



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

FINAL MANAGEMENT REPORT

DEPARTMENT OF PUBLIC WORKS

31 MARCH 2019

Communicated to the accounting officer: 15 July 2019





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MANAGEMENT REPORT

DEPARTMENT OF PUBLIC WORKS

31 MARCH 2019

Discussed with the accounting officer on: 22 July 2019

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MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE DEPARTMENT OF PUBLIC WORKS FOR THE YEAR ENDED 31 March 2019

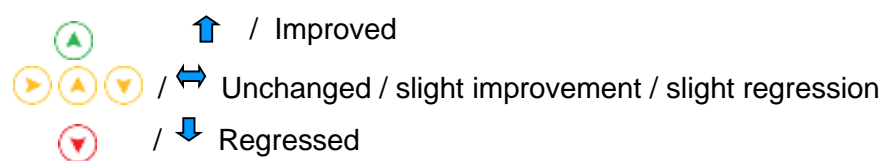
INTRODUCTION

1. The purpose of the management report is to communicate audit findings and other key audit observations to the accounting officer and the report does not constitute public information. This management report includes audit findings arising from the audit of the financial statements, performance information and compliance with legislation for the year 31 March 2019.
 2. 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.
 3. 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).
- 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.
 6. 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

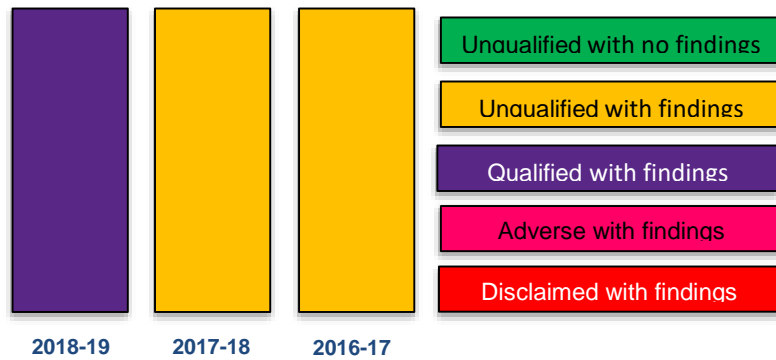
Movement from the previous year is depicted as follows:



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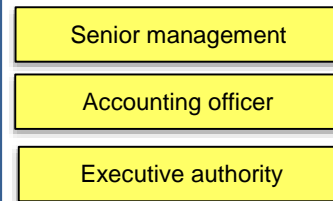


Stagnation in audit outcomes



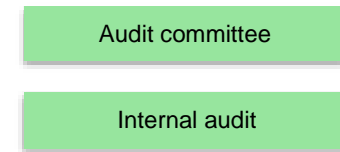
Assurance levels

First level of assurance



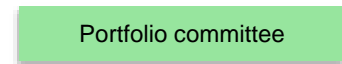
Provides assurance

Second level of assurance



Provides some assurance

Third level of assurance



Provides limited/no assurance

Vacant/not established

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

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

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

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

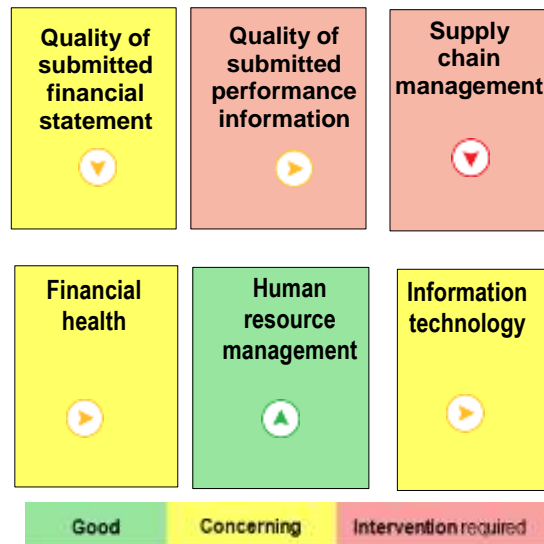
... attention is given to the **key controls**, and ...

Root causes should be addressed

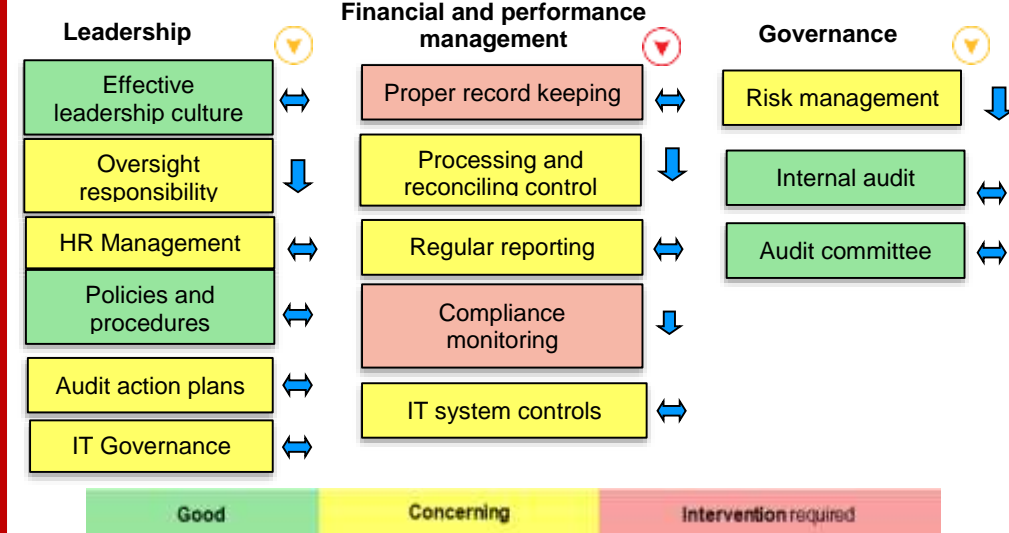
Slow response by management in implementing action plans

Instability or vacancies in key positions

Risk areas



Status of drivers of internal controls



OVERALL MESSAGE

7. The audit outcome of the department has regressed in the current period, with the department obtaining a qualified audit outcome, compared to unqualified with findings in other areas in 2017-18. Material findings have been noted with respect to all three audit areas, with material misstatement being identified with respect to disclosure of commitments in the annual financial statements being the key driver of the regression. In addition, material non-compliance with procurement prescripts was identified in the current year which resulted in the department incurring irregular expenditure. The quality of submitted performance information has also not improved as material findings previously reported recurred in the current period.
8. Material misstatements were identified in the disclosure note for commitments with certain awards made in the current year not included in the schedules supporting the AFS. In addition, instances were identified where commitments were duplicated on the commitments listing.
9. 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. The majority of negative findings were identified at the public bodies responsible for implementation, who are currently not required to report on achievements relating to EPWP, and thus do not allocate sufficient resources to ensure complete and valid reporting. The department must engage National Treasury to enhance the conditions of EPWP DoRA grants, and also engage the Department of Performance Monitoring and Evaluation in order to make the work opportunities created indicator customised for all public bodies.
10. A regression has been noted with respect to the audit of compliance with legislation, as non-compliance was identified with respect to contract management relating to 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 identified during the audit which was not included in the irregular expenditure register.
11. The assurance provided by the key role players at the department is adequate, however there still remains room for improvement, especially with respect to performance reporting and monitoring of compliance. In addition, focus should be placed on continuing to strengthen internal controls as well as financial and compliance management practices.

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 of Public Works:

Key stakeholder	Purpose of interaction	Number of interactions
Portfolio committee on Public Works	<ul style="list-style-type: none"> Budgetary review and recommendations report – 2017/18 Audit Outcomes and key messages 	2



Key stakeholder	Purpose of interaction	Number of interactions
	<ul style="list-style-type: none"> Presentation of Action Plans by the Department 	
Chairperson of the portfolio committee on Public Works	2017/18 Audit Outcomes and key messages	1
Minister of Public Works	<ul style="list-style-type: none"> Presentation on audit outcomes and key messages Letter was sent to the Minister notifying him of critical matters identified during 2017-18 audit which should be addressed to improved outcomes within Public Works Portfolio. Presentation on sector audit outcomes for Minister and MEC's Audit progress and material issues identified were communicated to the new Minister via a formal letter. 	4
Director-General	<ul style="list-style-type: none"> 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 key programme (EPWP) Use of the work of internal auditors Presentation of interim management report 	5
Audit committee	<ul style="list-style-type: none"> 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 	4

13. At these interactions, we shared the following matters:

- The status of key controls of the Department of Public Works (DPW) and its entities (PMTE, IDT, CBE, CIDB, ASA and ECSA) were discussed with the Portfolio Committee.
- Terms of the engagement for the current year 2018/19 audit cycle with specific emphasis on the roles and responsibilities of the auditor and management as well as those charged with governance.
- 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.
- Audit progress and findings were discussed on a continuous basis. The key issues discussed for DPW related to EPWP.
- Interim management report was presented
- Audit progress is communicated to the Director-General bi-weekly.

14. Management made commitments to implement initiatives that can 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. These material misstatements also constitute non-compliance with section 40(1) of the Public Finance Management Act (PFMA).

16. The misstatements that were not corrected form the basis for the qualified opinion on the financial statements.

Material misstatement			Impact	Impact
Financial statement item	Finding	Occurred in prior year (Insert Yes/No)	R current year	R prior year
Material misstatements not corrected				
Disclosure				
Irregular Expenditure	Non-compliance was identified with respect to contract management resulting in irregular expenditure. Prices charged on the invoice were different from prices quoted on the pricing schedule that was submitted by the supplier during the tender process. In addition, the invoice included items that were not initially quoted as per pricing schedule. Irregular expenditure identified was not included on the register. (COFF 7 & 18)	No	Understatement of 42 989 481	nil
Commitments	Tenders that were awarded prior to 31 March 2019 were not included in the commitment schedule (COFF 17)		Understatement of 40 948 287	nil
Material misstatements corrected				
Disclosure				



MATTERS TO BE BROUGHT TO THE ATTENTION OF USERS

Emphasis of matter paragraphs

17. The following emphasis of matter paragraphs will be included in our auditor's report to draw the users' attention to matters presented or disclosed in the financial statements:

impairments of receivables

18. As disclosed in note 12.5 to the financial statements, material impairments to the amount of R64 033 000 were provided for as a result of irrecoverable receivables.

Other matter paragraphs

19. 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

20. 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

21. 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

22. 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 2019:

Programmes	Pages in annual performance report	Opinion	Mov.
Programme 3: Expanded Public Works Programme	x – x	Qualified	▶
Programme 4: Property and Construction Industry Policy and Research	x – x	Unqualified	▶
Programme 5: Prestige Policy	x – x	Qualified	▲

23. 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*.

24. 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

25. 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 set out in annexure D to this report.

Basis for Qualified opinion

Various indicators

26. The reported achievement in the annual performance report did not agree to the supporting evidence provided for the indicators listed below. The supporting evidence provided that the achievements of these indicators were as follows:

Indicator description	Actual performance per APR	Audited Value
Number of work opportunities reported in the EPWP-RS by public bodies	997 286 WO reported in the EPWP-RS by public bodies. (Cumulative)	1 204 089
Percentage EPWP participation amongst designated groups (Women, youth and persons with disability) reported on the EPWP-RS by public bodies	68% Women 43% Youth 1% People with disability	61% Women 38% Youth 0.79% People with disability
Number of public bodies provided with technical support	322 public bodies provided with technical support	319 public bodies provided with technical support

Programme 4 – Property and Construction Industry Policy and Research

Unqualified opinion

27. In our opinion, the reported performance information for Programme 4 – Property and Construction Industry Policy and Research is useful and reliable, in accordance with the applicable criteria as developed from the performance management and reporting framework set out in annexure D to this report.

Programme 5 – Prestige Policy

Qualified opinion

28. 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 5 – Prestige Policy is useful and reliable in accordance with the applicable criteria as developed from the performance management and reporting framework set out in annexure D to this report.

Basis for Qualified opinion

Percentage of movable request provided within 60 days after approval by prestige clients

29. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of target percentage of movable request provided within 60 days after approval by prestige clients. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of *79% of movable request provided within 60 days after approval by prestige clients* as reported in the annual performance report.

Other matter

30. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Achievement of planned targets

31. 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(s) [x; x; x] of this report.

Adjustment of material misstatements

32. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of programme 3: expanded public works programme, programme 4: Property and construction industry policy and research and programme 5: prestige policy. As management subsequently corrected only some of the misstatements, we raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are included in the basis for qualified opinion paragraph.

Responsibilities of the party responsible for the annual performance report

33. 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

34. 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 opinions. 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.
35. Our procedures address 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 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.
36. 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

37. 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.

Annual financial statements, performance and annual report

38. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework in certain instances, as required by section 40(1) (a) of the Public Finance Management Act.
39. Material misstatements of disclosure items identified by the auditors in the submitted financial statement were not corrected, resulting in the financial statements receiving a qualified opinion.

Expenditure management

40. 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. Irregular expenditure amounting to R42 989 481 was incurred on state events.

41. Payments were not made within 30 days or an agreed period after receipt of an invoice in certain instances, as required by treasury regulation 8.2.3.

Contract management

42. Some of the contracts were extended or modified without the approval of a properly delegated official as required by section 44 of the PFMA and treasury regulations 8.1 and 8.2.

OTHER INFORMATION

43. 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.
44. 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.
45. 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 in the audit, or otherwise appears to be materially misstated.
46. The following paragraphs will be included in the auditor's report to highlight to the users whether any inconsistencies in the other information exist:
47. 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

48. 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



49. The department was impacted by the vacancies in some senior management positions for the majority of the financial year. It was noted that the critical positions of Chief Financial Officer and Chief Audit Executive have now been filled which will assist the department's ability to establish an effective leadership culture going forward.
50. 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 auditor, or not submit 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

51. The governance, risk and compliance unit (GRC) plays a key role in oversight for the department, as their functions include risk management as well investigations. The department acknowledged that there were internal constraints within the GRC, which may have been a factor in the regression of the department with respect to compliance matters.
52. Compliance matters, particularly with regards to supply chain management, have received attention from the department which has assisted in reducing the number of instances of non-compliance identified in the past three years. It was however noted with concern that measures and methods applied in monitoring 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.
53. There should be an increased level of oversight in the upcoming year over performance reporting against predetermined objectives. This includes the interrogation of reasons why particular targets are not being achieved and controls to validate the information that is being collated and reported on a quarterly basis to ensure that the department report on performance against predetermined objectives that are reliable and useful.

Human resource management

54. Progress was noted with the overall vacancy rate decreasing from 28% as at 01 April 2018 to 7% as at 31 March 2019. Key positions such as Chief Financial Officer and Chief Audit Executive were filled as at 31 March 2019.

Policies and procedures

55. Management should ensure that policies and procedures are reviewed and updated on regular basis to keep policies relevant. For enhancement on EPWP the department should change its control approach to consist of public body visits to improve the adherence of public bodies pertaining to EPWP guidelines in terms of reporting.
56. The department should ensure that the existing policies are implemented and the implementation is regularly monitored. Non-implementation of the existing policies with respect to contract management was the root cause of irregular expenditure being incurred by the department on state events. In addition, it was noted that there is a policy in place to

ensure complete disclosure of commitments, however this was not consistently applied which resulted in the material misstatements identified in that regard.

Action plans to address internal control deficiencies

57. Implementation of the audit actions plan has not transpired in all instances. It is a concern that not all the internal and external audit findings from the prior year 2017/18 financial period were addressed and we also noted that management did not monitor adherence to the plan in a timely manner. This is especially evident in performance information where action plans have not been implemented.

58. Management should also review audit action plans currently in place to confirm their effectiveness, especially with regards to EPWP, as the action plans which have been implemented by management such as increased visibility to public bodies did not achieve the desired results, as the findings have recurred. This indicates that the current action plan is not addressing the root cause of the issues identified.

Information technology governance framework

59. Information technology governance was inadequately designed and implemented with the following internal control deficiencies to be considered by management:

- The implementation of the cost containment measures and budget cuts on the compensation budget contributed to the delayed and non-filling of critical vacant position within the information Technology division.

Financial and performance management

Proper record keeping

60. The department did not have a proper filing system and a proper record management system to maintain information that supported the reported performance in the annual performance report. This included information that related to the collection, collation, verification, storing and reporting of actual performance information.

61. We were also unable to obtain sufficient supporting documentation to substantiate the creation of work opportunities reported for a significant number of projects included Programme 3: Expanded Public Works Programme. This includes reliable supporting evidence, such as identity documents, attendance registers and proof of payment.

62. This resulted in the negative audit outcome for Programme 3.

Daily and monthly processing and reconciling of transactions

63. Challenges were still being experienced regarding the integrity of the data from EPWP reporting system as we have noted during the audit that the information on the EPWP reporting system was not adequately validated due to the errors noted.

64. Material misstatements were identified with respect to commitments disclosed on the annual financial statements submitted for audit, which was due inadequate controls over manual registers used to track commitments.
65. Processes were put in place to ensure that state events expenditure rates as per approved quotation agreed to the amount invoiced. These processes were not adequately implemented throughout the year, which resulted in non-compliance and irregular expenditure.

Regular, accurate and complete financial and performance reports

66. The reported achievements for predetermined objectives included in the annual performance report were not supported by appropriate audit evidence. For Programme 3 EPWP, attendance registers, identity documents and proof of payment were not submitted for audit purpose this resulted to the qualification of the programme. The reported achievement in the annual performance report for Programme 5 Prestige Policy did not agree to the supporting evidence provided.

Compliance monitoring

67. Some instances of non-compliance have been identified in the current audit cycle, resulting in irregular expenditure. Management should monitor contracts on a regular basis and ensure that measures and methods applied in monitoring these contracts are sufficient and effective.

Information technology systems

68. IT controls pertaining to security management, service continuity, user access management and change control were not effectively designed and implemented due to the following key internal control deficiencies:
- Lack of consequence management for not resolving prior audit findings as security controls such as antivirus and patch management were not implemented adequately across the IT environment.
 - Inadequate user access controls such as segregation of duties and access rights reviews were due to lack of oversight by management to ensure proper and sound user access controls were implemented on EPWP system.
 - Inadequate controls on SQL configurations Internal network and external vulnerability were due to lack of approved operating system configuration standard and security hardening standards
 - Inadequate firewall management is attributed to lack of an approved firewall security management policy and security configuration standard for managing the firewall environment.

Governance

Governance, risk and compliance unit



69. The unit is not sufficiently capacitated to handle investigations relating to both DPW and PMTE in its current structure. In addition, certain key positions (Such as head of risk management and chief investigator etc.) within GRC were vacant throughout the period which also impacted the unit's ability to adequately perform its risk management role.
70. We have noted that the majority of investigations are initiated within the required time, however investigations take extremely long to finalise depending on their complexities.
71. Some investigations are referred to Special Investigations Unit or to SAPS where criminal activities are suspected. Where follow up actions are required from the department as a result of findings from investigations (e.g. disciplinary hearings, etc.), these are not taking place on time in some instances.

Internal audit

72. While it was noted that internal audit performed a number of audits throughout the financial period, it was noted with concern that a lot of findings raised related to limitation of scope. In other instances, management responses to the issues raised were not adequate to resolve the matter. The internal audit unit will not be having the desired impact on control until their findings are prioritised by management.
73. Reliance was placed on the audit procedures performed by internal audit unit on the quarterly reporting submitted for audit (Quarter one) for Programme 4 (Property and construction industry policy and research) and Programme 5 (Prestige policy). Furthermore, in the current audit cycle, the internal audit unit provided direct assistance to external audit with respect to some site visits during the audit of Programme 3 (EPWP).

Audit committee

74. The audit committee functions throughout the year and meets on a regular basis. The committee scrutinizes the annual financial statements and annual report and provide management with meaningful inputs and recommendations. The audit committee reviews and approves the internal audit plan and internal audit reports.
75. During these oversight interactions with management, the committee made recommendations and obtained commitments to ensure improvement in audit outcomes. As noted above, the action plans were either not implemented in some instance, or not adequately effective which resulted in the regression in audit outcome.

Summary

76. 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:

Leadership

77. Inadequate monitoring of action plans to address prior year findings resulting in similar findings on Programme 3: Expanded Public Works Programme in the current year.



78. The department was impacted by the vacancies in some senior management positions for the majority of the financial year.

Financial and Performance Management

79. Regular, accurate and complete performance reports were not always supported and evidenced by reliable information. The reported achievements for predetermined objectives included in the annual performance report were not supported by appropriate audit evidence. For Programme 3 EPWP, attendance registers, identity documents and proof of payment were not submitted for audit purpose this resulted to the qualification of the programme. The reported achievement in the annual performance report for Programme 5 Prestige Policy did not agree to the supporting evidence provided.
80. Inadequate monitoring of contracts resulted in the department paying more for the service than required as per the contract. This resulted in irregular expenditure being incurred.

OTHER REPORTS

81. 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 our opinion on the financial statements or our 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

82. Numerous allegations, mainly relating to transgressions with regard to supply chain management, potential fraud and financial misconduct, are still being investigated on an ongoing basis by the Special Investigating Unit and the Governance, Risk and Compliance unit of the department.

SECTION 3: Assurance providers and status of implementation of commitments and recommendations

ASSESSMENT OF ASSURANCE PROVIDERS

83. 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.

84. 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.

85. 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 some assurance

- Senior management 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.
- Senior management should enhance the review process of annual financial statements before submitted for audit purposes to ensure that no material misstatements are identified.

Accounting officer: provides some assurance

- The accounting officer has put initiatives in place to provide assurance. Focus should be placed on ensuring that these initiatives are monitored regularly and management is held accountable where weaknesses are identified. Some of the interventions did not take place timeously, which contributed to the recurrence of the negative audit outcomes on performance information.

Executive authority: provides some assurance

- The Expanded Public Works Programme is a key focus area for the department and government as a whole. The interventions put in place did not have the desired impact in the current financial period

Internal audit: provides assurance

- The internal audit unit of the department prepared a risk-based audit plan and internal audit programme for the financial year. The unit reports 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 is responsible for normal internal audits in terms of their internal audit charter.



- 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, due to the fact that 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

86. 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	Commitment	Made by	Date	Status
1	<p>The reported achievement in the annual performance report did not agree to the supporting evidence provided for the EPWP indicators.</p> <p>1. Introduce, in addition to site visits, visits to a sample of public bodies with the format of an audit focusing on compliance issues identified by both Internal Audit and AGSA. Strict adherence to sample of public bodies, which is informed by an early-warning criteria for non-compliance.</p> <p>2. Accounting Officers are immediately notified of findings of the public body visits pertaining to grant-funded projects.</p> <p>3. Administration of an intervention register to ensure the resolution of all compliance issues identified in the public body visits and site visits through the allocation of responsibility (to Sector Managers or Programme Managers) and timelines.</p> <p>4. Non-resolution of compliance issues (including reporting) within a reasonable timeframe translates into the notification of Accounting Officers and the withholding of further conditional grant tranches.</p>	S. Henderson (DDG:EPWP)	30-Nov-18	The action plans put in place were not adequate as similar findings have already been identified and communicated to management.
2	<p>The auditor was unable to obtain sufficient appropriate audit evidence for all the reported achievements under Prestige policy.</p> <p>Record keeping process, management and collation of performance information has been</p>	P.F. Chiapasco (Acting DDG - Programme Management Office)	30-Nov-18	<p>Similar findings were identified in the current period.</p> <p>Not addressed</p>

No	Commitment	Made by	Date	Status
	streamlined to ensure only valid, accurate and complete information is submitted.			
3	Travel and Subsistence Expense: Debt not raised within the required time frame. 1. Send a memo to originating units (i.e. Finance, Corporate Services and Supply Chain Management) for confirmation any new debtors to be raised. 2. Include the timeframe (30days) for referring debts by the originating office to Financial Accounting in the revised Debt, Claims recoverable and revenue management policy. (31 December 2018).	A. Mazibuko (Acting CFO)	30-Nov-18	A debt was raised by the department. Resolved
4	Legal Services: Non-compliance with SCM Processes. - Management must ensure services procured by the legal directorate are in accordance with applicable laws and regulations.	R. Naidoo (CD:SCM)	30-Nov-18	Engagements are taking place between the AGSA technical unit and the Office of the Accountant-General. In progress
5	The overall vacancy rate has increased from the previous year to the current year for the department. - Identify priority positions for filling within the allocated compensation of employees and in line with Ministerial priorities. Present priority positions at EXCO for endorsement before approval by the Director-General. Facilitate approval of priority positions by the Director-General.	C. Mtshisa (DDG - Corporate Services)	30-Nov-18	In progress Priority positions were presented to EXCO. Chief Financial Officer and Chief Audit Executive positions were filled as at 31 March 2019.
6	Posts vacant for over 12 months. - Identify unfunded vacant positions for abolishing. Actual abolishment of unfunded positions from the post establishment. - Facilitate EXCO approval to automatically advertise and fill positions that becomes vacant during the financial year.	C. Mtshisa (DDG - Corporate Services)	30-Nov-18	In progress

- 6 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.
- 5 recommendations are still being implemented and 1 have not been addressed, or very limited progress has been made.

- Details on the status of implementing the previous year's recommendations are provided in section 10, which summarises the detailed audit findings.

SECTION 4: Specific focus areas

FINANCIAL VIABILITY

87. Our audit included a high-level overview of the [type of auditee]'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 2019	AS AT 31 MARCH 2018
EXPENDITURE MANAGEMENT			
1.1	Creditor-payment period	24 Days	46 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 10 161 000	R 27 255 000
REVENUE MANAGEMENT			
2.1	Debtor-collection period (after impairment)	365 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 12 128 000	R 1 836 000
ASSET AND LIABILITY MANAGEMENT			
3.1	An accrual-adjusted deficit for the year was realised (total expenditure exceeded total revenue)	Yes	No
	• Amount of accrual-adjusted surplus / (deficit) for the year	R (104 049 000)	R 25 096 000
3.2	An accrual-adjusted net current liability position was realised (total current liabilities exceeded total current assets)	Yes	Yes
	• Amount of accrual-adjusted net current assets / (liability) position	R (348 850 000)	R(361 865 000)
3.3	An accrual-adjusted net liability position was realised (total liabilities exceeded total assets)	No	No
	• Amount of accrual-adjusted net asset / (liability) position	R138 365 000	R133 405 000
CASH MANAGEMENT			
4.1	The year-end bank balance was in overdraft	Yes	Yes
	• Amount of year-end bank balance (cash and cash equivalents) / (bank overdraft)	R (266 533 000)	R (277 932 000)
4.2	Cash shortfall as a percentage of next year's appropriation (budget), excluding "compensation of employees" and "transfers and subsidies" **	45.5%	69.3%
	• Amount of the cash surplus / (shortfall)	R (224 957 000) R 493 941 000	R (263 085 000) R 379 747 000

FINANCIAL VIABILITY ASSESSMENT			
		AS AT 31 MARCH 2019	AS AT 31 MARCH 2018
	<ul style="list-style-type: none"> Amount of next year's appropriation (budget), excluding "compensation of employees" and "transfers and subsidies" 		
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"	40.3%	56.1%
	<ul style="list-style-type: none"> Amounts payable in future periods Amount of the next three years' appropriation (budget), excluding "compensation of employees" and "transfers and subsidies" 	R198 991 000 R 493 941 000	R212 906 000 R 379 747 000
4.4	Guarantees issued by the department as a percentage of next year's budget, excluding "compensation of employees" and "transfers and subsidies"	1.2%	4.4%
	<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" 	R5 766 000 R 493 941 000	R16 805 000 R 379 747 000
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 Amount of next year's appropriation (budget), excluding "compensation of employees" and "transfers and subsidies" 	R0 R1 036 000	R0 R638 000
OVERALL ASSESSMENT			
Overall the financial viability is assessed as:		Yellow (Concerning)	Yellow (Concerning)
<p>* This indicator assumes that the unauthorised expenditure of R261 169 000, per note 9 will not be approved with funding.</p>			

High-level comments

88. The department is able to undertake its objectives and the vote has not been depleted or exceeded and there is no significant unpaid expenditure.

89. 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.

90. 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.

91. The major underspending was on venues and facilities, agency and support (Outsourced services), property payments and travel and subsistence. This is a positive indicator and could be as a result of effective cost containment measures.

PROCUREMENT AND CONTRACT MANAGEMENT

92. 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

93. R30 191 650.12 (100%) of irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation. 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 of the lack of effective prevention and detection are inadequate review and monitoring of compliance with SCM processes and requirements

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

94. 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 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.

95. 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 to persons in the service of other state institutions	1 (R1 218 796,19)	1 (Head: operationalisation & financial sustainability)	1	Yes	Yes	Yes	N/A

Employees doing business with the state

96. Regulation 13(c) of the Public Service Regulations of 2016 prohibits employees of departments from doing business with the state from 1 August 2016. The transitional provisions of the regulations require that the following actions must be taken by 1 February 2017 in relation to those contracts that were awarded before 1 August 2016:

An employee shall:

- cease conducting business with the organ of the state;
- resign as an employee; or
- resign as a director of a company that conducts business with an organ of state or resign as an employee.

97. Furthermore, section 30(1) of the Public Service Act of 1994 states, “No employee shall perform or engage himself or herself to perform remunerative work outside his or her employment in the relevant department, except with the written permission of the executive authority of the department.”

98. The table below provides a summary of findings on employees doing business with the state. These findings amount to contravention of the Public Service Code of Conduct, which must be investigated and action taken in accordance with the provisions of the Public Service Act.

Procurement processes

99. 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	52	72 655 695	38	53 93 999	14	67 261 696
Expenditure incurred on selected awards – current year		18 315 754		5 057 194		13 258 560
Limitations – awards selected but could not be tested	0	0	0	0	0	0
Awards on which non-compliance was identified	0	0	0	0	0	0
Irregular expenditure identified	0	0	0	0	0	0
Instances of irregular expenditure where goods/ services were not received	0	0	0	0	0	0

Contract management

- One instance of contract was amended or extended without approval by a delegated official. The total value of the amendment was R30 191 650,12.

Internal control deficiencies

100. In The accounting officer did not in some instances exercise oversight responsibility of reporting and compliance with laws and regulations and internal control.
101. Reviewing and monitoring of compliance with applicable laws and regulations was insufficient and not properly monitored in some instances.

FRAUD AND CONSEQUENCE MANAGEMENT

102. 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.
103. 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 who may take the opportunity to misuse their authority.
 - EPWP projects where public bodies pay beneficiaries cash instead of using banking details.
104. 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.

Measures to manage consequences

105. 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

106. A total of 3 investigations were ongoing at year-end into allegations relating to [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:

Total number of ongoing investigations as at year-end	3
• Number of SCM-related investigations	3
• Number of fraud-related investigations	0
Number of investigations exceeding a period of six months	3

VALUE ADD MATTERS

Management and delivery of Expanded Public Works Programme (EPWP)

107. The audit included obtaining an understanding of the expanded public works programme in the estimates of national expenditure (ENE). We report on the management and delivery of this key programme to demonstrate the importance of transparency and accountability for government spending. Plans and budgets as included in the ENE should translate into service delivery through good financial, performance and project management, supported by the fair and transparent procurement of goods and services. The department should account for how the money was spent in a credible and transparent manner and the successes and failures of the funded programme.

108. We audited the expanded public works programme in an integrated manner by covering all three disciplines of the audit, namely financial statements, performance reporting and compliance with key legislation. This included a deepened understanding of the overall objectives/ priorities of the expanded public works programme, the funding that enabled delivery of the programme and the achievement of planned performance targets related to the programme.

109. This provided a unique and more comprehensive view of the management and delivery of the programme. This report provides a summary of our audit findings in relation to the following matters tested:

- The budget and purpose of the programme and how much of the programme budget had been spent
- The purpose and intended recipients of the grant, transfer, utilisation and accounting of the grants by provincial departments and municipalities in accordance with the grant framework that defines the purpose of the grant.
- Whether the key performance indicators were achieved and whether the reported achievements are reliable
- Any performance planning and reporting concerns we identified and any accounting problems on the programme
- Whether the grant was utilised to achieve the intended purpose of the programme, whether planned performance targets were achieved, any non-compliance with SCM prescripts.
- Any other findings identified related to the programme.

Purpose and objectives of the programme

110. Department of Public Works coordinate the implementation of the expanded public works programme, which aim to create work opportunities and provide training for unskilled, marginalised and unemployed people in South Africa.

Spending of the programme budget

111. The programme is funded by the following DoRA grants which were audited on a national level for the transfer and monitoring of the grant and the utilisation of the grant and actual spending on a provincial and municipal level, as indicated

- Expanded Public Works Programme Integrated Grant for Municipalities
- Expanded Public Works Programme Integrated Grant for Provinces
- Social Sector Expanded Public Works Programme Incentive Grant for Provinces

112. The table below summarises the compliance findings identified relating to the listed conditional grants.

Findings	Expanded Public Works Programme Integrated Grant for Municipalities	Expanded Public Works Programme Integrated Grant for Provinces	Social Sector Expanded Public Works Programme Incentive Grant for Provinces
Available budget for the year	692 878 000	416 036 000	407 948 000
Actual amount spent in the current year	692 878 000	416 036 000	407 948 000
Significant underspending of the grant	Finding = No	Finding = No	Finding = No
Recipients that underspent on their allocation of the grant	Finding = No	Finding = No	Finding = No
	Transferring / monitoring of the grant by the department		
The non-financial information of the projects and functions (programmes) funded by the grant was not monitored according to the grant framework	Finding = No	Finding = No	Finding = No
The performance of projects and functions (programmes) funded by the grant was not evaluated	Finding = No	Finding = No	Finding = No
	Utilisation of the grant		
Recipients that utilised the grant	Municipalities	Provincial departments	Provincial departments
Grant not spent according to the applicable grant framework	(Finding = Yes; No finding = No; N/A)	(Finding = Yes; No finding = No; N/A)	(Finding = Yes; No finding = No; N/A)

Findings	Expanded Public Works Programme Integrated Grant for Municipalities	Expanded Public Works Programme Integrated Grant for Provinces	Social Sector Expanded Public Works Programme Incentive Grant for Provinces
The performance of key projects or functions funded by the grant was not evaluated	(Finding = Yes; No finding = No; N/A)	(Finding = Yes; No finding = No; N/A)	(Finding = Yes; No finding = No; N/A)
Transfers of DoRA grants to other entities not made in line with section 17(2) of DoRA	(Finding = Yes; No finding = No; N/A)	(Finding = Yes; No finding = No; N/A)	(Finding = Yes; No finding = No; N/A)

Performance of the programme

113. Delivery of the programme overall is further planned and monitored against planned key performance indicators (KPI) and targets approved for the year under review. The table below summarises whether the key performance indicators were planned, measurable, relevant and achieved and whether the reported achievements were reliable.

Planned KPI and targets for 2018-19	Achievement reported	KPI and target measurable and relevant	Achievement is reliable	Department's reasons for not achieving
Indicator: Number of work opportunities reported in the EPWP-RS by public bodies Targets: 1 455 840 work opportunities reported in the EPWP-RS by public bodies	997 286 Work opportunities reported in the EPWP-RS by public bodies.	Finding = No	Finding = Yes	1. Delays by reporting bodies in capturing the data on the EPWP Reporting System (EPWP-RS) before the quarter ends. 2. Poor record-keeping by public bodies, leading to an inability to comply with reporting requirements. 3. Non-reporting and under-reporting of work opportunities created through own funding by public bodies. Public bodies only report work opportunities funded.
Indicator: Percentage EPWP participation among designated groups (Women, youth and persons with disabilities) reported on the EPWP-RS by public bodies Targets: 55% youth 55% women 2% persons with disabilities	43% Youth 68% Women 1% Persons with disabilities	Finding = No	Finding = Yes	1. Delays by reporting bodies in capturing the data on the EPWP Reporting System (EPWP-RS) before the quarter ends. 2. Poor record-keeping by public bodies, leading to an inability to comply with reporting requirements. 3. Non-reporting and under-reporting of work opportunities created through own funding by public bodies. Public bodies only report work opportunities funded

CAATs exceptions



114. The following are the exceptions noted and brought to the attention of management as risk areas for follow up:

Test	Number of exceptions in the current year	Number of exceptions in the prior year
Beneficiaries wages less than R88,00 per day	62 730	33 366
Beneficiaries with the Persal number	379	282
Beneficiaries older than 65 years old	6 732	9 788
Beneficiaries worked more days than allowed	13 460	23 088
Beneficiaries worked more than 29 projects	27 (1167 work opportunities)	N/a

115. **Minimum wage** – We identified 62 730 beneficiaries who were paid a wage below the minimum wage of R88 per day in the current year (2017/18: 33 366). This represents non-compliance with the new ministerial determination issued by the Department of Labour and also the department might not comply with minimum wage regulation which is due to the implemented in the next financial year.

116. **Employees on PERSAL** – We identified 379 beneficiaries who are included on PERSAL system as being permanent employees in the current year (2017/18: 282). We are highlighting this matter for the department to ensure that the beneficiaries paid are not permanent employees of any public bodies.

117. **Beneficiaries over the age 65** – We identified 6 732 beneficiaries who are persons of pensionable age in the current year (2017/18: 9 788), providing them with jobs does not count towards reducing the rate of unemployment in the country or alleviation of poverty as those beneficiaries are already receiving grants, denying such an opportunity to the unemployed people who are not receiving any form of a grant.

118. **Beneficiaries working more days than allowed** – We identified 13 460 beneficiaries who worked more than expected days in the current year (2017/18: 23 088). We are highlighting this matter for the department to investigate as some of the beneficiaries worked more than 260 days, which is more than expected working days.

119. **Beneficiaries worked more than 29 projects** – We identified 27 beneficiaries who worked more than 29 projects in the current year.

Public Works sector matters related to EPWP

120. The table below indicates how many Provincial Department of Public Works & Roads included the new indicator on the 2018/19 APP, opinion of the indicator and if material misstatements were identified.



Province	New indicator included in APP for 2018/19 as per ministerial request	Opinion on EPWP Indicator per province	Material findings identified by National auditors where new indicator not included
Gauteng	No	In progress	Yes
Mpumalanga	Yes	In progress	Not applicable
Eastern Cape	Yes	In progress	Not applicable
Northern Cape	Yes	In progress	Not applicable
Western Cape	No	In progress	Yes
Limpopo	Yes	In progress	Not applicable
Free state	No	In progress	Yes
North West	Yes	In progress	Not applicable
KwaZulu Natal	Yes	In progress	Not applicable

121. In the course of our audit work performed, certain key matters have come to our attention. As part of our procedures we reviewed the Annual Performance Plans (APP) for all departments within the Public Works sector and noted the following:

- Only six provincial departments in the Public Works sector included the performance indicator “Number of work opportunities reported in the EPWP-RS by public bodies aligned to the approved EPWP Phase III Business Plan targets” as per ministerial request for the 2018/19 financial year.
- The customised indicator document published by the Department of Planning Monitoring and Evaluation was not updated to include the new indicator for the 2018/19 financial years.

122. Based on audit of the EPWP projects across the country in the current year, similar issues to those previously years identified were noted to have recurred in the current period, including the following repeat findings:

- There is inadequate records management and retention by implementing bodies.
- Based on the audit of EPWP projects across the country, we were unable to obtain sufficient supporting documentation (Identity documents, proof of payment, attendance registers and proof of disability) to substantiate the creation of work opportunities reported on the EPWP RS for a large number of projects in our sample. Additionally, in several instances where we eventually obtained information, this was not immediately retrievable and had to be submitted to the audit team subsequent to a finding having been raised.
- One instance was noted where beneficiaries were paid using cash instead of bank accounts, we could not confirm whether and possible fraud existed as each person signed for multiple beneficiaries.
- The department remedial actions in place for public bodies not reporting work opportunities created for the period or non-compliance by the public bodies does not achieve desired results as we noted persistent non-compliance by public bodies.
- The problems identified above were noted to have occurred in the majority of the provinces visited.

123. It is recommended that the department implements the audit action plans as communicated in the various management responses to ensure that sufficient and appropriate

documentation (Identity documents, proof of payment, attendance registers and proof of disability) is available at implementing public bodies before the next audit commences.

The following recommendations should be considered:

- The department must engage National Treasury to enhance the conditions of EPWP DoRA grants conditions.
- The department should enhance the procedures performed during site visits to the public bodies to ensure that this intervention has the required impact on weaknesses identified by implementing a follow up register and escalating unresolved matters to the public bodies accounting officer / executive authority.
- Management needs to implement recommendations by internal audit to ensure that information is reported in the quarterly reports and carried through to the annual report to ensure reliability of information.
- Instituting procedures where minimum documentation, e.g. attendance registers and payment registers, must be verified prior to the pay-out of the final tranche. The implementing bodies must also be compelled to retain these documents for a minimum period after completion of the project.
- The department should ensure that new EPWP indicator “*Number of work opportunities reported in the EPWP-RS by public bodies aligned to the approved EPWP Phase III Business Plan targets*” is published on the customised sector document to ensure compliance by all provincial department.

Other value adding initiatives 2018-19 Value-add audit on the EPWP

Introduction

124. Expanded Public Works Programme (EPWP) is a flagship programme for the Department of Public Works. The EPWP programme was introduced in 2004 as one of the measures to reduce the negative impacts of high and persistent levels of unemployment and alleviate poverty. The aim of the programme was to provide the unemployed with short to medium term work opportunities. Training of EPWP beneficiaries was indicated in the Department of Public Work's strategic plan (2015-2020) as a critical component of EPWP.

125. The Code of Good Practice for employment and conditions of work for EPWP states that “Recognizing the acquisition of skills either through accredited or experiential training forms an integral part of the EPWP”. The EPWP is in its third phase which was to be implemented over the five-year period from the 2014/15 to 2018/19 financial years, with the aim of creating 6 million work opportunities and 2.5 million full time equivalent (FTE) by the end of the period.”

126. The National Youth Service (NYS) Programme was launched in April 2007 following the 2006 State of the Nation Address which called on the need to increase the participation of the youth in service delivery programme. The NYS Programme focuses on capital works and maintenance projects and forms part of the EPWP, a government programme aimed at alleviating poverty and unemployment among the poor in the country. The Programme is implemented by the National Department of Public Works and provincial departments of public works. The broad objectives of the Programme as indicated in the Guidelines for the

Implementation of the National Youth Programme under EPWP (guidelines) are the following:

- Develop skills, knowledge and abilities of young people to enable them to make meaningful transition to adulthood; and
- Improve employability through opportunities for skills development, work experience and support to gain access to economic and further learning opportunities.

Audit Approach

127. The value-add audit focused on the EPWP infrastructure sector namely National Youth Service (NYS) Programme. The two projects selected and visited are Pretoria Regional Office (Baviaanspoort Prison project) and Mthatha Regional Office (Mthatha Prison project).

25. The audit mainly focused on the following:

- Assess whether training was planned effectively
- Determine whether the procurement of service providers for classroom training was done according to stipulated requirements
- Determine whether the implementation of training was done according to the processes outlined in the NYS manual
- Determine whether the management of beneficiaries/participants post training was done effectively and efficiently and
- Assess the effectiveness of monitoring and reporting of training conducted.

What We Found

128. The briefing and induction conducted at the start of training was not adequate in ensuring that participants clearly understood the process followed regarding training for projects audited in Pretoria and Mthatha regional offices. The concerns raised by NYS participants and discussed during meetings relates to participants misunderstanding of the process.

129. The provisions of section 38 (a) (iii) of PFMA was not complied with in the Pretoria Regional Office for the Baviaanspoort Prison project, the contractor appointed a service provider for classroom training for an amount of R646 249,98 without following a transparent, competitive and cost-effective procurement process.

130. The implementation of training was not done in accordance to the processes outlined in the NYS manuals as the employer didn't provide an opportunity for the technical training and life skills and to discuss progress with the participant in terms of a schedule provided at the inception of the training. No agreements were reached by the employer with the contractor to ensure that support provided is adequate and appropriate in the work environment to achieve relevant outcomes of the Youth Service/EPWP Programme.

131. It was found that participants were not supplied with logbooks and there was no evidence that these logbooks were monitored by the regional offices during the term of training. In both regional offices, logbooks could not be provided when requested for audit.

132. The monitoring reports provided by the two Regional Offices are minutes of meetings where training was discussed, but the issues discussed in these meetings related to cases of discipline and not progress and quality of training. There was nothing in the form of a

monitoring report provided by the regional offices to disprove the allegations made by the participant, as such reports did not exist. Similarly, the situation was the same with the Pretoria Regional Office.

Recommendations

It is recommended that the department implement the following:

- Challenges experienced by various regional offices during training should be consolidated, with a view to developing an adequate communication strategy during recruitment and briefing sessions.
- Awareness should be created to the contractors for ensuring that they comply with the principle of transparency, competitiveness, and cost-effectiveness when procuring service providers for classroom training.
- The Standard Operating Procedures should be developed to ensure that there is a clear understanding of the process followed when implementing infrastructure training and also to ensure consistency in the management of infrastructure training.
- The Exit Strategy should provide a clear pathway for the benefit of participants and the EPWP should also consider involving relevant stakeholders from the planning stage of the training process for effective absorption of participants after training.
- The Department of Public Works should consider setting aside funding to support the implementation of the Exit Strategy to ensure its effectiveness. This should also include ensuring that an appropriate structure is created to ensure that the necessary support is provided to the participants.

SECTION 5. Using the work of internal audit

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

- For risk identification the following internal audit reports were considered:
 - Follow up audits DPW and PMTE
 - Q1 AoPO report
 - Review of APP for 2019/20 report

134. The internal audit function was used for direct assistance on the EPWP audit for visiting various public bodies.

SECTION 6: Emerging risks

Accounting, performance management/reporting and compliance matters

New pronouncements

Modified cash standard

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.

Inventory



- Departments are encouraged to develop their inventory management systems as the inventory disclosure note will become a requirement in future. The effective date to disclose inventory is still to be determined by the accountant-general.

New legislation

Treasury Regulations

- The treasury regulations are currently being revised, which may introduce a number of new requirements once effective.
- The new Irregular Expenditure Framework became effective from 1 December 2018. Management must ensure that irregular expenditure is dealt with in terms of this new framework including reporting templates. Management must deal with previous cases of irregular expenditure that were not condoned by 1 December 2018 in terms of this new framework

Subsequent events

- President Ramaphosa appointed Ms Patricia de Lille as the new minister and infrastructure element was added to the Public Works Portfolio. R100 billion has been set aside to start an infrastructure fund which will be administered by the Development Bank of Southern Africa. The department of public works and infrastructure will play an oversight role of the infrastructure fund.

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

135. 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

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

SECTION 7: Entities controlled by the department

137. 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
				Good	Improved	Concerning	Unchanged	Intervention required	Regressed
Property Management Trading Entity	In progress								
Construction Industry Development Board (CIDB)	In progress								
Council for the Built Environment (CBE)	In progress								
Independent Development Trust (IDT)	In progress								
Agrément South Africa (ASA)	In progress								

Good

Concerning

Intervention required

SECTION 8: Ratings of detailed audit findings

138. For the 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

139. 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 remains committed to assisting 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

Tintswalo Masia
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___ July 2019

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Accounting officer
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Audit committee
Head of internal audit unit



SECTION 10: Summary of detailed audit findings

Page no.	Finding	Classification					Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
	Property, plant and equipment										[In progress / Not addressed]
	Inventory										
	Revenue										
	Receivables										

Detailed audit findings: Annexures A to C

ANNEXURE A: MATTERS AFFECTING THE AUDITOR'S REPORT