**FINAL MANAGEMENT REPORT**

**DEPARTMENT OF PUBLIC WORKS**

**31 March 2012**

**MANAGEMENT REPORT**

**DEPARTMENT OF PUBLIC WORKS**

**31 March 2012**

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**FINAL MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE DEPARTMENT OF PUBLIC WORKS FOR THE YEAR ENDED 31 MARCH 2012**

**INTRODUCTION**

1. Our responsibility is to express an opinion on the financial statements, to express a conclusion on the annual performance report in the management report and to report on material findings relating to compliance with specific requirements in key applicable laws and regulations as set out in the *General Notice* issued in terms of the Public Audit Act, 2004 (Act No. 25 of 2004). Our engagement letter sets out our responsibilities and the responsibilities 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 laws and regulations for the year ended 31 March 2012 which were communicated to management and includes their response to these findings. The report also includes information on the internal control deficiencies that were identified as the root causes for the matters reported. Addressing these deficiencies will assist in ensuring an improvement in the audit outcomes.
3. The management report consists of an executive summary and detailed audit findings which are contained in annexures B to K.

**EXECUTIVE SUMMARY**

**SECTION 1: Meetings with oversight bodies and those charged with governance**

1. During the audit cycle we met with key stakeholders to communicate matters relating to the audit outcomes of the department and emerging risks. Insight was provided on the drivers of the controls that impact these audit outcomes to enable corrective action to be taken.
2. Meetings were conducted as follows:

* Portfolio committee

12 October 2011, 1 November 2011, 15 January 2012, 3 February 2012, 14 February 2012, 21 February 2012, 22 May 2012 and 3 June 2012.

* Executive authority

15 November 2011, 14 March 2012 and 31 July 2012.

* Accounting officer

9 November 2011, 17 February 2012, 15 March 2012, 31 May 2012, 13 June 2012 and 16 August 2012.

* Audit committee

28 October 2011, 27 January 2012 and 29 May 2012.

1. At these meetings commitments were made to address improvements in the internal control environment with the objective of achieving clean administration. The commitments given and the progress made on previous commitments are included under section 2, part F – Status of implementation of commitments and recommendations.

**SECTION 2: MATTERS RELATING TO THE AUDITOR’S REPORT**

**PART A – MISSTATEMENTS IN THE FINANCIAL STATEMENTS**

1. Material misstatements in the financial statements were identified 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 the PFMA.
2. The misstatements not corrected form the basis for the disclaimed opinion on the financial statements.

| **Material misstatements** | | | **Impact**  **R**  current year | **Impact**  **R**  prior year |
| --- | --- | --- | --- | --- |
| **Financial statement item** | **Finding** | **Occurred in prior year** |
| **Material misstatements not corrected** | | | | |
| Immovable tangible capital assets | The department has embarked on a programme to enable it to be in a position to fairly present immovable tangible capital assets in their financial statements by 31 May 2013 in line with the applicable accounting framework and relevant legislation. The immovable assets disclosed at R4 113 644 000 (2010/11: R3 498 747 000) in note 34 to the financial statements could not be supported by a complete and accurate immovable asset register which was prepared in line with prevailing accounting prescripts and legislation. As a result we were unable to satisfy ourselves as to the existence, rights, completeness, valuation and allocation of the department’s immovable assets. | Yes | We were unable to determine the extent to which immovable assets disclosed were misstated. | We were unable to determine the extent to which immovable assets disclosed were misstated. |
| Irregular expenditure | The department has been qualified on the completeness of irregular expenditure since 2009/10 and still does not have an adequate system in place for identifying and recognising all irregular expenditure.  Irregular payments amounting to R35 832 363 have been identified during the audit of the 2011/12 financial year pertaining to procurement that took place during the current financial year. In addition, R38 564 208 worth of irregular expenditure was identified in the current year pertaining to procurement that took place during previous financial years.  Furthermore, the department was not able to provide sufficient appropriate evidence for awards amounting to R28 861 378,45 resulting in a limitation of scope in determining whether these awards were made in line with supply chain management prescripts and whether resultant payments were regular or not.  During the previous financial year’s audit R16 522 542 worth of irregular payments were identified which has been included in the current year disclosure note.  In conclusion were unable to obtain reasonable assurance that all irregular expenditure had been properly recorded. | Yes | Irregular expenditure is understated with R74 396 571.  Furthermore, as a result of the lack of an adequate system in place and limitation of scope we are unable to determine the true extent of the understatement given that aforementioned irregular payments identified are based on audit testing on a sample basis. | Although irregular payments identified during the previous year’s audit amounting to R16 522 542 are now included in the disclosure note, the exercise of revisiting prior year populations to ensure that all irregular expenditure is now completely included was not completed timeously by the department for audit purposes.  Therefore the qualifications from prior years (2009/10 and 2010/11) remains unresolved. |
| Fruitless and wasteful expenditure | During the 2011/12 audit fruitless and wasteful expenditure amounting to R69 114 458 were identified that was not detected or disclosed by the department. Of the R69 114 458, R22 031 pertains to transactions that took place during the 2011/12 financial year and R69 092 427 were incurred in previous financial years.  As these fruitless and wasteful transactions were not identified by the department it casts doubt on the adequacy of the department’s system to identify and recognise all fruitless and wasteful expenditure. We were not able to perform alternative procedures to satisfy ourselves as to the completeness of fruitless and wasteful expenditure disclosed at R76 000 in note 26 to the financial statements. | No | Fruitless and wasteful expenditure is understated with R69 114 458.  However as a result of the lack of an adequate system in place we are unable to determine the true extent of the understatement given that aforementioned fruitless and wasteful payments were identified on a sample basis. | Fruitless and wasteful expenditure is understated with R69 092 427.  However as a result of the lack of an adequate system in place we are unable to determine the true extent of the understatement given that aforementioned fruitless and wasteful payments were identified on a sample basis. |
| Goods and services | The department was unable to supply sufficient appropriate evidence to support certain operating lease transactions, thus resulting in us being unable to satisfy ourselves as to the fair presentation of goods and services expenditure amounting to an estimated amount of R198 993 667. | Yes | 198 993 667 | - |
| Receivables for departmental revenue | In compiling the disclosure note for receivables for departmental revenue the department should ensure that they consider all properties being rented out by the Department of Public Works.  We were unable to trace the information on properties being rented out per the supporting schedule for the disclosure note to the immovable asset register, furthermore due to the immovable asset register being in the process of being reconstructed we were not able to identify all properties currently being rented out by the department.  As a result, we are not able to conclude on the completeness of receivables for departmental revenue is stated at R15 679 000 (2010/11: R9 620 000) in note 24 to the financial statements. | No | Unable to quantify potential understatement of receivables for departmental revenue. | Unable to quantify potential understatement of receivables for departmental revenue. |
| Lease commitments: Operating lease revenue | The department did not initially include any lease commitments for operating lease revenue however subsequently disclosed it at R83 916 000 (2010/11: R112 397 000) – see material misstatements corrected.  The department compiled the supporting schedule from the PMIS system and was not able to supply the actual lease agreement in all instances resulting in an inability to conclude on the fair presentation of operating lease revenue commitments amounting to an estimated R6 467 470 (2010/11: R5 674 117).  Furthermore in instances where lease agreements were provided audit testing revealed an estimated understatement of the operating lease revenue commitments of R20 654 251 (2010/11: R13 284 003).  However, in the absence of a complete and accurate immovable asset register we are not able to determine whether the department has completely accounted for operating lease revenue commitments with respect to all state-owned properties currently being rented out by the department. | No | Unable to quantify potential understatement of lease commitments pertaining to operating lease revenue. | Unable to quantify potential understatement of lease commitments pertaining to operating lease revenue. |
| Commitments | The department was unable to supply us with any supporting documentation to substantiate contract price adjustment provisions (CPAP) amounting to R128 619 136 included in contracts specifically selected for audit testing to verify the fair presentation of commitments.  The department has not quantified the total amount for CPAP included in commitments and as a result we are unable to quantify the extent to which existence, obligations, completeness, valuation and allocation of commitments cannot be confirmed. | No | We are unable to quantify the extent to which commitments might be misstated. | - |
| Related party disclosure | The PMTE is the trading entity of the department and therefore DPW incurs costs on behalf of the trading entity, for example employee costs, the provision of movable assets and other administrative related expenditure. These costs are not recovered from the PMTE and therefore, due to the fact that this does not constitute transactions conducted at arms length as well as the fact that PMTE is under the control of DPW these direct and indirect costs have to be reflected as part of the related party disclosure note.  After costs that could be directly attributed to PMTE were identified an exercise was performed to identify further shared costs between the department and PMTE. A flat rate of 30% was then applied to these costs and payments to the value of R110 386 733 (2010/11: R80 826 057) and employee costs to the value of R114 000 000 (2010/11: R86 000 000) were included in the related party disclosure note, note 27 to the financial statements.  The 30% applied constitute an accounting estimate therefore requiring us to evaluate whether the (significant) assumptions used by management were reasonable and whether the method of measurement used was appropriate in the circumstances. It was concluded that the flat rate at which the expenditure is being apportioned is not reflective of the manner in which the costs are being incurred and therefore in the absence of a system by the department to reliably determine a reasonable percentage based on individual cost drivers we are not able to determine the potential misstatement in indirect costs reflected in the related party disclosure note. | No | We are unable to quantify the potential misstatement of indirect costs reflected in the related party disclosure note. | We are unable to quantify the potential misstatement of indirect costs reflected in the related party disclosure note. |
| **Material misstatements corrected** | | | | |
| Commitments | The department erroneously included the Property Management Trading Entity’s commitments for maintenance expenditure; this should not have been included as the maintenance expenditure is not recovered from the Department of Public Works. This was subsequently removed from the commitments disclosure note. | No | 365 250 809 | 565 294 602 |
| Commitments pertaining to contracts being entered into by IDT on behalf of the Department of Public Works were not initially included in the commitments disclosure note but subsequently added. | No | 33 992 000 | 99 924 000 |
| Costs to be incurred in respect of years two and three for the Microsoft Enterprise Agreement Licensing Pricing (tender HS11/037) were not initially included in the commitments disclosure not but subsequently added. | No | 16 052 316 | - |
| Accruals | Accrual disclosure note was adjusted for the confirmed balance owing to PMTE which was initially not included. | Yes | 91 016 642 | - |
| Lease commitments: Operating lease revenue | The department did not disclose any lease commitments for operating lease revenue in the financial statements submitted for auditing on 31 May 2012 and included it subsequent to an audit query having been raised on this matter. | No | 83 916 000 | 112 397 000 |
| Unauthorised expenditure | Unauthorised expenditure disclosed was reduced as a result of an initial calculation error. | Yes | 4 955 000 | - |
| Irregular expenditure | Included irregular expenditure incurred as a result of transfer payments that were made to Agrèment South Africa, which was not budgeted for as transfer payments, without obtaining prior treasury approval. | No | 7 163 000 | - |
| Related party disclosure | Related party payments made were initially understated with R126 354 749 (payments made to IDT), R149 044 576 (2010/11: R121 395 810) (direct and indirect payments made to PMTE), furthermore an additional R9 180 000 was included as a result of a calculation error on the supporting schedule. | Yes | 284 579 325 | 121 395 810 |
| Narrative added subsequent to submission of financial statements: *“The PMTE pays planned and unplanned maintenance costs on immovable assets being reflected in the annual financial statements of the department (note 45). The planned maintenance amounted to R706,999 million (2010/11: R2 011,053 million) while the unplanned maintenance amounted to R2 194,849 million (2010/11: R812,909 million). These costs are not recovered from DPW by PMTE. An amount of R365,250 million (2011/10 R 565,295 million) was committed for planned and unplanned maintenance by PMTE on behalf of DPW.”* | Yes | 3 267 098 000 | 3 389 257 000 |
| PMTE confirmed balances added to related parties payables. | Yes | 148 945 000 | 51 412 000 |
| Related party commitments: PMTE commitments added subsequent to submission of financial statements for audit purposes. | Yes | 1 916 357 000 | 1 656 284 000 |
| Operating lease commitments added that was not initially disclosed. | Yes | 338 715 000 | 451 715 000 |

**PART B – MATTERS TO BE BROUGHT TO THE ATTENTION OF THE USERS**

**EMPHASIS OF MATTER PARAGRAPHS**

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**

1. As disclosed in notes 4, 12, 14, 16, 19, 23, 24, 27 and 29 to the financial statements, the corresponding figures for 31 March 2011 have been restated as a result of errors discovered during 2012 in the financial statements of the Department of Public Works at, and for the year ended, 31 March 2011.

**Material impairments**

1. As disclosed in note 30 to the financial statements, material impairments to the amount of R109 867 000 were raised as a result of receivables that are considered to be irrecoverable.

**Material underspending of the Vote and Conditional grants**

1. As disclosed in the appropriation statement, the department has materially underspent the budget on programme 2, immovable asset management, to the amount of R424 879 000 and programme 3, expanded public works programme (EPWP), to the amount of R357 493 000. As a consequence, the department has not achieved its objectives of infrastructure delivery with respect to programme 2. In terms of the EPWP, the bulk of the underexpenditure was due to the infrastructure grant to provinces and municipalities not being transferred due to the under-reporting and poor performance by the reporting bodies eligible for the incentive grant.

**ADDITIONAL MATTER PARAGRAPHS**

The following additional 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**

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

**Withdrawal from the audit engagement**

1. Due to the limitation on the scope of the audit, I have disclaimed my opinion on the financial statements. But for the legislated requirement to perform the audit of the department, I would have withdrawn from the engagement in terms of the ISAs.

**Transactions entered into without due regard for economy**

1. The department entered into an irregular facilities management contract worth R400 million (including start up costs amounting to R63 million) with Motseng Facilities Management during 2008. The contract has been renewed on two occasions since expiry and is currently running on a month-to-month basis. The agreement makes provision for the department paying Motseng a 12% profit and attendance fee on every transaction and it has been established that Motseng in essence acts as a procurement agent for the department. Given that, in more instances than not, the department could have easily procured the goods and/or services in question directly these transactions have not been entered into with due regard for economy. Total expenditure on this contract for the financial year ended 31 March 2012 amounted to R154 901 247,10.

**PART C – CONCLUSION ON THE ANNUAL PERFORMANCE REPORT**

Included below is our conclusion on the report on the annual performance report. All matters reported under the basis for conclusion and additional matter will be included in the auditor’s report.

**REPORT ON PREDETERMINED OBJECTIVES**

**Introduction**

1. I have audited the annual performance report of the Department of Public Works for the year ended 31 March 2012, as set out on pages ... to...

**The accounting officer’s responsibilities**

1. The accounting officer is responsible for the preparation and fair presentation of the annual performance report in accordance with the requirements of the applicable laws and regulations, relevant frameworks, circulars and guidance issued by the National Treasury regarding the planning, management, monitoring and reporting of performance against predetermined objectives, and for such internal control as management determines necessary to enable the preparation of annual performance report that is useful and reliable.

**The Auditor-General’s responsibilities**

1. As required by sections 4 and 20 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), read with *General Notice 839 of 2011*, issued in *Government Gazette 34783 of 28 November 2011*, my responsibility is to prepare an audit conclusion on the annual performance report.
2. I conducted my audit in accordance with the International Standards on Assurance Engagements (ISAE) 3000: *Assurance engagements other than audits or reviews of historical information.*

I will report on whether I have received all the information and explanations required to conduct the engagement, or if I became aware of additional information, the omission of which may result in the annual performance report being materially misstated or misleading.

1. I provide limited assurance with respect to the usefulness of the information contained in the annual performance report.

I further provide limited assurance with respect to the reliability of the following selected material programmes as set out in the annual performance report:

* Programme 2: Immovable Asset Management
* Programme 3: Expanded Public Works Programme (EPWP)
* Programme 4: Property and Construction Industry Policy Regulations

1. The criteria used as a basis for the audit conclusion are as follows:

**Usefulness of information:**

Presentation: Performance against predetermined objectives is reported using the relevant principles from the National Treasury guidelines.

Consistency: Objectives, indicators and targets are consistent between planning and reporting documents as required by the National Treasury Regulations.

Measurability: Indicators are well defined and verifiable, and targets are specific, measurable and time bound, as required by the National Treasury *Framework for managing programme performance information*.

Relevance: The indicators/measures relate logically and directly to an aspect of the institution's mandate and the realisation of strategic goals and objectives, as required by the National Treasury *Framework for managing programme performance information*.

**Reliability of information:**

Validity: Reported performance has occurred and relates to the institution.

Accuracy: Amounts, numbers and other data relating to reported performance have been recorded and reported correctly.

Completeness: All actual performance that should have been recorded has been included in the reported performance information.

1. The audit involves performing procedures to obtain audit evidence about the usefulness of the annual performance report and reliability of the selected programmes as set out in the annual performance report. The procedures selected depend on the auditor’s judgement, including our assessment of the risks of material misstatement of the annual performance report. Because of the test nature and other inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some, even material, misstatements may not be detected, even though the audit is properly planned and performed in accordance with the ISAE 3000. The procedures performed include the following:

* Understanding and testing the internal policies, procedures and controls relating to the management of and reporting on performance information
* Evaluating and testing processes, systems, controls and review of documentation in place at a detail level in the audited institution to support the generation, collation, aggregation, monitoring and reporting of the selected performance indicators and targets
* Evaluating, testing and confirmation of the existence and consistency of planned and reported performance information as well as the presentation and disclosure thereof in accordance with applicable requirements and guidance
* Conducting detailed audit testing and obtaining sufficient appropriate audit evidence to verify the validity, accuracy and completeness of reported indicators and targets.

1. I believe that the evidence obtained from the work performed provides an appropriate basis for the limited assurance conclusions expressed below.

**Usefulness of annual performance report**

**Basis for adverse conclusion**

***Presentation***

**Reasons for major variances not supported by sufficient appropriate evidence**

1. The National Treasury *Guide for the preparation of the annual report* requires that explanations for major variances between the planned and reported (actual) targets should be provided in all instances and should also be supported by adequate and reliable corroborating evidence. Adequate and reliable corroborating evidence could not be provided for 64% of major variances as disclosed in the annual performance report. This was due to the absence of adequate information systems. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the validity, accuracy and completeness of the reasons for major variances.

**Reasons for major variances not explained**

1. A total of 23% of major variances between planned and actual achievements were not explained in the annual performance report for the year under review as per the National Treasury annual report preparation guide. This was due to a lack of documented and approved internal policies and procedures to address reporting processes and events pertaining to performance management and reporting and limited review of the presentation of the annual performance report by management and audit committee.

***Measurability***

[**Performance targets not specific**](#Performance_targets_not_specific)

1. The National Treasury *Framework for managing programme performance information (FMPPI)* requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 23% of the targets relevant to programmes 2 and 4 were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management did not timeously implement corrective action on prior year audit findings raised in this regard.

[**Performance targets not measurable**](#Performance_targets_not_specific)

1. The National Treasury *Framework for managing programme performance information (FMPPI)* requires that performance targets be measurable. The required performance could not be measured for a total of 39% of the targets relevant to programmes 2 and 4. This was due to the fact that management did not timeously implement corrective action on prior year audit findings raised in this regard.

[**Performance indicators not well defined**](#Well_defined)

1. The National Treasury *Framework for managing programme performance information (FMPPI)* requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 80% of the indicators relevant to programmes 2 and 4 were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management did not receive the necessary training to enable application of the principles.

[**Indicators not verifiable**](#Well_defined)

1. The National Treasury *Framework for managing programme performance information* *(FMPPI)* requires that it must be possible to validate the processes and systems that produce the indicator. A total of 78% of the indicators relevant to programmes 2 and 4 were not verifiable in that valid processes and systems that produce the information on actual performance did not exist.

**Reliability of selected programmes in the annual performance report**

**Basis for qualified conclusions**

***Validity***

**Reported performance not valid**

1. The National Treasury *Framework for managing programme performance information (FMPPI)* requires that processes and systems which produce the indicator should be verifiable. A total of 33% of the actual reported performance relevant to the selected programmes was not valid when compared to the evidence provided. This was due to a lack of standard operating procedures for the recording of actual achievements and a lack of monitoring and reviewing by senior management and internal audit.

***Accuracy***

**Reported performance not accurate**

1. The National Treasury *Framework for managing programme performance information (FMPPI)* requires that the indicator be accurate enough for its intended use and respond to changes in the level of performance. A total of 44% of the actual reported indicators relevant to programmes 2, 3 and 4 were not accurate when compared to source information. This was due to a lack of standard operating procedures for the recording of actual achievements and a lack of monitoring and reviewing by senior management and internal audit.

***Completeness***

**Source information supporting actual performance not complete**

1. The National Treasury *Framework for managing programme performance information (FMPPI)* requires that documentation addressing the systems and processes for identifying, collecting, collating, verifying and storing information be properly maintained. Source information for 44% of the actual reported performance, for the selected programmes, was not completely recorded. This was due to an inadequate document management system with regard to actual performance achievements.

**Conclusions**

1. On the usefulness of the annual performance report on which I am required to express limited assurance.

**Adverse conclusion**

Based on the work described in this report and because of the significance of the matters described in the basis for adverse conclusion paragraphs, the annual performance report is not useful in accordance with the predetermined criteria.

1. On the reliability of the selected programmes on which I am required to express limited assurance.

**Qualified conclusion**

Based on my work described in this report, except for the effects of the matters described in the basis for qualified conclusion paragraphs, nothing has come to my attention that causes me to believe that the selected programmes set out in the annual performance report is not fairly stated, in all material respects, in accordance with predetermined criteria.

**Additional matters**

1. I draw attention to the matters below. My conclusion is not modified in respect of these matters:

**Achievement of planned targets**

1. Of the total number of planned targets, only 36 were achieved during the year under review. This represents 54% of total planned targets that were not achieved during the year under review. This was as a result of the department not considering relevant systems and evidential requirements during the annual strategic planning process and an underspending of the budget on programmes 2 and 3.

**Material adjustments to the annual performance report**

1. Material audit adjustments in the annual performance report were identified during the audit, of which some were corrected by management and those that were not corrected are included in the basis for qualified conclusion paragraphs.

**PART D – FINDINGS ON COMPLIANCE WITH LAWS AND REGULATIONS**

Included below are material findings of non-compliance with specific requirements in key applicable laws and regulations.

**Annual financial statements, performance and annual report**

1. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records as required by section 40(1)(a) and (b) of the Public Finance Management Act.

Material misstatements identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a disclaimer of audit opinion.

**Asset management**

1. Proper control systems to safeguard and maintain assets were not implemented, as required by section 38(1)(d) of the Public Finance Management Act and Treasury Regulation 10.1.1(a).

**Budgets**

1. The accounting officer did not take effective and appropriate steps to prevent overspending of the budget, as required by section 39(2)(a) of the Public Finance Management Act
2. The budget for compensation of employees was exceeded, in contravention of Treasury Regulation 8.3.2.
3. Transfers that were not originally budgeted for were made without the approval of national treasury, as required by Treasury Regulations 6.3.1(b) and 6.3.1(d).
4. The accounting officer did not submit monthly reports on actual and budgeted revenue and expenditure to the national treasury, as required by sections 40(4)(b) and 40(4)(c) of the Public Finance Management Act.

**Expenditure management**

1. The accounting officer did not take effective steps to prevent irregular and fruitless and wasteful expenditure, as required by section 38(1)(c)(ii) of the Public Finance Management Act and Treasury Regulation 9.1.1.
2. Effective and appropriate disciplinary steps were not taken against officials who made and permitted irregular expenditure, as required by section 38(1)(h)(iii) of the Public Finance Management Act and Treasury Regulation 9.1.3.
3. Contractual obligations and money owed by the department were not settled within 30 days or an agreed period, as required by section 38(1)(f) of the Public Finance Management Act and Treasury Regulation 8.2.3.

**Financial misconduct**

1. Investigations were not conducted into all allegations of financial misconduct committed by officials, as required by Treasury Regulation 4.1.1.
2. Investigations into allegations of financial misconduct against officials were not instituted within 30 days of discovery thereof, as required by Treasury Regulation 4.1.2.
3. Disciplinary hearings were not held for financial misconduct committed by officials, as required by Treasury Regulation 4.1.1.

**Human resources management**

1. Appointments were made in posts which were not approved and funded, as required by Public Service Regulation 1/III/ F.1(a) and (d).
2. Funded vacant posts were not filled within 12 months as required by Public Service Regulation 1/VII/C.1A.2.
3. Employees acted in higher vacant posts for more than 12 months in contravention of Public Service Regulation 1/VII/B.5.3.
4. Persons in charge at pay points did not always certify that the employees receiving payment were entitled thereto as required by TR 8.3.4.
5. An organisational structure was not in place that are based on the department's strategic plan as required by Public Service Regulation 1/III/B.2(a).

**Internal audit**

1. The internal audit function did not assess the operational procedure and monitoring mechanisms over all transfers made and received, including transfers in terms of the annual Division of Revenue Act, as required by Treasury Regulation 3.2.8.

**Procurement and contract management**

1. Goods and services with a transaction value below R500 000 were procured without obtaining the required price quotations, as required by Treasury Regulation 16A6.1.
2. Goods and services of a transaction value above R500 000 were procured without inviting competitive bids, as required by Treasury Regulations 16A6.1. Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of Treasury regulation 16A6.4.
3. Invitations for competitive bidding were not always advertised for a required minimum period of 21 days, as required by Treasury Regulations 16A6.3(c).
4. Contracts were awarded to bidders who did not submit a declaration of past supply chain practices such as fraud, abuse of SCM system and non-performance, which is prescribed in order to comply with Treasury regulation 16A9.1.
5. Contracts and quotations were awarded to suppliers whose tax matters had not been declared by the South African Revenue Services to be in order as required by Treasury Regulations 16A9.1(d) and the Preferential Procurement Regulations.
6. Quotations were awarded to bidders based on preference points that were not calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
7. Quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, which is prescribed in order to comply with Treasury regulation 16A8.3.
8. Constructions projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act and CIDB regulation 18.
9. Employees of the department performed remunerative work outside their employment in the department without written permission from the relevant authority as required by section 30 of the Public Service Act.
10. Allegations of fraud, corruption, improper conduct and failure to comply with the supply chain management system laid against officials and role players in the supply chain management system were not investigated as required by Treasury Regulation 16A9.1(b)
11. Appropriate action was not taken against officials and role players in the supply chain management system where investigations proved fraud and corruption and improper conduct and failure to comply with the supply chain management system, as required by Treasury Regulation 16A9.1(b)(i).
12. Persons in service of the department who or whose close family members had a private or business interest in contracts awarded by the department participated in the process relating to that contract in contravention of Treasury Regulation 16A8.4.
13. The accounting officer did not in all instances report within 10 working days to the Auditor-General all cases where goods and services above the value of R1 million (VAT included) had been procured in terms of Treasury Regulation 16A6.4 as required by National Treasury Practice Note 6 of 2007/2008.

**Revenue management**

1. The accounting officer did not take effective and appropriate steps to collect all money due, as required by section 38(1)(c)(i) of the Public Finance Management Act and Treasury Regulations 11.2.1, 15.10.1.2(a) and 15.10.1.2(e).
2. Immovable state property was sold at below mark-related values in contravention of Treasury Regulation 16A7.3.
3. Sufficient appropriate audit evidence could not be obtained that immovable state property was let at market-related tariffs, as required by Treasury Regulation 16A7.4.

**Strategic planning**

1. The accounting officer did not ensure that the department had and maintained an effective, efficient and transparent system of internal control regarding performance management, which described and represented how the department's processes of performance planning, monitoring, measurement, review and reporting were conducted, organised and managed as required by section 38(1)(a)(i) and (b) of the PFMA.

**PART E – INTERNAL CONTROL**

**IMPLEMENTATION OF THE DRIVERS OF INTERNAL CONTROL**

1. The implementation of effective internal control helps in the achievement of important objectives and sustained and improved performance. Objectives are derived from the regulatory environment and fall into the following categories:

* Operations – Effectiveness and efficiency of operations including goals for operational and financial performance and safeguarding resources against loss (financial and performance management)
* Reporting – Pertaining to the reliability of reporting including internal and external reporting of financial and non-financial information
* Compliance – Pertaining to compliance with laws and regulations.

1. Objectives are driven by the mandate and the mission and vision of the organisation. Setting objectives is a prerequisite to internal control and a key part of strategic planning.
2. Internal control is a multi-dimensional iterative process of ongoing tasks and activities, affected by the people not just policies and systems, which provide assurance concerning the achievement of objectives. The fundamental principles contained in the drivers of internal control below must be present and operate together in order for the system of internal control to be effective.
3. For purposes of focusing corrective action, the principles of the different components of internal control have been categorised under leadership, finance and performance management and governance. These are the drivers of internal control.
4. The leadership of an organisation sets the tone from the top regarding the importance of internal controls and expected standards of conduct. This establishes the control environment which is the foundation for the other components of internal control and provides discipline, process and structure. In order to establish what control activities (e.g. policies and procedures) are required to ensure achievement of the control objectives a risk assessment should be conducted.

The availability of accurate and complete information and the communication of information, another component of internal control, are required to carry out the day-to-day internal control activities. Thereafter there should be ongoing monitoring of activities (good governance) to ascertain whether all components of internal control are present and functioning.

1. When internal control is effective, management and those charged with governance have reasonable assurance that operations are managed effectively and efficiently, financial and non-financial reporting is reliable and laws and regulations are complied with.
2. Below is our assessment of the implementation of the drivers of internal control based on significant deficiencies identified during our audit of the financial statements, the annual performance report and compliance with laws and regulations. Significant deficiencies occur when internal controls either do not exist or are not appropriately designed to address the risk or are not implemented and which either had or could cause the financial statements or the annual performance report to be materially misstated and material non-compliance with laws and regulations to occur.

When the required preventative or detective controls are in place, it is assessed with a, when progress on the implementation of such controls were made but improvement is still required, it is assessed with a, while indicates that internal controls are not in place and intervention is required to design and implement appropriate controls. The movement in the status of the drivers from the previous year-end to the current year-end assessment is indicated, collectively for each of the three audit dimensions under the three fundamentals of internal control, with a (improved), (unchanged) or a (regressed).

| **The audit dimensions**  **Fundamentals**  **of internal control** | **Financial** | **Performance objectives** | **Compliance with laws and regulations** |
| --- | --- | --- | --- |
| **Leadership** | | | |
| **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 and related internal controls |  |  |  |
|
| * Implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored |  |  |  |
|
| * Establish and communicate policies and procedures to enable and support 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 IT governance framework that supports and enables the business, delivers value and improves performance |  |  |  |
|
| **Financial and performance management** | | | |
| **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 laws and regulations |  |  |  |
|
| * Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information |  |  |  |
|
| **Governance** | | | |
| **Movement from previous assessment** |  |  |  |
| * Implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT 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 |  |  |  |
|
| * Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment including financial and performance reporting and compliance with laws and regulations |  |  |  |
|

**LEADERSHIP**

**Effective leadership**

1. The department has been negatively affected by inconsistency in leadership. It is with concern that it is noted that critical leadership positions in the department, most noticeably those of DG, COO and CFO are being filled by acting incumbents. Internal allegations into financial misconduct are not being timeously investigated and in instances where the investigations are concluded immediate action is not taken in respect of the recommendations for disciplinary action. The aforementioned matters are deterrents in providing effective leadership.

Management has established a formal code of conduct which addresses appropriate ethical and moral behaviour, but the code was not effectively communicated to all staff. Furthermore cognisance is taken of the fact that some training interventions have taken place however not all staff properly understands the code and implement it.

The past financial year has seen several high level suspensions and there are ongoing investigations which draw into question the integrity and ethical tone throughout department.

**Oversight responsibility**

1. Oversight responsibility is not effectively discharged. There is a lack of credible financial reporting throughout the year to enable leadership to review and take appropriate action, should this have been in place the department might, amongst others, have avoided the unauthorised expenditure incurred. The inaccuracies in financial reporting (including the financial statements) to a large extent could have been avoided if the information was diligently reviewed by appropriate members of senior management.

Quarterly performance reports were not prepared or approved timeously throughout the 2011-12 financial year and resolution of prior year audit findings on performance information was not given priority. Sufficient monitoring controls were not in place to ensure the proper implementation of the overall process of planning, budgeting, implementation and reporting.

With respect to compliance, the most critical area of non-compliance remains supply chain management. Although certain checklists are in place, these are not in all instances honestly completed and where non-compliance is identified consequence management (disciplinary procedures) is not consistently and aggressively applied – thus the department continues to incur irregular expenditure.

Although it is noted that the immovable asset project is a multi-year project important decision making in the department pertaining to immovable asset management will be negatively affected until such time there is a complete and accurate immovable asset register.

Improving the quality of oversight in the regional offices also remains an area that required urgent intervention.

**Human resource management**

1. The department still lacks sufficiently skilled resources; this is especially of concern for regional offices. Until such time that the department has adequate skills capacity across the board it will remain a challenge to address audit qualifications/findings. Note is taken of the appointment of consultants to assist in this process, it must however be re-iterated that it is of utmost importance to manage these consultants in terms of quality and deadlines and to monitor the skills transfer to the department’s permanent employees.

The department did not properly plan and provide training on performance information planning, management and reporting.

The department did not hold performance management and reporting staff accountable for shortcomings identified during the internal and external audit processes.

**Policies and procedures**

1. Documented and approved policies and procedures to guide the department’s operations are not in place for all financial and performance management business processes of the department. Although certain reviews are in progress there has not been a material change in respect of policies approved and implemented at the end of the 2011/12 financial year.

The department is still functioning without an up to date, approved and implemented comprehensive policy and procedure structure as existing policies are continuously being updated by means of internal circulars. We accept that the utilisation of internal circulars are an acceptable means to provide updates to policies or procedures as it is not feasible to update policies and procedures in its entirety every time there is a matter that requires updating, it is however imperative that there is a consolidation and review exercise at least on an annual basis.

The aforementioned lack of policies and procedures has resulted in numerous instances of non-compliance with the PFMA, as detailed under the “findings on compliance with laws and regulations” section of this report. Intervention is required to ensure that the situation is remedied as a matter of urgency. This matter has been reported for a number of years in a row.

**Action plans to address internal control deficiencies**

1. The action plan of the department is a constantly changing document. There is now a standing bi-weekly meeting (since the introduction of the members of the stabilisation task team) however the emphasis currently is still in drafting a comprehensive action plan and not actual implementation and monitoring of deadlines for implementation. The failure to finalise and successfully implement an action plan after the 2010/11 disclaimer of audit opinion has resulted in the department not improving its audit outcome for the 2011/12 financial year.

**IT governance framework**

1. The following matters are highlighted with respect to the IT governance framework:

***Oversight responsibility regarding financial and performance reporting***

* + Management did not conduct regular review, as stipulated in the procedure manual, of user accounts on PMIS created to ensure that they were still in line with the purpose they were created for.
  + The role that the IS Steering committee is supposed to fulfil is lacking as their support and guidance to the IS management team is not visible.
  + The support and maintenance agreement with Data-centrix expired on 31 March 2011.
  + There is currently no clear process on how and when CD: Information Services presents project budget to any management forum.
  + There was lack of change management committee at the project and steering committee levels to manage changes on the iE-Works project*.*
  + The adopted framework is not enforced or monitored for compliance by the executive management of the department or at delegated forums like IS steering committee meetings impacting negatively on the implementation of iE-Works.

***Effective human resource management***

* + The position of the Assistant Director had been vacant for 15 months; this resulted in an administrative burden.
  + The department’s human resources recruitment processes are taking long to fill vacant positions.

***Develop and monitor the implementation of action plans to address internal control deficiencies***

* + The IS management team commitment of the previous year to review and update the procedure manual was not implemented.

***Implementation of policies and procedures***

* + Over reliance on the security management software solutions and management did not ensure that there is always compliance to the user account management processes outlined in the IS Operating Manual.
  + There is lack of comprehensive System Development Life Cycle (SDLC) framework that incorporates all the required processes which resulted in a lack of adequately documented systems test strategy, quality assurance and implementation plans for iE-Works.

**Establishment of an IT governance framework**

* + The steering committee was only established late into the 2011-12 financial year around October 2011and by then a business plan was already developed. Furthermore, the IS steering committee together with the IS management team did not implement the provisions and directives outlined in paragraph 4 of the steering committee terms of reference which outlines the responsibilities and activities of the committee.
  + The IS management team did not establish adequate processes to monitor and manage services provided by the service providers.

**FINANCIAL AND PERFORMANCE MANAGEMENT**

**Record management**

1. As indicated in our engagement letter, we agreed that all information requested for purposes of the audit would be submitted within three working days of the request by the auditors. Despite this agreement, management did not supply the documentation requested timeously in all instances. The following instances of significant delays are highlighted:

| **Request for information number** | **Information requested** | **Delay in submission of information** |
| --- | --- | --- |
| 66 | Status of disclosure items (restatements for previous misstatements) | 90 days |
| 127 | Ministerial letter for uplifting suspensions | 86 days |
| 84 | Employee files, copy of salary scales, signed performance contracts, overtime claims, overtime authorisation, journals and payment batches | 82 days |
| 173 | Motseng contract | 74 days |
| Per letter to DG | Immovable asset register (requested to be submitted on 31 March 2012 however only submitted on 4 June 2012) | 62 days |
| 59 | Tender files | 60 days |
| 40 | List of all awards made to suppliers and gift register | 58 days |
| 114 | List of all asset write offs | 55 days |
| 138 | List of entities that only partially pay accommodation/ do not pay accommodation and DPW carries the cost. | 52 days |
| 170 | Report to the Public Service Commission pertaining to the current financial year with regard to disciplinary proceedings | 49 days |
| Per legislation | The EPWP fourth quarter information was not submitted with the annual performance report on 31 May 2012, the department subsequently applied for the information to be audited. It was accepted on 17 July 2012. | 47 days |
| 157 | 30 day payment report for March and April | 47 days |
| 96 | Updated list of policies | 42 days |
| 128 | Employee files | 39 days |
| 34 | Conflict of interest information | 37 days |
| 62 | Tender files | 37 days |
| 121 | Employee files | 37 days |
| 164 | Performance and employment contracts | 37 days |
| 35 | List of underperforming contractors | 28 days |
| 72 | Updated contract register | 28 days |
| 162 | Rates and taxes paid on rental debtors | 28 days |
| 169 | Updated list of investigations | 22 days |
| 41 | List of tenders that were advertised for less than 21 days | 21 days |
| 274 | IDT Contracts and payment batches | 21 days |
| 284 | IDT - The MAC consulting - conflict of interest | 21 days |

Although some improvement has been noted the entity still does not have a proper system of record management in place 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, storing and reporting of actual performance information. This particularly posed a challenge when actual performance in respect of the EPWP programme had to be verified at premises of reporting bodies.

**Daily and monthly processing and reconciling of transactions**

1. Management did not successfully implement the following daily and monthly controls:

* The immovable asset register is under construction and therefore cannot be assessed at this point in time.
* Appropriate monthly creditors reconciliations were not consistently and timeously performed and reviewed throughout the department during the financial year under review.
* Appropriate monthly prepayment reconciliations (pertaining to IDT transactions).
* Movable asset movements were not timeously updated with the Head Office move and the Head Office movable asset register had to be reconstructed.
* Significant challenges are still being experienced with the timeous performance and reviewing of all reconciliations in the regional offices.
* Challenges are being experienced with the capturing of EPWP data by the reporting agencies on the EPWP database.

**Regular, accurate and complete financial and performance reports**

1. Management does not prepare regular, accurate and complete financial and performance reports throughout the year that are supported and evidenced by reliable information. The interim financial statements prepared contained numerous errors and quarterly performance reports were not prepared and reviewed timeously.

The department must start embracing the benefits of having up to date financial and performance management information available at any time, this will enhance decision making in the department and enable timeous corrective action where necessary. It is of particular importance that this is also applied to disclosure notes to alleviate the pressure of only collecting and collating the required information after year-end.

As indicated in section 2, parts A and C of this report, the financial statements and annual performance report contained numerous misstatements that were corrected. This was mainly due to staff members not fully understanding the requirements of the financial reporting framework and prevailing performance information requirements.

**Compliance monitoring**

1. Compliance is not effectively monitored on a regular basis and more importantly non-compliance is not addressed in a timely manner. The extensive non-compliance with laws and regulations reported in part D above could have been prevented had compliance been properly reviewed and monitored.

**Formal control over IT systems**

1. The Human Resource Administration management team had not ensured that the established controls are adhered to and are adequately mitigating the risk associated with systems access.

Due to the lack of capacity and budget constrains the Disaster Recovery Plan (DRP) was not implemented.

Due to bandwidth limitations, the regional offices are unable to synchronise data to Head Office for backup purposes impact negatively on iE-Works, eProcure and File and Exchange servers.

A transversal contract that based on SITA 348 Tender Engagement Model was used and did not adequately address or outline the terms and conditions that deals with project pricing and the use of IP derived from development of iE-Works application system.

Delay in the implementation of iE-Works to replace PMIS resulted in PMIS server hosting environment no longer supported by the manufacturer.

**GOVERNANCE**

**Risk management activities and risk strategy**

1. Risk management did not receive the required priority in the department during the financial year under review. The department embarked on a risk assessment however months later the process was still not finalised negating the purpose of risk management which is to manage critical risks in the department on an ongoing basis.

The department has a risk management unit however until recently this unit only consisted of two individuals. The risk committee did not hold the minimum amount of meetings in line with their charter. Although some risk assessment activities did take place in the department, risk identification and mitigation was not successfully implemented in the 2011/12 financial year.

**Internal audit**

1. Although the department has an internal audit division, it is not functioning adequately for the following reasons:

* The internal audit function has capacity problems and thus is struggling to effectively and comprehensively monitor effectiveness of the internal controls designed by management.
* Internal audit does not effectively review the financial and performance reports prior to its submission to the audit committee or external auditors.
* Although internal audit does some follow up work in respect of the implementation of internal and external audit recommendations are performed, it was not effective in the sense that there have not been significant improvements to the audit outcomes.
* The internal audit function did not conduct internal audits/reviews of performance information systems and management that focused on compliance aspects as well as the usefulness and reliability of the reported performance information.

In line with the provisions of the Institute of Internal Auditors an independent review on the quality of the work of internal audit has to be performed every five years. Internal audit has to arrange for this review to take place and it is currently overdue.

**Audit committee**

1. The audit committee has consistently reported concerns with the number of control issues raised by Internal Audit and the Auditor General. The committee concurred at the end of the previous financial year that there were inadequate control processes and procedures, by design and implementation, to ensure the accuracy and completeness of the financial statements and performance information. The audit committee is effective in executing its mandate in terms of compliance; however the committee has to date not been effective in achieving positive/improved audit outcomes at the department. The chairperson of the audit committee should meet regularly with the Executive Authority.

**SUMMARY**

1. The matters above, as they relate to the basis for disclaimer of opinion, findings on the annual performance report and findings on compliance with laws and regulations, will be summarised in the auditor’s report as follows:

**Leadership**

1. Instability in key leadership positions had a negative impact in providing effective leadership in the department.
2. Leadership is not enforcing the message of accountability for actions and outcomes. There is a significant lack of consequences for poor performance and transgressions in the department.
3. The accounting officer did not exercise effective oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.
4. The accounting officer did not in all instances establish and communicate policies and procedures to enable and support the understanding and execution of internal objectives, processes and responsibilities.
5. There is a high level turnaround strategy for the department however it did not timeously translate into a comprehensively documented audit action plan with deadlines and short and long term milestones and deliverables to sustainably address internal control deficiencies. The various action plans in existence throughout the year under review were not effectively managed and therefore improvement on the audit outcome was not realised.

**Financial and performance management**

1. Proper record keeping was not always implemented in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting.
2. Implemented controls over daily and monthly processing and reconciling of transactions were ineffective.
3. The accounting officer did not prepare regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information.
4. There is not adequate discipline in preparing credible monthly financial, performance and compliance reports to enable effective decision making by leadership and timeous corrective action where required. This is further compounded by a lack of financial and performance management skills in the department.
5. The reviewing and monitoring of compliance with applicable laws and regulations were ineffective.

**Governance**

1. Risk management activities, including the consideration of IT risks and fraud prevention, were not effectively conducted. A risk strategy to address identified risks was not developed and monitored throughout the financial year.
2. The accounting officer did not ensure that the internal audit unit was adequately resourced to ensure that the unit could effectively assist in identifying internal control deficiencies and developing recommendations in respect of corrective action to be taken to address the internal control deficiencies identified. This has also resulted in a significant backlog on internal investigations.

**PART F – STATUS OF IMPLEMENTATION OF COMMITMENTS AND RECOMMENDATIONS**

1. Below is our assessment of the progress on commitments made by the accounting officer to address audit outcomes in the prior and current years. The department is encouraged to strengthen its internal monitoring by assessing the fundamentals of internal controls on a frequent basis to achieve clean administration.

| **No** | **Commitment** | **Made by** | **Date** | **Status** |
| --- | --- | --- | --- | --- |
| **1. Supply Chain management** | | | | |
| 1(a) | The department commit to clear irregular expenditure and non-compliant expenditure by developing relevant policies and procedures, enhancing the monitoring, enforcing compliance and holding officials accountable. | Mr. M Mabuza (acting DG at the time) | 4 Nov. 2011 | Not yet implemented, this is evidenced by repeat findings in current year on completeness of irregular expenditure. |
| 1(b) | Records management will also be improved to enable proper audit trail. | Mr. M Mabuza (acting DG at the time) | 4 Nov. 2011 | Records management improved however certain limitation of scope matters prevail, especially with respect to documentation pertaining to non-successful bids. |
| 1(c) | Demand management plans will also be operationalized to reduce urgent and emergency cases. | Mr. M Mabuza (acting DG at the time) | 4 Nov. 2011 | Not yet implemented, this is hampered by the lack of a proper contract register. |
| 1(d) | Capacity will be created at Head Office and Regional level. | Mr. M Mabuza (acting DG at the time) | 4 Nov. 2011 | Capacity with the required skills remains a challenge, especially on regional level – thus in progress. |
| 1(e) | Training will also be provided to all SCM officials. | Mr. M Mabuza (acting DG at the time) | 4 Nov. 2011 | In progress, training is being done it is however a concern that there is not a noticeable improvement in SCM compliance, therefore casting a doubt on the effectiveness of the training. |
| **2. Predetermined objectives** | | | | |
| 2(a) | The department commits to improving the monitoring of performance information by capacitating the unit, improving the reliability, validity and measurability of targets.  The Operational and Strategic Plans will be improved to show reliable information. | Mr. M Mabuza (acting DG at the time) | 4 Nov. 2011 | Not implemented with respect to usefulness of information (including measurability). In progress with respect to reliability. |
| **3. Financial management** | | | | |
| 3(a) | The department commit to improving the financial management by conducting monthly reconciliations, managing the commitments, contingent liabilities and assets, and accruals better. | Mr. M Mabuza (acting DG at the time) | 4 Nov. 2011 | Not yet implemented as concerns are still present, for example the department and PMTE did not reconcile transactions between them thus affecting balances in question. The department also did not reconcile financial information for their projects being implemented at IDT timeously. |
| 3(b) | Improving review of the financial statements. The regions will also be provided with support to ensure that they provide quality information. Managers will be held accountable for non-compliance. | Mr. M Mabuza (acting DG at the time) | 4 Nov. 2011 | Not yet fully implemented, review process of financial statements and the submission of documentation in support of the financial statements have improved in comparison to the prior year. It is however still not at a satisfactory level. We have not observed managers being held accountable for not providing quality financial information. |
| 3(c) | Developed action plans will be closely monitored. | Mr. M Mabuza (acting DG at the time) | 4 Nov. 2011 | Not yet implemented, the action plans are a work in progress and fixed deadlines for implementation is not being tracked. |
| **4. IT controls** | | | | |
| 4(a) | We have already commenced with a complete assessment of the IT architecture of the department. The terms of reference includes, governance issues as well as improvement of controls. | Mr. M Mabuza (acting DG at the time) | 4 Nov. 2011 | In progress, concerns surrounding delay of implementation of IE Works and PMIS not being reliable for immovable asset management. |
| **5. Human Resource Management** | | | | |
| 5(a) | The Human resource unit has commenced with the improvement of controls around the signing of payroll. Non-compliance will be dealt with harshly. | Mr. M Mabuza (acting DG at the time) | 4 Nov. 2011 | Not implemented, see non-compliance with certification of payroll reported above. |
| 5(b) | The filling of vacant posts is on-going and strictly monitored. | Mr. M Mabuza (acting DG at the time) | 4 Nov. 2011 | In progress. |
| **6. Governance** | | | | |
| 6(a) | The department has implemented an Executive Committee Charter which is aimed at providing a framework for the effective management of the department. Monitoring of the compliance with the charter will be done by the internal audit. | Mr. M Mabuza (acting DG at the time) | 4 Nov. 2011 | Partially implemented, EXCO charter is in place however no evidence of monitoring thereof by internal audit. |
| 6(b) | The risk management unit will be capacitated to enable improved risk management for all operations. | Mr. M Mabuza (acting DG at the time) | 4 Nov. 2011 | Not yet implemented, risk management unit is still severely understaffed. |
| **7. Asset management** | | | | |
| 7(a) | The department has already appointed a Programme Management company to assist with the immovable asset register. A comprehensive plan is currently being developed. We commit to have a complete immovable asset register by 2014. | Mr. M Mabuza (acting DG at the time) | 4 Nov. 2011 | In progress, this is a multi-year project. |
| 7(b) | There is also an on-going improvement of the movable asset register. | Mr. M Mabuza (acting DG at the time) | 4 Nov. 2011 | Ongoing. |
| **8. Compliance** | | | | |
| 8(a) | The department is committing to review and align all the operational and financial management policies. All policies will be work shopped with relevant staff. Non-compliance will be dealt with harshly. | Mr. M Mabuza (acting DG at the time) | 4 Nov. 2011 | Not implemented, updated policies and procedures still not in place. Limited evidence of harsh action being taken against officials for non-compliance. |

**PART G – INVESTIGATIONS AND OTHER AUDIT**

1. The following investigations and audit, which relate to the department are in progress or have been completed.

**INVESTIGATIONS**

1. The following table contains a summary of the types of transgressions that were investigated during the financial year and those that are in progress:

| **Description** | **Reason** | | |
| --- | --- | --- | --- |
| **Supply chain management** | **Fraud** | **Financial misconduct** |
| An investigation is being conducted by the Special Investigating Unit (SIU) to probe the alleged abuse of urgent and emergency procurement as well the utilisation of sole suppliers. The investigation aims to establish whether there was collusion between officials and service providers and to determine any reckless spending of funds. The investigation was still ongoing at the reporting date. | Yes | Potential fraud is being probed | Potential financial misconduct is being probed |
| Various cases are in the process of being investigated by internal audit.  Progress as at 27 July 2012 is as follows:  There are 28 investigations in progress pertaining to the 2009-10 financial year of which 15 have been transferred to other business units or other law enforcement agencies.  With respect to the 2010-11 financial year there are 4 cases for which the investigations have not yet commenced, 15 investigations are in progress and 4 have been transferred to other business units or law enforcement agencies.  During the financial year under review 38 investigations have not yet commenced of which 14 were transferred to the compliance unit. | Yes | Potential fraud is being probed | Potential financial misconduct is being probed |
| Internal audit has finalised 18 investigations during the year under review in conjunction with contracted firms and agencies. | Yes | Yes | Yes |

1. It is noted that internal audit has attempted to address the backlog of internal investigations by outsourcing some of the investigations; the backlog is however still at an unacceptable level considering that potential irregularities might continue to occur whilst allegations remain untouched.
2. As part of the audit process we performed a review of whether or not the corrective and/or disciplinary actions recommended in the finalised investigation reports have been addressed by the department. It was determined that conclusive follow up actions have only been performed in 6 of the 18 cases. This is contrary to the commitment made after the audit outcome of the prior year that officials will be held accountable for their actions and does not portray a message of zero tolerance against transgressors.

**PERFORMANCE AUDIT**

1. A performance audit was conducted during the year under review on the Department of Public Works’ readiness to fulfil its performance oversight roles and responsibilities. The report was finalised in August 2012.

**SECTION 3: SPECIFIC FOCUS AREAS**

**PART A – SIGNIFICANT FINDINGS FROM THE AUDIT OF PROCUREMENT AND CONTRACT MANAGEMENT**

1. 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 SCM system, the processes and controls need to comply with legislation and minimise the likelihood of fraud, corruption, favouritism as well as unfair and irregular practices. A summary of the findings from the audit are as follows:

**Irregular expenditure**

1. R61 482 263[[1]](#footnote-1) (89%) of irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation. A further R55 116 208[[2]](#footnote-2) that was incurred in prior years was also identified. 58% (100% prior year) of this irregular expenditure was identified during the audit process and not detected by monitoring processes of the department. The root cause of the lack of effective prevention and detection is:

* Leadership did not effectively exercise oversight responsibility with regards to compliance and related internal controls.
* Management did not effectively review and monitor compliance with applicable laws and regulations.
* Supply Chain Management policies and procedures are not updated.

**Limitations on audit**

1. Sufficient appropriate audit evidence could not be provided that 13 of selected contracts awarded and that 7 of selected quotations accepted (hereinafter referred to as “awards”) to the value of R28 861 378 were made in accordance with the requirements of the SCM legislation. No alternative audit procedures could be performed to obtain reasonable assurance that the expenditure incurred on these awards was not irregular. Restrictions were also placed on the auditors to assess specific matters, the detail of which is listed below.
2. The reasons for the limitations experienced were due to the fact that documentation pertaining to unsuccessful bidders could not be provided (tenders) and the inability to confirm whether contracts awarded at SITA were awarded in line with SCM legislation (quotations). As a result of the limitations experienced, the findings reported in the rest of this section might not reflect the true extent of irregularities and SCM weaknesses.

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

1. 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 in an endeavour to ensure that conflicts of interest do not result in the unfair awarding of contracts or acceptance of unfavourable price quotations, and requires employees to obtain approval for performing remunerative work outside their employment.

The findings were as follows:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Finding | Number and value of awards made | Number 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 (declaration submitted) | Official did not declare interest | Official was involved in the awarding of the contract/ quotation. |
| Awards made to officials of the department | 1  R3 677 268 | 1 | 1 | 0 | 0 | 0 | 0 |
| Awards made to close family members, partners and associates of officials of the department. | 1  R426 000 | 1 | 1 | 0 | 1 | 0 | 0 |

1. Instances of non-compliance identified pertaining to these awards are as follows:

* Deviations were approved for the invitations of three written price quotations from accredited prospective suppliers even though it was possible to comply with the requirements of Practice Note 8 of 2007/08 paragraph 3.3 and Treasury Regulation 16A6.1.
* Awards were made to suppliers who did not have tax clearance from SARS that their tax matters are in order and who have not made arrangements with SARS to meet their tax obligations as required by Practice Note 11 of 2008/09 paragraph 2.2(d).
* As indicated in the table above a supplier to whom the award was made did not submit a declaration to declare that a close family member/ partner/ associate of the supplier or of a director/ member/ principal shareholder/ stakeholder of the supplier is in the service of the auditee as required in terms of Practice Note 7 of 2009/10.

**Performance of other remunerative work by employees**

1. Eighty four (84) officials with an interest in suppliers to other state institutions did not obtain approval to perform or engage in remunerative work outside their employment.

**Procurement processes**

1. The following findings on procurement processes result from the testing of 47 contracts with a total value of R681 740 585 and 115 of price quotations with a total value of R16 536 775.

Procurement need and economy

1. The department procured a quotation to the value of R39 900 through means other than the transversal contract while the goods were available through a transversal contract in which the auditee participates.

List of prospective suppliers

1. The following shortcomings in administration of the list of prospective suppliers were identified:

* Prohibited suppliers are not timeously removed from the supplier register.
* Suppliers listed on the supplier register are duplicated. Duplication entails that these suppliers have been listed more than once on the suppliers register with the same company name, company registration number, telephone number and fax number (217 duplicate suppliers were identified).
* Suppliers are listed on the supplier register more than once to represent each region in which they operate. A number of the suppliers listed are duplicated in the same region.
* Suppliers’ details are not verified prior to enlisting them on the supplier register. Numerous suppliers on the supplier register share the same contract details (fax and/or telephone numbers) and company registration numbers. Not all of the fields of the supplier register are completed. There is no contact details registered for several suppliers listed on the register.
* The supplier register are not easily accessible for audit purposes. The prestige supplier register was not submitted when requested.
* The supplier register is not updated and completed in a consistent format.
* The prestige supplier register is not loaded on the Pro-Quote system (system being utilised for the normal supplier listing), but is kept in a PDF format. Included as part of the prestige supplier list is a list of suppliers whose names were manually added to the supplier register by hand.

Procurement process – Quotations

1. Deviations were approved allowing 24 awards with a total value of R4 229 838 to be procured without obtaining at least three written price quotations from accredited prospective suppliers even though it was possible to comply with the requirement.
2. Nine quotations to the total value of R2 399 448 were procured from suppliers who did not have tax clearance from SARS confirming that their tax matters are in order.

Procurement process - Competitive bidding

1. Two deviations from competitive bidding to the total value of R1 040 120 were approved on the basis of it being as urgent, even though the time available did not make it impossible or impracticable to engage in a competitive bidding process.
2. One tender to the value of R24 828 550 was procured from a supplier who did not have tax clearance from SARS confirming that its tax matters are in order.

Procurement process - Consultants

1. A consulting firm was engaged at a total value of R8 709 000 for a project for which the necessary skills should have been available at the auditee and the accounting officer had enough time to recruit and train people with the time available.

**Internal control deficiencies**

1. The following internal control deficiencies should be addressed to improve procurement and contract management in the department:

* Supply Chain Management policies are not updated at least annually with circulars issued to affect changes and updates to the policies.
* Various changes were effected to the supply chain management delegations by means of circulars without updating the delegations at least annually.
* The department does not have a comprehensive and complete contract register in place for head office and the regions to enable timeous decision making relating to expiring contracts.
* Officials are not being held accountable for transgressions.
* Management approves deviations from prescribed procurement processes without properly investigating the reasons for validity. The department recently implemented a deviation register and a compliance unit to identify non-compliance. However, the information in the deviation register needs to be monitored to identify problem areas where for example there is continuous failure to obtain three quotations. Corrective actions then need to be implemented based on the aforementioned.
* Documentation for unsuccessful bidders is not properly filed.
* Neither the normal supplier database nor the prestige procurement database has been updated on a quarterly basis as required. The cleansing, enhancing and updating of these databases in line with guidance by National Treasury should take place as a matter of urgency.
* There are no thresholds in the Ministerial Handbook pertaining to prestige procurement.
* Undue pressure is place on the officials of the department to procure prestige assets within certain time frames. The latter results in procurement being classified as “urgent” and SCM procedures not being followed.

**PART B – SERVICE DELIVERY MATTERS**

1. The audit included an assessment of specific service delivery aspects relevant to the department. For the financial year under review the focus in terms of the public works sector were as follows:

* Management of accommodation for client departments
* Management of arrears rates and taxes
* Project management of infrastructure projects
* Expanded Public Works Programme (EPWP)

1. The first three areas highlighted above are functions being performed by the Property Management Trading Entity (PMTE) and therefore specific findings in respect of these areas will be reflected in the management report of the PMTE.
2. The following findings were noted from our audit of EPWP:

* The department did not specifically report on the number of people employed and the number of people trained in their annual performance report.
* We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the validity, accuracy and completeness of performance results reported in respect of the following indicators:
  + Number of employment days created
  + Number of jobs created
  + Number of youths (16 – 25) employed
  + Number of women employed
  + Number of people living with disabilities employed

**PART C – CAPITAL ASSETS**

1. Capital assets remain one of the most common areas for audit qualifications in departments. Below is a summary of material audit findings relating to immovable capital assets, including the reasons for their occurrence and the commitments made to rectify these findings. The department is urged to address these matters as soon as possible.

| **Material audit findings** | **Reason for occurrence** | **Commitment to address deficiencies identified** |
| --- | --- | --- |
| There is not an accurate and complete immovable asset register that enables assets to be physically identified. | The multi-year project to reconstruct and produce an accurate, complete and valid immovable asset register is currently underway, at year-end the information in the register was not complete in order to enable the physical verification of all assets listed. | The department has embarked on a multi-year project to enable them to fairly present immovable assets in their financial statements and has committed to completing this project by 31 March 2013. |
| We are unable to conclude whether the department has recognised all applicable immovable assets in the assets register. | The multi-year project to reconstruct and produce an accurate, complete and valid immovable asset register is currently underway however at year-end the reconciliations between the national department of Public Works and the provincial departments of Public Works as well as the Department of Rural Development and Land Reform were not complete. The department did not disclose any unsurveyed land or heritage assets. The department has not disclosed any foreign state owned assets in the annual financial statements. |
| The immovable asset register is not updated on a monthly basis with additions. | The immovable asset register must be updated on a continuous basis with completed capital projects as well as capital expenditure incurred that qualifies for capitalisation to existing immovable assets (construction is being performed by PMTE). At present this is not taking place on a monthly basis due to the absence of an approved capitalisation policy and the Works Control System (WCS) and Property Management Information System (PMIS) not interfacing resulting in the updating of the immovable asset register having to be performed manually. |
| We are unable to determine whether the department has not recognised assets to which it has no right of ownership | All required reconciliations between the National Department of Public Works and other departments/local authorities responsible for disclosing immovable assets have not yet been completed. The vesting process is also still currently underway and not yet complete. |
| We are unable to determine whether the department has recognised any land or buildings that it does not have the right to recognise in terms of the NT guidance. | Taking into account abovementioned matters as well as the fact that as at 31 March 2012 the information contained in the department’s immovable asset register did not enable us to conclude whether or not the department has recognised any land or buildings that it does not have the right to recognise. |
| The department did not institute a proper control system to safeguard and maintain the immovable assets of the department to prevent theft, losses, wastage and misuse. | Until such time the department is able to produce a complete, accurate and valid immovable asset register it will not be in a position to ensure the safeguarding and proper maintenance of immovable assets. |
| The department has not complied with the accounting policy relating to the valuation of immovable assets. | The immovable asset project currently underway firstly aims to address the completeness assertion and therefore did not yet commence to address the valuation assertion at the 2012 financial year-end. The financial statement disclosure note reflects the majority of immovable assets at R1 value even though it was not impracticably to determine the cost of those assets. |
| The department has not maintained proper records to enable the costs for all immovable assets acquired after 1 April 2002 to be established. | Inadequate records management system. Absence of an approved capitalisation policy. The WCS system until relatively recently not containing a property code enabling the department to link qualifying capital expenditure incurred to the relevant individual property. |
| Immovable asset additions are not in all instances recognised at the actual cost. |
| The immovable asset register is updated with disposals on a monthly basis. | Disposals of immovable assets are not a very regular transaction occurring however through the audit process a disposal was identified that was not accounted for. |
| We are unable to determine whether the department has let out any immovable assets without entering into a formal agreement. | The immovable asset register provided for audit purposes did not contain sufficient information to enable us to determine which properties are currently being let out by the department and we were unable to match the supporting schedules provided in support of the receivables for departmental revenue and commitments for operating lease rental income disclosures notes to the immovable asset register. Furthermore as indicated above we are at present not able to satisfy ourselves as to the completeness of the immovable asset register. As a result we are unable to conclude whether the department has let out any immovable assets without entering into a formal agreement or whether the department has let our any immovable assets for which it does not collect any revenue. |
| We are unable to determine whether the department has let out any immovable assets for which it does not collect any revenue. |
| We are unable to determine whether the tariffs charged for letting immovable assets are market related. | The department does not have a process in place to benchmark the tariffs being charged to market related rentals and we could not obtain any evidence that these tariffs are reviewed on a regular basis. |
| The tariffs charged for letting assets are not regularly reviewed. |

**PART D – FINANCIAL HEALTH**

1. Management is responsible for the sound and sustainable management of the affairs of the department and to implement an efficient, effective and transparent financial management system for this purpose, as regulated by the PFMA.
2. Our audit included a high-level analysis of the department’s financial health for the current year. In future, this analysis will also include an evaluation of the movement from year to year.
3. The purpose of the analysis is to provide management with an overview of selected aspects of the department’s current financial health and enable timely remedial action where financial health and service delivery may be at risk. The information should be used to complement rather than be a substitute for management’s own financial health analysis.
4. The department’s financial health has been analysed according to the following areas and is set out in the table below:

* budgets
* expenditure management
* conditional grants
* revenue management
* asset and liability management

1. The ratios and trends on which the analysis is based are contained in annexure A.
2. The financial health analysis is followed by overall high-level comments on the implications of and the risks posed by the analysis of the financial health indicators.

| **FINANCIAL HEALTH INDICATORS AND ASSESSMENT** | | | | | | | | | | |  | **Limitation - unable to obtain sufficient appropriate information** | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **BUDGETS** | | | | | | | | | | | | | | |
| **1.i** | **Current expenditure did not exceed the approved current expenditure budget.** | | | | | | | | | **% over-spending** | | | | |
| **0%** | **1 - 5%** | | **> 5%** | **Limitation** |
|  | **X** | |  |  |
|  | | | | | | | | | | | | | | |
| **1.ii** | **The approved current expenditure budget was spent for the intended purposes.** | | | | | | | | | **% not spent for intended purposes** | | | | |
| **0%** | **1 - 5%** | | **> 5%** | **Limitation** |
| **X** |  | |  |  |
|  | | | | | | | | | | | | | | |
| **1.iii** | **The approved capital budget was not under-spent.** | | | | | | | | | **% under-spending** | | | | |
| **0%** | **1 - 10%** | | **> 10%** | **Limitation** |
|  |  | | **X** |  |
|  | | | | | | | | | | | | | | |
| **1.iv** | **The approved capital budget was spent for the intended purposes.** | | | | | | | | | **% not spent for intended purposes** | | | | |
| **0%** | **1 - 10%** | | **> 10%** | **Limitation** |
| **X** |  | |  |  |
|  | | | | | | | | | | | | | | |
| **1.v** | **All voted funds for the year were requested / received and were not required to be surrendered.** | | | | | | | | | | **Yes** | | **No** | **Limitation** |
|  | | **X** |  |
|  | | | | | | | | | | | | | | |
| **1.vi** | **The department would have been able to fund all liabilities (accruals) from the current year’s voted funds, if all liabilities had been paid at year-end.** | | | | | | | | | | **Yes** | | **No** | **Limitation** |
| **X** | |  |  |
|  | | | | | | | | | | | | | | |
| **1.vii** | **All voted funds approved for the next year are available for use; i.e. current year expenditure need not be paid from next year’s voted funds.** | | | | | | | | **% of next year’s**  **approved voted funds available for use** | | | | | |
| **100%** | | **99 - 90%** | | **< 90%** | **Limitation** |
|  | |  | | **X** |  |
|  | | | | | | | | | | | | | | |
| **EXPENDITURE MANAGEMENT** | | | | | | | | | | | | | | |
| **2.i** | **No material losses were incurred.** | | | | | | | | | | **Yes** | | **No** | **Limitation** |
| **X** | |  |  |
|  | | | | | | | | | | | | | | |
| **2.ii** | **Creditors were paid in a timely manner, considering generally accepted creditor-payment periods and legislated requirements.** | | | **Creditor-payment period** | | | | | | | | | | |
| **< 30 days** | **30 – 59 days** | | | **60 – 89 days** | | | **90 – 119 days** | | **> 120 days** | **Limitation** |
|  | **X** | | |  | | |  | |  |  |
|  | | | | | | | | | | | | | | |
| **CONDITIONAL GRANTS** | | | | | | | | | | | | | | |
| **3.i** | **Conditional grants were not under-spent.** | | | | | **% under-spending** | | | | | | | | |
| **N/A** | | **0%** | | | **1 - 10%** | | **> 10%** | **Limitation** |
| **X** | |  | | |  | |  |  |
|  | | | | | | | | | | | | | | |
| **REVENUE MANAGEMENT** | | | | | | | | | | | | | | |
| **4.i** | **Debtors were collected in a timely manner considering generally accepted debtor-collection periods of 30 – 60 days.** | | **Debtor-collection period** | | | | | | | | | | | |
| **N/A** | **< 30 days** | **30 – 59 days** | | | **60 – 89 days** | | | **90 – 119 days** | | **> 120 days** | **Limitation** |
|  |  |  | | |  | | |  | | **X** |  |
|  | | | | | | | | | | | | | | |
| **4.ii** | **A significant percentage of debtors were not impaired.** | | | | | | | | | **% debtors impaired** | | | | |
| **0%** | **1 - 10%** | | **> 10%** | **Limitation** |
|  |  | | **X** |  |
|  | | | | | | | | | | | | | | |
| **4.iii** | **Revenue due to the entity was collected; i.e. a significant percentage of debtors were not written off.** | | | | | | | | | **% revenue not collected** | | | | |
| **0%** | **1 - 10%** | | **> 10%** | **Limitation** |
| **X** |  | |  |  |
|  | | | | | | | | | | | | | | |
| **ASSET AND LIABILITY MANAGEMENT** | | | | | | | | | | | | | | |
| **5.i** | | **An accrual-adjusted surplus for the year was achieved (total revenue exceeded total expenditure).** | | | | | | | | | **Yes** | | **No** | **Limitation** |
| **X** | |  |  |
|  | | | | | | | | | | | | | | |
| **5.ii** | | **An accrual-adjusted net current asset position was achieved (total current assets exceeded total current liabilities).** | | | | | | | | | **Yes** | | **No** | **Limitation** |
| **X** | |  |  |
|  | | | | | | | | | | | | | | |
| **5.iii** | | **An accrual-adjusted net asset position was achieved (total assets exceeded total liabilities).** | | | | | | | | | **Yes** | | **No** | **Limitation** |
| **X** | |  |  |
|  | | | | | | | | | | | | | | |
| **5.iv** | **The year-end bank balance was not in overdraft.** | | | | | | | | | | **Yes** | | **No** | **Limitation** |
| **X** | |  |  |
|  | | | | | | | | | | | | | | |
| **5.v** | **Cash and cash equivalents are sufficient to cover unspent conditional grants.** | | | | | | **N/A** | | | | **Yes** | | **No** | **Limitation** |
| **X** | | | |  | |  |  |
|  | | | | | | | | | | | | | | |

1. Generally there are not material concerns regarding the financial health of the department however the underspending of the capital budget is a significant concern, given its direct impact on the achievement of the department’s mandate and objectives. The department also needs to place enhanced focus on debtor collection.
2. In addition management must avoid the overspending of the current expenditure budget in future and if the overspending that occurred in the financial year under review is not approved by parliament it will have a knock on effect on future budgets.

**PART E – FRAUD**

1. The primary responsibility for the prevention and detection of 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. Due to the inherent limitations of an audit there is a risk that some material misstatements including fraud may not be detected.
2. The department has developed a fraud prevention plan, however as part of the audit we tested the awareness of an array of individuals in the department and a concern was raised with management and those charged with governance that not all employees of the department are fully aware of the contents of the fraud prevention plan. Note is taken that a lot of communication in this regard has taken place subsequently and the matter will be re-assessed in the upcoming audit.
3. Investigations into potential fraudulent activities that are currently in progress are highlighted in Section 2, Part G, above. The SIU investigation has resulted in the suspension of five high level officials within the department and disciplinary action has been recommended against officials in the prestige unit of the department. Internal investigations finalised during the year by internal audit and their service providers also recommended disciplinary actions to be taken by the department. To that effect we have raised a grave concern with those charged with governance as to the slow manner in which these recommendations are being implemented.
4. The slow progress with implementation of recommendations as well as the backlog of investigations into alleged irregularities exposes the department to the continuous occurrence of fraudulent activities.
5. During our audit of procurement and contract management we identified certain discrepancies which are indicative of potential fraud in the area of quotations. These matters have been communicated to the office of the Acting Director-General who has subsequently referred it to be investigated.

**SECTION 4: EMERGING RISKS**

**Accounting and compliance matters**

1. New framework for strategic and annual performance plans:

* The National Treasury *Framework for strategic plans and annual performance plans* will be fully effective on 1 April 2012.

1. Developments in SCM legislation:

The revised Preferential Procurement Regulations came into effect on 7 December 2011. The most significant changes are the following:

* The introduction of B-BBEE certificates and the requirement for evaluation of functionality.

All organs of state should ensure that their policies and procedures are in compliance with these regulations to avoid any regression in terms of compliance findings.

**Subsequent events**

1. The Honourable Minister of Public Works made a media statement on 22 August 2012 in Cape Town, giving an update on the turnaround of the Department of Public Works with special focus on disciplinary and legal processes. This media statements dealt with, amongst others, the suspension of the Director General Mr. Dongwana as follows:

*“Our investigation, in consultation with the SIU and the Public Protector, found that reasons for Mr Dongwana’s suspension were frivolous. Therefore, all charges that were preferred against Mr Dongwana have been withdrawn.*

*Mr Dongwana will however not be returning to the position in which he was appointed as Director-General. The Department, after consultations with the Minister of Public Service and Administration, decided on the redetermination or termination of Mr Dongwana’s employment contract with effect from 15 August 2012, with the payment of a settlement.”*

**SECTION 5: ENTITIES CONTROLLED BY THE DEPARTMENT**

1. 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 opinion** | | | | | |
| **Financial statement opinion** | **Findings on predetermined objectives** | **Findings on compliance** | **Areas in which there were significant deficiencies in internal control** | | |
| **Leadership** | **Financial and performance management** | **Governance** |
| Council for Built Environment | Unqualified | Yes | Yes | X | - | - |
| Construction Industry Development Board | Unqualified | Yes | Yes | X | X | - |
| Independent Development Trust | Unqualified | Yes | Yes | X | X | - |

**SECTION 6: RATINGS OF DETAILED AUDIT FINDINGS**

1. For the purposes of this report, the detailed audit findings included in annexures B to K 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 the likelihood that these matters may in future lead to material misstatements of the financial statements, material findings on predetermined objectives and compliance with laws and regulations.
* Administrative matters – These matters are unlikely to result in material misstatements of the financial statements, material findings on predetermined objectives and compliance with laws and regulations.

**SECTION 7: CONCLUSION**

1. The matters communicated throughout this report relate to the three fundamentals of internal control which should be addressed to achieve sustained clean administration. The AGSA staff remains committed to assisting in the process of identifying and communicating good practices to improve governance and accountability, so as to build public confidence in government’s ability to account for public resources in a transparent manner.

Yours sincerely

Paul Serote

Corporate Executive: National A

\_\_/\_\_/2012

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**Distribution:**

Executive Authority

Audit committee

Head of Internal Audit

1. R25 650 000 (disclosed by the department) + R35 832 263 (identified through the audit process) [↑](#footnote-ref-1)
2. R16 552 000 (identified through the 2010/11 audit process and disclosed by the department in the current year) + R38 564 208 (identified through the audit process) [↑](#footnote-ref-2)