

⁴ PSIRA 2012 Annual Report, p.115

⁵ Response from PSIRA dated 23 November 2012, p.2

⁶ Response from PSIRA dated 23 November 2012, p.2



It is interesting to note that the Round Robin Resolution clearly indicated the requirements for the new premise, including that the corporate Head Office should be graded as an AAA graded building

4. Breakdown of debtors

Breakdown of debtors provided by the Authority as per Annexure D.⁷

5. Consultancy fees

Various issues of concern pertaining to consultancy fees were identified in the information provided by PSIRA as per Annexure E. These are the following⁸:

- **Zest Media** was paid a total of R226,666 thousand over the last two financial years (2010/11: R122,025 and 2011/12: R104,641) for consultations fees pertaining to corporate image;
- **Pixodel** was paid R3,040 for the same service as mentioned above (Corporate Image);
- **MMM Capital (Pty) Ltd** was paid R653,622 thousand for debt collection in 2011/12. It is interesting that there were no mention of debt collection fees paid in 2010/11;
- **Gumedze, Sabelo** was paid a total of R34,000 (thousand) over the past two years (2010/11: R15,000 and 2011/12: R19,000) for Policy Review of the Amendment bill and Services Research Presentation to Mr Chauke;
- **Impact Communication and Printers** was paid R34,500 for the design and printing of the Annual Report. It will be interesting to know the number of copies printed;
- **KPMG** is the current consultants used to monitor the Ethics/Hotline on behalf of PSIRA, but in 2010/11 KPMG was paid a total of R15,675 of which R3,990 was for monitoring the ethics line and the rest for tax services. In 2011/12, the Authority paid KPMG R43,890 thousand for the monitoring of the ethics line alone. Why this significant increase?;
- **QC Business Consultants** was paid R136,458 thousand in 2010/11 for 'Facilitation-Amendment of Act'; and
- Various consultancy fees paid for compiling Annual Financial Statements in terms of technical review, support in drafting

6. Travel expenses of the office of the Chairperson

The Authority reported a total travel expenditure of R80,741 thousand incurred for the Council in 2011/12 (Annexure F). Of this amount, R57,665 thousand was spent on travel costs for the Chairperson of the Council.⁹

⁷ Response from PSIRA dated 23 November 2012, p.5.

⁸ Response from PSIRA dated 23 November 2012

⁹ Response from PSIRA dated 23 November 2012



7. Cost breakdown of the staff complement in regional and walk-in-centres

The Authority did provide a cost breakdown of the staff complement in regional and walk-in-centre offices located in South Africa (Annexure G). However, the cost for the Arcadia Walk-in-Centre in Pretoria was not provided.¹⁰

8. Office of the Director

The Authority must explain the table provided on page 6 of their main submission as the figures are not clear (bad quality of scanned document), nor whether all the personnel listed in the table are attached to the Office of the Director, especially in terms of Events Management.

9. Financials

One must assume that the figures reported in the financial statements of the Annual Report of PSIRA are correct, as the statements are audited. The Auditor-General reported that 'financial statements provided for auditing were not prepared in all material respects in accordance with the requirements of section 55(2)(a) of the PFMA' and that 'Material misstatements were identified during the audit, all of which were corrected by management'.¹¹

According to Annexure H, the following information is provided:

Total revenue as per AFS: R128,661 million
Total revenue as per slides: R128,529 million
Difference: R132,332 thousand

The R132 332 thousand reportedly consists of the following:

- An amount of –R134 498.00 for 'Gains on disposal of Assets' reported under expenses on slides; and
- An amount of R2 166.45 for Training accreditation fees' reported under Assets on slides.

As reported by PSIRA on Annexure H, the discrepancy in figures was clearly a mistake as 'Gains on disposal of assets' are categorised as 'Other income' as stated in Note 11 of financial statements, p. 108.

Similarly, 'Training accreditation fees' cannot be categorised as Assets and PSIRA must explain why this mistake occurred. Additionally, the same line-item/account 1056 Transcription fees are already contained in the detailed summary on 'Sundry income' provided by PSIRA.

The Committee also requested a detailed breakdown of the line items contained under 'Sundry Income' and PSIRA provided a list of these accounts and amounts. However, the amounts

¹⁰ Response from PSIRA dated 23 November 2012

¹¹ PSIRA Annual Report, p.72



totalled by the Authority and by the Research Unit, do not add up. There are still discrepancies in the total amount for sundry income.

10. Erratum on Personnel Expenditure (p.50 of Annual Report)

The erratum to the personnel expenditure table on page 50 of the 2012 Annual Report was provided by the Authority as per Annexure I. However, the table provided is more than just an erratum and resembles a completely new table. As is evident from the table below, none of the figures are the same than those represented in the previous table. This is presumably due to the fact that all 'Fixed terms contracts' are now reported in the various divisions as was done in previous years. However, this is only presumed and must be explained or confirmed by the Authority.

Personnel cost for PSIRA: Table in 2012 Annual Report compared to the erratum

Division/Department	Number of permanent staff members		Total Salary Cost 2011	Total Salary Cost 2012 as per Annual Report	Total Salary Cost 2012 as per erratum
	2011	2012			
Strategic and Governance issues					
Directorate	2	5	817 389	2 900 495	3 392 330
Council	2	2	1 814 870	1 871 456	1 853 130
Internal Audit and Risk Management	-	-	66 631	0	146 643
Subtotal	4	7	2 698 890	4 771 951	5 392 103
Finance and Administration					
Finance Management	14	14	3 799 215	4 317 111	4 596 724
Debt Collection	14	12	3 324 358	3 372 514	3 523 626
Asset Management	1	1	371 016	1 328 185	532 633
Facilities Management	9	6	1 288 014	766 626	1 014 185
Office Services	11	8	1 349 377	1 578 134	1 577 162
Subtotal	49	41	10 131 980	11 362 570	11 244 330
Law Enforcement					
Law Enforcement	29	43	12 224 991	13 706 846	14 204 866
Legal Services	7	11	2 139 733	2 159 351	2 581 687
Prosecution	2	-	761 383	0	0
Registration	21	26	4 278 753	4 238 131	4 611 119
Western Cape Branch	16	16	3 837 851	4 323 248	4 354 163
Eastern Cape Branch (PE)	9	7	2 239 801	2 946 487	2 945 042
KwaZulu-Natal Branch	22	17	5 706 586	4 659 120	5 526 985
Mthatha Branch	5	5	1 235 896	1 317 013	1 304 598
Johannesburg Branch	14	14	2 675 883	3 021 685	3 071 777
Nelspruit Branch	2	3	413 143	336 573	428 524
Polokwane Branch	2	3	409 991	472 849	451 878
Subtotal	129	145	35 960 011	37 184 420	39 480 638
Information Technology	1	6	983 071	1 761 758	1 917 288



Division/Department	Number of permanent staff members		Total Salary Cost 2011	Total Salary Cost 2012 as per Annual Report	Total Salary Cost 2012 as per erratum
	2011	2012			
Human Resources Department	3	5	1 475 183	1 740 989	1 820 432
Communication	7	6	1 582 842	1 674 339	1 742 369
Events Management	-	3	-	766 626	839 095
Other Employee related costs					
Accrual – Leave Pay			97 736	409 119.43	409 119
Accrual – 13 th Cheque			92 454	123 440.16	123 440
Retirement Benefit Adjustment			4 382 000	504 000	504 000
WCA			112 086	271 175	271 175
Fixed term contracts			-	2 973 602.41	****
Subtotal			4 684 277	4 281 337	1 307 735
TOTAL	189	241	57 516 253	63 743 990	63 743 990

Source: PSIRA Annual Report, p.50 and Annexure I dated 23 Nov 2012

11. Recommendations

It is clear that the financial statements of PSIRA are fraught by seeming financial discrepancies and as such the Portfolio Committee should consider recommending a forensic audit to be conducted on the financial statements of PSIRA. Alternatively, the Standing Committee on Public Accounts (SCOPA) must further interrogate the financial statements of PSIRA.

The Minister of Police has already requested that the Accountant-General of South Africa investigate the salary packages of the Senior Management Structure of PSIRA and is welcomed by the Committee. However, the Portfolio Committee on Police must exhaust its oversight mandate to help steer the Authority in the right direction to deliver on its mandate to effectively regulate the private security industry operating in South Africa in the best interest of all citizens, as well as the industry itself.