



Auditing to build public confidence

AUDITOR-GENERAL
SOUTH AFRICA

FINAL MANAGEMENT REPORT

DEPARTMENT OF PUBLIC WORKS

31 MARCH 2016

MANAGEMENT REPORT

DEPARTMENT OF PUBLIC WORKS

31 March 2016

Discussed with management on: 15 July 2016

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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 2016

INTRODUCTION

1. Our responsibility is to:

- express an opinion on the [consolidated and separate] financial statements
- express a conclusion 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.

- 2.** This management report includes audit findings arising from the audit of the financial statements, reporting on predetermined objectives and compliance with legislation for the year ended 31 March 2016. These findings were communicated to management and the 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.** This management report consists of an executive summary and annexures containing the detailed audit findings.
- 4.** The purpose of the management report is to communicate audit findings to the accounting officer and does not constitute public information. 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 remains 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.

EXECUTIVE SUMMARY**SECTION 1: Interactions with stakeholders responsible for oversight and governance**

5. During the audit cycle, we met with the following key stakeholders who are responsible for oversight and governance to communicate matters relating to the audit outcome of the department:

Stakeholder	Number of interactions
Portfolio committee on Public Works	2
Standing committee on public accounts	0
Minister of Public Works	3
Accounting officer	3
Audit committee	10

6. At these interactions, we shared expected audit outcomes relating to the 2015-16 audit cycle for the Public Works sector in totality based on the current year progress i.e reliability of performance information Programme 3: EPWP and vacancies in the department. With respect to the current audit we discussed the terms of the audit engagement (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 and the audit outcome for 2015-16 will be discussed prior to the finalisation of the audit report.
7. Some of the stakeholders made commitments to implement initiatives that can improve the audit outcome. The commitments given and the progress of previous commitments are included in part F of section 2.6, which deals with the assessment of assurance providers.



SECTION 2: Matters relating to the auditor's report

2.1 MISSTATEMENTS IN THE FINANCIAL STATEMENTS

8. 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).

Financial statement item	Material misstatement		Occurred in prior year (Insert Yes/No)	Impact	Impact
	Finding (Include a brief description of the misstatement as per the findings and the auditor's report. Include the reasons for the auditee not correcting the misstatement when applicable.)			R current year	R prior year
Material misstatements corrected					
Disclosure: Contingent Assets	The contingent asset was disclosed in the financial statements of the Property Management Trading Entity, and not in the financial statement of the Department of Public Works where the unauthorized expenditure was incurred. PMTE had already recovered the costs incurred for security upgrades from Department of Public Works as a result only Department of Public Works suffered a loss.	No		R7 800 000,00	R7 800 000,00

2.2 MATTERS TO BE BROUGHT TO THE ATTENTION OF USERS

Emphasis of matter paragraphs

9. 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:

Restatement of corresponding figures

10. As disclosed in note 33 to the financial statements, the corresponding figures for 31 March 2015 have been restated as a result of errors discovered during the financial year 31 March 2016 in the annual financial statements of the Department of Public Works at, and for the year ended, 31 March 2015.

Additional matter paragraph

11. The following additional matter paragraph 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

12. 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

2.3 REPORT ON PREDETERMINED OBJECTIVES

Introduction

13. As required by sections 4 and 20 of the PAA, read with the general notice issued in terms thereof, we have audited the reported performance information of the following selected programmes presented in the annual performance report of the department for the year ended 31 March 2016:
 - a. Programme 2: Intergovernmental Coordination on pages x to x
 - b. Programme 3: Expanded Public Works Programme (EPWP) on pages x to x
 - c. Programme 4: Property and Construction industry policy regulation on pages x to x
14. We conducted our audit in accordance with the International Standards on Assurance Engagements (ISAE) 3000: Assurance engagements other than audits or reviews of historical financial information.
15. We evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned programmes. We further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
16. We assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
17. We believe that the evidence obtained from the work performed provides an appropriate basis for the reasonable assurance conclusions on the usefulness and reliability of the reported performance information expressed below.



Summary of audit conclusions

18. The following is a summary of our conclusions on the usefulness and reliability of the reported performance information:

Selected programmes	Usefulness	Reliability
Programme 2: Intergovernmental Coordination	Unqualified	Unqualified
Programme 3: Expanded Public Works Programme (EPWP)	Unqualified	Adverse
Programme 4: Property and Construction industry policy regulation	Unqualified	Unqualified

Programme 2: Intergovernmental Coordination

Conclusion on usefulness and reliability

19. In our opinion, the reported performance information of Programme 2: Intergovernmental Coordination is useful and reliable, in all material respects, in accordance with the identified performance management and reporting framework.

Programme 3: Expanded Public Works Programme (EPWP)

Conclusion on usefulness

20. In our opinion, the reported performance information of Programme 3: Expanded Public Works Programme EPWP is useful, in all material respects, in accordance with the identified performance management and reporting framework

Basis for adverse conclusion on reliability

21. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not reliable when compared to the source information or evidence provided by public bodies.

Adverse conclusion on reliability

22. In our opinion, because of the significance of the matters described in the basis for adverse conclusion paragraph, the reported performance information of Programme 3: Expanded Public Works Expanded presented in the annual performance report is not reliable in accordance with the identified performance management and reporting framework.

Programme 4: Property and Construction industry policy regulation

Conclusion on usefulness and reliability

23. In our opinion, the reported performance information of Programme 4: Property and construction industry policy regulation is useful and reliable, in all material respects, in accordance with the identified performance management and reporting framework.



Additional matters

24. We draw attention to the following matters. Our conclusion is not modified in respect of these matters:

Achievement of planned targets

25. Refer to the annual performance report on pages x to x; x to x for information on the achievement of planned targets for the year. This information should be considered in the context of the adverse conclusions expressed on the reliability of the reported performance information in paragraph x; x; x of this report.

Adjustment of material misstatements

26. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Programme 2: Intergovernmental Coordination, Programme 3: Expanded Public Works Programme (EPWP) and Programme 4: Property and Construction industry policy regulation. As management subsequently corrected only some of the misstatements, I raised material findings on the reliability of the reported performance information. Those that were not corrected are included in the basis for adverse conclusion paragraph.

Unaudited supplementary schedules

27. The supplementary information set out on pages x to x does not form part of the annual performance report and is presented as additional information. We have not audited these schedules and, accordingly, we do not express a conclusion on them.

Audit findings in the auditor's report

28. We will report all the audit findings included under the basis for conclusion and additional matter sections of this report in the auditor's report.

2.4 FINDINGS ON COMPLIANCE WITH LEGISLATION

29. Included below are material findings on non-compliance with specific requirements in key applicable legislation.

Financial statements

30. The financial statements submitted for auditing were not fully prepared in accordance with the Modified Cash Standard prescribed by the National Treasury as required by section 40(1) (b) of the PFMA and Treasury Regulation 18.2. Material misstatements of disclosure items identified by the auditors in they submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management




31. Steps taken to prevent irregular expenditure, as required by section 38(1) (c) (ii) of the Public Finance Management Act and Treasury Regulation 9.1.1, were in certain instances not effective.






2.5 INTERNAL CONTROL






















32. 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.

33. 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.

34. 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, protecting and enhancing the best interests of the entity						
• Exercise oversight responsibility regarding financial and performance reporting and 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						

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
• 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 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 of 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						
Governance						
Overall movement from previous assessment						
• 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						
• Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively						

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
<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 						

35. The table below provides the overall status of the drivers of key controls

Status of the drivers of internal controls					
Leadership		Financial and performance management		Governance	
Effective leadership culture		Proper record keeping		Risk management	
Oversight responsibility		Processing and reconciling controls		Internal audit	
HR management		Regular reporting		Audit committee	
Policies and procedures		Compliance monitoring			
Audit action plans		IT system controls			
IT governance					
Improved Unchanged Regressed					
Improved Unchanged Regressed					
Good Concerning Intervention required					

LEADERSHIP

Effective leadership

36. During the year under review the implementation of measures aimed at embedding a culture of honesty, ethical behaviour and good governance in the department continued. A formal code of conduct that addresses appropriate ethical and moral behaviour is in place. In the previous financial year disciplinary steps taken against the officials who transgressed against the department.



Oversight responsibility

37. Oversight responsibility in terms of financial reporting improved during 2015-16, however we still noted that the annual financial statements submitted for 31 March 2016 had material misstatement and that the department did not have sufficient monitoring controls to ensure the proper implementation of the overall process of reporting on performance against achieved targets.
38. Compliance matters, particularly with regards to supply chain management, have received considerable attention from the department. It has been noted that the department confirmed that all awards are subject to a pre-audit by Inspectorate and Compliance unit across the department since September 2014 in order to prevent any potential irregular and fruitless and wasteful expenditure. To date it has been partially effective given that instances of non-compliance are still being identified by management and through the audit process.
39. 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, 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.

Human resource management

40. The department HR plan which was no based on the approved structure and Vote of the department for the current financial year and the department is however still in the process of finalising the updated organisational structure in line with the restructuring that took place between the department and PMTE, which amongst others includes the approval of the new programme budget structure.
41. Several pre-consultation meetings have been held with DPSA whilst the structure still needs to be formally submitted to DPSA for analysis and concurrence purposes. Once DPSA indicates that they concur with the new proposed structure it must be approved by the Minister and it must be ensured that sufficient funding is in place. As indicated below the department has a lot of unfunded filled positions, thus it is imperative that this process is concluded as soon as possible. If the updated organisational structure is implemented but not yet approved it could result in overspendings, thus unauthorised expenditure and if National Treasury does not approve the increase in compensation of employee cost the latter will result in irregular expenditure.
42. The department has high overall vacancy rate at the end of 31 March 2016 of 8.17%, senior management vacancy rate was 13.29% and finance and supply chain unit vacancy rate was 11.58% which is still a concern as the vacancy rate is above required 10% norm. This could have a negative impact on the core business of the department as there might not be sufficient human resources to fulfil the mandate of the department.

Policies and procedures

43. Management has completed the process of approving and communicating policies during the year under review, to ensure the sustainability of this process it is suggested that an annual policy review is undertaken going forward. The process of documenting standard operating procedures throughout the business has also commenced. This includes a review of internal controls where relevant to ensure that business processes are imbued with the necessary checks and balances and internal controls.
44. It was however noted during the audit process that even though policies were approved and communicated, policies are not always implemented and compliance with the requirement enforced. Monitoring controls must thus be strengthened.

Action plans to address internal control deficiencies



45. The department developed comprehensive action plans to address internal and external audit findings and adherence to the plan is monitored on a regular basis by the appropriate level of management.
46. The action plan does not address the real root cause of EPWP performance findings which is a no adequate regular site are performed to the public bodies, to ensure that the proper records which support the reported targets are maintained.

Information technology governance framework

47. Over reliance on consultants to perform key IT functions which poses a risk in the event that the contractors/consultants leave the organisation, the IT department might not be able to adequately provide IT support in order to meet the department's needs. Furthermore the high cost of maintaining contractors/ consultants may not be sustainable in the long run.
48. Without an approved and adequately tested Disaster Recovery Plan the department may be unable to recover critical business functions within an acceptable timeframe in the event of a disruption. This may result in lengthy disruptions which could affect the department's delivery on its core mandate which includes effectively managing the state's fixed property

FINANCIAL AND PERFORMANCE MANAGEMENT

Proper record keeping

49. The department does not have a proper system of record management that provides for the maintenance of information that supports the reported performance contained in the annual performance report. This includes information that relates to the collection, collation, verification, storage and reporting of actual performance information. This matter should receive priority in the third and fourth quarter of 2015-16 financial year.

Daily and monthly processing and reconciling of transactions

50. Challenges were still being experienced with integrity of the migrated data from the old IRS Reporting system to the new EPWP reporting system, as we have noted during the audit that the information on the EPWP reporting was not validated due to the errors noted.

Regular, accurate and complete financial and performance reports

51. The review of the interim and annual financial statements submitted for auditing has shown significant improvement over the past number of years, however we noted that there are still incomplete disclosure note which resulted in a material misstatement been reported in the audit report.
52. Although the Monitoring and Evaluation Unit (M&E) met with branches/units to clarify the information required and advised on the type of POEs (portfolio of evidence) that should support the information in the performance reports there is still a significant shortcoming in the verification of evidence supporting reported performance to ensure that what is getting reported in quarterly reports is valid in all instances.

Compliance monitoring

53. Compliance monitoring has improved evidenced by the reduction of non-compliance reported but is not successfully preventing non-compliance from occurring yet. The detection controls surrounding irregular as well as fruitless and wasteful expenditure have improved, although certain instances that were not identified are still being identified through the audit process.

Information technology systems

54. The lack of an effective training plan to ensure that internal staff is capacitated to perform their job functions resulted in consultants/contractors performing key IT functions.
55. The department was undergoing an infrastructure refresh project and updates to the DRP had not been finalised due to the changes being effected within the new environment.



56. Reporting system during 2015-16; however we noted that the department did not verify the integrity of migrated data into to the new EPWP Reporting system,

GOVERNANCE

Risk management activities and risk strategy

57. A risk assessment was conducted as required by Treasury Regulation 3.2.27 and a risk management strategy, including a fraud prevention plan, was drafted. Risks are being more actively managed than in the past however buy-in must still be obtained from all role-players in the department to ensure dynamic participation by all (including regional offices).
58. The risk management unit remains short staffed, considering the scope and nature of activities in the department and PMTE and the number of regional offices which must form an integral part of the risk management process. Appointing additional capacity with the requisite skills must continue.

Internal audit

59. The internal audit function has not re-assessed the current capacity considering the size and risks relating to the department and the PMTE, the mitigation of this risk by means of insourcing of private companies is noted however the department must devise a sustainable strategy to ensure adequate in-house capacity.
60. With respect to normal internal audits, some valuable reports have been issued; however it remains a concern that high risk audits are only scheduled for completion in the last quarter as this does not afford management with the opportunity to implement the recommendations prior to year-end.
61. It remains a concern that certain important scheduled internal audits, such as the review of the performance information, including EPWP information, are audited by external sources and we noted that for audit EPWP the internal auditors focused on incentive grants not the entire EPWP work opportunities created and reported to the department.

Audit committee

62. The audit committee functions throughout the year, the committee approved the internal audit plan and also considered the internal reports, monitored the implementation of recommendations by the department.

SUMMARY

63. 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

64. Leadership was not successful in addressing the high vacancy rate at senior management level.

Financial and performance management

65. Proper record keeping was not always implemented in a timely manner to ensure that complete, relevant and accurate information was accessible and available from public bodies to support performance reported by the department.
66. Regular, accurate and complete financial and performance reports were not always supported and evidenced by reliable information
67. The review and monitoring of compliance with applicable laws and regulations was ineffective in certain instances.



Governance

68. Leadership must continue to focus on expanding capacity in the risk management and internal audit units to ensure optimal functioning to address risks and internal control deficiencies across all locations within the department

2.6 ASSURANCE PROVIDERS AND STATUS OF IMPLEMENTATION OF COMMITMENTS AND RECOMMENDATIONS

69. 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.
70. 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.

We assess the level of assurance provided by these assurance providers based on the status of internal controls (as reported in section 2.5) and the impact of the different role players on these controls. We provide our assessment for this audit cycle below.

Assurance levels	
Senior management	<i>Provides some assurance</i>
Accounting officer	<i>Provides some assurance</i>
Minister	<i>Provides some assurance</i>
Internal audit	<i>Provides some assurance</i>
Audit committee	<i>Provides assurance</i>

Senior management

71. The 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.

Accounting officer

72. Compliance matters, particularly with regards to supply chain management, have received considerable attention from the department. It has been noted that the department confirmed that all awards are subject to a pre-audit by Inspectorate and Compliance unit across the department in order to prevent any potential irregular and fruitless and wasteful expenditure. To date it has been partially effective given that instances of non-compliance are still being identified by management and through the audit process.

Minister

73. During the year under review the implementation of measures aimed at embedding a culture of honesty, ethical behaviour and good governance in the department continued. A formal code of conduct that addresses appropriate ethical and moral behaviour is in place. Cognisance is taken of the fact that the department managed address the backlog of investigations, to this effect the establishment of the Governance, Risk and Compliance Unit has been instrumental.
74. The Department has as part of its Turn-Around Strategy built the necessary capacity to institute investigations within 30 days of receipt of allegations as per the Department of Public Works Annual Performance Plan; this is in accordance with the National Treasury Regulation which requires investigations to be instituted within 30 days of allegations being reported. Measures implemented include amongst others appointment of a panel of forensic services providers and use of secondments to expedite the investigations.

Internal audit

75. The internal audit unit has prepared a risk-based audit plan and internal audit programme for each financial year and it regularly advise the accounting officer on the weaknesses identified through their management report and report to the audit committee on implementing 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.

Audit committee

76. The audit committee is an independent advisory body to the department and the management and staff of the department on matters relating to internal financial control and internal audits; risk management; accounting policies; the adequacy, reliability and accuracy of financial reporting and information; performance management; effective governance; the DoRA, PFMA, Treasury Regulations and any other applicable legislation; performance evaluation; and any other issues.
77. The audit committee is currently effectively involved from a governance perspective in the department's turnaround process, which is an ongoing project.

Status of implementing commitments and recommendations

78. Below is our assessment of the progress in implementing the commitments made by senior management, the accounting officer and the audit committee to address prior and current year audit findings.

No.	Commitment	Made by	Date	Status
1	All quotations packs are submitted to Compliance Unit for sign off prior to	DDG: SCM AND	Implemented from 01 April	In progress



No.	Commitment	Made by	Date	Status
	capturing of purchase requisitions and orders	FINANCE	2015	Zero tolerant approach to deviations adopted. Re-invitations conducted until three quotations are obtained except in instances where delivery is of critical importance due to unforeseen circumstances.
2	Review and perform a compliance check of all Procurement Strategies for Bids >R500k by Compliance Unit and recommended to the authorizing body for approval prior to advertisement.	DDG: SCM AND FINANCE	Implemented from 01 July 2015	In progress Zero tolerant approach to deviations adopted. Re-invitations conducted until three quotations are obtained except in instances where delivery is of critical importance due to unforeseen circumstances.
3	All advertisement notices are signed off by the supervisor prior to publication Full implementation of the Milestone Monitoring Tool (MMT) – Supervisors and Managers to sign off compliance to the requisite process steps and availability of supporting documents at every Gateway of the SCM process	DDG: SCM AND FINANCE	Implemented from 01 July 2015 01 October 2015	In progress Implemented from 01 July 2015 at Head Office level
4	All SCM Managers will be trained on Local content	DDG: SCM AND FINANCE	31 March 2015	Completed Training was conducted on the 1 st October 2015.
5	Asset register audit to identify discrepancies for corrections	DDG: SCM AND FINANCE	Quarterly	Completed Spot checks have been conducted for the 1 st , 2 nd & 3 rd quarter. Asset Register audit conducted during the 1 st & 2 nd Quarter to identify discrepancies. A meeting with National Treasury (NT) was held on



No.	Commitment	Made by	Date	Status
				26/10/2015(see the attached emails). Awaiting response from NT.
6	<p>Implementation of the electronic invoice tracking system</p> <p>The appointment of officials to manage the system. The system will assist with identifying the areas where controls will need to be improved to ensure compliance with the applicable laws and regulations.</p>	DDG: SCM AND FINANCE	31/03/2016	<p>Completed</p> <p>Implemented from 1st December 2015</p>
7	<p>Obtain approval to appoint additional contract workers that will assist with the investigations</p> <p>Appointment of contract workers</p> <p>Training of contract workers</p> <p>Start with the Investigation of reported transactions</p>	DDG: SCM AND FINANCE	<p>30 Sept 15</p> <p>30 Nov 15</p> <p>4 Dec 15</p> <p>7 Dec 15</p>	<p>In progress</p> <p>Approval to appoint contract workers granted by the DDG:CS</p> <p>Interviews will be done in February 2016</p> <p>Training to be conducted at Head Office after all the appointments have been confirmed and assumption of duty taken place.</p>
8	Conduct external quality assurance review for the Unit.	CD: Internal Audit	30 Sept 2015	<p>Completed</p> <p>External Quality Assurance Review has been conducted and report presented to ExCo and Audit Committee (28 September 2015).</p>
9	Conduct audit on EPWP	CD: Internal Audit	31 March 2016	<p>Completed</p> <p>Phase 1 of audit on EPWP has been finalized and report presented to ExCo and Audit Committee (28 September 2015). Phase 2 is underway and it is anticipated to be</p>



No.	Commitment	Made by	Date	Status
				completed by March 2016.
10	<p>Data reported in the EPWP new reporting system will be validated quarterly with Home Affairs to ensure identity numbers captured are valid.</p> <p>The EPWP branch of the DPW will develop a Standard Operating Procedure (SOP) for audits to outline processes that should be followed by all EPWP stakeholders when dealing with audits.</p>	DDG: EPWP	<p>Quarterly</p> <p>31 December 2015</p>	<p>In progress</p> <p>The validation of identity documents with Home Affairs was last undertaken on 17 November 2015 for the Q2 reporting.</p> <p>The EPWP EXCO will meet on the 21 January 2016 to consider the latest draft of the SOP. A Directive and Checklist have been developed as part of the SOP.</p>
11	<p>Public bodies will be assisted by NDPW to register their EPWP Integrated Grant projects on the EPWP reporting system.</p> <p>Public bodies will not be paid their last tranche of the EPWP Integrated grant if their projects are not registered on the system</p>	DDG: EPWP	On- going	<p>In progress</p> <p>Public bodies have been assisted in registering projects on the system. 263 out of 402 infrastructure projects funded by the EPWP integrated grant to municipalities have been registered on the system. Process of assisting public bodies to register and update projects is on-going.</p> <p>The programme has not implemented the withholding of payments for non-reporting for this financial year. It is planned to start in the new financial year that Public Bodies will be required to submit their list of projects with the system</p>



No.	Commitment	Made by	Date	Status
				reference number when reporting expenditure.
12	Performance information reports on a quarterly basis will be assessed based on the POE and assist the units to respond on reasonable variances	DDG: GRC	Quarterly	Completed This is done quarterly. Already M&E is reviewing the previous quarters with various units to ensure that the reporting template is complete, accurate and valid
13	Performance information reports on a quarterly basis will be assessed based on the POE and assist the units to respond on reasonable variances M&E unit is already in the process of Training and Development and all the regions and parts of the DPW and PMMTE have been trained	DDG: GRC	Quarterly July 2015 October 2015 February 2016	Completed Done for July 2015 This is done quarterly. Already M&E is reviewing the previous quarters with various units to ensure that the reporting template is complete, accurate and valid
14	Performance information reports on a quarterly basis will be assessed and validated based on the POE. The M&E unit encourages on the spot POEs so that sufficient time is given to assess the POEs so as to accurately reflect performance	DDG: GRC	September 2015 January 2016 April 2016	Completed This is done quarterly. Already M&E is reviewing the previous quarters with various units to ensure that the reporting template is complete, accurate and valid
15	The M&E unit will as part of training and development advise and assist in the efficient use of the monitoring system and tested every 6 months	DDG: GRC	Bi-Annually October 2016 May 2016	Completed M&E is reviewing the previous quarters to point out areas for improvement and the efficient use of the reporting tool/system. This is done through the quarter meetings
16	Approve the abolishment of unfunded positions which have been vacant for more than 36 months on	DDG: Corporate Services	31 October 2015	Completed Approval for the



No.	Commitment	Made by	Date	Status
	the PERSAL establishment			abolishment of unfunded vacancies which have been vacant for more than 24 months was granted by the DG. Abolishment processes underway.
17	Alignment of the activation of positions at the implementation of the new structure to available budget on compensation of employees.	DDG: Corporate Services	30 April 2016	Completed The Minister has approved the newly configured structures for DPW & PMTE on 27 November 2015. Both structures have been submitted to DPSA for consultation and concurrence. Once finalized the Minister will finally approve the structures to be implemented accordingly.
18	Facilitate approval for advertising and filling of critical funded vacancies	DDG: Corporate Services	31 August 2015	Completed
19	Review of the organisational structure	DDG: Corporate Services	30 April 2016	In progress The Minister has approved the newly configured structures for DPW & PMTE on 27 November 2015. Both structures have been submitted to DPSA for consultation and concurrence and these processes are underway.
20	Communique with clear guidelines to be sent to all SMS to ensure that signed performance agreements are submitted timeously. Continuous reminders to be sent to all SMS Members and supervisors	DDG: Corporate Services	Already implemented for the 2014-2015 PMDS cycle as well as the 2015-2016 PMDS cycle for SMS	Completed The human resource section did exercise oversight responsibility in ensuring that performance



No.	Commitment	Made by	Date	Status
	Disciplinary action to be instituted against employees who do not sign and / or signed their performance agreements after the due date.		Members	<p>Agreements are submitted and Signed timeously by all SMS members.</p> <p>Reminders were sent to all SMS Members and specific reminders were also sent to their supervisors in this regard</p> <p>92% of SMS Members submitted PA's for the 2015-2016 PMDS cycle and Disciplinary action was taken against 15 employees who do not sign and / or signed their performance agreements after the due date.</p>
21	Issue a circular emphasizing the need to conduct criminal record and financial/asset verification on all appointments.	DDG: Corporate Services	30 October 2015	<p>Completed</p> <p>Circular signed and circulated to all Recruitment Practitioners, Regional HR Heads and the Regional Managers</p>
22	<p>Submission to be compiled detailing new delegations for approval of incapacity leave</p> <p>Amend HR Delegations</p>	DDG: Corporate Services	<p>15 September 2015</p> <p>31 March 2016</p>	<p>In progress</p> <p>Submission compiled and submitted on route for approval</p> <p>Draft new delegations amended and aligned</p>
23	SMS are reminded to declare their financial interest annually through emails	DDG: Corporate Services	31 March annually	<p>Completed</p> <p>100% compliance in the declaration of financial interests by SMS members for 2015/2016</p>



No.	Commitment	Made by	Date	Status
24	Recruitment policy to be reviewed to address the secondment of people to the department	DDG: Corporate Services	31 March 2016	Completed

79. Sixteen audit recommendations accepted by management in the prior year regarding matters included in the auditor's report were implemented or alternative actions were taken to resolve the finding. Eight recommendations are still in the process of being implemented.

80. The status of implementation contributed to the number of repeat findings in the audit report when compared to the prior year.

2.7 OTHER REPORTS

81. I draw attention to the following engagements that could potentially have an impact on the department's financial, performance- and compliance-related matters. My opinion is not modified in respect of these engagements that are either in progress or have been completed.

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: Specific focus areas

3.1 FINANCIAL VIABILITY

83. 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.

84. 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			
(Limitation = unable to obtain sufficient appropriate information to assess the indicator)		As at 31 March 2016	As at 31 March 2015
Expenditure management			
1.1	Creditor payment period	22,4 Days	6,4 Days
1.2	30+ day accruals as a percentage of total accruals	0,2%	1,2%



Financial viability assessment			
(Limitation = unable to obtain sufficient appropriate information to assess the indicator)		As at 31 March 2016	As at 31 March 2015
	<ul style="list-style-type: none"> Amount of 30+ day accruals Amount of total accruals 	R101 000 R58 446 000	R 397 000 R31 361 000
Revenue management			
2.1	Debtor collection period (after impairment)	110,5 Days	365 Days
	Debtors impairment provision as a percentage of accrued departmental revenue	69,7%	0,00%
2.2	<ul style="list-style-type: none"> Amount of debtors impairment provision Amount of accrued departmental revenue 	R2 269 000 R1 711 000	R52 971 000 R4 069 000
Asset and liability management			
3.1	An accrual-adjusted deficit for the year was realised (total expenditure exceeded total revenue)	No	No
	<ul style="list-style-type: none"> Amount of accrual-adjusted surplus/(deficit) for the year 	(R36 948 000)	R501 614 000
3.2	An accrual-adjusted net current liability position was realised (total current liabilities exceeded total current assets)	No	No
	<ul style="list-style-type: none"> Amount of accrual-adjusted net current assets/(liability) position 	R471 312 000	R25 862 000
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 	(R411 986 000)	(R398 397 000)
3.4	Liquid assets as a percentage of total current liabilities (acid test percentage)	52,1%	-3,1%
	<ul style="list-style-type: none"> Amount of accrual-adjusted liquid assets (total current assets less inventory less prepayments) Amount of accrual-adjusted total current liabilities 	R459 895 000 (R883 298)	R12 986 000 (R424 259 000)
Cash management			
4.1	The year-end bank balance was in overdraft	Yes	Yes

Financial viability assessment			
(Limitation = unable to obtain sufficient appropriate information to assess the indicator)		As at 31 March 2016	As at 31 March 2015
	<ul style="list-style-type: none"> Amount of year-end bank balance (cash and cash equivalents)/(bank overdraft) 	(R648 528 000)	(R159 373 000)
4.2	Cash shortfall as a percentage of next year's total appropriation (budget) **	9.2%	4.1%
	<ul style="list-style-type: none"> Amount of cash surplus/(shortfall) 	(R600 695 000)	(R257 062 000)
	<ul style="list-style-type: none"> Amount of appropriation (budget) for the next year 	R6 528 000 000	R6 411 087 000
4.3	Cash shortfall as a percentage of next year's appropriation (budget), excluding compensation of employees **	9.9%	4.4%
	<ul style="list-style-type: none"> Amount of cash surplus/(shortfall) 	(R600 695 000)	(R257 062 000)
	<ul style="list-style-type: none"> Amount of next year's appropriation (budget), excluding compensation of employees 	R6 057 200 000	R5 936 092 000
Overall assessment			
Overall the financial viability is assessed as:		Green (Good)	Green (Good)
<p>* The department is not revenue intensive and minimal departmental revenue is received (R7 106 000 for the year under review) – therefore no meaningful ratio analysis can be performed</p> <p>** This indicator assumes that the unauthorised expenditure of R261 169 000 which relates to prior, per note 9 will not be approved with funding.</p>			

85. Underspending of the capital assets and delay in filling of positions that are vacant, remains a concern, given the direct impact on the achievement of the department's mandate and objectives in terms of the annual performance plan.
86. 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.
87. Should the unauthorised expenditure however not be approved with funding it could result 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.

3.2 PROCUREMENT AND CONTRACT MANAGEMENT

88. The audit included an assessment of procurement processes, contract management and the related controls in place. To ensure a fair, equitable, transparent, competitive and cost-effective supply chain management (SCM) system, the processes and controls need to comply with



legislation and minimise the likelihood of fraud, corruption, favouritism and unfair and irregular practices.

A summary of the findings from the audit are as follows:

Irregular expenditure

89. R1 673 000 (99%) of irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation. The root cause of the lack of effective prevention and detection is the non-adherence to the SCM processes, the approval of deviations without proper justification and also DPW receiving last minute procurement instructions from other department.

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

90. The audit included an assessment of the interests of officials and their close family members in suppliers to the department. Legislation does not prohibit 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.

The findings were as follows (Include details on awards and interests identified as per the table below):

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	Seven awards to the value of R4 802 630	Four state officials has been identified	Four				None

Procurement processes

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

	Total		Quotations		Contracts	
	Number	Value	Number	Value	Number	Value
Awards selected for testing	number of awards select (98)	Total value of contract + quotation R160 346 587	number of awards selected (59)	Total value of quotation R8 469 611	number of awards selected (39)	Total value of contract R151 876 976
Expenditure incurred on selected awards - current year		Expenditure R75 002 165		Expenditure R7 738 009		Expenditure R67 264 156
Limitations - awards selected but could not be	2	R2 661 640	1	R26 375	1	R2 635 265



tested						
Awards on which non-compliance was identified	21	R10 739 770	15	R1 600 616	6	R9 139 154
Irregular expenditure identified	15	R7 094 202	11	R1 307 781	4	R5 786 422
Instances of irregular expenditure where goods/ services were not received	0	0	0	0	0	0

Limitations on audit

91. As indicated in the table above, sufficient appropriate audit evidence could not be provided that two of selected awards to the value of R2 661 640 was made in accordance with the requirements of applicable SCM legislation. No alternative audit procedures could be performed to obtain reasonable assurance that the expenditure incurred on these awards was not irregular.

The reasons for the limitations were management is still locating the documentations. As a result of these limitations, the findings reported in the rest of this section may not reflect the true extent of irregularities and SCM weaknesses.

Procurement processes – general

92. Five awards to the value of R405 065 were procured without inviting at least the minimum prescribed number of written price quotations from prospective suppliers and the deviation was not approved by a properly delegated official.
93. One competitive bid with a value of R624 270 was not adjudicated by a properly constituted bid adjudication committee.
94. Four quotations with the value of R415 398 and five contracts with the value of R14 114 122 were awarded to bidders based on preference points that were not calculated according to the requirements of the Preferential Procurement Policy Framework Act and its regulations.
95. One quotation with the value of R150 892 and two contracts with the value of R1 575 944 were awarded to bidders who did not score the highest points in the bid evaluations, and there was no justification for the deviation.
96. Two quotations with the value of R224 834 were awarded to bidders who did not submit a declaration of whether they were employed by the state or connected to any person employed by the state.
97. Three contracts and/or quotations were awarded to bidders who did not score the highest points in the bid evaluations, and there was no justification for the deviation.

Internal control deficiencies

98. The following internal control deficiencies should be addressed to improve procurement and contract management in the department:
- Reviewing and monitoring of compliance with applicable laws and regulations was insufficient and not properly monitored.



- The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls
- Although management did develop action plans to address internal control deficiencies, they were not effective to prevent irregular expenditure as well as non-compliance with applicable laws and regulations.
- Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored

3.2 FRAUD AND CONSEQUENCE MANAGEMENT

99. 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.
100. 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:

Inadequate measures to manage consequences

101. The statistics in the table below indicate the effectiveness of the department's measures for responding to allegations of financial misconduct, fraud and other improper conduct in SCM.

	Allegations reported in the prior year	Allegations reported in the current year
Number of cases of fraud/corruption reported through the auditee's internal mechanism	313	41
Number of cases investigated (in relation to number of cases reported)	263	28
Number of cases not yet investigated (in relation to number of cases reported.)	50	0
Number of investigations finalised i.e. report issued	208	6
Number of cases that have been referred to the law enforcement/investigation agencies <i>e.g. the SAPS, the Public Protector, the Competition Commission, or the SIU</i>	29	13

Failure to implement consequences

102. The table below provides a summary of transgressions from the previous year that were either not investigated or proper disciplinary steps were not taken after investigation.

Unauthorised/irregular/fruitless and wasteful expenditure

Finding	Value
Irregular expenditure identified in the previous year was not investigated to determine if a person was liable for the expenditure.	R366 636 000



Finding	Value
Fruitless and wasteful expenditure identified in the previous year was not investigated to determine whether a person was liable for the expenditure	R1 065 000

Transgressions identified in the current year

103. Irregular and fruitless and wasteful expenditure disclosed in note 25 and note 26 to the financial statements must be investigated to determine whether any official is liable for losses incurred as a result of the irregular, fruitless and wasteful expenditure. Disciplinary steps must be taken against officials who caused or permitted the irregular and fruitless and wasteful expenditure and losses incurred as a result must be recovered from the person liable.
104. This report includes other audit findings that are indicative of transgressions by officials or other role players. Summarised in the table below are allegations of transgressions that must be investigated and disciplinary steps taken based on the results of the investigations:

Finding	Number of instances	Value
Supplier submitted false declaration of interest	4	R4 802 630

The audit included an assessment of procurement processes, contract management and the related controls in place. To ensure a fair, equitable, transparent, competitive and cost-effective supply chain management (SCM) system, the processes and controls need to comply with legislation and minimise the likelihood of fraud, corruption, favouritism and unfair and irregular practices.

3.3 TRANSFER OF CONDITIONAL GRANTS (VALUE ADD)

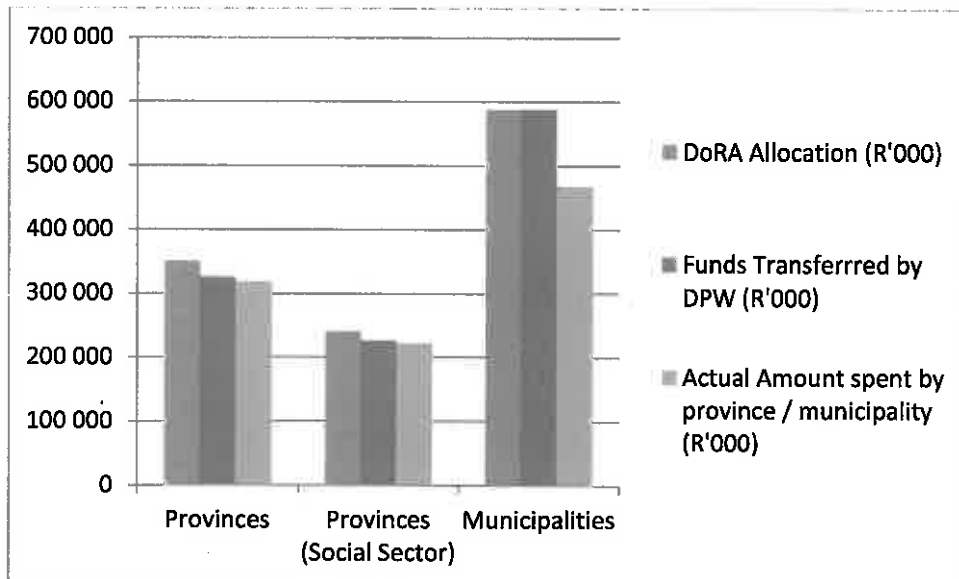
EXPANDED PUBLIC WORKS PROGRAMME (EPWP)

Internal control deficiencies

105. The department was responsible for the transfer and monitoring of the following conditional grants:
- 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

Summary of EPWP grants for 2015-16:



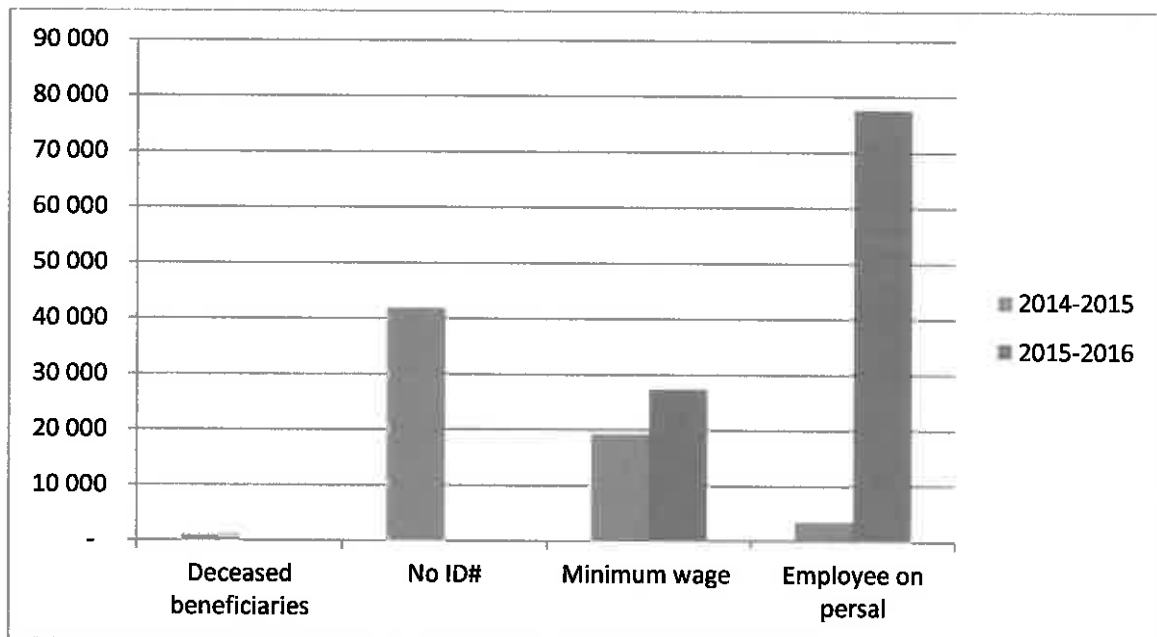


106. The Expanded Public Works Programme (EPWP) has its origins in Growth and Development Summit (GDS) of 2003. At the Summit, four themes were adopted, one of which was 'More jobs, better jobs, decent work for all'. The GDS agreed that public works programmes 'can provide poverty and income relief through temporary work for the unemployed to carry out socially useful activities'.
107. The Programme is a key government initiative, which contributes to Government's Policy Priority in terms of decent work & sustainable livelihoods. EPWP subscribes to outcome 4 in the Medium Term Strategic Framework (MTSF) which sets out to achieve "Decent employment through inclusive economic growth."
108. Phase III of the EPWP is being implemented over the 2014-15 to 2018-19 financial years with the aim of creating six million work opportunities by the end of the period.
109. EPWP Phase III is based on the following four principles:
- Adherence to the EPWP minimum wage and employment conditions under the EPWP ministerial determination.
 - Selection of workers based on clearly defined process and defined criteria
 - Work provides or enhances public goods or community services
 - Minimum labour intensity appropriate to each sector.
110. Since the commencement of the audit of performance information we have consistently had challenges with verifying the reliability of reported performance of this programme. This is attributable to two factors. Inadequate records management and retention by implementing bodies.
111. Based on the audit of the EPWP projects across the country, we were unable to obtain sufficient supporting documentation to substantiate the creation of work opportunities reported for a large number of the projects in our sample. Additionally, in several instances where we did eventually obtain information, this was not immediately retrievable and had to be submitted to the audit team subsequent to a finding having been raised.
112. It is recommended that the department takes drastic steps to ensure that sufficient and appropriate documentation is available at implementing bodies before the next audit commences. The following recommendations should be considered:
- The department should consider the legislative requirements where public bodies will be held accountable for non-compliance with the relevant requirements i.e Basic Conditions of Employment Act of 1997: Ministerial Determination 4: Expanded Public Works Programmes dated 04 May 2012.

- The department should visit the public bodies on a regular basis to ensure that they have implemented a proper system of collation and retention of evidence supporting actual achievements reported.
- Frequent reviews should be performed by internal audit to ensure that information reported in quarterly reports and eventually the annual report is reliable.
- Instituting procedures where minimum documentation, e.g. copies of beneficiaries' ID's, 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.

Overview of system challenges

113. This overview was prepared based on the information system in use during the 2015-16 financial year and we noted that the new implemented system has addressed prior year findings to ensure that the captured beneficiaries are valid, however we noted that management does not adequately review the information on the system.
114. There is an improvement on the capturing of data however there are still some challenges of capturing errors on the reporting system. This resulted in the following exceptions having been identified:



115. **Deceased beneficiaries** – The number of deceased workers was 1 102 in 2014-15 (2015-16: 0). The improvement is based on the fact that the EPWPRS is fully integrated with the Home Affairs to check on the deceased participants. All the EPWP participants are verified at the point of entry into the system and there is also a continuous verification that is established through a live link with home affairs.
116. **No identify documents (ID's) and invalid documents:** The number of instances relating to no ID numbers has improved in the current year as there were no such instances in the current financial year compared to 41 898 in the prior financial year 2014-15. The EPWP Reporting System has a built in validation rules that makes it impossible for the participant to be reported without a valid ID number that is also verified with the Department of Home Affairs. As part of this validation, all participants are also required to submit a copy of the ID document which is scanned and stored in the EPWPRS.

117. **Minimum wage** – The beneficiaries who are paid below the minimum wage of R75,10 pre November 2015 and R75,10 after November 2015 are 27 227 of 741 540 in the current year (2014-15: 19 244).

This represents non-compliance with the new ministerial determination issued by the department of labour. Management have indicated for social sector programmes there is a limited budget allocated in the equitable share grant for the social sector programmes. However we have identified that the beneficiaries who are paid the minimum wage are from other sectors as well i.e. Environmental, infrastructure and Non-state.

The EPWPRS allows for the capturing of all the EPWP projects, including those projects which are paying below the minimum wage. This is to enable EPWP to quantify the nature and extent of the problem, which would have been difficult to monitor if the information was not fully captured.

118. **Employees on PERSAL** - Beneficiaries who are included on PERSAL are 77 588 of 741 540 in the current year (2014-15: 3 510). It should be noted that the primary reason for this exception is to ensure that there is a more efficient payment process for beneficiaries as these are not full time employees of the department.

Various EPWP programmes pay their participants through the PERSAL system. EPWP has become aware of this and engaged DPSA. On a quarterly basis the EPWP participant list is sent to DPSA. Analysis by M&E revealed that these participants are indeed paid through PERSAL, however, various categories such as temporal employment, abnormal appointment etc. are used to indicate that these are EPWP participants. There are also few observed cases where the participants were EPWP participants before gaining employment in the public service and most of these categories are comprised of those employees at entry levels such as nurses, teachers etc.

119. Management is commented on action taken to address the above mentioned from the previous financial year which result in a certain findings been resolved. Management should continue to test EPWP Reporting system for weaknesses to ensure that findings resolved timeously.

SECTION 4: EMERGING RISKS

Accounting, performance management/reporting and compliance matters

New pronouncements

Modified cash standard

Componentisation of assets:

120. 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.

Capital work in progress:

121. The annexure on Movement in capital work in progress has to be included in the notes to the financial statements from 1 April 2016.



Inventory

122. Departments are only required to include inventory in the disclosure notes to the financial statements from 1 April 2017; there were no findings noted. It is further recommended that a process be put in place to determine the inventory held by the department on 31 March 2017.

New legislation

Treasury Regulations

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

Central Supplier Database:

124. The OCPO introduced the Central Supplier Database on 1 September 2015 accessible on www.csd.gov.za, which will reduce the administrative burden on both the supplier and the administrator. The system verifies and validates information with the South Africa Revenue Service (SARS), Companies and Intellectual Property Commission (CIPC), and Department of Home Affairs amongst others. The system will be mandatory from 1 April 2016 for all suppliers to national and provincial government and entities at these two spheres of government. It will be rolled out to local government from 1 July 2016.

eTenders Portal:

125. Suppliers who meet all compliance requirements can access opportunities on www.eTenders.gov.za. The portal enables suppliers to have access to tenders published on the platform. The compulsory implementation of this portal is from 1 April 2016.

Procurement plans

126. Treasury Instruction 02 of 2016-17 new requirements have been introduced for submission of quarterly reports on the implementation of procurement plans effective from 01 May 2016.

Preventing and combating the abuse of the SCM system:

127. Treasury Instruction 03 of 2016-17 has implemented new measures to deal with the abuse of the SCM system. The Instruction introduces new rules for management of deviations from procurement processes, expansions/ a variation of contracts, management of complains, amongst others.

Optimising procurement strategies and approaches:

128. The National Treasury has identified commodities (industries) that need a centralised approach for procurement. These include travel and accommodation and Fixed line, mobile and data communication:
- National Travel Policy (Treasury Instruction 01 of 2016-17): The National Treasury has developed a National Travel policy to provide direction to departments, with regard to management of air travel, car hire, transfer services and accommodation for public servants. Departments are expected to fully implement the National Travel Policy with effect from 01 July 2016.
 - The department must consider circulars 02 of 2016 and 06 of 2016 which provides guidance on NT's measures relating to fixed line, mobile and data communication.



Subsequent events

129. On the 27th June 2016 National Treasury determined a "reasonable percentage" of the non-security upgrades that President Jacob Zuma has to pay back to the state. After an extensive process, they set this amount at R7.8-million, which the Constitutional Court must now approve. Then the president must "personally" pay back the money within 45 days

SECTION 5: Entities controlled by the department

130. 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 (PMTE)	Not finalised				●➤		●➤		●➤
Construction Industry Development Board (CIDB)	Unqualified	No	Yes		●➤		●➤		●➤
Council for the Built Environment (CBE)	Unqualified	No	Yes		●➤		●➤		●➤
Independent Development Trust (IDT)	Not finalised								

 Improved
  Unchanged
  Regressed

Good
 Concerning
 Intervention required

SECTION 6: Ratings of detailed audit findings

131. For the purposes of this report, the detailed audit findings included in annexures A to B 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 7: Conclusion

132. 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



Corne Myburgh
Business Executive: National A

31 July 2016

Enquiries: Dipallo Shea
Telephone: 012 422 8159
Fax: 012 422 9619
Email: dipallos@aqsa.co.za

Distribution:

Accounting Officer
CFO
Audit committee
Head of internal audit unit