



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

FINAL MANAGEMENT REPORT

DEPARTMENT OF PUBLIC WORKS AND INFRASTRUCTURE

31 MARCH 2020

Communicated to the accounting officer on: 15 September 2020

DRAFT





MANAGEMENT REPORT

DEPARTMENT OF PUBLIC WORKS AND INFRASTRUCTURE

31 March 2020

Discussed with the accounting officer on: 18 September 2020

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MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE DEPARTMENT OF PUBLIC WORKS AND INFRASTRUCTURE FOR THE YEAR ENDED 31 MARCH 2020

INTRODUCTION

1. The purpose of the management report is to communicate audit findings and other key audit observations to the accounting officer and to provide a summary of the material irregularities and suspected material irregularities of which the accounting officer was notified. The report does not constitute public information.

The management report includes audit findings arising from the audit of the financial statements, performance information and compliance with legislation for the year ended 31 March 2020. These findings were communicated to management and this report details management's response to these findings. The report includes information on the internal control deficiencies that we identified as the root causes of the matters reported. Addressing these deficiencies will help to improve the audit outcome.

2. In accordance with the terms of engagement, our responsibility in this regard is to:
 - express an opinion on the financial statements
 - express an opinion in the management report on the usefulness and reliability of the reported performance information for selected programmes, and report the material findings in the auditor's report
 - report on material findings relating to compliance with specific requirements in key applicable legislation, as set out in the general notice issued in terms of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA)
 - notify the accounting officer of any material irregularity or suspected material irregularities identified during the audit, and report on it in the auditor's report.
3. Our engagement letter sets out our responsibilities and those of the accounting officer in detail.
4. This management report consists of the overall message arising from the audit, summary of key findings and observations, annexures containing the detailed audit findings, annexures to the report on the audit of performance information as well as the annexure to internal control deficiencies reported.
5. The auditor's report is finalised only after the management report has been communicated. All matters included in this report that relate to the auditor's report remain in draft form until the final auditor's report is signed. In adherence to section 50 of the PAA, we do not disclose any information obtained during the audit and contained in this management report.

The figure that follows provides a pictorial summary of the audit results and our key messages on how to improve the audit outcomes with the focus on the following:

- Status of the audit outcomes
- Status of the level of assurance provided by key role players
- Status of the drivers of internal controls
- Status of risk areas
- Root causes to be addressed

6. Movement from the previous year is depicted as follows:



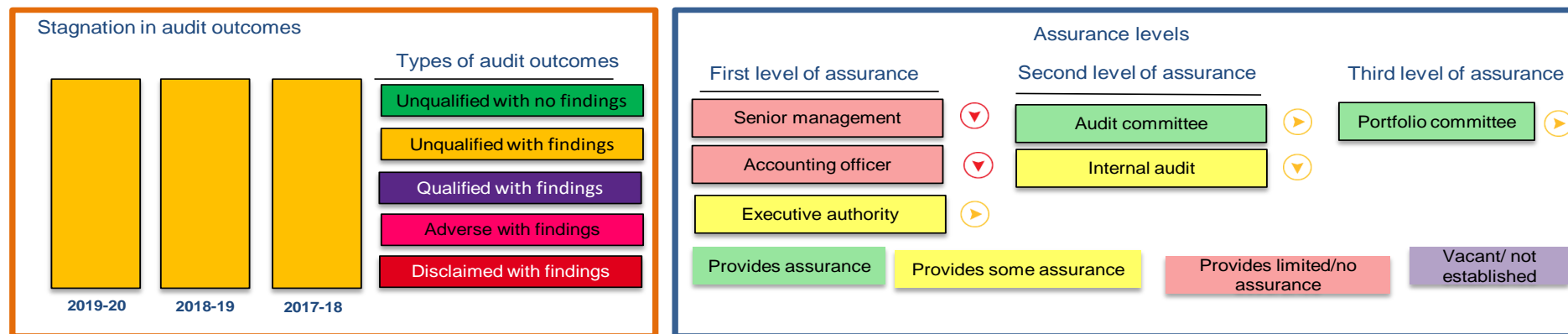
Improved



Unchanged / slight improvement / slight regression



Regressed



1

To improve the **audit outcomes** ...

2

... the key role players need to **assure** that ...

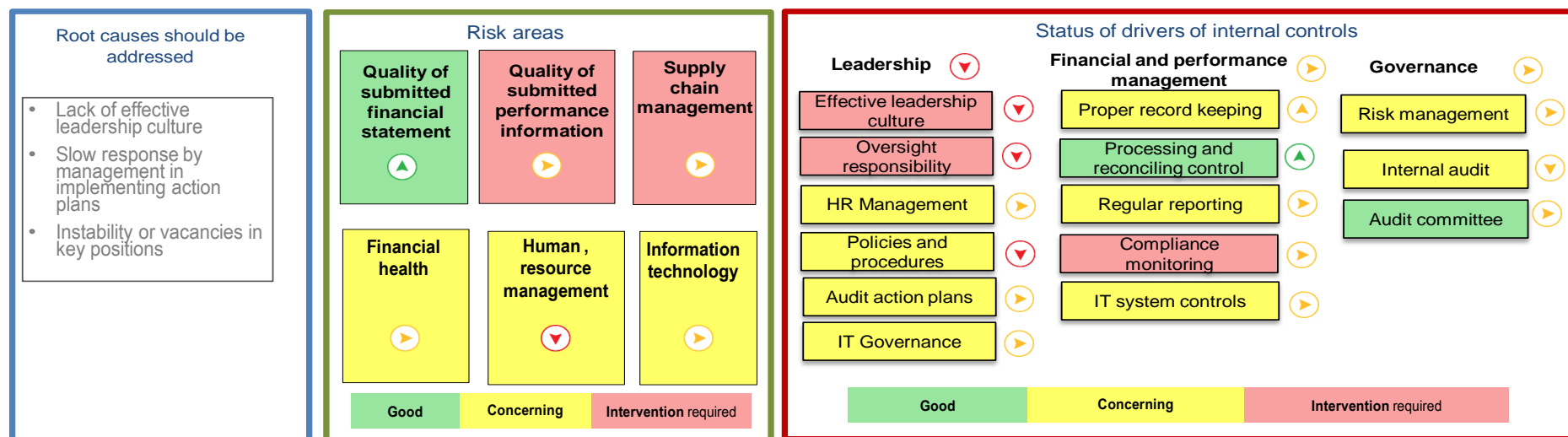
5

... the **root causes** are addressed ...

4

... the **risk areas** and ...

3

... attention is given to the **key controls** and ...


OVERALL MESSAGE

7. The audit outcome of the department has remained unchanged in the current period, with the department obtaining an unqualified audit opinion with findings in other areas for the past three financial periods. Material findings have been noted with respect to non-compliance was identified in the current year which resulted in the department incurring irregular expenditure. The quality of submitted performance information has also not improved sufficiently as material findings previously reported recurred in the current period.
8. During the audit of performance information, key findings similar to the prior year were identified on Programme 3: Expanded Public Works Programme (EPWP), where reported achievements were not complete, and in other instances reported achievements were not supported by adequate source information. For the projects implemented by the department, a number of limitations raised during the interim audit were resolved with information being submitted when follow up was performed during final audit. In addition, some of the underreporting was also corrected in the final annual performance report after being identified by the audit team during interim audit.

Concerns remain at the public bodies responsible for implementation, where findings recurred from prior period, and were not resolved in certain instances even after being identified by interim audit work. These public bodies are currently not required to report on achievements relating to EPWP, and thus do not allocate sufficient resources to ensure complete and valid reporting, and this is where the majority of negative findings were identified. Insufficient progress was made in the department's engagements with National Treasury to enhance the conditions of EPWP DoRA grants. In addition, the engagements with the Department of Performance Monitoring and Evaluation did not progress fast enough in order to make the "number of work opportunities created" indicator customised for all public bodies for the current financial period. This will enhance accountability at public bodies with respect to managing the programme, which in turn may assist the department in ensuring that work opportunities reported is adequately reported, and supported by reliable audit evidence.

9. Non-compliance with legislation findings were identified with respect to expenditure management relating to state funeral and state events where inadequate monitoring of contracts resulted in the department paying more for the service than required as per the contract. These resulted in irregular expenditure being incurred, with financial losses also being suffered by the department.
10. The assurance provided by the key role players at the department is limited, as a number of senior management personnel were found to have been responsible for the losses suffered by the department. The weaknesses in internal control is partly attributed to effective leadership not being provided based on a culture of honesty, ethical business practices and good governance, as the best interests of the department were not protected and enhanced in certain instances

11. Management made progress in implementing action plans to address prior year audit findings on areas relating to information technology (IT) governance. However, there are still areas of concerns requiring attention. The ICT focus areas relating to user access management, security management and IT service continuity still require improvement. As previously reported, we still noticed some vacancies around key ICT positions. This resulted in capacity constraints, which was evident in slow progress to address prior year's findings.

The lack of implementing basic IT security and user access controls could further lead to unauthorised users gaining access to systems, resulting in data being compromised, denial of service attacks or data integrity issues and consequently overall disruption to business processes.

SECTION 1: INTERACTIONS WITH STAKEHOLDERS RESPONSIBLE FOR OVERSIGHT AND GOVERNANCE

12. During the audit cycle, we met with the following key stakeholders responsible for oversight and governance to communicate matters relating to the audit outcome and matters identified during our status of records review of the department:

Key stakeholder	Purpose of interaction	Number of interactions
Portfolio committee on Public Works	<ul style="list-style-type: none"> Budgetary review and recommendations report – 2018/19 Audit Outcomes and key messages Presentation of annual report by the Department Oversight visit to Beitbridge 	3
Standing committee on public accounts	<ul style="list-style-type: none"> Annual report hearings Oversight visit to Beitbridge 	2
Minister of Public Works	<ul style="list-style-type: none"> Presentation on amendments to Public Audit Act Presentation on audit outcomes and key messages Letter was sent to the Minister notifying her of critical matters identified during 2018-19 audit which should be addressed to improved outcomes within Public Works Portfolio Discussion on scope of COVID-19 special audit to be undertaken Audit progress on COVID-19 special audit 	5
Director-general	<ul style="list-style-type: none"> Presentation on amendments to Public Audit Act Detail discussion on quarterly Status of Records review and presentation of engagement letter and audit Strategy Audit progress of the Public works portfolio Messages relating to COVID-19 special audits Discussion on material irregularities identified Follow up on completed investigations 	6

Key stakeholder	Purpose of interaction	Number of interactions
Audit committee	<ul style="list-style-type: none"> • Presentation on amendments to Public Audit Act • Presentation of quarterly Status of Records Review • Presenting the engagement letter and audit strategy • Approval of the Department's Annual Financial Statements • Presentation of interim management report • Closed session between audit team and audit committee 	6

13. At these interactions, we shared the following key matters affecting audit outcomes and the auditee:

- The status of key controls of the Department of Public Works and Infrastructure (DPWI) and its entities (PMTE, IDT, CBE, CIDB, ASA and ECSA) were discussed with the Portfolio Committee.
- Terms of the engagement for the current year 2019/20 audit cycle with specific emphasis on the amendments to the Public Audit Act, and its impact on the audit of DPWI
- Overall audit strategy including the proposed nature, timing and extent of audit procedures to be performed, risk assessment (including fraud risk assessment) and the effectiveness of internal control. Included in this discussion was the impact on COVID-19 on the audit scope for 2019/20 audit cycle.
- Material irregularities were discussed with the director-general as and when they were identified.
- Audit progress and findings were discussed on a continuous basis. The key issues discussed for DPWI related to EPWP.
- Interim management report was presented

14. Some stakeholders made commitments to implement initiatives that can maintain/improve the audit outcome. The commitments given and the progress of previous commitments are included in section 3.2, which deals with the assessment of assurance providers.

SECTION 2: MATTERS RELATING TO THE AUDITOR'S REPORT

AUDIT OF THE FINANCIAL STATEMENTS

15. We identified material misstatements in the financial statements during the audit. These misstatements were not prevented or detected by the department's system of internal control.

Material misstatement			Impact R current year	Impact R prior year
Financial statement item	Finding	Occurred in prior year		
Material misstatements not corrected				
None identified				
Material misstatements corrected				
Disclosure				
Irregular Expenditure	<p>During the audit of irregular expenditure (disclosure note 25), it was noted that the following irregular expenditure transactions were not adequately disclosed for the current financial year:</p> <ul style="list-style-type: none">expenditure incurred on the irregular appointments of officials as confirmed by investigation performed by the Public Service Commission (COFF 17)	Yes	75 012 204	Not quantified

Material misstatement			Impact	Impact
Financial statement item	Finding	Occurred in prior year	R current year	R prior year
	<ul style="list-style-type: none"> irregular expenditure relating to state funerals identified during the audit, and confirmed by internal investigation (COFF 7, 9 and 15) irregular expenditure relating to state events identified during the audit, and confirmed by internal investigation (COFF 9) irregular identified from SCM testing performed (CPT COFF 1) 			

MATTERS TO BE BROUGHT TO THE ATTENTION OF USERS

Other matter paragraphs

16. The following other matter paragraphs will be included in our auditor's report to draw the users' attention to matters regarding the audit, the auditor's responsibilities and the auditor's report:

Unaudited supplementary schedules


17. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

AUDIT OF THE ANNUAL PERFORMANCE REPORT

18. In terms of the general notice issued in terms of the PAA, the opinion on the audit of reported information will be included in the management report. The report is included below to enable management and those charged with governance to see what the report will look like once it is published in the auditor's report. We will report all the audit findings included under the basis for opinion and the other matter sections of this report in the auditor's report.

Introduction and scope

19. We have undertaken a reasonable assurance engagement on the reported performance information for the following selected programmes presented in the annual performance report of the department for the year ended 31 March 2020:

Programmes	Pages in annual performance report	Opinion	Movement
Programme 3: Expanded Public Works Programme	x – x	Qualified	

20. We conducted our reasonable assurance engagement in accordance with the International Standard on Assurance Engagements, ISAE 3000: *Assurance engagements other than audits or reviews of historical financial information*.
21. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Programme 3 – Expanded Public Works Programme

Qualified opinion

22. In our opinion, except for the effects of the matters described in the basis for qualified opinion section of my report, the reported performance information for Programme 3 – Expanded Public Works Programme is useful and reliable, in accordance with the applicable criteria as developed from the performance management and reporting framework as set out in annexure D to this report.

Basis for Qualified opinion

Various indicators

23. The achievements below were reported in the annual performance report for the listed indicators. However, some supporting evidence provided materially differed from the reported achieved, while in other instances I was unable to obtain sufficient appropriate audit evidence. This was due to the lack of accurate and complete records. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to these reported achievements.

Indicator description	Reported achievement
Number of work opportunities reported in the EPWP-RS by public bodies	994 699 work opportunities reported in the EPWP-RS by public bodies (cumulative)
Percentage EPWP participation amongst designated groups (women, youth and persons with disability) reported on the EPWP-RS by public bodies	41.94% Youth 68.33% Women 0.96% persons with disabilities

Other matter

24. We draw attention to the matter below. Our opinion is not modified in respect of this matter.

Achievement of planned targets

25. Refer to the annual performance report on **page(s) x to x; x to x** for information on the achievement of planned targets for the year and explanations provided for the under/overachievement of a significant number of targets. This information should be considered in the context of the qualified opinion expressed on the usefulness and reliability of the reported performance information in paragraph 23 of this report.

Responsibilities of the accounting officer for the reported performance information

26. The accounting officer is responsible for the preparation of the annual performance report in accordance with the prescribed performance management and reporting framework, as set out in annexure D to this report and for such internal control as the accounting officer determines is necessary to enable the preparation of performance information that is free from material misstatement in terms of its usefulness and reliability.

Auditor-general's responsibilities for the reasonable assurance engagement on the reported performance information

27. Our objectives are to obtain reasonable assurance about whether the reported performance information for the selected programmes presented in the annual performance report is free from material misstatement and to issue a management report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that the assurance engagement conducted in accordance with the relevant assurance standards

will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if they could reasonably be expected to influence the relevant decisions of users taken on the basis of the reported performance information.

28. Our procedures address the usefulness and reliability of the reported performance information, which must be based on the approved performance planning documents of the department. We have not evaluated the appropriateness of the performance indicators established and included in the planning documents. Our procedures do not examine whether the actions taken by the department enabled service delivery. Our procedures also do not extend to any disclosures or assertions relating to planned performance strategies and information relating to future periods that may be included as part of the reported performance. Accordingly, our opinion does not extend to these matters.
29. A further description of our responsibilities for the reasonable assurance engagement on reported performance information is included in annexure E to this report.

AUDIT OF COMPLIANCE WITH LEGISLATION

30. Included below are material findings on compliance with selected specific requirements of applicable legislation, as set out in the general notice issued in terms of the PAA.

Expenditure management

31. Effective and appropriate steps were not taken to prevent irregular expenditure, as required by section 38(1)(c)(ii) of the PFMA and treasury regulation 9.1.1. The value, as disclosed in note xx to the financial statements, is not complete as management was still in the process of quantifying the full extent of the irregular expenditure. The majority of the irregular expenditure disclosed in the financial statements was caused by expenditure on state funerals where payments were made in excess of amounts required on the contract.
32. Effective internal controls were not in place for approval and processing of payments in certain instances, as required by treasury regulation 8.1.1.

OTHER INFORMATION

33. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected programmes presented in the annual performance report that have been specifically reported on in the auditor's report.
34. Our opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.
35. In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected programmes presented in the annual performance report, or our knowledge obtained during the audit or otherwise appears to be materially misstated.
36. The following paragraphs will be included in the auditor's report to highlight to the users whether any inconsistencies in the other information exist:

37. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary

INTERNAL CONTROLS

38. The significant deficiencies in internal control which led to our overall assessment of the status of the drivers of key controls, as included in the figure in paragraph x, are described below. The detailed assessment of the implementation of the drivers of internal control in the areas of financial statements, performance reporting and compliance with legislation is included in annexure F.

Leadership

Effective leadership culture

39. The department was impacted by a number of investigations which were completed in the current and prior period. The leadership of the department initiated these investigations in some instances; however, it was noted with concern that the investigation reports implicated officials occupying senior management positions. Critical positions such as that of the Director-General, are now filled by acting incumbents due to officials being placed on suspension as part of ongoing disciplinary processes. This instability in leadership and lack of effective leadership culture sets an unwanted tone of non-compliance which may permeate throughout the department and the trading entity.
40. We have noted from our review of the work of internal audit that management has, in some instances, been slow to respond to the findings of internal audit, or not committed to timeous submission of the information as requested by internal audit. Addressing these findings will strengthen the control environment in the department, and embed a culture of compliance within all officials

Oversight responsibility

41. The governance, risk and compliance (GRC) unit plays a key role in oversight for the department, as their functions include risk management as well investigations. The unit completed a number of investigations over the past two years, however senior management has been slow to implement the recommendations in these reports.
42. Compliance matters, particularly with regards to supply chain management, have received attention from the department in the past three years. There were however serious concerns noted with that measures and methods applied in monitoring state funerals and state events contracts were insufficient to ensure effective contract management, as instances of non-compliance were noted in the current year which resulted in material amounts of irregular expenditure being incurred.

Human resource management

43. The overall vacancy rate at year-end increased from 7% in the previous year to 10.80% in the current year. The senior management vacancy rate at year-end was 23.7% in the current year
44. The main concern continues to be the key positions that remain vacant, which include among others, the heads of key programmes such as DDG: Supply Chain Management (SCM), DDG: Inter-Governmental Relations (IGR), DDG: Policy, Research and Regulations and DDG: Expanded Public Works Programme (EPWP). This instability in key leadership positions has continuously been highlighted as a key root cause for the stagnation in the audit outcomes of the department.

Policies and procedures

45. The department should ensure that the existing policies are implemented and the implementation is regularly monitored. Non-implementation of the existing policies and regulations with respect to appointments was the root cause of irregular expenditure being incurred by the department on the irregular appointments identified by the Public Service Commission. In addition, the department committed to revise the policy with respect to state funerals and state events, however this was not yet finalised during the year under review.

Action plans to address internal control deficiencies

46. Implementation of the audit actions plan has not transpired in all instances. It is a concern that the majority of issues identified have been recurring for a number of years and were also raised during interim audit, and have not yet been adequately addressed. The lack of an effective leadership culture and slow response by senior management to implement action plans has combined to create an environment where people are not held accountable for causing the department to obtain negative audit outcomes.
47. Management should also review audit action plans currently in place to confirm their effectiveness, especially with regards to EPWP. While there has been a slight improvement noted with respect to document retention for reported work opportunities (mainly in relation to DPWI implemented projects), the issue of under reporting remains a serious area of concern for all projects. This indicates that the current action plan is not addressing the root cause of the issues identified.

Information technology governance framework

48. Information technology governance was found to be inadequately designed and implemented with the following internal control deficiencies to be considered by management:
 - The ICT structure was recently approved after the new Minister requested a re-evaluation of the organisational structure to be align to the new mandate of DPWI. Following the re-evaluation of the organisational structure, ICT has started advertising the key positions. Furthermore, the department did not receive qualifying candidates for positions that were advertised. As a result, key vacancies within ICT remain a concern as two (2) key ICT vacancies were still not filled at the end of March 2020. If the ICT function is not fully capacitated, some ICT resources may be overloaded with more responsibilities. This may

result in lack of ability by other ICT resources to perform critical ICT activities leading to an increase in the number and impact of incidents caused by unavailability of essential skills.

Financial and performance management

Proper record keeping

49. Obtaining sufficient appropriate evidence to substantiate the reported performance for a significant number of projects included in Programme 3: *EPWP* remains a significant challenge, especially relating to projects implemented by public bodies other than the department. This includes reliable supporting evidence, such as identity documents, attendance registers and proof of payment, despite the fact that the department validated these work opportunities. This contributed to the negative audit outcome for Programme 3.

Regular, accurate and complete financial and performance reports

50. The department has benefitted from stability within the finance department, with improvements noted with respect to the annual financial statements submitted for audit. The issues that resulted in adjustments being required to some disclosures in the prior period did not recur in the current period, with the only adjustment required subsequent to submission for audit being in relation to irregular expenditure identified during the audit.
51. The reported achievements for predetermined objectives included in the annual performance report were not supported by appropriate audit evidence throughout the year. Significant findings were raised by internal audit with respect to quarterly reporting which were not addressed by management. In addition, similar findings with respect to under reporting as well as lack of adequate supporting documentation were reported during interim audit done on quarter three data by the external auditors. While some matters were subsequently resolved, the remaining unresolved matters combined with similar findings raised during final audit resulted in the negative audit outcome received for the programme.

Compliance monitoring

52. Some instances of non-compliance have been identified in the current audit cycle with respect to expenditure management, resulting in irregular expenditure being incurred by the department. This non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored when approving payments to suppliers.
53. Improvement was noted with respect to payments being made within 30 days, which was not included as a non-compliance item for the current financial period. The action plans with respect to this item were thus effectively implemented.

Information technology systems

54. IT controls pertaining to service continuity, security management, user access management and change control management were not effectively designed and implemented due to the following key internal control deficiencies:
 - As previously reported, the following deficiencies were noted with regard to the management and implementation of IT Service Continuity/ Disaster Recovery processes at the department:
 - Although Disaster Recovery Plan (DRP) was developed and approved, it was noted that the DRP was not tested in the financial year under review.

- There was no formal backup policy and procedure.
 - There was no performance of periodic restoration of backups.
 - These matters were reported in 2018-19 financial year.
- Without a comprehensively documented, tested and regularly updated Disaster Recovery and Business Continuity Plan, it might not be possible to recover the key business operations, critical systems, applications, their supporting infrastructure or networking capability in the correct sequence and time, to ensure that the department's business operations could be sufficiently resumed at an alternative processing site without considerable loss to its financial well-being and negative impact of service delivery should a disaster occur.
- The following security management processes weaknesses were noted:
 - The ICT Security Policy was still in draft format;
 - There was no process in place to review the activity logs on active directory for security significant events;
 - Furthermore, the password security settings to the Archibus, EPWP, PMIS and SAGE systems were not in line with the department's ICT security policy
- Without an approved ICT security policy, the organisation might not be able to adequately and effectively support the overall objective of the organisation in terms of security. Furthermore, security breaches and incidents may not be timely detected, which may affect the confidentiality, integrity and availability of the systems.
- The Consolidated Information and Communication Technology Policy included user access management and it was noted that the policy does not explicitly indicate the systems and/or applications that are covered by the policy. Furthermore, as previously reported in 2018/19 it was noted that the current policy was still in draft and does not provide adequate guidance on the process to follow when performing the below user access management activities:
 - User account termination.
 - User transfer requests.
 - Monitoring of system controller actions on application security level (creation of IDs, user ID maintenance, allocating functions to users etc.)
 - Periodic reviews of access and logon violation
- Inadequate implementation of user access management controls around EPWP, Reapatala and Persal. The following deficiencies were noted with regards to the administration of user access controls on the above DPW & PMTE systems:
 - Evidence of review performed to monitor user's access rights was not adequate as it did not entail users access, furthermore there was no evidence indicating that the report/list was reviewed to ensure that the functions allocated to the users commensurate with their job responsibilities.
 - Evidence of review performed to monitor activities performed system was not adequate as the audit logs did not detail activities performed by system controller such as user creation, user ID maintenance, allocation of functions, password resetting and termination of user accounts, furthermore there was no evidence indicating the logs were reviewed.

- Inadequate user account management processes could lead to unauthorised access to the system, which could result in potential system breaches and therefore compromising the integrity of data.
- The ICT policy governing change management and access to Reapatala and EPWP applications was still in draft since August 2018, and does not provide adequate guidance on the process to be followed when:
 - Performing change management activities;
 - Migration of changes to production
 - Development of changes requested
 - Testing of changes (QA and user acceptance test); and
 - Implementation of changes.

Without adequate program change management policy, there might not be a process which provides a managed and orderly method in which changes to the information technology environment are requested, tested and approved prior to installation or implementation

Governance

Risk management activities and risk strategy

55. We have noted that the majority of investigations are initiated within the required time, however investigations take extremely long to finalise because of complexities associated with investigations in certain instances.
56. Some investigations are referred to Special Investigations Unit or to SAPS where criminal activities are suspected. Leadership is encouraged to be swift in implementing the recommendations in these reports, especially in relation to holding people accountable for causing the department to incur irregular, and fruitless and wasteful expenditure. Inadequate consequence management increases the likelihood of similar transgressions recurring, and the department not receiving value for the high costs incurred in conducting these investigations

Internal audit

57. While it was noted that internal audit performed a number of audits throughout the financial period (relating to, *inter alia*, quarter one performance information and contract management controls), it was noted that the majority of work focused on PMTE. The main areas of concern from last year's external audit, with the exception of EPWP, was not scoped in for internal audit for the year under review. The work of internal audit should place more focus on preventative control reviews, especially for DPWI, which has stagnated at unqualified audit outcome with findings on other areas for the previous five financial periods.
58. Many of the findings raised on the work performed related to limitation of scope, with management providing information to internal audit late, or not providing information at all. In other instances, management responses to the issues raised were not adequate to resolve the matters identified. The internal audit unit will not be having the desired impact on control until management prioritises their findings, and embraces the value of preventative controls.

59. We also noted that the internal audit was not sufficiently integrated in the process of implementing the COVID response initiatives. The internal audit unit is not being used to its full potential, and should be considered first when assurance is required on a real time basis to reduce the reliance on investigations which are more cost prohibitive, and are slow to progress as indicated above.

Audit committee

60. New members have been appointed to the audit committee after the term of the previous members expired mid-way through the 2019/20 financial year. Regardless, the audit committee has consistently reported concerns with the number of control issues raised by Internal Audit and the Auditor General.
61. The previous members concurred at the end of the previous financial year that there were inadequate control processes and procedures, by design and implementation, to ensure the accuracy and completeness of the financial statements and performance information.
62. The audit committee is currently effectively involved from a governance perspective in the oversight of the department, however improvements in outcomes can only follow from effective implementation of action plans by management.
63. The Chairperson of the Audit Committee should meet and give regular feedback to the Minister of Public Works and Infrastructure.

Summary

64. The matters above, as they relate to the findings on the annual performance report and findings on compliance with legislation, will be summarised in the auditor's report as follows:
65. The department was impacted by a number of investigations which implicated officials occupying senior management positions. In addition, there were vacancies at senior management level at a number of key programmes. This combination of instability in leadership and lack of effective leadership culture contributed to irregular expenditure being incurred by the department.
66. Inadequate monitoring of action plans to address the previous year's findings resulted in similar findings on programme 3: expanded public works programme in the current year.

MATERIAL IRREGULARITIES

67. In accordance with the PAA and the material irregularity regulations, we have a responsibility to report on material irregularities identified during an audit.
68. We have notified the accounting officer of material irregularities identified during the audit.
69. The auditor's report will include the following summarised information:

Price and quantity variances pertaining to the funeral related expenditure

70. The department entered into a contract with a supplier on 23 May 2017 to provide services related to state events and state funerals. The contract period was for 24 months, and explicitly required that prices be fixed for this term. Adequate and effective internal controls were not in place for approval and processing of payments to the supplier, as required by

treasury regulation 8.1.1, and irregular payments were made on the contract which resulted in a material financial loss of R8 765 161, as listed below:

- The prices that were charged on the invoice were different from the prices that were quoted on the pricing schedule that was submitted by the supplier during the tender process.
- The prices that were charged on the invoice were different from the prices that were quoted by the supplier prior to the event.

71. A suspected irregularity was also identified which is likely to result in a material financial loss for the department of R356 213. Quantities on the invoice differed from the quantities agreed to on the quotation, with no evidence of additional items being requested by the department.
72. An investigation into the matter by the departmental investigation unit was concluded during the 2019-20 financial year. The accounting officer is in the process to recover the financial loss from the contractor. The accounting officer also conducted a review of the control environment to prevent a re-occurrence of the material irregularity. I will follow up on the implementation of the actions during my next audit

Expenditure on state events exceeded contract amounts

73. The department entered into a contract with a supplier in November 2016 to provide services related to state events. The contract period was for 24 months, and explicitly required that prices be fixed for this term. The prices that were charged on the invoice were different from the prices that were quoted on the pricing schedule that was submitted by the supplier during the tender process, as effective internal controls were not in place for the approval and processing of payments, as required by treasury regulation 8.1.1. This resulted in a material financial loss of R808 720 by 31 March 2020 for the department.
74. The accounting officer requested the departmental investigation unit to institute an investigation into the material irregularity on **xx September 2020**. The accounting officer also conducted a review of the control environment to prevent a re-occurrence of the material irregularity. I will follow up on the investigation and the implementation of the actions during my next audit.

OTHER REPORTS

75. We draw attention to the following engagements conducted by various parties that have or could potentially have an impact on the department's financial statements, reported performance information and compliance with applicable legislation and other related matters. The reports noted do not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation. The summarised other reports will be included in the auditor's report as follows:

Investigations

76. The Special Investigation Unit has been authorised to investigate the affairs of the Department of Public Works as follows:

- An investigation into supply chain management irregularities within inter alia the Prestige branch at the department, which covered the period 2003-04 to 2010-11. The report was finalised in 2018-19. The investigation was then extended to cover the period 2010-11 to 2015-16, and further extended to cover the period 2015-16 to 2019-20. These investigations were still in progress at the date of this auditor's report.

SECTION 3: ASSURANCE PROVIDERS AND STATUS OF IMPLEMENTATION OF COMMITMENTS AND RECOMMENDATIONS

ASSESSMENT OF ASSURANCE PROVIDERS

77. The annual report is used to report on the financial position of auditees, their performance against predetermined objectives and overall governance. One of the important oversight functions of Parliament is to consider auditees' annual reports. To perform this oversight function, they need assurance that the information in the annual report is credible. To this end, the annual report includes our auditor's report, which provides assurance on the credibility of the financial statements and the annual performance report, as well as on the auditee's compliance with legislation.
78. Our reporting and the oversight processes reflect on past events, as it takes place after the end of the financial year. However, management, the leadership and those charged with governance contribute throughout the year to the credibility of financial and performance information and compliance with legislation by ensuring that adequate internal controls are implemented.
79. We assess the level of assurance provided by these assurance providers based on the status of internal controls (as reported in section 2.6) and the impact of the different role players on these controls. We provide our assessment for this audit cycle below.

Senior management: provides limited assurance

- Some members of senior management were found to have been responsible for the department incurring irregular expenditure, as well as financial losses, during the financial year which significantly limited the level of assurance that may be obtained. In addition, the Public Service Commission found a number of senior management officials were appointed irregularly, with some not having the requisite qualifications for their positions.
- Senior management have put initiatives in place to provide assurance, such as detailed audit action plans. They should continue with an increased level of oversight in the upcoming financial year over performance reporting of predetermined objectives. This includes the interrogation of reasons why particular targets are not being achieved, but even more importantly putting in place mechanisms of ensuring that all performance reported is accurate, valid and complete, and that the required supporting documentation is in place and easily retrievable for audit purposes.
- Senior management should monitor contracts on a regular basis and ensure that measures and methods applied in monitoring these contracts are sufficient and effective in order to prevent irregular expenditure

Accounting officer provides **limited assurance**

- The accounting officer was placed on suspension pending the outcome of a disciplinary process due to findings made against him in the investigations conducted by SIU, Public Service Commission as well as the department's internal investigations into state funerals.

Executive authority provides **some assurance**

- The executive authority has been receptive to recommendations from the auditors, and it was noted that she had requested investigations into certain irregularities identified at the department during the year under review. The Minister committed to implement consequence management and put systems to ensure accountability within the department, which is an ongoing process.

Internal audit provides **some assurance**

- Legislation in South Africa requires the establishment, roles and responsibilities of internal audit units. Internal audit unit forms part of the internal control and governance structures of the department and play an important role in its monitoring activities. Internal audit provides an independent assessment of the department's governance, risk management and internal control processes.
- The internal audit unit of the department must prepare a risk-based audit plan and internal audit programme for each financial year. It must advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management, performance management, loss control and compliance with the PFMA. The internal audit unit must also perform such other duties as may be assigned by the accounting officer.
- While we note that the quality and scope of the internal audits performed were of the required standard, the department is yet to fully realise the benefits of this work, because tangible improvements will only be realised once management effectively and timeously implements the recommendations from the outcomes of these audits.

Audit committee: provides **assurance**

- The audit committee met regularly throughout the year. The committee reviewed and approved the annual financial statements and annual report before submission. The audit committee also follows up with management on the implementation of internal and external audit recommendations. The impact of the interventions put in place by the audit committee is however limited by the fact that management has not timeously or adequately implemented these action plans.

STATUS OF IMPLEMENTING COMMITMENTS AND RECOMMENDATIONS

80. Below is our assessment of the progress in implementing the commitments made by the department to address the prior and current year's audit findings.

No	Commitments	Made by	Auditors comments	Status
1	<p><u>Understatement of Accruals</u></p> <p>a) Accrual schedules not accepted without valid supporting documents.</p> <p>b) Escalate non-submission of accruals schedule and supporting documents on time.</p> <p>c) Develop a checklist for the review of accruals inputs schedules.</p> <p>d) Accruals schedules to be accompanied by a completed and signed off checklist.</p>	M. Sithole (Chief Financial Officer)	<p>AFS were accompanied by accruals schedule with a completed and signed off checklist.</p> <p>The findings identified in previous years did not recur</p>	Resolved
2	<p><u>Incorrect classification of expenditure</u></p> <p>a) Payments to be verified prior to processing to ensure full compliance;</p> <p>b) Monthly review of the expenditure, and processing of journals to ensure correction of all misallocations. All expenditure misallocation from April 2019 are being corrected through journals and the project is estimated to be completed the end of September 2019;</p> <p>c) Regular checking of the new Practise notes for implementation. Communication regarding the expenditure items changes to be sent out to all employees for compliance</p>	M. Sithole (Chief Financial Officer)	<p>The findings identified in previous years did not recur</p>	Resolved
3	<p><u>Understatement of Commitments</u></p> <p>a) Develop a checklist for the review of commitments inputs schedules.</p> <p>b) Signed off tender register will form part of Commitments schedule supporting documents.</p> <p>c) Commitments schedules to be accompanied by a completed and signed off checklist.</p> <p>d) Quarterly review of the commitments against Legal and SCM registers (awards and tender) to ensure full disclosure</p>	M. Sithole (Chief Financial Officer)	<p>The findings identified in previous years did not recur</p>	Resolved
4	<p><u>The KPIs and targets were not measurable due to inadequate records management.</u></p> <p><i>Expanded Public Works Programme</i></p> <p>a) To conduct Public Body Visits throughout the year in the format of mini audits. These visits focus on the public body, rather than specific projects, to ensure public bodies with recurring audit findings are assisted.</p>			In Progress

No	Commitments	Made by	Auditors comments	Status
	<p>b) To manage an Intervention Register of all non-compliance issues noted at these visits. In this register responsibility for and timelines for resolution are assigned to responsible parties.</p> <p>c) To follow up with escalation to Accounting Officers and to relevant administrative and political heads the non-resolution within the specified timelines of non-compliance issues.</p> <p>d) To keep a paper trail of the escalation as proof of the Department fulfilling its coordination mandate.</p> <p>e) To withhold payments to public bodies receiving grants for non-compliant projects.</p> <p>To continue to provide training on EPWP frameworks to public bodies.</p> <p>f) To develop and consult on the viability of implementing an EPWP Audit Practice Note aimed at providing guidance on the roles and responsibilities of all EPWP stakeholders with regard to auditing processes and records-management requirements of the EPWP.</p> <p>g) To forward a letter to the Head of Construction Project Management to instruct the branch to take responsibility for the reporting and capturing of its EPWP data.</p> <p>Prestige</p> <p>(a) Liaise with ICT for creation of the shared drive and implementation of paper trail System</p> <p>(b) Maintain manual filing system until the electronic system is functional</p>	<p>S. Henderson (previous DDG-EPWP)</p> <p>M. Sazona (Chief Director: Prestige)</p>	<p>Similar findings were identified during interim and final audit</p> <p>Prestige was not scoped in in the current year</p>	
5	<p><u>Inadequate Contract Management that resulted in Irregular Expenditure</u></p> <p>(a) Develop a checklist for requisition and verification</p> <p>(b) Segregation of duties between Events management and Finance section.</p> <p>(c) Prestige and SCM to perform reconciliation between invoice and quotation</p> <p>a) SCM will issue a Circular requiring submission of all contract related records to Legal Services for placement on the tender (Pink) file.</p> <p>b) To provide internal workshop for Project Managers throughout the Department to be aware of applicable rules within the Contract Management space.</p>	<p>R. Naidoo (ADDG: Supply Chain Management)</p>	<p>The finding was identified in the current period, however the amounts involved were much lower than previous year. Follows ups will be made during the next audit cycle.</p>	In Progress

No	Commitments	Made by	Auditors comments	Status
	c) Utilisation of Paper trail for electronic storing of documents			
	<p><u>Information Technology</u></p> <p><i>Inadequate Security Management controls</i></p> <p>a) Ensure that they expedite the process of approving the Account Management policy (31 October 2019).</p> <p>b) Ensure that the ICT introduces security questions to assist in identifying users for password reset (Part of the policy – 31 November 2019).</p> <p>c) Ensure that the activities performed by the users with administrator access is reviewed on a regular basis to ensure that only authorised activities were performed and evidence of review is retained for audit purposes (part of the policy 31 November 2019).</p> <p>d) Ensure that there is an implemented formal process to suspend/disable/terminate user access on Active Directory (part of the policy 31 November 2019).</p> <p>e) The ICT management should commit to findings resolution by implementing adequate user access controls within the AD environment (part of the policy 31 November 2019)</p> <p>f) Execute consequence management if evidence of poor performance is established (March 2020)</p> <p><i>Inadequately implementation of the user account management policy on EPWPRS</i></p> <p>Controls in this regard are established in Version 2 of the EPWP RS. It is expected that this version will be implemented in 2020/21.</p> <p><i>Inadequate IT service continuity controls</i></p> <p>a) Procurement of the Disaster Recovery Solution (1 November 2019)</p> <p>b) Testing Disaster Recovery Solution (1 January 2020)</p> <p>c) Updating of the current Disaster Recovery Plan and Business Continuity Plan will be completed by (1 December 2019.)</p>	C. Mtshisa (DDG: Corporate Services)	The IT general controls review was completed, and identified several areas of concern.	In progress

- Three audit recommendations accepted by management in the prior year on matters included in the auditor's report and other important matters were implemented, or alternative actions were taken to resolve the finding.
- Three recommendations are still being implemented and progress will be followed in the next audit cycle.
- Details on the status of implementing the recommendations made in the previous year(s) are provided in section 10, which summarises the detailed audit findings.

SECTION 4: SPECIFIC FOCUS AREAS

FINANCIAL VIABILITY

81. Our audit included a high-level overview of the department's financial viability as at year-end. The financial viability assessment provides useful information for accountability and decision-making purposes and complements the financial statements by providing insights and perspectives thereon. The financial viability assessment is expected to enhance timely remedial decision-making and policy reforms where financial viability may be at risk. It will also highlight to management those issues that may require corrective action and the urgency and magnitude of the reforms and decisions necessary to maintain operations. The information should be used to complement, rather than substitute, management's own financial assessment.

It should be noted that the financial viability assessment below is based on the department's financial statement amounts adjusted to reflect certain accrual accounting concepts.

FINANCIAL VIABILITY ASSESSMENT			
		AS AT 31 MARCH 2020	AS AT 31 MARCH 2019
EXPENDITURE MANAGEMENT			
1.1	Creditor payment period	17.8 Days	24 Days
1.2	30+ day accruals as a percentage of total accruals	0%	0 %
	• Amount of 30+ day accruals	R 0	R 0
	• Amount of total accruals	R 23 506 000	R 10 161 000
REVENUE MANAGEMENT			
2.1	Debtor-collection period (after impairment)	35 Days	365 Days
2.2	Debtors' impairment provision as a percentage of accrued departmental revenue	0.00%	0.00%
	• Amount of debtors' impairment provision	R 0	R 0
	• Amount of accrued departmental revenue	R 1 416 000	R 12 128 000
ASSET AND LIABILITY MANAGEMENT			
3.1	An accrual-adjusted deficit for the year was realised (total expenditure exceeded total revenue)	No	Yes

FINANCIAL VIABILITY ASSESSMENT			
		AS AT 31 MARCH 2020	AS AT 31 MARCH 2019
	<ul style="list-style-type: none"> Amount of accrual-adjusted surplus/(deficit) for the year 	R 116 698 000	R (104 049 000)
3.2	An accrual-adjusted net current liability position was realised (total current liabilities exceeded total current assets)	Yes	Yes
	<ul style="list-style-type: none"> Amount of accrual-adjusted net current assets/(liability) position 	R(420 891 000)	R (348 850 000)
3.3	An accrual-adjusted net liability position was realised (total liabilities exceeded total assets)	No	No
	<ul style="list-style-type: none"> Amount of accrual-adjusted net asset/(liability) position 	R265 637 000	R138 365 000
CASH MANAGEMENT			
4.1	The year-end bank balance was in overdraft	Yes	Yes
	<ul style="list-style-type: none"> Amount of year-end bank balance (cash and cash equivalents)/(bank overdraft) 	R (153 176 000)	R (266 533 000)
4.2	Cash shortfall as a percentage of next year's appropriation (budget), excluding "compensation of employees" and "transfers and subsidies" **	62.2 %	45.5 %
	<ul style="list-style-type: none"> Amount of the cash surplus/(shortfall) 	R (298 438 000)	R (224 957 000)
	<ul style="list-style-type: none"> Amount of next year's appropriation (budget), excluding "compensation of employees" and "transfers and subsidies" 	R 480 005 000	R 493 941 000
4.3	Amounts payable in future periods as a percentage of the budget for the next three years, excluding "compensation of employees" and "transfers and subsidies"	7.8 %	40.3 %
	<ul style="list-style-type: none"> Amounts payable in future periods 	R 124 765 000	R198 991 000
	<ul style="list-style-type: none"> Amount of the next three years' appropriation (budget), excluding "compensation of employees" and "transfers and subsidies" 	R 1 589 800 000	R493 941 000
4.4	Guarantees issued by the department as a percentage of next year's budget, excluding "compensation of employees" and "transfers and subsidies"	No guarantees issued	1.2%
	<ul style="list-style-type: none"> Amount of guarantees issued Amount of next year's appropriation (budget), excluding "compensation of employees" and "transfers and subsidies" 	R 0 R 1 589 800	R5 766 000 R493 941 000
4.5	Claims against the department as a percentage of next year's budget, excluding "compensation of employees" and "transfers and subsidies"	No claims against the department	No claims against the department
	<ul style="list-style-type: none"> Amount of claims against the department 	R 0	R0

FINANCIAL VIABILITY ASSESSMENT		
	AS AT 31 MARCH 2020	AS AT 31 MARCH 2019
• Amount of next year's appropriation (budget), excluding "compensation of employees" and "transfers and subsidies"	R 480 000 000	R1 036 000
OVERALL ASSESSMENT		
Overall the financial viability is assessed as:	Yellow (Concerning)	Yellow (Concerning)
** This indicator assumes that the unauthorised expenditure of R261 169 000, per note 9 will not be approved with funding.		

High-level comments

82. The department is able to undertake its objectives and the vote has not been depleted or exceeded and there is no significant unpaid expenditure.
83. Improvements have been noted with respect to creditor payment period, as well as debtor collection periods. This was as a result of specific consideration being placed on ensuring all payments are made within 30 days.
84. The bank overdraft primarily emanated as a result of unauthorised expenditure and it is important to note, as highlighted above, that these indicators assume that any unauthorised expenditure that the auditee may have incurred will not be approved with funding. If the unauthorised expenditure is approved with funding, the cash shortfall will decrease.
85. Should the unauthorised expenditure however not be approved with funding it could result in a shortage of available funds to implement planned activities, programs and projects in the future. The department should therefore continue in their efforts to obtain the necessary approval.

PROCUREMENT AND CONTRACT MANAGEMENT

86. The audit included an assessment of procurement processes, contract management and the related controls in place. These processes and controls must comply with legislation to ensure a fair, equitable, transparent, competitive and cost-effective supply chain management (SCM) system and to reduce the likelihood of fraud, corruption, favouritism, and unfair and other irregular practices. A summary of the findings from the audit are as follows:

Irregular expenditure

87. R6 527 344 (100%) of irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation. Further irregular expenditure incurred in previous years amounting to R6 767 478 was also identified in the current year. 100% (100% in the prior year) of this irregular expenditure was identified during the audit process and not detected by the department's monitoring processes. The root cause(s) of the lack

of effective prevention and detection are inadequate review and monitoring with SCM processes and requirements.

Awards to persons in the service of the state and their close family members

88. The audit included an assessment of the interests of officials and their close family members in suppliers to the department. Legislation specific to procurement does not prohibit the Department of Public Works and Infrastructure from making such awards, but compliance with the legislation and policies was tested to ensure that conflicts of interest did not result in contracts being unfairly awarded or unfavourable price quotations being accepted, and that employees obtained approval for performing remunerative work outside their employment as required.

89. The findings were as follows:

Finding	Number and value of awards made	Number and positions of official identified	Number of suppliers identified	Further non-compliance or irregularities regarding the awards			
				Supplier did not submit declarations of interest	Supplier did not declare interest (false declaration)	Official did not declare interest	Official was involved in awarding the contract/quotation
Awards made to business partners and associates of officials of the department	1 R86 685,39	1 Head : Governance, Risk and Compliance	1	0	0	0	0

Procurement processes

90. The table below is a summary of findings identified on procurement processes:

	Total		Quotations (below R500 000)		Competitive bids (over R500 000)	
	Number	Value R	Number	Value R	Number	Value R
Awards selected for testing	56	R116 119 442	31	9 525 245	25	106 594 197
Expenditure incurred on selected awards – current year		47 836 525		8 186 556		39 649 969
Limitations – awards selected but could not be tested	0	0	0	0	0	0
Awards on which non-compliance was identified	3	1 105 423	3	1 105 423	0	0
Irregular expenditure identified	2	711 406	2	711 406	0	0

Instances of irregular expenditure where goods/services were not received	0	0	0	0	0	0
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Procurement processes – general

- One quotation with a value of R361 806 was awarded to a bidder who did not comply with specified pre-qualification criteria requirement.

Internal control deficiencies

91. The accounting officer did not in some instances exercise oversight responsibility of the reporting and compliance with laws and regulations.
92. Reviewing and monitoring of compliance with relevant laws and regulations was insufficient and not properly monitored in some instances.

FRAUD AND CONSEQUENCE MANAGEMENT

93. The primary responsibility for preventing and detecting fraud rests with management and those charged with governance. We are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and to issue an auditor's report that includes our opinion. Due to the inherent limitations of an audit, there is a risk that some material misstatements, including fraud, may not be detected.
94. Below is a summary of fraud risk factors that should be addressed to ensure that sufficient measures/controls are in place to prevent material misstatement due to fraud.
 - Officials in high ranking positions may take the opportunity to misuse their authority.
95. The PFMA and its regulations clearly stipulate that matters such as incurring unauthorised, irregular as well as fruitless and wasteful expenditure, the possible abuse of the SCM system (including fraud and improper conduct) and allegations of financial misconduct should be investigated. Disciplinary steps should be taken based on the results of the investigations. Our audits included an assessment of the department's management of consequences. The significant findings are provided below.

Measures to manage consequences

96. The following measures were not implemented to ensure that the environment is conducive to effective consequence management:
 - There was a lack of proper record keeping to ensure that complete, relevant and accurate information is accessible and available to support the processes followed for financial misconduct/transgressions committed by officials and suppliers of the auditee.

Ongoing investigations

14. A total of five investigations were ongoing at year-end into allegations relating to financial misconduct, fraud and/or improper conduct in SCM. Some of these investigations have been ongoing for a period exceeding 12 months. The table below provides a summary of

investigations which had not been completed as at year-end (source: *Allegations and Noclar* working paper):

Total number of ongoing investigations as at year-end	5
• Number of SCM-related investigations	1
• Number of fraud-related investigations	0
Number of investigations exceeding a period of six months	5

Transgressions reported to management for investigation

97. During the prior year audit, we reported findings relating to transgressions by officials or other role players for management to investigate. During the current year audit, we performed follow-up tests to determine whether the matters reported were dealt with by management.

98. The table below provides a summary of the transgressions reported in the prior year and an indication of how many were dealt with. It also provides a summary of transgressions identified in the current year that must be investigated and disciplinary steps taken based on the results of the investigations.

(Not applicable findings should be deleted)

Finding	Findings reported in prior year			Findings reported in current year	
	Number of instances	Number of instances investigated	Number of instances resolved from those investigated	Number of instances	Value (R)
A: Improper conduct in SCM by suppliers					
Other improper conduct in SCM by suppliers	1	1	0	0	0
B: Improper conduct in SCM by officials/role players					
Other improper conduct in SCM by officials or SCM role players	8	8	0	0	0
C: Financial misconduct					
Employees of departments doing business with the state (only for departments)	3	3	3	0	0
Other financial misconduct-related allegation	1	1	1	0	0

99. Irregular expenditure disclosed in note 25 to the financial statements must be investigated to determine whether any official is liable for losses incurred as a result of the irregular expenditure. Disciplinary steps must be taken against officials who caused or permitted the

irregular expenditure, and losses incurred as a result must be recovered from the person liable.

SECTION 5. USING THE WORK OF INTERNAL AUDIT

100. The auditing standards allow external auditors the optional use of the work of internal auditors for external audit purposes and for direct assistance. We have used internal audit as follows:

- The following internal audit report was considered for risk identification purposes]
 - Follow up audits (DPW and PMTE) where Internal Audit assessed management's progress in addressing internal and external audit findings from prior periods.
 - Audit of the quarterly report (Q1) for all programmes scoped in

SECTION 6: EMERGING RISKS

Accounting, performance management/reporting and compliance matters

New pronouncements

Modified cash standard

101. The following emerging risks are relevant for the 2019-20 audit cycle.

Componentisation of assets

- Departments are encouraged to componentise assets in their asset registers as it will become a requirement in future. The effective date to componentise assets has not been determined yet.

Classification of housing-related expenditure

- Departments of Human Settlements should implement the transitional provisions in the *Human Settlements Departments: Transition Guide on Classification of Expenditure* issued by the OAG to classify housing related-expenditure. The effective date to classify housing related-expenditure in accordance with the ERF without any deviation is 1 April 2022.

New MCS chapters issued

- The OAG has issued the following MCS chapters, with effective dates as indicated:

MCS chapter	Effective date
MCS 19 on <i>Transfer of functions</i>	1 Apr 2020
MCS 20 on <i>Mergers</i>	1 Apr 2020

- Early application of both chapters is permitted.

New legislation

Treasury Regulations

- The Treasury Regulations are currently being revised, which may introduce a number of new requirements once effective.

Subsequent events

- [audit in progress]

Audit findings on the annual performance report that may have an impact on the audit opinion in future

102. The planned and reported performance information of selected programmes was audited against the following additional criteria as developed from the performance management and reporting framework:

- **Presentation and disclosure – overall presentation:**
 - Overall presentation of the performance information in the annual performance report is comparable and understandable
- **Relevance – completeness of relevant indicators:**
 - Completeness of relevant indicators in terms of the mandate of the auditee, including:
 - relevant core functions are prioritised in the period under review
 - relevant performance indicators are included for the core functions prioritised in the period under review

103. Material audit findings arising from the audit against the additional criteria do not have an impact on the audit opinion(s) of the selected programmes in this report. However, it may impact on the audit opinion in future.

- No material findings were identified in respect of the additional criteria.

SECTION 7: ENTITIES CONTROLLED BY THE DEPARTMENT

104. In terms of the PFMA, the department has certain oversight responsibilities regarding the entities over which it has ownership control. The audit outcomes of these entities are summarised below.

Name of entity	Audit outcome			Significant deficiencies in internal control		
	Financial statement opinion	Findings on the performance report	Findings on compliance	Leadership	Financial and performance management	Governance

				Assessment	Movement	Assessment	Movement	Assessment	Movement
Property Management Trading Entity	<i>In progress</i>				▲		▶		▼
Independent Development Trust (IDT)	<i>In progress</i>								
Construction Industry Development Board (CIDB)	<i>In progress</i>								
Council for the Built Environment (CBE)	<i>In progress</i>								
Agrément South Africa (ASA)	<i>In progress</i>								

▲ Improved

▶ Unchanged

▼ Regressed

Good

Concerning

Intervention required

SECTION 8: RATINGS OF DETAILED AUDIT FINDINGS

105. For purposes of this report, the detailed audit findings included in annexures A to C have been classified as follows:

- Matters to be included in the auditor's report: These matters should be addressed as a matter of urgency.
- Other important matters: These matters should be addressed to prevent them from leading to material misstatements of the financial statements or material findings on the performance report and compliance with legislation in future.
- Administrative matters: These matters are unlikely to result in material misstatements of the financial statements or material findings on the performance report and compliance with legislation.

SECTION 9: CONCLUSION

106. The matters communicated throughout this report relate to the three fundamentals of internal control that should be addressed to achieve sustained clean administration. Our staff remain committed to assist in identifying and communicating good practices to improve

governance and accountability and to build public confidence in government's ability to account for public resources in a transparent manner.

Yours faithfully

Corne Myburgh
Business Executive: National A
30 September 2020

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Head of internal audit unit
Executive authority

SECTION 10: SUMMARY OF DETAILED AUDIT FINDINGS



DETAILED AUDIT FINDINGS: ANNEXURES A TO C

ANNEXURE A: MATTERS AFFECTING THE AUDITOR'S REPORT

DRAFT

ANNEXURE B: OTHER IMPORTANT MATTERS

DRAFT

ANNEXURE D: PERFORMANCE MANAGEMENT AND REPORTING FRAMEWORK

The Performance Management and Reporting Framework (PMRF) consists of the following:

Legislation applicable to performance planning, management and reporting, which includes the following:

- Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA)
- Treasury Regulations, 2005 issued in terms of the PFMA
- National treasury practice notes 4 of 2009-10
- Public Service Act, 1994 (PSA)
- Public Service Regulations, 2016 issued in terms of the Public Service Act
- Financial Management of Parliament and Provincial Legislatures Act, 2009 (Act No. 10 of 2009) (FMPPL)
- Regulations for reporting by public higher education institutions, 2014, issued in terms of the Higher Education Act, 1997 (applicable to universities only)
- The Framework for Managing Programme Performance Information (FMPPI), issued by the National Treasury. This framework is applicable to all spheres of government.
- The Framework for Strategic Plans and Annual Performance Plans (FSAPP), issued by the National Treasury. This framework is applicable to all national and provincial departments, constitutional institutions and those public entities listed in parts A and C of schedule 3 of the PFMA.
- Circulars and guidance issued by the National Treasury and the Department of Public Service and Administration (DPSA), and supported by the Department of Planning Monitoring and Evaluation (DPME) regarding the planning, management, monitoring and reporting of performance against predetermined objectives.

Annexure D – Criteria developed from the performance management and reporting framework

CRITERIA	REFERENCES TO THE PMRF PER TYPE OF ENTITY			
	Departments / constitutional institutions / trading entities	Public entities	Parliament / provincial legislatures	Universities
Consistency: Objectives, performance measures / indicators and targets are consistent between planning and reporting documents				
1. Reported strategic or development objectives are consistent or complete when compared to planned objectives	Section 40(3)(a) of the PFMA TR 5.2.4 NT instruction note 33: implementation of the FSAPP Section 25(1) and 31(1) of the PSR	Section 55(2)(a) of the PFMA TR 28.2.2 Applicable to 3A & 3C public entities: TR 30.1.3(g) NT instruction note 33: Implementation of the FSAPP Applicable to 2; 3B & 3D public entities: TR 29.1.1 & TR 29.2	Section 55(3)(d) of the FMPPLA	Section 5(2)(k) & 7(4)(a) of the regulations for reporting by public higher education institutions
2. Changes to strategic or development objectives are approved	TR 5.1.1 NT instruction note 33: implementation of the FSAPP Section 4 of FSAPP	Applicable to schedule 3A & 3C public entities: TR 30.1.1 NT instruction note 33: implementation of the FSAPP Section 4 of FSAPP Applicable to schedule 2, 3B & 3D public entities: TR 29.1.1 and TR 29.2	Section 15(1) and (2)(b) of the FMPPLA	Section 5(2)(m) & 7(4)(a) of the regulations for reporting by public higher education institutions
3. Reported measures or indicators are consistent	Section 40(3)(a) of the PFMA	Section 55(2)(a) of the PFMA TR 28.2.2	Section 55(3)(d) of the FMPPLA	Section 5(2)(k) & 7(4)(a) of the regulations for reporting by



or complete when compared to planned measures or indicators	TR 5.2.4 NT instruction note 33: implementation of the FSAPP Sec 25(1) of the PSR	Applicable to 3A & 3C public entities: TR 30.1.3(g) NT instruction note 33: implementation of the FSAPP Applicable to 2; 3B & 3D public entities: TR 29.1.1 & TR 29.2		public higher education institutions
4. Changes to measures or indicators are approved	TR 5.1.1 NT instruction note 33: implementation of the FSAPP Section 4 of FSAPP	Applicable to 3A & 3C public entities: TR 30.1.1 NT instruction note 33: implementation of the FSAPP Section 4 of FSAPP Applicable to 2; 3B & 3D public entities: TR 29.1.1 & TR 29.2	Section 15(1) and (2)(b) of the FMPPLA	Section 5(2)(m) of the regulations for reporting by public higher education institutions
5. Reported targets are consistent or complete when compared to planned targets	Section 40(3)(a) of the PFMA TR 5.2.4 NT instruction note 33: implementation of the FSAPP Section 25(1) of the PSR	Section 55(2)(a) of the PFMA TR 28.2.2 Applicable to 3A & 3C public entities: TR 30.1.3(g) Applicable to 2; 3B & 3D public entities: TR 29.1.1 & TR 29.2	Section 55(3)(d) of the FMPPLA	Section 5(2)(k) & 7(4)(a) of the regulations for reporting by public higher education institutions
6. Changes to targets are approved	TR 5.1.1 NT instruction note 33: implementation of the FSAPP Section 4 of FSAPP	Applicable to 3A & 3C public entities: TR 30.1.1 NT instruction note 33: implementation of the FSAPP Section 4 of FSAPP	Section 15(1) and (2)(b) of the FMPPLA	Section 5(2)(m) of the regulations for reporting by public higher education institution

		Applicable to 2; 3B & 3D public entities: TR 29.1.1 & TR 29.2		
7. Reported achievements are consistent with the planned and reported indicator and target	Section 40(3)(a) of the PFMA	Section 55(2)(a) of the PFMA	Section 55(3)(d) of the FMPPLA	Section 7(4)(a) of the regulations for reporting by public higher education institutions
Measurability: Performance measures / indicators are well defined and verifiable, and targets are specific, measurable and time bound				
8. A performance measure or indicator is well defined when it has a clear definition so that data will be collected consistently and is easy to understand and use	FMPPI	chapter 3.2	Criteria not applicable	Section 1(d) of the regulations for reporting by public higher education institutions
9. A performance measure/indicator is verifiable when it is possible to validate or verify the processes and systems that produce the indicator	FMPPI	chapter 3.2	Criteria not applicable	
10. A target is specific when the nature and the required level of	FMPPI	chapter 3.3	Criteria not applicable	Section 1(a) of the regulations for reporting by public higher education institutions

performance of the target are clearly identifiable					
11. A target is measurable when the required performance can be measured	FMPPI	chapter	3.3	Criteria not applicable	Section 1(b) of the regulations for reporting by public higher education institutions
12. A target is time bound when the time frames for the achievement of the target are indicated	FMPPI	Chapter	3.3	Criteria not applicable	Section 1(c) of the regulations for reporting by public higher education institutions
Relevance: Performance measures / indicators relate logically and directly to an aspect of the entity's mandate and the realisation of its strategic goals and objectives					
13. The performance measure/indicator and target relate logically and directly to an aspect of the entity's mandate and the realisation of its strategic goals and objectives	FMPPI chapter 3.2			Criteria not applicable	Section 1(e) of the regulations for reporting by Public Higher Education Institutions
Presentation and disclosure: Performance information in the annual performance report is presented and disclosed in accordance with the requirements contained in legislation, frameworks, circulars and guidance					
14. Reasons for variances between planned and actual performance are disclosed in the annual performance report	The NT's annual report guide for national and provincial departments Section 31(1) of the PSR	Applicable to schedule 3A & 3C public entities: The NT's annual report guide for schedule 3A and 3C public entities	Criteria not applicable		
15. Reasons for variances are corroborated by source documentation	The NT's annual report guide for national and provincial departments	Applicable to schedule 3A & 3C public entities:	Criteria not applicable		

	FMPPI chapter 5	The NT's annual report guide for schedule 3A and 3C public entities FMPPI chapter 5	
16. Changes to objectives, performance indicators and performance targets are disclosed in the annual performance report	NT annual report guide for national and provincial departments Section 31(1) of the PSR	Applicable to 3A & 3C public entities: NT annual report guide for schedule 3A and 3C public entities	Criteria not applicable
Reliability: Recording, measuring, collating, preparing and presenting information on actual performance / target achievements that is valid, accurate and complete			
1. Reported performance occurred and pertains to the reporting entity	Section 40(3)(a) of the PFMA Chapter 5 of the FMPPI	Section 55(2)(a) of the PFMA chapter 5 of the FMPPI	Section 55 of the FMPPLA
2. Reported performance is recorded and reported accurately	Section 25(1)(e) of the PSR		
3. All actual performance is recorded and included in the reported performance information			Section 7 of the regulations for reporting by public higher education institutions

ANNEXURE E: AUDITOR GENERAL'S RESPONSIBILITY FOR THE AUDIT OF THE REPORTED PERFORMANCE INFORMATION

1. As part of our engagement conducted in accordance with ISAE 3000, we exercise professional judgement and maintain professional scepticism throughout our reasonable assurance engagement on reported performance information for selected programmes.
2. We are independent of the department in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are relevant to our audit in South Africa. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code.

QUALITY CONTROL RELATING TO ASSURANCE ENGAGEMENTS

3. In accordance with the International Standard on Quality Control 1, the Auditor-General of South Africa maintains a comprehensive system of quality control that includes documented policies and procedures on compliance with ethical requirements and professional standards.

REPORTED PERFORMANCE INFORMATION

4. In addition to our responsibility for the assurance engagement on reported performance information as described in the auditor's report, we also:
 - identify and assess risks of material misstatement of the reported performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. In making those risk assessments, we consider internal control relevant to the management and reporting of performance information per selected programme in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control
 - evaluate the documentation maintained by the department that supports the generation, collation, aggregation, monitoring and reporting of performance indicators/measures and their related targets for the selected Programmes
 - evaluate and test the usefulness of planned and reported performance information, including presentation in the annual performance report and its consistency with the approved performance planning documents of the department, and determine whether the indicators and related targets were measurable and relevant
 - evaluate and test the reliability of information on performance achievement to determine whether it is valid, accurate and complete.

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

5. We communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.




6. We also confirm to the accounting officer that we have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on our independence and, where applicable, related safeguards.

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ANNEXURE F: ASSESSMENT OF INTERNAL CONTROLS
















Below is our assessment of implementing the drivers of internal control based on significant deficiencies identified during our audit of the financial statements, the annual performance report and compliance with legislation. Significant deficiencies occur when internal controls do not exist, are not appropriately designed to address the risk, or are not implemented. These either had caused, or could cause, the financial statements or the annual performance report to be materially misstated, and material instances of non-compliance with legislation to occur.

The internal controls were assessed as follows:

	The required preventative or detective controls were in place.
	Progress was made on implementing preventative or detective controls, but improvement is still required, or actions taken were not or have not been sustainable.
	Internal controls were either not in place, were not properly designed, were not implemented or were not operating effectively. Intervention is required to design and/or implement appropriate controls.

The movement in the status of the drivers from the previous year-end to the current year-end is indicated collectively for each of the three audit dimensions under the three fundamentals of internal control. The movement is assessed as follows:

	Improved
	Unchanged
	Regressed

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
Leadership						
Overall movement from previous assessment						
• Provide effective leadership based on a culture of honesty, ethical business practices and good governance, and protecting and enhancing the best interests of the entity						
• Exercise oversight responsibility regarding financial and performance reporting and						

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
compliance as well as related internal controls						
• Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored	☹	😊	☹	☹	☹	😊
• Establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities	😊	😊	😊	😊	☹	😊
• Develop and monitor the implementation of action plans to address internal control deficiencies	😊	😊	☹	☹	😊	☹
• Establish and implement an information technology governance framework that supports and enables the business, delivers value and improves performance	☹	😊	☹	😊	☹	😊
Financial and performance management						
Overall movement from previous assessment	↑		↓		↓	
• Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting	😊	😊	☹	☹	😊	😊
• Implement controls over daily and monthly processing and reconciling transactions	😊	☹	☹	☹	😊	😊
• Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information	😊	☹	☹	☹	☹	😊
• Review and monitor compliance with applicable legislation	😊	😊	☹	☹	☹	☹
• Design and implement formal controls over information technology systems to ensure the reliability of the systems and the availability, accuracy and protection of information	☹	😊	☹	☹	N/A	N/A

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
Governance						
Overall movement from previous assessment	↔		↓		↓	
<ul style="list-style-type: none"> Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of information technology risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored 	😊	😊	😐	😊	😐	😊
<ul style="list-style-type: none"> Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively 	😊	😊	😊	😊	😐	😊
<ul style="list-style-type: none"> Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation 	😊	😊	😊	😊	😊	😊