



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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Detailed audit findings: Annexures A to C.....Error! Bookmark not defined.



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).

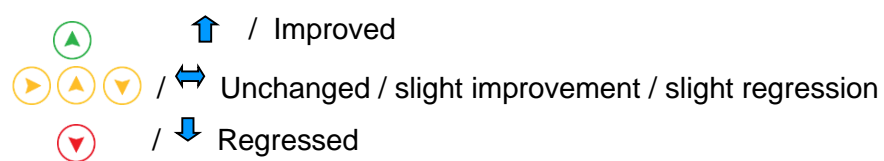
Our engagement letter sets out our responsibilities and those of the accounting officer in detail.

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

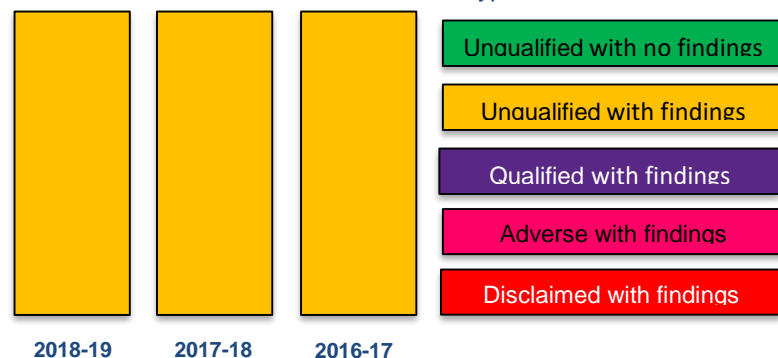
Movement from the previous year is depicted as follows:



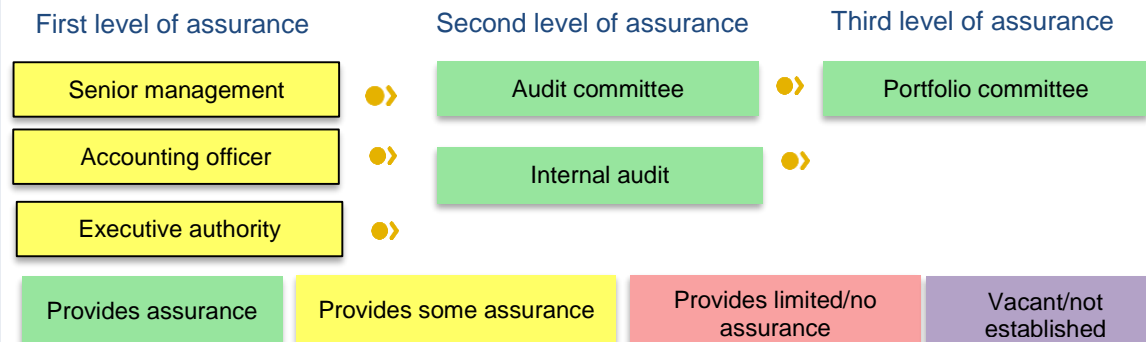
Movement from the previous year is depicted as follows:



Stagnation in audit outcomes



Assurance levels


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

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

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

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

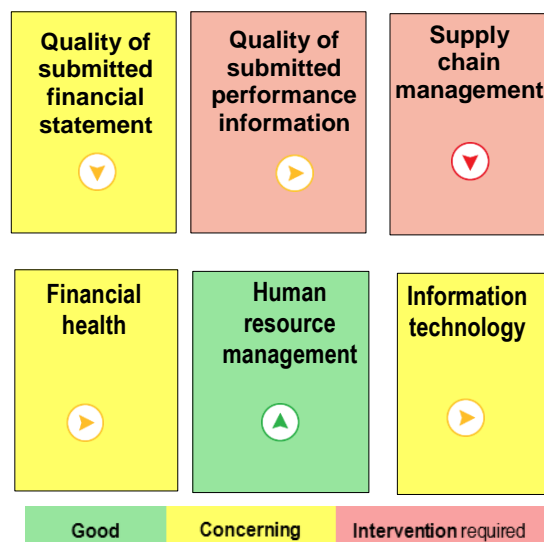
... attention is given to the **key controls**, and ...

Root causes should be addressed

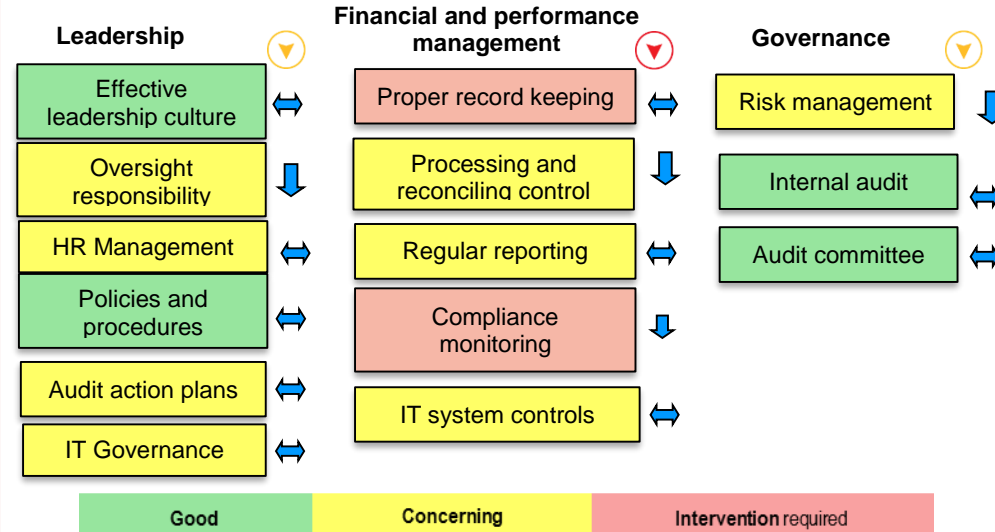
Slow response by management in implementing action plans

Instability or vacancies in key positions

Risk areas



Status of drivers of internal controls



OVERALL MESSAGE

7. The audit outcome of the department has remained unchanged in the current period, with the department obtaining an unqualified audit opinion with findings in other areas for the past three financial periods. Material findings have been noted with respect to non-compliance 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. 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 “number of work opportunities created” indicator customised for all public bodies. This will enhance accountability at public bodies with respect to managing the programme, which in turn may assist the department in ensuring that work opportunities reported is adequately reported, and supported by reliable audit evidence.
9. 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 included in the irregular expenditure disclosure note as an amount under investigation at year end.
10. 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

11. 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 Presentation of Action Plans by the Department 	2

Key stakeholder	Purpose of interaction	Number of interactions
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

12. 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.

13. 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

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

Material misstatement			Impact	Impact
Financial statement item	Finding	Occurred in prior year (Insert Yes/No)	R current year	R prior year
Material misstatements not corrected				
None identified				
Material misstatements 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 subsequently included in the irregular expenditure disclosure note as a matter under investigation. (COFF 7 & 18)	No	42 989 481	nil



MATTERS TO BE BROUGHT TO THE ATTENTION OF USERS

Emphasis of matter paragraphs

15. 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

16. 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

17. 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

18. 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

19. 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

20. 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	Unqualified	▲

21. 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*.

22. 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

23. 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

24. The department did not have an adequate record keeping system to enable reliable reporting on achievement of the indicators listed below. As a result, I was unable to obtain sufficient appropriate audit evidence in some instances, while in other cases the supporting evidence provided did not agree with the reported achievements. Based on the supporting evidence that was provided, the achievement of these indicators was different to the reported achievement in the annual performance report. I was also unable to further confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievements of the indicators listed below:

Indicator description	Reported achievement
Number of work opportunities reported in the EPWP-RS by public bodies	997 286 work opportunities reported in the EPWP-RS by public bodies (cumulative)
Percentage EPWP participation amongst designated groups (women, youth and persons with disability) reported on the EPWP-RS by public bodies	68% Women 43% Youth 1% People with disability

Programme 4 – Property and Construction Industry Policy and Research

Unqualified opinion



25. 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

Unqualified opinion

26. In our opinion, 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.

Other matter

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

Achievement of planned targets

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

Adjustment of material misstatements

29. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of 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

30. 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

31. 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.

32. 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.
33. 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

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

Expenditure management

35. 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

36. 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

37. 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.
38. 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.
39. 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.

40. The following paragraphs will be included in the auditor's report to highlight to the users whether any inconsistencies in the other information exist:
41. 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

42. 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 6, 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

43. 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.
44. 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

45. 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.
46. 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.
47. 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

48. 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

49. 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

50. 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.
51. 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

52. 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

53. We were 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, despite the fact that these work opportunities were validated by the department. This contributed to the negative audit outcome for Programme 3.

Daily and monthly processing and reconciling of transactions

54. Material misstatements were identified with respect to commitments disclosed on the annual financial statements submitted for audit, which was due to inadequate controls over manual registers used to track commitments. The disclosure was subsequently corrected, which resulted in the department receiving an unqualified audit outcome.
55. 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

56. The reported achievements for predetermined objectives included in the annual performance report were not supported by appropriate audit evidence throughout the year. Significant findings were raised by internal audit with respect to quarterly reporting which were not addressed by management. This resulted in the annual performance report submitted for audit containing a number of material misstatements, some of which were subsequently corrected.

Compliance monitoring

57. 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

58. 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

59. 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.
60. 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.
61. 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

62. 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.
63. 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

64. 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.
65. 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

66. 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:
67. Inadequate monitoring of action plans to address the previous year's findings resulted in similar findings on programme 3: expanded public works programme in the current year.
68. The department was impacted by instability resulting from vacancies in some key senior management positions for the majority of the financial year. Consequently, not all laws and regulations around procurement and contract management as well as expenditure management were adequately monitored to ensure compliance.

OTHER REPORTS

69. 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

70. Numerous allegations, mainly relating to transgressions with regard to supply chain management, potential fraud, irregular appointments and financial misconduct, are still being investigated on an ongoing basis by the Special Investigating Unit, Public Service Commission 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

71. 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.
72. 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.

73. 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

74. 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 streamlined to ensure only valid, accurate and complete information is submitted.</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
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

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

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

FINANCIAL VIABILITY ASSESSMENT			
		AS AT 31 MARCH 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)
<i>* This indicator assumes that the unauthorised expenditure of R261 169 000, per note 9 will not be approved with funding.</i>			

High-level comments

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

77. 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.

78. 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.

79. 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

80. 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

81. R42 989 481 (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

82. 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.

83. The findings were as follows:

Finding	Number and value of awards made	Number and positions of official identified	Number of suppliers identified	Further non-compliance or irregularities regarding the awards			
				Supplier did not submit declarations of interest	Supplier did not declare interest (false declaration)	Official did not declare interest	Official was involved in awarding the contract/quotation
Awards made to officials of the Department	3 R2 400 858	3 Chief director Intern Director	3	0	0	0	0
Awards to persons in the service of	3 R103 257	3	3				0

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
other state institutions		Medical officer Survey officer Deputy director					

Employees doing business with the state

84. 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.

85. 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.”

Procurement processes

86. 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

	Total		Quotations (below R500,000)		Competitive bids (over R500,000)	
	Number	Value R	Number	Value R	Number	Value R
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

- Eight contracts were amended or extended without approval by a delegated official. The total value of the amendment was R42 989 481.

Internal control deficiencies

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

FRAUD AND CONSEQUENCE MANAGEMENT

89. 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.
90. 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.

91. 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

92. 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

93. 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

Broad-Based Black Economic Empowerment (B-BBEE) Act reporting requirements

94. The audit included confirming whether the reporting requirements as set out in the B-BBEE Act were adhered to. The purpose of this value-add initiative is to highlight the reporting requirement contained in the B-BBEE Act. Below is the list of findings identified:

- The department did not submit the relevant documentation pertaining to the 2017-18 financial year to the B-BBEE Commission within 30 days.

SECTION 5: Using the work of internal audit

95. 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:

- The following internal audit report was considered for risk identification purposes:
 - Follow up audits (DPW and PMTE) where Internal Audit assessed management's progress in addressing internal and external audit findings from prior periods.
- We placed reliance on the work of internal audit in the performance of our interim audit for the following areas:
 - Audit of the quarterly report (Q1) for all programmes scoped in.
 - Internal audit review of draft Annual Performance Plan for 2019/20.
- The internal audit function was used for direct assistance on the EPWP audit for visiting certain public bodies selected for audit.

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

- The President appointed Ms P de Lille as the new minister, and an Infrastructure element was added to the Public Works Portfolio

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

96. 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

97. 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

98. 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	<i>In progress</i>								
Independent Development Trust (IDT)	<i>In progress</i>								
Construction Industry Development Board (CIDB)	Unqualified	Yes	Yes	Concerning	Regressed	Intervention required	Regressed	Concerning	Regressed
Council for the Built Environment (CBE)	Unqualified	No	No	Good	Unchanged	Good	Unchanged	Good	Unchanged
Agrément South Africa (ASA)	Unqualified	No	Yes	Concerning	Regressed	Concerning	Unchanged	Good	Unchanged

Improved

Unchanged

Regressed

Good

Concerning

Intervention required

SECTION 8: Ratings of detailed audit findings


99. 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

100. 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
Senior Manager: National A
31 July 2019

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