

PART C: GOVERNANCE



the detea

the department of economic
development, tourism and
environmental affairs
FREE STATE PROVINCE

ANNUAL REPORT 2013/2014

VOTE 3 : DEPARTMENT OF ECONOMIC DEVELOPMENT,
TOURISM AND ENVIRONMENTAL AFFAIRS

1. INTRODUCTION

The Department constantly strives to improve its internal processes to ensure effectiveness and efficiency of business processes. Measures have been put in place to popularise and address issues such as the conflict of interest, code of conduct and Health Safety and Environmental. Below is an account of processes followed to address these issues.

2. RISK MANAGEMENT

The department's risk management policy and strategy has been approved by the HOD. The documents had been made available to employee including the offices outside head office.

Departmental Risk registers are reviewed annually but assessed quarterly. During the assessment when there are emerging risk they are assessed accordingly with relevant managers and are included in the risk register. Internal Audit and Auditor General's report are also used to identify emerging risks

The departmental Risk Management Committee is meeting on quarterly basis and also when necessary to discuss the emerging risks and report submitted on quarterly basis to assess the effectiveness of mitigation strategies implemented by managers. After each meeting they write the report to HOD, Executive Management Meeting members and Audit committee giving the status of risks management activities and advising accordingly.

Risks management reports are standing agenda items for the Audit Committee meeting. The risk management report and policies are sent to the Audit Committee member for inputs and the progress report on implementation status are also discussed in the meetings.

The entire enterprise risk management process will be monitored, and modified on regular basis. In this way, the system can react dynamically, changing as conditions warrant. The department has establishing reporting method so as to track progress made on addressing risk identified. There are multi-disciplinary structures in place to manage risk by ensuring that a risk management policy and strategy are in place and implemented at every level and to record and report on risks and risk management trends where applicable (e.g. Risk management Committee). The Risk Management Committee will be receiving quarterly report from relevant managers reporting on progress made to mitigate risks. Risk management unit will be following-up and verifying information submitted on quarterly reports from managers.

3. FRAUD AND CORRUPTION

The department's fraud prevention plan has been approved by the HOD. The policy had been made available to employees, including the offices outside head office.

4. MINIMISING CONFLICT OF INTEREST

All bid committee members are required to declare their interest before any sitting of a meeting. All SCM officials have signed a Code of Conduct.

5. CODE OF CONDUCT

The code of conduct is an instrument that is used in the Public Service to promote and maintain a high standard of professional ethics and good governance.

It serves as a guideline to all public servants in various categories/ levels and controls their relations in various ways, namely:-

- The relationship with the legislature and the executive
- The relationship with the public
- The relationship among employees
- The performance of duties
- Personal conduct and private interest

The implementation of the Code ensures that there is uniformity in the Public Service with regard to service delivery. It also improves loyalty and brings control, compliance, as well as prevention of corruption.

Each employee in the department has been given a Code of Conduct which is written in the language of his or her choice and all the newly appointed employees are given a copy of the code on the day they assume duty. The code was also thoroughly explained to the newly appointed employees during their induction. Furthermore, quarterly workshops were conducted on the code.

The above indicated actions contribute towards the understanding of the code by the employees in terms of how to conduct themselves once they are employed in the Public Service. In cases the code is violated, the necessary disciplinary actions are taken against the perpetrators.

6. HEALTH SAFETY AND ENVIRONMENTAL ISSUES

According to the Occupational Health and Safety Act no 181 of 1993, Occupational health and Safety aims "to provide for the health and safety of persons at work and for the health and safety of persons in connection with the use of plant and machinery; the protection of persons other than persons at work against hazards to health and safety arising out of or in connection with the activities of persons at work; to establish an advisory council for occupational health and safety; and to provide for matters connected therewith".

The following are some of the examples of risks/hazards that are identified and addressed through this Act:

- Chemical hazards e.g. exposure to high or low temperature, high level of noise, such hazard can affect your concentration or lead to a possibility to accidents.
- Physical hazards e.g. Gases, dust, high level of industrial chemicals that can poison your body, affect lungs and the ability to breath.
- Biological hazards e.g. organisms can be passed from one person to the other or animal to a person (people working in abattoirs with animals etc).
- Mechanical hazards e.g. moving parts or energy sources a broad range of machinery and equipment are high source of danger (can cause cuts, crush injuries, amputations and fractures).
- Ergonomic hazards e.g. working in cramp positions or spaces, poor lighting, poor seating, or standing for long period (exposure to eye strain, backache, wrist strain and sore shoulders).
- Psycho social hazards e.g. poor work place organisation such as "speed up "processes occur in various work places.
- Behavioural hazards e.g. non-compliance with standards, lack of skills, new tasks.
- Environmental hazards e.g. general conditions that are present in and surrounding workplace (containment of water or air).

A departmental Health and Safety Committee has been established. The members of the Committee were trained on Occupational Health and Safety (OHS) Act and First Aid Level 1 and 2. The main responsibility of the Committee members is to conduct health and safety inspections at their respective workplaces. Their findings are reported to the Employee Health and Wellness unit who in turn submit a report with recommendations to the Head of Department.

Health hazards that have been identified and not timeously attended to, have a negative impact on the health and morale of the departmental employees. In order to minimise the risks, a certain amount of the

allocated budget has been set aside to correct the identified hazards. Health threatening hazards are prioritised in accordance with the available budget.

7. PORTFOLIO COMMITTEES

The Portfolio Committee raised the issue of non filling of posts and the qualification on assets and irregular expenditure. The department has filled some of the critical posts for example, Head of SCM, Deputy Director SCM, Deputy Director Expenditure, Assistant Director Asset management in trying to deal with the qualification matters. The following were also raised:

- Supporting documentation controls;
- Performance bonuses;
- Risk Management Plan;
- Recruitment.

8. SCOPA RESOLUTIONS

Resolution No.	Subject	Details	Response by the department	Status of Resolve
16/2013: Par. 1	(b) (vi) Code of Conduct: Developing, communicating, implementing and monitoring compliance with the code of conduct;	Communicating with managers with regards to compliance by officials		80%
	(b) (vii) Code of Conduct: Ensure employees are properly trained and understand the code of conduct;	Conduct Training	Training conducted	100%
	(b) (viii) Enforcement of PFMA: IA Effective use of the internal audit function were there were non-compliance matters reported	Internal Audit to include matters raised by AG during the audit of each project	Considering the work of AG when conduct each of Internal Audit assignments	50%
16/2013: Par. 2	(a) Procurement Function: Provincial Treasury must assess the procurement and provisioning systems as well as compliance with SCM legislative requirements of all departments and entities and provide the assessment report on all deficiencies with recommendations to the Accounting Officers/ Authorities before 31 May 2013. (Treasury only)	N/A	N/A	N/A
	(b) Procurement Function: Accounting Officers/Authorities must within 30 days from receipt of this assessment develop a remedial action plan with responsibility and timeframe for execution as well as supervision to implement the recommendations of Provincial Treasury and to resolve all matters before 30 October 2013. A bi-monthly progress report on implementation signed off by the Accounting Officer/ Authority should be submitted to Treasury. Accounting Officer/Authority should identify none or poor performance and institute disciplinary actions	Action plan will be developed to address none or poor performance	Monthly monitoring	75%

Resolution No.	Subject	Details	Response by the department	Status of Resolve
16/2013: Par. 3	(a) Asset Management: Provincial Treasury should implement measures, monitor and report on quarterly basis on the following: Status of LOGIS asset register of all departments Completeness, existence and valuation of assets (including immovable assets) Compliance with relevant Legislative requirements. (Treasury Only).	N/A	N/A	N/A
	(a) Asset Management: The Accounting Officer must within 30 days from the tabling and adoption of this resolution by the Legislature develop a remedial action plan with responsibilities and timeframes to ensure the following: <ul style="list-style-type: none"> • Asset register is converted to LOGIS Asset register, within timeframes indicated by National Treasury. • Critical funded vacancies are filled within 3 months. • Adequate skills to fulfill asset management functions. • Completeness, existence and accurate valuation of assets. • Effective management of Work in Progress related to Infrastructure. • Effective contract management. • Compliance with Physical Asset management KPI's issued by Provincial Treasury 	Action plan has been developed and monitored on the monthly basis. The unit is in the process of rectifying the asset register and it will be converted to LOGIS once it is correct and verified. The post for the Director has been advertised and interviews were held. Department is complying with Physical Asset management KPIs.	Action plan has been developed and monitored on the monthly basis. The unit is in the process of rectifying the asset register and it will be converted to LOGIS once it is correct and verified. The post for the Director has been advertised and interviews were held. Department is complying with Physical Asset management KPIs	75%
	(b) Asset Management: Must provide a detail report before 30 April 2013 to this Committee regarding the following information: <ul style="list-style-type: none"> • Consultants/contract workers used since 2011/12 till date of report; • Scope of appointments; • Period of appointment/s; • Cost implication; • Skills transferred; • Outcome/achievements versus scope; • Number and level of vacancies in Asset management during each period of appointment of consultants/contract workers. 	The consultants were appointment to assist to correct Asset register. They are monitored regularly and meetings are held on the weekly basis to determine progress. The skills are transferred to departmental officials so that they can be able to perform the task in the future.	The consultants were appointed to assist to correct Asset register. They are monitored regularly and meetings are held on the weekly basis to determine progress. The skills are transferred to departmental officials so that they can be able to perform the task in the future.	N/A
16/2013: Par. 4	(a) Predetermined Objectives: Implement control measures which will prevent such findings in future financial years. These controls measures must be able to ensure the following: <ul style="list-style-type: none"> • Reported indicators on the predetermined objectives are accurate when compared to the source information, • The actual relevant performance must be valid when compared to the evidence provided, 	Develop and implement a Planning and Monitoring policy. Establish a reporting Coordinators Forum to improve the credibility of reports. Create a Public Folder on the intranet to serve as a central record keeping	Policy developed and implemented. Forum established and functional. Folders created. In progress. In progress.	100%

Resolution No.	Subject	Details	Response by the department	Status of Resolve
	<ul style="list-style-type: none"> The information reported is completed with reference to the reported information, Indicators are clear and well defined to ensure that actual performance are consistent and measurable, The indicators and the targets must be consistent to the planned objectives. Effective monitoring of financial and performance information on quarterly basis. Sufficient capacity both resources and skills exist in Strategic Planning and Monitoring unit to comply with requirements of pre-determined objective. <p>The Accounting Officer/Authority must request monthly management, monitoring and reporting on the status of implementation of this action plan from the CFO and institute disciplinary actions against relevant officials for poor performance.</p>	<p>system.</p> <p>Create an Audit Evidence Register for all four programmes.</p> <p>Develop and implement Key Control for M&E</p> <p>Develop and Implement a Non-Compliance Register</p>		
	<p>(b) Predetermined Objectives:</p> <p>The above mentioned matters should be included in the jobs descriptions/relevant agreements to ensure that disciplinary action can be instituted if the findings are not effective address in 2013/2014 financial year.</p> <p>The Accounting Officer must request monthly management, monitoring and reporting on the status of implementation of this action plan from the CFO and institute disciplinary actions against relevant officials for poor performance.</p>	<p>The job description will be reviewed to include control measures for the predetermined objectives</p>	<p>Reported indicators on the predetermined objectives are accurate when compared to the source information</p>	75%
16/2013: Par. 5	<p>Slow implementation of AG findings:</p> <p>Provincial Treasury in future issue an enforcement letter to the responsible Accounting Officer or Accounting Authority before 30 August 2012 to account for transgression of non-compliance based on the relevant Audit reports and management letters. The non-compliance or transgression should be based on the following:</p> <ul style="list-style-type: none"> Audit opinion; Unauthorised, irregular as well as fruitless and wasteful expenditure; Strategic planning, budget management and Predetermined objectives; Expenditure, revenue, assets and liabilities; Governance. <p>(Treasury Only)</p>	N/A	N/A	N/A
	<p>Slow implementation of AG findings:</p> <p>Submit within 30 days a report of disciplinary steps taken against official(s) who have failed to execute</p>	<p>Action plan has been developed and monitored on the monthly basis.</p>	<p>Action plan has been developed and monitored on the monthly.</p>	75%

Resolution No.	Subject	Details	Response by the department	Status of Resolve
	<p>their duties properly which contributed to the findings included in Provincial Treasury enforcement letter, mentioned above;</p> <ul style="list-style-type: none"> • Comply with the national and provincial requirements related to remedial action plan content and timeframes and they must hold the CFO in terms of Treasury Regulations 2.1 responsible to ensure that the root causes are addressed and the remedial action plan is effectively implemented. None or poor performance identified during assessment must be addressed; • Audit Committees should cover progress with the rectification of prior audit findings in their quarterly reports to Executive Authorities and submit a copy via Provincial Treasury to this Portfolio Committee. 	<p>None or poor performance is identified and addressed. Progress report is reported to Audit committee during their meeting.</p>		
16/2013: Par. 7	<p>Splitting of departmental functions:</p> <p>Before the split of the departmental functions before taking place the following must be considered/executed:</p> <ul style="list-style-type: none"> • A proper detailed analysis should be performed to determine the impact in terms of sustainability, viability, splitting of resources in line with the applicable legislation and guidelines, • The report must include the cost analysis for establishment of the new department, to determine that the budget will address the required resources. • The implementation date for the transfer of functions must allow for proper administration process to sustain sound financial management. 	<p>To ensure that the plan is properly documented before the split of the function takes place.</p>	<p>There are no current split of department functions in the department.</p>	100%
16/2013: Par. 8 applicable to FSGLA ONLY	<p>(i) Effectiveness of the Public Entities:</p> <p>Provide a detailed analysis of the current fees as compared to the market related tariffs with other provinces.</p>	N/A	N/A	N/A
	<p>(a) (ii) Effectiveness of the Public Entities:</p> <p>Therefore, the entity must implement a fee structure which is consistent across the entities.</p>	N/A	N/A	N/A
16/2013: Par. 8 applicable to DETEA ONLY	<p>(b) (i) Effectiveness of the Public Entities:</p> <p>Accounting Authority should: Review the budget allocation versus the objectives of these entities and exercise control to prevent these huge escalations in remuneration cost;</p>	<p>The department is evaluating budget allocation of the entities on the annual basis.</p>	<p>The budget allocation for the entities is reviewed.</p> <p>The allocation letters have been send to the entities.</p>	75%
	<p>(b) (ii) Effectiveness of the Public Entities:</p> <p>Accounting Officer should: Effectively address the deficit of the Gambling and Liquor Authority;</p>	<p>The HOD is holding quarterly meetings with the entity to address deficit.</p>	<p>Meetings are held on a quarterly basis.</p>	75%

Resolution No.	Subject	Details	Response by the department	Status of Resolve
	(b) (iii) Effectiveness of the Public Entities: Accounting Officer should: Review the continuation of Tourism Authority versus executing these functions in the department.	The department is reviewing the continuation of the entity.	Stakeholders are consulted	75%
16/2013: Par. 9 applicable to FSGLA ONLY	Redundant Staff: Accounting Authority must ensure that those officials are allocated functions which must be outlined on the job description.	N/A	N/A	N/A
16/2013: Par. 11	(a) Audit Committees: AO & IA must develop mechanisms that will ensure that the management submits responses to the internal audit reports.	Internal Audit report to be discussed at Executive Management Team (EMT) and Risk Management meetings	Progress report discussed at EMT and Risk Management meeting	60%

9. PRIOR MODIFICATIONS TO AUDIT REPORTS

Nature of qualification, disclaimer, adverse opinion and matters of non-compliance	Financial year in which it first arose	Progress made in clearing/resolving the matter
Asset management	2011/12	Consulting firm was appointed in 2012/13, we have been working with them in correcting the asset register, this involved: <ul style="list-style-type: none"> • Correcting values • Correcting descriptions • Correcting wrong ICN numbers • Correcting location • Correcting Bar codes • Ensuring that correct room lists are signed off by asset holders. We have also filled some of the vacant posts.
Irregular Expenditure	2011/12	SCM unit was heavily under staffed, a director and deputy director and Logis system controller have since been appointed. There was also internal movement of staff. Payment batches were checked to identify possible irregular expenditure. A checklist was introduced to prevent irregular expenditure

10. INTERNAL CONTROL UNIT

In order to strengthen the Internal Control Unit, four contract workers were appointed in December 2013 to check all payment batches relating to LOGIS payments for compliance. The main objective was to decrease irregular expenditure in the department.

11. INTERNAL AUDIT AND AUDIT COMMITTEES

The department shared an Audit Committee with the Department of Agriculture, which was disbanded during the year due to various factors.

Despite the fact that processes were delayed in terms of recruitment, a new committee has been appointed with effect from 26 March 2014 and is now fully functional. The Committee reviewed the 2013/14 Annual Report.

The first two Audit Committee Reports were completed and submitted to Treasury.

The following were not fully performed during 2013/14 financial year:

- Audit Committee Responsibility;
- Review of the Effectiveness of Internal Control;
- Monthly and quarterly Audit Committee reports to the Treasury as is required by the PFMA.

12. AUDIT COMMITTEE REPORT

We are pleased to present our report for the financial year ended 31 March 2014.

Audit Committee Members and Attendees

- The Audit Committee consists of 5 members. One position remains vacant whilst the other 4 positions are filled by the following members listed hereunder. As per the audit charter the Audit Committee must meet 4 times a year.

Name of Member		Number of Meetings attended
RG Nichols	(Chairperson) Resigned	03
T Mnqeta	Resigned	03
JM Laubscher	Resigned	03
DJ Block	Resigned	03
W Rooifontein	(Chairperson)	00
H Mohane		00
NB Dyeyi		00
K. Mackerduth		00

Audit Committee Responsibility

- The Audit Committee has not entirely complied with its responsibilities arising from section 38 (1) (a) (ii) of the Public Finance Management Act and Treasury Regulation 3.1. The previous audit committee member's contracts expired in July 2013. The new Audit Committee were appointed on the 26th of March 2014.
- The new Audit Committee also reports that it has adopted the existing audit charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein. Although the Audit Committee charter of the previous Audit Committee was adopted, it is still under review and is subject to change.

- The Audit Committee understands that it has to assess work done by the Internal Auditors during the period of August 2013 – March 2014 based on the annual internal audit plan that was approved by the previous Audit Committee in order to provide an opinion on the effectiveness and efficiency of the internal controls and risk management.

The Effectiveness of Internal Control and Risk Management

The system of internal control applied by the Department over financial risk and risk management is effective, efficient and transparent. However, deficiencies were noted in controls in certain areas as reported by the Internal Auditors.

In line with the PFMA and the guidelines from King III Report on Corporate Governance requirements, Internal Audit provides the Audit Committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors it was noted that no further matters were reported that indicate material deficiencies in the system of internal control or any deviations. We can report that the system of internal control for the period under review was efficient and effective.

The following internal audit work was completed during the year under review:

- 12/13 Interim Annual Financial Statements
- Financial discipline review including sundry payments
- Sector Development
- Acquisition of Uniform
- Interim Financial Statements 1st, 2nd & 3rd Quarter
- 13/14 Annual Performance Plan
- MPAT
- Dash Board 1st, 2nd & 3rd Quarter
- 1st and 2nd & 3rd Quarterly Reviews

The following were areas of concern:

- Assets valuation, accuracy and completeness.
- Lack of evidence to support targets that were reported as achieved
- HR Plan not approved

In-Year Management and Monthly/Quarterly Report

Quarterly Financials as well as Strategic Planning reports were submitted to Provincial as required by the PFMA.

Evaluation of Financial Statements

We have reviewed the following:

- The audited annual financial statements and information on predetermined objectives in the annual report in conjunction with the Auditor General (AG) and the Accounting Officer;
- The AG's management report and responses thereto provided by management;
- Any changes in accounting policies and practices;
- The Department's compliance with legal and regulatory provisions and have made certain recommendations; and
- The significant audit adjustments.

Auditor General's Report

The Audit Committee concurs and accepts AG's conclusions on the annual financial statements and is of the opinion that the audited annual financial statements must be accepted and read together with the report of the AG.

Internal audit

The Audit Committee is satisfied that the internal audit function operated effectively during the year

under review and that it has addressed the risks pertinent to the Departments during its audits.



Mr. W Rooifontein

Chairperson of the Audit Committee
Economic Development, Tourism and Environmental Affairs

31 July 2014