**FINAL MANAGEMENT REPORT**

**DEPARTMENT OF PUBLIC WORKS**

**31 MARCH 2016**

**Communicated to management on: 15 July 2016**

**MANAGEMENT REPORT**

**DEPARTMENT OF PUBLIC WORKS**

**2016-03-31**

**Discussed with management on: 15 July 2016**

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**MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE DEPARTMENT OF PUBLIC WORKS FOR THE YEAR ENDED 31 MARCH 2016**

**INTRODUCTION**

1. Our responsibility is to:

* express an opinion on the [consolidated and separate] financial statements
* express a conclusion in the management report on the usefulness and reliability of the reported performance information for selected programmes, and report the material findings in the auditor’s report
* report on material findings relating to compliance with specific requirements in key applicable legislation, as set out in the general notice issued in terms of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA).

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

1. This management report includes audit findings arising from the audit of the financial statements, reporting on predetermined objectives and compliance with legislation for the year ended 31 March 2016. These findings were communicated to management and the report details management’s response to these findings. The report includes information on the internal control deficiencies that we identified as the root causes of the matters reported. Addressing these deficiencies will help to improve the audit outcome.
2. This management report consists of an executive summary and annexures containing the detailed audit findings.
3. The purpose of the management report is to communicate audit findings to the accounting officer and does not constitute public information. The auditor’s report is finalised only after the management report has been communicated. All matters included in this report that relate to the auditor’s report remains in draft form until the final auditor’s report is signed. In adherence to section 50 of the PAA, we do not disclose any information obtained during the audit and contained in this management report.

**EXECUTIVE SUMMARY**

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

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

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

1. At these interactions, we shared expected audit outcomes relating to the 2015-16 audit cycle for the Public Works sector in totality based on the current year progress i.e reliability of performance information Programme 3: EPWP and vacancies in the department, With respect to the current audit we discussed the terms of the audit engagement (with specific emphasis on the roles and responsibilities of the auditor and management as well as those charged with governance), overall audit strategy including the proposed nature, timing and extent of audit procedures to be performed, risk assessment (including fraud risk assessment) and the effectiveness of internal control. Audit progress and findings were discussed on a continuous basis and the audit outcome for 2015-16 will be discussed prior to the finalisation of the audit report.
2. Some of the stakeholders made commitments to implement initiatives that can improve the audit outcome. The commitments given and the progress of previous commitments are included in part F of section 2.6, which deals with the assessment of assurance providers.

**SECTION 2: Matters relating to the auditor’s report**

## 2.1 MISSTATEMENTS IN THE FINANCIAL STATEMENTS

1. We identified material misstatements in the financial statements during the audit. These misstatements were not prevented or detected by the Department’s system of internal control. These material misstatements also constitute non-compliance with section 40(1) of the Public Finance Management Act (PFMA).
2. The misstatements that were not corrected form the basis for the qualified/adverse/disclaimer of opinion on the financial statements.

| **Material misstatement** | | | **Impact**  **R**  current year | **Impact**  **R**  prior year |
| --- | --- | --- | --- | --- |
| **Financial statement item** | **Finding**  (Include a brief description of the misstatement as per the findings and the auditor’s report. Include the reasons for the auditee not correcting the misstatement when applicable.) | **Occurred in prior year**  (Insert Yes/No) |
| **Material misstatements not corrected** | | | | |
| Irregular expenditure | Non-adherence to the SCM processes and the approval of deviations without proper justification and also DPW  receiving last minute procurement instructions from other department. | No | R10 940 942 |  |
| **Material misstatements corrected** | | | | |
| Disclosure: Contingent Assets | The contingent asset was disclosed in the financial statements of the Property Management Trading Entity, and not in the financial statement of the Department of Public Works where the unauthorized expenditure was incurred. PMTE had already recovered the costs incurred for security upgrades from Department of Public Works as a result only Department of Public Works suffered a loss. | No |  |  |

**2.2 MATTERS TO BE BROUGHT TO THE ATTENTION OF USERS**

Emphasis of matter paragraphs

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

Additional matter paragraph

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

Unaudited supplementary schedules

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

**2.3 REPORT ON PREDETERMINED OBJECTIVES**

Introduction

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

Summary of audit conclusions

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

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

**Programme 2: Intergovernmental Coordination**

**Conclusion on usefulness and reliability**

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

**Programme 3: Expanded Public Works Programme (EPWP)**

**Conclusion on usefulness**

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

**Basis for adverse conclusion**

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

**Adverse conclusion on reliability**

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

**Programme 4: Property and Construction industry policy regulation**

**Conclusion on usefulness**

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

Additional matters

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

Achievement of planned targets

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

Adjustment of material misstatements

1. We identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Programme 2: Intergovernmental Coordination, Programme 3: Expanded Public Works Programme (EPWP) and Programme 4: Property and Construction industry policy regulation. As management subsequently corrected the misstatements, we did not raise any material findings on the usefulness of the reported performance information.

Unaudited supplementary schedules

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

Audit findings in the auditor’s report

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

**2.4 FINDINGS ON COMPLIANCE WITH LEGISLATION**

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

**Financial statements**

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

**Expenditure management**

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

**Procurement and contract management**

1. Contracts and quotations were awarded in certain instances 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.

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* 1. **INTERNAL CONTROL**

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

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

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

|  |  |
| --- | --- |
|  | Improved |
|  | Unchanged |
|  | Regressed |

|  | **Financial statements** | | **Performance reporting** | | **Compliance with legislation** | |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Current year** | **Prior year** | **Current year** | **Prior year** | **Current year** | **Prior year** |
| **Leadership** | | | | | | |
| **Overall movement from previous assessment** |  | |  | |  | |
| * Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the best interests of the entity |  |  |  |  |  |  |
| * Exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls |  |  |  |  |  |  |
| * Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored |  |  |  |  |  |  |
| * Establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities |  |  |  |  |  |  |
| * Develop and monitor the implementation of action plans to address internal control deficiencies |  |  |  |  |  |  |
| * Establish an information technology governance framework that supports and enables the business, delivers value and improves performance |  |  |  |  |  |  |
| **Financial and performance management** | | | | | | |
| **Overall movement from previous assessment** |  | |  | |  | |
| * Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting |  |  |  |  |  |  |
| * Implement controls over daily and monthly processing and reconciling of transactions |  |  |  |  |  |  |
| * Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information |  |  |  |  |  |  |
| * Review and monitor compliance with applicable legislation |  |  |  |  |  |  |
| * Design and implement formal controls over information technology systems to ensure the reliability of the systems and the availability, accuracy and protection of information |  |  |  |  |  |  |
| **Governance** | | | | | | |
| **Overall movement from previous assessment** |  | |  | |  | |
| * Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of information technology risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored |  |  |  |  |  |  |
| * Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively |  |  |  |  |  |  |
| * Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation |  |  |  |  |  |  |

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

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

LEADERSHIP

**Effective leadership**

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

**Oversight responsibility**

1. Oversight responsibility in terms of financial reporting improved during 2015-16, however we still noted that the annual financial statements submitted for 31 March 2016 had material misstatement and that the department did not have sufficient monitoring controls to ensure the proper implementation of the overall process of reporting on performance against achieved targets.
2. Compliance matters, particularly with regards to supply chain management, have received considerable attention from the department. It has been noted that the department confirmed that all awards are subject to a pre-audit by Inspectorate and Compliance unit across the department since September 2014 in order to prevent any potential irregular and fruitless and wasteful expenditure. To date it has been partially effective given that instances of non-compliance are still being identified by management and through the audit process.
3. There should be an increased level of oversight in the upcoming year over performance reporting against predetermined objectives. This includes the interrogation of reasons why particular targets are not being achieved, but even more importantly putting in place mechanisms of ensuring that all performance reported is accurate, valid and complete and that the required supporting documentation is in place and easily retrievable for audit purposes.

**Human resource management**

1. The department HR plan which was no based on the approved structure and Vote of the department for the current financial year and the department is however still in the process of finalising the updated organisational structure in line with the restructuring that took place between the department and PMTE, which amongst others includes the approval of the new programme budget structure.
2. Several pre-consultation meetings have been held with DPSA whilst the structure still needs to be formally submitted to DPSA for analysis and concurrence purposes. Once DPSA indicates that they concur with the new proposed structure it must be approved by the Minister and it must be ensured that sufficient funding is in place. As indicated below the department has a lot of unfunded filled positions, thus it is imperative that this process is concluded as soon as possible. If the updated organisational structure is implemented but not yet approved it could result in overspendings, thus unauthorised expenditure and if National Treasury does not approve the increase in compensation of employee cost the latter will result in irregular expenditure.
3. The department has high overall vacancy rate at the end of 31 March 2016 of 11.06%, senior management vacancy rate was 13.29% and finance and supply chain unit vacancy rate was 11.58% which is still a concern as the vacancy rate is above required 10% norm. This could have a negative impact on the core business of the department as there might not be sufficient human resources to fulfil the mandate of the department.

**Policies and procedures**

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

**Action plans to address internal control deficiencies**

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

**Information technology governance framework**

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

FINANCIAL AND PERFORMANCE MANAGEMENT

**Proper record keeping**

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

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

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

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

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

**Compliance monitoring**

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

**Information technology systems**

1. The lack of an effective training plan to ensure that internal stuff is capacitated to perform their job functions resulted in consultants/contractors performing key IT functions.
2. The department was undergoing an infrastructure refresh project and updates to the DRP had not been finalised due to the changes being effected within the new environment.
3. Reporting system during 2015-16; however we noted that the department did not verify the integrity of migrated data into to the new EPWP Reporting system,

GOVERNANCE

**Risk management activities and risk strategy**

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

**Internal audit**

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

**Audit committee**

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

SUMMARY

1. The matters above are summarised as follows:

**Leadership**

1. Leadership was not successful in improving the high vacancy rate in the senior management level, and also the human resource plan was not aligned to the department organisational structure and the vote of the department as approved by Parliament.

**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 performance reporting.
2. Regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information were not prepared throughout the financial year.
3. The review and monitoring of compliance with applicable laws and regulations was ineffective in certain instances.

**Governance**

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

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**2.6 ASSURANCE PROVIDERS AND STATUS OF IMPLEMENTATION OF COMMITMENTS AND RECOMMENDATIONS**

1. The annual report is used to report on the financial position of auditees, their performance against predetermined objectives and overall governance. One of the important oversight functions of Parliament is to consider auditees’ annual reports. To perform this oversight function, they need assurance that the information in the annual report is credible. To this end, the annual report includes our auditor’s report, which provides assurance on the credibility of the financial statements and the annual performance report, as well as on the auditee’s compliance with legislation.
2. Our reporting and the oversight processes reflect on past events, as it takes place after the end of the financial year. However, management, the leadership and those charged with governance contribute throughout the year to the credibility of financial and performance information and compliance with legislation by ensuring that adequate internal controls are implemented.

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Assurance levels** | | |  |
|  | | |
| Senior management |  | ***Provides some assurance*** |
|  |  |
| Accounting officer | ***Provides some assurance*** |
|  |  |
| Minister | ***Provides some assurance*** |
|  |  |
| Internal audit | ***Provides some assurance*** |
|  |  |
| Audit committee | ***Provides assurance*** |

Senior management

1. The senior management should continue with an increased level of oversight in the upcoming financial year over performance reporting of predetermined objectives. This includes the interrogation of reasons why particular targets are not being achieved, but even more importantly putting in place mechanisms of ensuring that all performance reported is accurate, valid and complete, and that the required supporting documentation is in place and easily retrievable for audit purposes.

Accounting officer

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

Minister

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

Internal audit

1. The internal audit unit has prepared a risk-based audit plan and internal audit programme for each financial year and it regularly advise the accounting officer on the weaknesses identified through their management report and report to the audit committee on implementing the internal audit plan and matters relating to internal audit; internal controls; accounting procedures and practices; risk and risk management; performance management; loss control and compliance with the PFMA.

Audit committee

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

Status of implementing commitments and recommendations

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

| **No.** | **Commitment** | **Made by** | **Date** | **Status** |
| --- | --- | --- | --- | --- |
| 1 | All quotations packs are submitted to Compliance Unit for sign off prior to capturing of purchase requisitions and orders | DDG: SCM AND FINANCE | Implemented from 01 April 2015 | **In progress**  Zero tolerant approach to deviations adopted. Re-invitations conducted until three quotations are obtained except in instances where delivery is of critical importance due to unforeseen circumstances. |
| 2 | Review and perform a compliance check of all Procurement Strategies for Bids >R500k by Compliance Unit and recommended to the authorizing body for approval prior to advertisement. | DDG: SCM AND FINANCE | Implemented from 01 July 2015 | **In progress**  Zero tolerant approach to deviations adopted. Re-invitations conducted until three quotations are obtained except in instances where delivery is of critical importance due to unforeseen circumstances. |
| 3 | All advertisement notices are signed off by the supervisor prior to publication  Full implementation of the Milestone Monitoring Tool (MMT) – Supervisors and Managers to sign off compliance to the requisite process steps and availability of supporting documents at every Gateway of the SCM process | DDG: SCM AND FINANCE | Implemented from 01 July 2015  01 October 2015 | **In progress**  Implemented from 01 July 2015 at Head Office level |
| 4 | All SCM Managers will be trained on Local content | DDG: SCM AND FINANCE | 31 March 2015 | **Completed**  Training was conducted on the 1st October 2015. |
| 5 | Asset register audit to identify discrepancies for corrections | DDG: SCM AND FINANCE | Quarterly | **Completed**  Spot checks have been conducted for the 1st, 2nd & 3rd quarter.  Asset Register audit conducted during the 1st & 2nd Quarter to identify discrepancies.  A meeting with National Treasury (NT) was held on 26/10/2015(see the attached emails). Awaiting response from NT. |
| 6 | Implementation of the electronic invoice tracking system  The appointment of officials to manage the system. The system will assist with identifying the areas where controls will need to be improved to ensure compliance with the applicable laws and regulations. | DDG: SCM AND FINANCE | 31/03/2016 | **Completed**  Implemented from 1st December 2015 |
| 7 | Obtain approval to appoint additional contract workers that will assist with the investigations  Appointment of contract workers  Training of contract workers  Start with the Investigation of reported transactions | DDG: SCM AND FINANCE | 30 Sept 15  30 Nov 15  4 Dec 15  7 Dec 15 | **In progress**  Approval to appoint contract workers granted by the DDG:CS  Interviews will be done in February 2016  Training to be conducted at Head Office after all the appointments have been confirmed and assumption of duty taken place. |
| 8 | Conduct external quality assurance review for the Unit. | CD: Internal Audit | 30 Sept 2015 | **Completed**  External Quality Assurance Review has been conducted and report presented to ExCo and Audit Committee (28 September 2015). |
| 9 | Conduct audit on EPWP | CD: Internal Audit | 31 March 2016 | **Completed**  Phase 1 of audit on EPWP has been finalized and report presented to ExCo and Audit Committee (28 September 2015). Phase 2 is underway and it is anticipated to be completed by March 2016. |
| 10 | Data reported in the EPWP new reporting system will be validated quarterly with Home Affairs to ensure identity numbers captured are valid.  The EPWP branch of the DPW will develop a Standard Operating Procedure (SOP) for audits to outline processes that should be followed by all EPWP stakeholders when dealing with audits. | DDG: EPWP | Quarterly  31 December 2015 | **In progress**  The validation of identity documents with Home Affairs was last undertaken on 17 November 2015 for the Q2 reporting.  The EPWP EXCO will meet on the 21 January 2016 to consider the latest draft of the SOP. A Directive and Checklist have been developed as part of the SOP. |
| 11 | Public bodies will be assisted by NDPW to register their EPWP Integrated Grant projects on the EPWP reporting system.  Public bodies will not be paid their last tranche of the EPWP Integrated grant if their projects are not registered on the system | DDG: EPWP | On- going | **In progress**  Public bodies have been assisted in registering projects on the system. 263 out of 402 infrastructure projects funded by the EPWP integrated grant to municipalities have been registered on the system. Process of assisting public bodies to register and update projects is on-going.  The programme has not implemented the withholding of payments for non-reporting for this financial year. It is planned to start in the new financial year that Public Bodies will be required to submit their list of projects with the system reference number when reporting expenditure. |
| 12 | Performance information reports on a quarterly basis will be assessed based on the POE and assist the units to respond on reasonable variances | DDG: GRC | Quarterly | **Completed**  This is done quarterly. Already M&E is reviewing the previous quarters with various units to ensure that the reporting template is complete, accurate and valid |
| 13 | Performance information reports on a quarterly basis will be assessed based on the POE and assist the units to respond on reasonable variances  M&E unit is already in the process of Training and Development and all the regions and parts of the DPW and PMMTE have been trained | DDG: GRC | Quarterly  July 2015  October 2015  February 2016 | **Completed**  Done for July 2015  This is done quarterly. Already M&E is reviewing the previous quarters with various units to ensure that the reporting template is complete, accurate and valid |
| 14 | Performance information reports on a quarterly basis will be assessed and validated based on the POE.  The M&E unit encourages on the spot POEs so that sufficient time is given to assess the POEs so as to accurately reflect performance | DDG: GRC | September 2015  January 2016  April 2016 | **Completed**  This is done quarterly. Already M&E is reviewing the previous quarters with various units to ensure that the reporting template is complete, accurate and valid |
| 15 | The M&E unit will as part of training and development advise and assist in the efficient use of the monitoring system and tested every 6 months | DDG: GRC | Bi-Annually  October 2016  May 2016 | **Completed**  M&E is reviewing the previous quarters to point out areas for improvement and the efficient use of the reporting tool/system. This is done through the quarter meetings |
| 16 | Approve the abolishment of unfunded positions which have been vacant for more than 36 months on the PERSAL establishment | DDG: Corporate Services | 31 October 2015 | **Completed**  Approval for the abolishment of unfunded vacancies which have been vacant for more than 24 months was granted by the DG. Abolishment processes underway. |
| 17 | Alignment of the activation of positions at the implementation of the new structure to available budget on compensation of employees. | DDG: Corporate Services | 30 April 2016 | **Completed**  The Minister has approved the newly configured structures for DPW & PMTE on 27 November 2015. Both structures have been submitted to DPSA for consultation and concurrence. Once finalized the Minister will finally approve the structures to be implemented accordingly. |
| 18 | Facilitate approval for advertising and filling of critical funded vacancies | DDG: Corporate Services | 31 August 2015 | **Completed** |
| 19 | Review of the organisational structure | DDG: Corporate Services | 30 April 2016 | **In progress**  The Minister has approved the newly configured structures for DPW & PMTE on 27 November 2015. Both structures have been submitted to DPSA for consultation and concurrence and these processes are underway. |
| 20 | Communique with clear guidelines to be sent to all SMS to ensure that signed performance agreements are submitted timeously.  Continuous reminders to be sent to all SMS  Members and supervisors  Disciplinary action to be instituted against employees who do not sign and / or signed their performance agreements after the due date. | DDG: Corporate Services | Already implemented for the 2014-2015 PMDS cycle as well as the 2015-2016 PMDS cycle for SMS Members | **Completed**  The human resource section did exercise  oversight responsibility in ensuring that  performance Agreements are submitted and  Signed timeously by all SMS members.  Reminders were sent to all SMS  Members and specific reminders were  also sent to their supervisors in this  regard  92% of SMS Members submitted PA’s for the 2015-2016 PMDS cycle and Disciplinary action was taken against 15 employees who do not sign and / or signed their performance agreements after the due date. |
| 21 | Issue a circular emphasizing the need to conduct criminal record and financial/asset verification on all appointments. | DDG: Corporate Services | 30  October 2015 | **Completed**  Circular signed and circulated to all Recruitment Practitioners, Regional HR Heads and the Regional Managers |
| 22 | Submission to be compiled detailing new delegations for approval of incapacity leave  Amend HR Delegations | DDG: Corporate Services | 15 September 2015  31 March 2016 | **In progress**  Submission compiled and submitted on route for approval  Draft new delegations amended and aligned |
| 23 | SMS are reminded to declare their financial interest annually through emails | DDG: Corporate Services | 31 March annually | **Completed**  100% compliance in the declaration of financial interests by SMS members for 2015/2016 |
| 24 | Recruitment policy to be reviewed to address the secondment of people to the department | DDG: Corporate Services | 31 March 2016 | **Completed** |

1. Sixteen audit recommendations accepted by management in the prior year regarding matters included in the auditor’s report were implemented or alternative actions were taken to resolve the finding. Eight recommendations are still in the process of being implemented.
2. The status of implementation contributed to the number of repeat findings in the audit report when compared to the prior year.

**2.7 OTHER REPORTS**

1. The following audits that relate to the department are in progress or have been completed.

**INVESTIGATIONS**

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

**SECTION 3: Specific focus areas**

* 1. **FINANCIAL VIABILITY**

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

| **Financial viability assessment** | | | |
| --- | --- | --- | --- |
| **(Limitation = unable to obtain sufficient appropriate information to assess the indicator)** | | **As at 31 March 2016** | **As at 31 March 2015** |
| **Expenditure management** | | | |
| 1.1 | Creditor payment period | **22.4 Days** | **6.4 Days** |
| 1.2 | 30+ day accruals as a percentage of total accruals | **0.2%** | **1.2%** |
| * Amount of 30+ day accruals * Amount of total accruals | **R 101 000**  **R 58 446 000** | **R 397 000,00 R 31 361 000,00** |
| **Revenue management** | | | |
| 2.1 | Debtor collection period (after impairment) | **110.5 Days** | **365 Days** |
| 2.2 | Debtors impairment provision as a percentage of accrued departmental revenue | **69.7%** | **0.00%** |
| * Amount of debtors impairment provision * Amount of accrued departmental revenue | **R 2 269 000**  **R 1 711 000** | **R 52 971 000**  **R 4 069 000** |
| **Asset and liability management** | | | |
| 3.1 | An accrual-adjusted deficit for the year was realised (total expenditure exceeded total revenue) | **No** | **No** |
| * Amount of accrual-adjusted surplus/(deficit) for the year | **(R 36 948 000)** | **R 501 614 000** |
| 3.2 | An accrual-adjusted net current liability position was realised (total current liabilities exceeded total current assets) | **No** | **No** |
| * Amount of accrual-adjusted net current assets/(liability) position | **R471 312 000** | **R 25 862 000** |
| 3.3 | An accrual-adjusted net liability position was realised (total liabilities exceeded total assets) | **No** | **No** |
| * Amount of accrual-adjusted net asset/(liability) position | **(R 411 986 000)** | **(R 398 397 000)** |
| 3.4 | Liquid assets as a percentage of total current liabilities (acid test percentage) | **52.1%** | **-3.1%** |
| * Amount of accrual-adjusted liquid assets (total current assets less inventory less prepayments) * Amount of accrual-adjusted total current liabilities | **R 459 895 000**  **(R 883 298)** | **R 12 986 000**  **(R 424 259 000)** |
| **Cash management** | | | |
| 4.1 | The year-end bank balance was in overdraft | **Yes** | **Yes** |
| * Amount of year-end bank balance (cash and cash equivalents)/(bank overdraft) | **(R648 528 000)** | **(R 159 373 000)** |
| 4.2 | Cash shortfall as a percentage of next year’s total appropriation (budget) \*\* | **9.2%** | **4.1%** |
| * Amount of cash surplus/(shortfall) * Amount of appropriation (budget) for the next year | **(R600 695 000)**  **R6 528 000 000…** | **(R 257 062 000)**  **R 6 411 087 000** |
| 4.3 | Cash shortfall as a percentage of next year’s appropriation (budget), excluding compensation of employees \*\* | **9.9%** | **4.4%** |
| * Amount of cash surplus/(shortfall) * Amount of next year’s appropriation (budget), excluding compensation of employees | **(R600 695 000)**  **R6 057 200 000…** | **(R 257 062 000)**  **R5 936 092 000** |
| **Overall assessment** | | | |
| Overall the financial viability is assessed as: | | **Green (Good)** | **Green (Good)** |
| *\** The department is not revenue intensive and minimal departmental revenue is received (R7 106 000 for the year under review) – therefore no meaningful ratio analysis can be  performed  *\*\** This indicator assumes that the unauthorised expenditure of R261 169 000, per note 9 will not be approved with funding. | | | |

1. Underspending of the capital assets and delay in filling of positions that are vacant, remains a concern, given the direct impact on the achievement of the department’s mandate and objectives in terms of the annual performance plan.
2. The bank overdraft primarily emanated as a result of unauthorised expenditure and it is important to note, as highlighted above, that these indicators assume that any unauthorised expenditure that the auditee may have incurred will not be approved with funding. If the unauthorised expenditure is approved with funding, the cash shortfall will decrease.
3. Should the unauthorised expenditure however not be approved with funding it could result a shortage of available funds to implement planned activities, programs and projects in the future. The department should therefore continue in their efforts to obtain the necessary approval.

**3.2 PROCUREMENT AND CONTRACT MANAGEMENT**

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 supply chain management (SCM) system, the processes and controls need to comply with legislation and minimise the likelihood of fraud, corruption, favouritism and unfair and irregular practices.

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

Irregular expenditure

1. R 10 940 942 (99%) of irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation. The root cause of the lack of effective prevention and detection is the non-adherence to the SCM processes and the approval of deviations without proper justification and also DPW receiving last minute procurement instructions from other department.

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

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 to ensure that conflicts of interest did not result in contracts being unfairly awarded or unfavourable price quotations being accepted, and that employees obtained approval for performing remunerative work outside their employment as required.

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Finding** | **Number and value of awards made** | **Number and positions of official identified** | **Number of suppliers identified** | **Further non-compliance or irregularities regarding the awards** | | | |
| **Supplier did not submit declarations of interest** | **Supplier did not declare interest (false declaration)** | **Official did not declare interest** | **Official was involved in awarding the contract/ quotation** |
| Awards to persons in the service of other state institutions | Seven awards to the value of value R4 802 630 | Four state officials has been identified | Four |  |  |  | None |

Procurement processes

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Total | | Quotations | | Contracts | |
| Number | Value | Number | Value | Number | Value |
| **Awards selected for testing** | number of awards select  (98) | Total value of contract + quotation  R160 346 587 | number of awards selected  (59) | Total value of quotation  R8 469 611 | number of awards selected  (39) | Total value of contract  R151 876 976 |
| **Expenditure incurred on selected awards - current year** |  | Expenditure  R75 002 165 |  | Expenditure  R7 738 009 |  | Expenditure  R67 264 156 |
| **Limitations - awards selected but could not be tested** | 2 | R26 375 | 1 | R26 375 | 1 | - |
| **Awards on which non-compliance was identified** | 271 | R35 163 520 | 15 | R1 600 616 | 12 | R33 562 904 |
| **Irregular expenditure identified** | 21 | R31 514 053 | 11 | R1 307 781 | 10 | R30 206 272 |
| **Instances of irregular expenditure where goods/ services were not received** | 0 | 0 | 0 | 0 | 0 | 0 |

**Limitations on audit**

1. As indicated in the table above, sufficient appropriate audit evidence could not be provided that one of selected awards to the value of R26 375 was made in accordance with the requirements of applicable SCM legislation. No alternative audit procedures could be performed to obtain reasonable assurance that the expenditure incurred on these awards was not irregular.

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

**Procurement processes – general**

1. Five awards to the value of R505 215 were procured without inviting at least the minimum prescribed number of written price quotations from prospective suppliers and the deviation was not approved by a properly delegated official.
2. Four contracts with a value of 18 946 511 were procured without inviting competitive bids, and the deviations were not approved.
3. Three competitive bids with a value of R6 101 609 were not adjudicated by a properly constituted bid adjudication committee.
4. Four quotations with the value of R415 398 and six contracts with the value of R15 174 592 were awarded to bidders based on preference points that were not calculated according to the requirements of the Preferential Procurement Policy Framework Act and its regulations.
5. One quotation with the value of R150 892 and two contracts with the value of 1 575 944 were awarded to bidders who did not score the highest points in the bid evaluations, and there was no justification for the deviation.
6. Two quotations with the value of R224 834 were awarded to bidders who did not submit a declaration of whether they were employed by the state or connected to any person employed by the state.

Internal control deficiencies

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

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

1. The primary responsibility for preventing and detecting fraud rests with management and those charged with governance. We are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and to issue an auditor’s report that includes our opinion. Due to the inherent limitations of an audit, there is a risk that some material misstatements, including fraud, may not be detected.
2. The PFMA and its regulations clearly stipulate that matters such as incurring unauthorised, irregular as well as fruitless and wasteful expenditure; the possible abuse of the SCM system (including fraud and improper conduct); and allegations of financial misconduct should be investigated. Disciplinary steps should be taken based on the results of the investigations. Our audits included an assessment of the department’s management of consequences. The significant findings are provided below:

Inadequate measures to manage consequences

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

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

Failure to implement consequences

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

**Unauthorised/irregular/fruitless and wasteful expenditure**

| Finding | Value |
| --- | --- |
| Irregular expenditure identified in the previous year was not investigated to determine if a person was liable for the expenditure. | 366 636 000.00 |
| Fruitless and wasteful expenditure identified in the previous year was not investigated to determine whether a person was liable for the expenditure | 1 065 000.00 |

**Transgressions identified in the current year**

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

| Finding | Number of instances | Value |
| --- | --- | --- |
| Supplier submitted false declaration of interest | 4 | 4 802 630,00 |

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

**3.3 MANAGEMENT OF CONDITIONAL GRANTS**

EXPANDED PUBLIC WORKS PROGRAMME (EPWP)

Internal control deficiencies

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

a) Expanded Public Works Programme Integrated Grant for Municipalities

b) Expanded Public Works Programme Integrated Grant for Provinces

c) Social Sector Expanded Public Works Programme Incentive Grant for Provinces

**Summary of EPWP grants for 2015-16:**

1. The Expanded Public Works Programme (EPWP) has its origins in Growth and Development Summit (GDS) of 2003. At the Summit, four themes were adopted, one of which was ‘More jobs, better jobs, decent work for all’. The GDS agreed that public works programmes ‘can provide poverty and income relief through temporary work for the unemployed to carry out socially useful activities’.
2. The Programme is a key government initiative, which contributes to Governments Policy Priority in terms of decent work & sustainable livelihoods. EPWP subscribes to outcome 4 in the Medium Term Strategic Framework (MTSF) which sets out to achieve “Decent employment through inclusive economic growth.”
3. Phase III of the EPWP is being implemented over the 2014/2015 – 2018/2019 financial years with the aim of creating six million work opportunities by the end of the period.
4. EPWP Phase III is based on the following four principles:
   * Adherence to the EPWP minimum wage and employment conditions under the EPWP ministerial determination.
   * Selection of workers based on clearly defined process and defined criteria
   * Work provides or enhances public goods or community services
   * Minimum labour intensity appropriate to each sector.
5. Since the commencement of the audit of performance information we have consistently had challenges with verifying the reliability of reported performance of this programme. This is attributable to two factors. Inadequate records management and retention by implementing bodies.
6. Based on the audit of the EPWP projects across the country, we were unable to obtain sufficient supporting documentation to substantiate the creation of work opportunities reported for a large number of the projects in our sample. Additionally, in several instances where we did eventually obtain information, this was not immediately retrievable and had to be submitted to the audit team subsequent to a finding having been raised.
7. It is recommended that the department takes drastic steps to ensure that sufficient and appropriate documentation is available at implementing bodies before the next audit commences. The following recommendations should be considered:

* The department should consider the legislative requirements were public bodies will be held accountable for non-compliance with the relevant requirements i.e Basic Conditions of Employment Act of 1997: Ministerial Determination 4: Expanded Public Works Programmes dated 04 May 2012.
* The department should visit the public bodies on a regular basis to ensure that they have implemented a proper system of collation and retention of evidence supporting actual achievements reported.
* Frequent reviews should be performed by internal audit to ensure that information reported in quarterly reports and eventually the annual report is reliable.
* Instituting procedures where minimum documentation, e.g. copies of beneficiaries’ ID’s, attendance registers and payment registers, must be verified prior to the pay-out of the final tranche. The implementing bodies must also be compelled to retain these documents for a minimum period after completion of the project.

**Overview of system challenges**

1. This overview was prepared based on the information system in use during the 2015-16 financial year and we noted that the new implemented system has addressed prior year findings to ensure that the captured beneficiaries are valid, however we noted that management does not adequately review the information on the system.
2. There is an improvement on the capturing of data however there are still some challenges of capturing errors on the reporting system. This resulted in the following exceptions having been identified:
3. **Deceased beneficiaries** – The number of deceased workers was 1 102 in 2014/2015 (2015/2016: 0).The improvement is based on the fact that the EPWPRS is fully integrated with the Home Affairs to check on the deceased participants. All the EPWP participants are verified at the point of entry into the system and there is also a continuous verification that is established though a live link with home affairs.
4. **No identity documents (ID’s) and invalid identity documents** – The number of instances relating to no ID numbers has improved in the current year as there were are no such instances in in the current financial year compared to 41 898 in the prior financial year 2015/2014,The EPWPRS has a built in validation rules that makes it impossible for the participant to be reported without a valid ID number that is also verified with the Department of Home Affairs. As part of this validation, all participants are also required to submit a copy of the ID document which is scanned and stored in the EPWPRS.
5. **Minimum wage** – The beneficiaries who are paid below the minimum wage of R75,10 pre November 2015 and R75,10 after November 2015 are 27 227 in the current year (2014/2015: 19 244).

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

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

1. **Employees on PERSAL** - Beneficiaries who are included on PERSAL are 77 588 in the current year (2014/2015: 3 510).It should be noted that the primary reason for this exception is to ensure that there is a more efficient payment process for beneficiaries as these are not full time employees of the department.

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

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

**SECTION 4: EMERGING RISKS**

**Accounting, performance management/reporting and compliance matters**

New pronouncements

**Modified cash standard**

Componentisation of assets:

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

Capital work in progress:

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

Inventory

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

New legislation

**Treasury Regulations**

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

**Central Supplier Database:**

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

**eTenders Portal:**

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

Subsequent events

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

**SECTION 5: Entities controlled by the department**

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 outcome** | | | **Significant deficiencies in internal control** | | | | | |
| **Financial statement opinion** | **Findings on the performance report** | **Findings on compliance** | **Leadership** | | **Financial and performance management** | | **Governance** | |
| **Assessment** | **Movement** | **Assessment** | **Movement** | **Assessment** | **Movement** |
|  |  |  |  |  |  |  |  |  |  |
| Property Management Trading Entity (PMTE) | Not finalised |  |  |  |  |  |  |  |  |
| Construction Industry Development Board (CIDB) | Unqualified | No | Yes |  |  |  |  |  |  |
| Council for the Built Environment (CBE) | Unqualified | No | Yes |  |  |  |  |  |  |
| Independent Development Trust (IDT) | Not finalised |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | | | | |  |  | | |  |  |  |
| Improved | | | | |  | Unchanged | | |  | Regressed |
|  | | | | |  |  | | |  |  |
| Good | | | | |  | Concerning | | |  | Intervention required |
|  | |  |  |  |  | | |  |  | | | |

**SECTION 6: Ratings of detailed audit findings**

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

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

**SECTION 7: Conclusion**

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

Yours faithfully

Corne Myburgh

Business Executive: National A

1. July 2016

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**Distribution:**

Accounting Officer

CFO

Audit committee

Head of internal audit unit

**: SUMMARY OF DETAILED AUDIT FINDINGS**

| **Page. no.** | **Finding** | **Classification** | | | | | **Rating** | | | **Number of times reported in previous three years** | **Status of implementation of previous year(s) recommendation** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Misstatements in financial statements** | **Misstatements in annual performance report** | **Non-compliance with regulation** | **Internal control deficiency** | **Service delivery** | **Matters affecting the auditor’s report** | **Other important matters** | **Administrative matters** |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Predetermined objectives** | | | | | | | | | | | |
|  | EPWP projects not reported on the EPWP reporting  systems |  | **✓** |  | **✓** | **✓** | **✓** |  |  | None | New finding |
|  | Predetermined objectives: EPWP beneficiaries were not reported on the EPWP fourth quarter data. |  | **✓** |  | **✓** | **✓** | **✓** |  |  | None | New finding |
|  | Predetermined objectives – The supporting documentation for work opportunities created not submitted for audit purposes. |  | **✓** |  | **✓** | **✓** | **✓** |  |  | 3 | In progress |
|  | Predetermined Objectives: Non submission of ID copies, attendance registers (limitation of scope) and beneficiaries not listed on the beneficiary list of the project |  | **✓** |  | **✓** | **✓** | **✓** |  |  | 3 | In progress |
|  | Predetermined Objectives: Non submission of attendance registers and non- implementation of Epwp wage increase |  | **✓** |  | **✓** | **✓** | **✓** |  |  | 3 | In progress |
|  | Predetermined Objectives: No supporting documentations were provided for some of the work opportunities reported |  | **✓** |  | **✓** | **✓** | **✓** |  |  | 3 | In progress |
| **Contingent Assets** | | | | | | | | | | | |
|  | Contingent Assets – Understatement of Contingent Assets disclosure note. | **✓** |  | **✓** |  |  | **✓** |  |  | None | New finding |
| **Procurement and Contract Management:** | | | | | | | | | | | |
|  | Procurement: competitive bidding – Technology Corporate Management |  |  | **✓** | **✓** |  |  | **✓** |  | 3 | In progress |
|  | Procurement: competitive bidding – LA Consulting Engineers (Pty) Ltd |  |  | **✓** | **✓** |  | **✓** |  |  | 3 | In progress |
|  | Procurement: competitive bidding – Kredietinform Experian |  |  | **✓** | **✓** |  |  | **✓** |  | 3 | In progress |
|  | Procurement: quotations (R30 000 to R500 000) – J Kekana Interiors CC |  |  | **✓** | **✓** |  | **✓** |  |  | 3 | In progress |
|  | Procurement: competitive bidding – Crocia Events |  |  | **✓** | **✓** |  | **✓** |  |  | 3 | In progress |
|  | Procurement: competitive bidding – Side Production CC |  |  | **✓** | **✓** |  | **✓** |  |  | 3 | In progress |
|  | Procurement: quotations (R30 000 to R500 000) – Glorina General Traders |  |  | **✓** | **✓** |  |  | **✓** |  | 3 | In progress |
|  | Procurement: competitive bidding – Aluwani’s Investment |  |  | **✓** | **✓** |  | **✓** |  |  | 3 | In progress |
|  | Procurement: Contract management – information requested not submitted for audit |  |  | **✓** | **✓** |  |  | **✓** |  | 3 | In progress |
|  | Procurement: quotations (R10 000 to R30 000) – Mokonyane's Catering & General Services |  |  | **✓** | **✓** |  |  | **✓** |  | 3 | In progress |
|  | Procurement: quotations (R10 000 to R30 000) – Woman Unite Entertainment & Projects |  |  | **✓** | **✓** |  |  | **✓** |  | 3 | In progress |
|  | Procurement: quotations (R30 000 to R500 000) – Kayros Decorating Planet CC |  |  | **✓** | **✓** |  | **✓** |  |  | 3 | In progress |
|  | Procurement: quotations (R30 000 to R500 000) – J Kekana Interiors CC |  |  | **✓** | **✓** |  | **✓** |  |  | 3 | In progress |
|  | Procurement : Interest in State - Supplier did not declare interest |  |  | **✓** | **✓** |  |  | **✓** |  | 3 | In progress |
|  | Procurement: competitive bidding – Business Pulse Project Management CC |  |  | **✓** | **✓** |  |  | **✓** |  | 3 | In progress |
|  | Procurement: competitive bidding – NVT Communication |  |  | **✓** | **✓** |  | **✓** |  |  | 3 | In progress |
|  | Procurement: quotations (R10 000 – 30 000) – Kaliphat Curtains CC |  |  | **✓** | **✓** |  |  | **✓** |  | 3 | In progress |
|  | Procurement: Competitive bidding – Crocia Events (Pty) Ltd |  |  | **✓** | **✓** |  |  | **✓** |  | 3 | In progress |
|  | Procurement: competitive bidding – Business Pulse Projects Management |  |  | **✓** | **✓** |  |  | **✓** |  | 3 | In progress |
|  | Procurement: competitive bidding – Imbawula Civil Projects (Pty) Ltd |  |  | **✓** | **✓** |  | **✓** |  |  | 3 | In progress |
|  | Procurement and Contract Management: Competitive bidding |  |  | **✓** | **✓** |  |  | **✓** |  | 3 | In progress |
|  | Procurement and Contract Management: Quotations (R30 000 to R500 000) non-compliance |  |  | **✓** | **✓** |  |  | **✓** |  | 3 | In progress |
|  | Procurement and Contract Management: No deviation was provided for not selected the supplier with the lowest quoted amount : Mmabatho (COFF 8) |  |  | **✓** | **✓** |  |  | **✓** |  | 3 | In progress |
| **Predetermined objectives** | | | | | | | | | | | |
|  | Predetermined objectives: Not all the targets from MTSF and Strategic plan of the department were included in the APP. |  |  |  | **✓** |  |  | **✓** |  | 3 | In progress |
|  | Predetermined objectives: Errors on beneficiary reported on EPWP systems for quarter 4 – ending 31 March 2016. |  |  |  |  |  |  | **✓** |  | 3 | In progress |
| **Agent principle Arrangement** | | | | | | | | | | | |
|  | Agent principle Arrangement – Understatement of Agent principle amounts disclosed in the note |  |  |  |  |  |  | **✓** |  | None | New finding |
| **Employee Benefits** | | | | | | | | | | | |
|  | Employee Benefits – Overstatement of employee benefits as result of leave no captured timeously. |  |  |  | **✓** |  |  | **✓** |  | None | New finding |
| **Key Management Personnel** | | | | | | | | | | | |
|  | Key Management Personnel: Incorrectly calculated |  |  |  | **✓** |  |  | **✓** |  | 3 | In progress |
| **Procurement and Contract Management** | | | | | | | | | | | |
|  | Procurement: quotations (R30 000 to R500 000) – Lesedi Corporate Technology (Pty) Ltd |  |  | **✓** | **✓** |  |  | **✓** |  | 3 | In progress |
|  | Procurement: Testing R10 000 to R30 000 – final decision of acceptance of quotation |  |  | **✓** | **✓** |  |  | **✓** |  | 3 | In progress |
| **Good and Services** | | | | | | | | | | | |
|  | Goods and Services: Payments made after 30 days |  |  |  | **✓** |  |  | **✓** |  | 3 | In progress |
|  | Goods and Services: Limitation of scope of information requested at Mmabatho Regional Office (COFF 3) |  |  | **✓** |  |  |  | **✓** |  | None | In progress |
| **Human Resource Management** | | | | | | | | | | | |
|  | Human Resource Management: Performance agreement deviations |  |  |  | **✓** |  |  | **✓** |  | 3 | In progress |
|  | High Vacancy Rate |  |  |  | **✓** |  |  | **✓** |  | 3 | In progress |
|  | Post vacant for more than 12 months |  |  |  | **✓** |  |  | **✓** |  | 3 | In progress |
|  | Posts not advertised within six months of being vacant |  |  |  | **✓** |  |  | **✓** |  | 3 | In progress |
|  | Payroll requested was not received |  |  |  | **✓** |  |  | **✓** |  | 3 | Not included in the action plan |
|  | Human Resource Management: Payroll certificates not certificate and returned timeously. |  |  |  | **✓** |  |  | **✓** |  | 3 | Not included in the action plan |
| **Movable Assets** | | | | | | | | | | | |
|  | Movable Assets: Ministerial vehicles not in use |  |  |  | **✓** |  |  | **✓** |  | None | New finding |
|  | Movable Assets – Asset register did not agree the amount disclosed in the disclosure note for movable assets. |  |  |  | **✓** |  |  | **✓** |  | None | New finding |
| **Departmental Revenue** | | | | | | | | | | | |
|  | Departmental Revenue – Departmental revenue is overstated |  |  |  | **✓** |  |  | **✓** |  | None | New finding |
| **Information systems audit** | | | | | | | | | | | |
|  | Information Technology Service Continuity: Disaster Recovery Plan not approved |  |  |  | **✓** |  |  | **✓** |  | 3 | In progress |
|  | Information Technology Governance: Over reliance on consultants to perform key IT functions |  |  |  | **✓** |  |  | **✓** |  | 3 | In progress |

**DETAILED AUDIT FINDINGS**

**ANNEXURE A: MATTERS AFFECTING THE AUDITOR’S REPORT**

1. **Predetermined objectives: EPWP projects not reported on the EPWP reporting systems**

Laws, rules and regulations

a) In terms of technical indicator description – method of calculation states that:

*“A count of the aggregate work opportunities created/reported. Work opportunity is paid work created for an individual on an EPWP project for any period of time. The same person can be employed on different projects and each period of employment will be counted as work opportunity*”.

In terms of Public Finance Management Act (PFMA)

Section 40(1)(a) states that:

b) *“The accounting officer for a department, trading entity or constitutional institution-*

*(a)   must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;*

Section 40(3)(a) states that :

c) *“The annual report and audited financial statements referred to in subsection (1)(d) must fairly present the state of affairs of the department, trading entity or constitutional institution, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned;”*

During the audit of visit of Public bodies we noted that the following EPWP projects were not reported to the department.

| **No** | **Name of Public Bodies** | **Name of the Project** | **Project Number** | **Work Opportunities Created** |
| --- | --- | --- | --- | --- |
| 1 | Mbhashe Municipality (EC) | Dutywa, Elliotdale and willowvale Street sweeping, Grass Cutting and Beautification | Not Provided | 160 |
| 2 | Mbhashe Municipality (EC) | Govern Mbheki Waste Papers | Not Provided | 20 |
| 3 | Mbhashe Municipality (EC) | Zone 14 Waste Pickers | Not Provided | 20 |
| 4 | Naledi Local Municipality (NW) | Cemetory Collection for Phase 3 | Not Provided | 9 |
| 5 | Naledi Local Municipality (NW) | Parks Phase 3 data capturing | Not Provided | 36 |
| 6 | Naledi Local Municipality (NW) | Stella Capturing Phase Tool | Not Provided | 25 |
| 7 | Naledi Local Municipality (NW) | Waste Collection for phase 3 | Not Provided | 51 |
| 8 | Naledi Local Municipality (NW) | Roads Phase 3 Capturing | Not Provided | 89 |
| 9 | Taung Local Municipality (NW) | Malhako II | Not Provided | 9 |
| 10 | Taung Local Municipality (NW) | Pudumong | Not Provided | 11 |
| 11 | Taung Local Municipality (NW) | Vergenoeg | Not Provided | 9 |
| 12 | Nelson Mandela Metro (EC) | Pilot | Not provided | 796 |
| 13 | Nelson Mandela Metro (EC) | Metro Security | Not provided | 630 |
| 14 | Nelson Mandela Metro (EC) | Fidelity Security | Not provided | 301 |
| 15 | Polokwane Municipality | Rural Household Sanitation Chuene-Maja Cluster | Not provided | 53 |
| 16 | Polokwane Municipality | Electrification of Ga-Makanye Village | Not provided | 30 |
| 17 | Polokwane Municipality | Houtrivier RWS Phase 10 | Not provided | 27 |
| 18 | North West | Temba Bulk Water Supply for Mathibestad | Not provided | 50 |
| 19 | North West | THULWE BRIDGE AND ACCESS ROUTE PHASE 1 | Not provided | 36 |
| 20 | North West | Carousel View Internal Roads (Phase 2) | Not provided | 31 |
| 21 | North West | GREATER MAUBANE INTERNAL ROADS AND STORMWATER PHASE3 | Not provided | 57 |
| 22 | Ekurhuleni metro | Cooperatives | Not provided | 438 |
| 23 | Ekurhuleni metro | Mini Dump Sites | Not provided | 149 |
| 24 | Ekurhuleni metro | Fire Hydrants | Not provided | 147 |
| 25 | Ekurhuleni metro | IRPTN | Not provided | 159 |
|  |  |  |  |  |
| **TOTAL** | | | |  |

Impact of the finding:

1. Non-compliance with Section 40(3) of the PFMA

b) Understatement of work opportunities created.

**Internal control deficiency**

Reason for the deviation:

a) Public bodies do not capture all their work opportunities to avoid the audit findings for their entities and there is no action taken for non-capturing of the beneficiaries.

b) There is no Legislative framework to hold the Public bodies accountable for non-compliances.

The above matter is as a result of the following internal control deficiency:

**Financial and performance management**

The Department did not prepare regular, accurate and complete financial and performance reports

that are supported and evidenced by reliable information.

**Recommendation**

a) The department should develop legislative framework to hold Public bodies accountable for non-compliance.

b) The project co-ordinators of at the different regional office should request the list of all not reported projects and follow up regularly the reasons for not reporting the projects.

**Management response**

Management to provide the consolidated response on 25 July 2016 as agreed

I am in [not] agreement with the finding for the following reasons [and supply the following/attached information in support of this]:

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken |  | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
|  |  | |
| If yes, what corrections will be made to the population |  | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. |  | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. |  | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | |  |
|  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions |  | | |
| Estimated completion date for corrective action |  | | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the internal control deficiencies indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the internal control deficiency indicated, please provide the internal control deficiency according to management. |  | |

**Auditor’s conclusion**

Management to provide the consolidated response on 25 July 2016 as agreed.

1. **Predetermined objectives: EPWP beneficiaries were not reported on the EPWP fourth quarter data.**

Laws, rules and regulations

a) In terms of technical indicator description – method of calculation states that:

*“A count of the aggregate work opportunities created/reported. Work opportunity is paid work created for an individual on an EPWP project for any period of time. The same person can be employed on different projects and each period of employment will be counted as work opportunity*”.

In terms of Public Finance Management Act (PFMA)

Section 40(1)(a) states that:

b) *“The accounting officer for a department, trading entity or constitutional institution-*

*(a)   must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;*

Section 40(3)(a) states that:

c) *“The annual report and audited financial statements referred to in subsection (1)(d) must fairly present the state of affairs of the department, trading entity or constitutional institution, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned;”*

During the audit of visit of Public bodies we noted that the following beneficiaries noted on the attendance registers were not included on the EPWP data provided and reported for the selected projects.

| **No.** | **Name of Public Bodies** | **Project name** | **Attendance Register** | **Interim - Number of beneficiaries not included in the project list** | **Final - Number of beneficiaries not included in the project list** | **Total opportunities reported for the year** |
| --- | --- | --- | --- | --- | --- | --- |
| 1 | Mbhashe Municipality | Pound Assistance; | May 2015 | 4 | 3 | 14 |
| 2 | Maluti - a- Phofung | Maluti - a- Phofung Revenue and Job Creation EPWP | 01 April 2015-31March 2016 | Not audited | 466 | 1496 |
| 3 | Merafong Municipality | Khutsong South construction of road over rail bridge | 01 April 2015-31March 2016 | 11 | 9 | 37 |
| 4 | Naledi Local Municipality | Community Anti-Crime Prevention | 01 April 2015-31March 2016 | 7 | 18 | 118 |
| 5 | Khayelitsha | Baphumelele Waldorf Association at | 01 April 2015-31March 2016 | 52 | 1 | 96 |
| 6 | OR-Tambo Municipality | Project Cleaning and Greening | June 2016 | 6 | 7 | 15 |
| 7 | OR-Tambo Municipality | Coffee Bay Regional Water Scheme Ward 23-24 | April 2015- March 2016 | Not audited | 8 | 231 |
| 8 | Mbombela Municipality | project widening of R40 from Dr. Enos Mabuza | April 2015- March 2016 | 33 | 41 | 71 |
| 9 | Taung Local Municipality | Horticulture pudimoe | April 2015- March 2016 | 1 | 1 | 9 |
| 10 | Buffalo City | Berlin Lingilitsha Sewer Extension Phase 2 | April 2015- March 2016 | 1 | 4 | 10 |
| 11 | Ugu District Municipality | Harding waste treatment | April 2015- March 2016 | 6 | 1 | 6 |
| 12 | Nkomazi Municipality | project IG/Waste management | April 2015- March 2016 | 41 | 33 | 177 |
| 13 | Ratlou Municipality | Municipal Facilities Caretakers | April 2015- March 2016 | 173 | 7 | 173 |
| 14 | Nelson Mandela Metro Municipality | KwaNobuhle Area 11 Phase | April 2015- March 2016 | 16 | 19 | 27 |
| 15 | Nelson Mandela Metro Municipality | Nature Conservation and Beautification of Parks | April 2015- March 2016 | Not audited | 10 | 118 |
| 16 | Polokwane Municipality | Static Security Service Seshogo, Nirvana and Westenburg; | June 2015 to July 2015 | 0 | 31 | 69 |
| 19 | Polokwane Municipality | IG Construction of Low level Bridges | June 2015 to July 2015 | 0 | 5 | 43 |
| 17 | Polokwane Municipality | IG: Installation and Repair of 260 Traffic road signs | June 2015 to July 2015 | 0 | 18 | 29 |
| 18 | Polokwane Municipality | Mankweng Sports complex | June 2015 to July 2015 | 0 | 48 | 26 |
| 19 | Polokwane Municipality | Street cleaning in rural areas | July 2015 to November 2015 | 0 | 35 | 105 |
| 20 | Lejweleputswa District Municipality | Cleaning and service delivery 2015/IG | Nov 2015-31 March 2015 | Not audited | 25 | 44 |
| 21 | Mopani District Municipality | Mopani Security Services | Project list | Not audited | 12 | 18 |
| 22 | Vhembe District Municipality | Construction of bulk pipeline from NN20B to Muraga; | October 2015 to November 2015 | 0 | 4 | 39 |
| 23 | Sol Plaatjie municipalities | Replacements of Metres and Pipes | Oct-2015-March 2016 | Not audited | 5 | 9 |
| 24 | Sol Plaatjie municipalities | EPWP Sol Plaatjie Cleaning Project | Oct-2015-March 2016 | Not audited | 29 | 514 |
| 25 | Sol Plaatjie municipalities | Zone Metering in Sol Plaatje | Sept-2015-Jan 2016 | 25 | 12 | 16 |
| 26 | Dr Ruth Segomotsi Mompati | Greater Taung Rural Water Sanitation | Project List | Not audited | 58 | 410 |
| 27 | City of Tshwane Metro | HIV and Aids Community Outreach Programme (Volunteers) | Project list | 0 | 22 | 214 |
| 28 | Mahikeng Municipality | Law Enforcement, Fire rescue and road marking | April 2015- October 2015 | Not audited | 73 | 135 |
| 29 | Alfred Ndzo District Municipality | IG/Mbizana Cleaning and Maintenance | April 2015- March 2016 | Not audited | 2 | 47 |
| 30 | Alfred Ndzo District Municipality | IG/Ntabankulu Cleaning and Maintenance | April 2015- March 2016 | Not audited | 2 | 13 |
| 31 | Alfred Ndzo District Municipality | Maintanance of Mfundisweni Centre | April 2015- March 2016 | Not audited | 4 | 4 |
| 32 | Uthungulu District Municipality | IG/COMMUNITY MOBILIZERS | 01 July 2015 - 31 March 2015 | Not audited | 28 | 76 |
| 33 | Lekwa Municipality | Upgrading of waste treatment plant | July 2015 to September 2015 | Not audited | 2 | 15 |
| 34 | Ekurhuleni | IRPTN EPWP project | April 2015 to March 2016 |  | 95 |  |
| 35 | Ekurhuleni | Primary Health Care Support Programme EPWP project | Project List |  | 454 | 352 |
| 36 | City of Johannesburg | IG Riyashuma EPWP project | March 2016 |  | 18 | 69 |
| 37 | City of Johannesburg | Eco Guides Community and Schools Environment | March 2016 |  | 7 | 41 |
| 38 | Chris Hani District Municipality | IG / EPWP Internship | April 2015 – March 2016 | Not audited | 13 | 196 |
| 39 | Chris Hani District Municipality | IG/ Chris Hani Livestock Improvement/ Cooperatives | April 2015 – March 2016 | Not audited | 4 | 258 |
| 40 | Chris Hani District Municipality | IG/DAC and Food Security | April 2015 – March 2016 | Not audited | 9 | 169 |
| **TOTAL** | | | | **380** |  |  |

Impact of the finding:

a) Non-compliance with Section 40(3) of the PFMA

b) Understatement of work opportunities created.

**Internal control deficiency**

Reason for the deviation:

a) The information that is submitted as portfolio of evidence for performance information is only for the projects that have passed the validation test therefore municipalities might have reported on projects that did not pass the validation test which resulted in them not being included in the EPWP quarter.

b) The public bodies are not reporting all the work opportunities created to avoid the audit findings and there is no action taken for non-capturing of the beneficiaries.

c) Public bodies do not capture all their project to avoid the audit findings for their entities.

d) There is no Legislative framework to hold the Public bodies accountable for non-compliances.

The above matter is as a result of the following internal control deficiency:

**Financial and performance management**

a) The department did not review and monitor compliance with applicable laws and regulations

b) The Department did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

**Recommendation**

a) The department should develop legislative framework to hold Public bodies accountable for non-compliance.

b) The programme managers at the different regional office should request follow the pending list to ensure that the list it is cleared timeously.

**Management response**

Management to provide the consolidated response on 25 July 2016 as agreed

I am in [not] agreement with the finding for the following reasons [and supply the following/attached information in support of this]:

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken |  | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
|  |  | |
| If yes, what corrections will be made to the population |  | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. |  | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. |  | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | |  |
|  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions |  | | |
| Estimated completion date for corrective action |  | | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the internal control deficiencies indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the internal control deficiency indicated, please provide the internal control deficiency according to management. |  | |

**Auditor’s conclusion**

Management to provide the consolidated response on 25 July 2016 as agreed

1. **Predetermined objectives – The supporting documentation for work opportunities created not submitted for audit purposes.**

Laws, rules and legislation:

In terms of Public Finance Management Act (PFMA)

Section 40(1)(a) states that:

*a) “The accounting officer for a department, trading entity or constitutional institution-*

*(a)   must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;*

Section 40(3)(a) states that:

*b) “The annual report and audited financial statements referred to in subsection (1)(d) must fairly present the state of affairs of the department, trading entity or constitutional institution, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned;”*

The following selected projects supporting documentation were not provided.

a) As per request for information number 15 which was issued on 05 February 2016, no information was provided for the auditing of the selected EPWP Project- Provision of water reticulation BLM (15157-EPWP3M) under the Bushbuckridge Public Body during the project site visit for 255 work opportunities created for the year.

b) EPWP –Hlabisa Municipality (Mdletshe Rural Housing Project 7560) –Project included under the 2015/16 financial Period whilst it belong to 2014/15 financial Period.

Impact of the finding:

a) Non-compliance with Section 40(1) and Section 40(3) of the PFMA.

b) Non submission of the above information is a limitation of scope, and will have a negative impact on the audit outcome.

**Internal control deficiency**

Reason for the deviation:

a) No regular sites visits are performed at the public bodies by the department to ensure that the supporting documentation is maintained by the public bodies.

b) No action is taken against the public bodies that do not implement the corrective action.

The above matter is as a result of the following internal control deficiency:

**Financial and performance management**

The department did not 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.

**Recommendation**

a) The regular site should be performed by the department to the public bodies to ensure that they are made aware that the supporting documentation for work opportunities created should be maintained and made available when required at all the times.

b) No action is taken against the public bodies that do not implement the corrective action.

**Management response**

a) I am in agreement with the finding for the following reasons:

The management response dated 09 March 2016 refer. The project was completed in the 2014/2015 financial year and was migrated in June 2015 to the new EPWPRS. The status quo of the project has not changed.

Noting that the project was not closed, the participants’ details remained on the EPWP Reporting System. When the Q4 data was validated with the Department of Home Affairs, this may have resulted in some identification numbers coming up as invalid and thus subsequently removed from the validated data. This would have led to the work opportunities decreasing from 131 to 116 at the end of Q4.

It should also be noted that the person-days of employment for all the participants in the data is less than 50 days of employment. This informs that the project has not been updated on the EPWP Reporting System - the person-days were migrated, from the last reported persons’ days, captured in the 2014/2015 financial year.

Notwithstanding requests to the public body to either close the project or to request the DPW to delete the project, this has not been forthcoming from the public body. Hence the project appeared in the Q4 information submitted to the AG. EPWP is awaiting a formal request from the public body to delete the project from the EPWP Reporting System (EPWP RS).

DPW cannot amend information on the EPWP-RS unless instructed to do so in writing from public body. Following several request to the Municipal Manager, the letter was received from the Municipal Manager after the CoFF was issued by the AG.

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken | The Department has requested the Hlabisa LM to formally request the deletion of the project from the EPWP RS. The department has also requested, again, that the Hlabisa LM close the project so it does not appear in 2016/2017 financial year reports. | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
|  | X | |
| If yes, what corrections will be made to the population | N/A | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. | N/A | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. | N/A | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | | X |
| N/A | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | N/A | | |
| Position of official responsible to take corrective actions | Municipal Manager: Hlabisa LM. | | |
| Estimated completion date for corrective action | 30 September 2016. | | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  | X |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | The public body failed to meet the EPWP request to (1) close the project and (2) submit a letter requesting the project be deleted. Public body was informed to do so. | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the internal control deficiencies indicated | **Yes** | **No** |
|  | X |
| If management does not agree with the internal control deficiency indicated, please provide the internal control deficiency according to management. | The report produced by the DPW is based on the data captured and authorized by the public body. When discrepancies/irregularities are found the public body is requested to remedy same. Should the public body not do so, DPW will continue to report on the information authorised by the public body. | |

**Auditor’s conclusion**

The finding remains unresolved as reported work opportunities were created in the prior year this

has resulted in overstatement of work opportunities which were reported in the current financial

year.

1. **Predetermined Objectives: Non submission of ID copies, attendance registers (limitation of scope) and beneficiaries not listed on the beneficiary list of the project**

Laws, rules and regulations

In terms of Public Finance Management Act (PFMA)

Section 40(1) (a) states that:

*a) “The accounting officer for a department, trading entity or constitutional institution-*

*(a)   must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;*

Section 40(3) (a) states that:

*b) “The annual report and audited financial statements referred to in subsection (1)(d) must fairly present the state of affairs of the department, trading entity or constitutional institution, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned;”*

c) In terms of section 12 of the basic conditions of employment ministerial determination 4: expanded public works programmes:

*“12.1 Every employer must keep a written record of at least the following –*

*(a) The worker's name and position;*

*(b) Copy of an acceptable worker identification*

*(c) in the case of a task-rated worker, the number of tasks completed by the worker;*

*(d) in the case of a time-rated worker, the time worked by the worker;*

*(e) payments made to each worker.*

*12.2 The employer must keep this record for a period of at least three years after the completion of the EPWP.”*

The following deviations were noted:

1. No ID copies were submitted for the undermentioned beneficiaries to the EPWP project.

| **No** | **Public Body** | **Project Name** | **Number of ID not provided** | **Number of work opportunities reported for the year** |
| --- | --- | --- | --- | --- |
| 1 | City of Johannesburg Municipality | Home Based Care EPWP project | 3 | 78 |
| 2 | Beaufort West Municipality | Beaufort West | 3 | 853 |
| 3 | Mafikeng Municipality | Law enforcement, fire rescue and road marking project | 15 | 135 |
| 5 | City of Tshwane Metro | HIV and Aids Community Outreach Programme ( Volunteers ) | 4 | 214 |
| 6 | Lekwa Municipality | Upgrading of waste treatment plant | 2 | 15 |
| 7 | Ekurhuleni Metro | IRPTN EPWP project | 37 | 67 |
| 8 | City of Johannesburg Municipality | Home Based Care EPWP project | 3 | 78 |
| 9 | Ratlou Municipality | Municipal Facilities Caretakers | 1 | 173 |

1. No attendance registers were obtained for the undermentioned beneficiaries to the EPWP project.

| **No** | **Public Body** | **Project Name** | **Number of attendance register not provided** | **Number of work opportunities reported for the year** |
| --- | --- | --- | --- | --- |
| 1 | Merafong City | Khutsong South Construction of Road over Rail Bridge | 2 |  |
| 2 | Beaufort West Municipality | Beaufort West | 3 | 853 |
| 3 | City of Johannesburg Metro | EPWP project Smart Meters | 25 | 32 |
| 4 | Dr Ruth Segomotsi Mompati | Greater Taung Rural Water Sanitation | 410 | 410 |
| 5 | Mafikeng Municipality | Law enforcement, fire rescue and road marking project | 135 | 135 |
| 6 | City of Tshwane Metro | HIV and Aids Community Outreach Programme ( Volunteers ) | 52 | 214 |
| 7 | Ekurhuleni | IRPTN EPWP project | 61 | 67 |
| 8 | City of Johannesburg | IG Riyashuma EPWP project | 20 | 69 |
| 9 | City of Johannesburg Municipality | Home Based Care EPWP project | 49 | 78 |
| 10 | Lekwa Municipality |  | 2 | 15 |
| 11 | Ratlou Municipality | Municipal Facilities Caretakers | 1 | 173 |
| 12 | Naledi Local Municipality (NW) | (IG/COMMUNITY ANTI-CRIME INITIATIVE) | 9 | 118 |

c) No proof of payments were provided for the following beneficiaries.

| **No** | **Public Body** | **Project Name** | **Number of proof of payment not provided** | **Number of work opportunities reported for the year** |
| --- | --- | --- | --- | --- |
| 1 | City of Johannesburg Municipality | Home Based Care EPWP project | 3 | 78 |
| 2 | Beaufort West Municipality | Beaufort West | 4 | 853 |
| 3 | Mbombela Municipality | Road and Storm Water Maintenance EPWP project | 5 | 71 |
| 4 | City of Johannesburg Municipality | Home Based Care EPWP project | 3 | 78 |
| 5 | Ratlou Municipality | Municipal Facilities Caretakers | 1 | 173 |

Impact of the finding:

a) Non-compliance with section 12 of the basic conditions of employment ministerial determination 4: Expanded Public Works Programme.

b) Non-compliance with section 40(1) and 40(3) of the Public Finance Management Act

c) The job opportunities reported for this project might not be valid and accurate due to non-submission of attendance registers and ID copies.

**Internal control deficiency**

Reason for the deviation:

The department does not adequately monitor the public bodies to ensure that the EPWP project

files are properly filed and maintained.

Similar findings were raised in the prior year audit. However as the finding has recurred in the current year, management has not appropriately addressed the matter.

Based on the aforementioned the matter is as a result of the following internal control deficiency:

*Financial and Performance Management*

The department did not 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

**Recommendation**

a) The department should visit the public bodies on a regular basis to ensure that it has implemented a proper system of collation and retention of evidence supporting actual achievements reported.

b) Frequent reviews should be performed by management and internal audit to ensure that information reported in the quarterly reports and ultimately the annual report is reliable.

**Management response**

Management to provide the consolidated response on 25 July 2016 as agreed

I am in [not] agreement with the finding for the following reasons [and supply the following/attached information in support of this]:

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken |  | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
|  |  | |
| If yes, what corrections will be made to the population |  | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. |  | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. |  | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | |  |
|  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions |  | | |
| Estimated completion date for corrective action |  | | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the internal control deficiencies indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the internal control deficiency indicated, please provide the internal control deficiency according to management. |  | |

*Name:*

*Position:*

*Date:*

**Auditor’s conclusion**

Management to provide the consolidated response on 25 July 2016 as agreed.

1. **AOPO: inconsistency noted between the approved APP of 2015/16 and the APR of 2015/16**

Laws, rules and regulations

*In terms of Treasury Regulation 5.2.4 requires the strategic plan & annual performance plan to form the basis for the annual report (annual performance report), therefore requiring consistency of strategic objectives, performance indicators and planned annual targets between planning and reporting documents*

The following inconsistencies were noted between planned (Annual performance plan) and reported indicators (annual performance report):

|  |  |  |
| --- | --- | --- |
| **Programme** | **Planned Performance Indicator as per APP** | **Planned Annual Target 2015/16 as per APR** |
| Programme 2: Intergovernmental Coordination | Completed service delivery framework for identified services. | SDIF for Construction programme developed by 31st March 2016. |

The following inconsistencies were noted between planned (Annual performance plan) and reported objectives (annual performance report) :

|  |  |  |
| --- | --- | --- |
| **Planned programmes** | **Strategic Objectives as per Annual perfomance report** | **Strategic Objectives as per Annual perfomance report** |
| Programme 2: Intergovernmental Coordination | To pursue common service delivery objectives within the public works sector through the coordinated implementation of programmes at National and Provincial level. | Not reported |
| To ensure compliance to management practices through the MPAT improvement plan. | Not reported |

|  |  |  |
| --- | --- | --- |
| **Planned programme** | **Strategic Objectives as per Annual performance plan** | **Strategic Objectives as per Annual performance report** |
| Programme 3: Expanded Public Works Programme | To co-ordinate, monitor and evaluate the implementation of EPWP Phase III that aims to create 6 million work opportunities and provide income support to the poor, lowly skilled and unemployed between 2014 – 2019. | Not reported |

|  |  |  |
| --- | --- | --- |
| **Planned programme** | **Strategic Objectives as per Annual performance plan** | **Strategic Objectives as per Annual performance report** |
| Programme 4: Property and construction industry policy and research | To regulate and transform the Construction and Property industries | Not reported. |
| Promote sound immovable asset management in the public sector | Not reported. |

**Impact**

1. There is no consistency between planned and reported indicators.
2. There is no consistency between planned and reported objectives.

**Internal Control Deficiency**

**Financial and performance management**

The department did not review and monitor compliance with applicable legislation.

**Recommendation**

Management should develop a policy to be implemented during strategic planning which will enforce thorough review of the approved annual performance plan and the final approved annual performance report to ensure consistency in reporting of strategic objectives, performance indicators and planned annual targets, in order to meet the criteria required by the National Treasury’s Framework for managing programme performance information (FMPPI).

**Management response**

I am in agreement with the finding

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken | To be corrected in the Annual Performance Report | | |
| Does the finding affect an amount disclosed in the financial statements |  | **No** | |
|  |  | |
| If yes, what corrections will be made to the population |  | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. |  | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. |  | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) |  | | **No** |
|  | |  |
|  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions | Chief Director | | |
| Estimated completion date for corrective action | 5th July 2016 | | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated |  | **No** |
|  |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the internal control deficiencies indicated |  | **No** |
|  |  |
| If management does not agree with the internal control deficiency indicated, please provide the internal control deficiency according to management. |  | |

*Name:* Lwazi Mahlangu

*Position: Chief Director*

*Date: 6 July 2016*

**Auditor’s conclusion**

Management has adjusted the annual performance report, the finding is resolved. However this will be reported as an additional matter paragraph due to material adjustment’s which were made to the annual performance report.

1. **Contingent Assets – Understatement of Contingent Assets disclosure note.**

Laws, rules and regulations

a) In terms of the Public Finance Management Act Chapter 1 – Interpretation, Object, application and Amendment of this Act, section no 1:

**“Unauthorised expenditure”** means—

(*a*) overspending of a vote or a main division within a vote;

(*b*) expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division;

**“vote”** means one of the main segments into which an appropriation Act is divided and which—

(*a*) specifies the total amount which is usually appropriated per department in an appropriation Act; and

(*b*) is separately approved by Parliament or a provincial legislature, as may be appropriate, before it approves the relevant draft appropriation Act as such.

b) In terms of Transfer of functions Accounting and Reporting Guide section 10.1.1 Unauthorised expenditure - Questions and answers it states that:

*“How should the transferor deal with any unauthorised expenditure relating to a programme that was transferred to another department”*

*“Unauthorised expenditure remains with the transferor.*

*For example, Programme A in Department X overspent by R20 million in 2009/10. This amount was recognised by Department X as unauthorised expenditure on the face of the POS as at 31 March 2010.*

*During the 2010/11 financial year the activities relating to Programme A were transferred to Department Y. The unauthorized expenditure on the programme transferred will remain with the transferor which is Department X”.*

c) In terms of the Modified Cash Standard – Contingent Assets Disclosure Criteria

1. Paragraph .55

*“A department shall disclose a contingent asset where an inflow of economic benefits or service potential is probable.”*

1. Paragraph .57

*“Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. Where the inflow is virtually certain (and measureable) but not yet received, then the department discloses the amount as a receivable for departmental revenue. If an inflow has become probable, a department discloses the contingent asset.”*

1. Paragraph .58

*“Where an inflow of economic benefits or service potential is probable, a department shall disclose a brief description of the nature of the contingent assets at the reporting date, and, where practicable, an estimate of their financial effect.”*

The following deviations were noted

a) During 2009 the Property Management Trading Entity constructed the security upgrades to the President residential house on behalf of the Department of Public Works (DPW). The funds utilised in the construction were then recovered from DPW in that financial period. Subsequent to the completion of the major part of the upgrade, the Constitutional Court, on the 31st March 2016, found that the President should pay back a portion of the amount spent on the upgrades as it does not relate to the security. The court ruled that the amount to be repaid would have to be determined by the National Treasury within 60 days of the judgment.

b) As at 31 March 2016 the National Treasury had not finalised the amount to be repaid by the President, as such it was probable that there would be an inflow of funds into the DPW. This meets the definition of a contingent asset as per the requirements of the Modified Cash Standard. We however noted that at year end, the department did not disclose a contingent asset in their annual financial statements.

c) The contingent asset was raised and disclosed in the financial statements of the Property Management Trading Entity, and not in the financial statement of the Department of Public Works where the unauthorized expenditure was incurred. PMTE had already recovered the costs incurred for security upgrades from Department of Public Works as a result only Department of Public Works suffered a loss.

Impact of the finding:

1. Non-compliance with section .55, 57 and .58 of the Modified Cash Standard
2. Non-compliance with section 10.1.1(a) of the Transfer of functions Accounting and Reporting Guide
3. Omission of the disclosure note relating to the contingent assets which may result in modification of the audit opinion.

**Internal control deficiency**

Reason for the deviation:

The department did not consider the fact that the PMTE has already received the costs incurred in relation to security upgrades from the department of public works

Based on the aforementioned the matter is as a result of the following internal control deficiency:

**Financial and Performance Management**

The department did not implement controls over the review and monitoring of the applicable laws and regulations

**Recommendation**

The department should disclose the contingent asset in the Annual Financial Statements as PMTE has already received the costs incurred in relation to security upgrades.

**Management response**

I am in agreement with the finding for the following reasons the department has updated the contingent assets on the financial statements with a narrative. Annexure A attached is the word and excel change done on the financials

| **Description** | **Response** | | |
| --- | --- | --- | --- |
| Corrective action to be taken |  | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
|  | X | |
| If yes, what corrections will be made to the population |  | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. |  | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. |  | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | | X |
|  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions |  | | |
| Estimated completion date for corrective action |  | | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
| x |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the internal control deficiencies indicated | **Yes** | **No** |
| x |  |
| If management does not agree with the internal control deficiency indicated, please provide the internal control deficiency according to management. |  | |

*Name:* Lesiba Ledwaba

*Position: Acting Director Financial Accounting*

*Date: 10/06/2016*

**Auditor’s conclusion**

Management respond is acknowledged and the finding is resolved however the matter will be included in the management as material changes to the already submitted annual financial statements for audit.

**Procurement and contract management**

1. **Procurement: competitive bidding – LA Consulting Engineers (Pty) Ltd**

**Audit finding**

Treasury Regulations 16A.6.2 states that a supply chain management system must, in the case of procurement through a bidding process, provide for

* the adjudication of bids through a bid adjudication committee;
* the establishment, composition and functioning of bid specification, evaluation and adjudication committees;
* the selection of bid adjudication committee members;
* bidding procedures; and
* approval of bid evaluation and/or adjudication committee recommendations.

Treasury Regulations 16A.6.2 states that a supply chain management system must be fair, equitable, transparent, competitive and cost effective.

Treasury Regulation section 16A.6.3 (c) states that bids must be advertised in at least the Government Tender Bulletin for a minimum period of 21 days before closure, except in urgent cases when bids may be advertised for such shorter period as the accounting officer or accounting authority may determine.

Instruction note 32 section 3.2.1 states that within ten (10) working days after the closure of any advertised competitive bid, institutions must publish on its website the names of all bidders that submitted bids in relation to that particular advertisement. Where practical, institutions must also publish the total price and the preferences claimed by the respective bidders. The information should remain on the website for at least thirty (30) days. The details of the winning bidder, contract number and description, preference claimed and contract price must also be published in the government tender bulleting.

PPR 6 (2) states that points must be awarded to a tenderer for attaining the B-BBEE status level of contributor for procurement equal or above R1 million as follows:

|  |  |
| --- | --- |
| B-BBEE Level | Points |
| 1 | 10 |
| 2 | 9 |
| 3 | 8 |
| 4 | 5 |
| 5 | 4 |
| 6 | 3 |
| 7 | 2 |
| 8 | 1 |

PPR 6 (3) states that a maximum of 10 points may be allocated in accordance with PPR 6 (2)

Preferential Procurement Regulation paragraph 6 (1) states that the 90/10 preference point system for acquisition of services, works or goods with a Rand value above R1 million. The following formula must be used to calculate the points for price in respect of tenders with a Rand value above R1 000 000 (all applicable taxes included):

|  |  |
| --- | --- |
| |  | | --- | | Ps= 90  1-  Pt – Pmin | |
| Pmin |

Ps     = Points scored for comparative price of tender or offer under consideration;

Pt      = Comparative price of tender or offer under consideration; and

Pmin = Comparative price of lowest acceptable tender or offer.

PPR 4 states that the points scored by a tenderer in respect of the level of B-BBEE contribution must be added to the points scored for price

The following discrepancy was identified:

|  |  |  |
| --- | --- | --- |
| **Contractor** | **Tender No** | **Award** |
| LA Consulting Engineers (Pty) Ltd | HP14/134 | 8 327 700 |

Bid Specification and Evaluation Committee:

No supporting documentation was provided to substantiate who the SCM official is that serves on the bid specification and evaluation committee. We were therefore unable to determine whether the committees were constituted in accordance with the requirements of the SCM policy which states that the committees must consist of at least four members of which one must be a supply chain management official (SCM).

Advertisement:

The tender was not advertised in the Government Tender Bulletin.

Publication of bidders on website

No evidence was provided that the names of all bidders who submitted bids in relation to the advertisement were published on the website within ten (10) working days after the closure of the advertised bid and remained on the website for a minimum of thirty (30) days.

B-BBEE certificate

The supplier didn’t submit an original B-BBEE Status Level Verification Certificates or certified copies, therefore no points should be awarded for B-BBEE status level. However eight points were incorrectly awarded to the supplier. This didn’t result in the incorrect supplier being awarded the contract

**Risk**

Non-compliance with laws and regulations resulting in irregular expenditure.

**Internal control deficiency**

## Leadership

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Although management did develop action plans to address internal control deficiencies, they were not effective to prevent irregular expenditure as well as non-compliance with applicable laws and regulations.

Financial and performance management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored

**Recommendation**

Management should ensure that the entity complies with all applicable laws and regulations.

Management must develop policies and procedures to ensure compliance with all prescribed laws and regulations.

A compliance checklist should be completed and reviewed before the payment is approved to ensure that the correct procurement process was followed.

Should the expenditure be regarded as irregular expenditure, the department must follow up and take appropriate steps against the applicable individuals as section 38(i)(h)(iii) of the PFMA states that "the Accounting Officer for the department must take effective appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who— makes or permits an unauthorised expenditure, irregular expenditure or fruitless and  wasteful expenditure".

**Management response**

Management doesn’t agree with AGSA findings based on the following reasons:

Bid Specification and Evaluation Committee:

By the time PA25.1 and 25.2 was approved an SCM practitioner was not allocated. However please find attached minutes and PA18 of 25/11/2014 which shows who the SCM practitioner was allocated to the project.

Advertisement:

The department followed nominated procedure (which is a closed competitive process in itself as there are a number of competing service providers) to appoint the service provider. Twelve (12) companies were invited. Find attached NBAC approval (PA12) for nominated procedure.

Publication of bidders on website:

The details of the winning bidder were not published in the government tender bulletin and departmental website as the tender was not advertised in the government tender bulletin and departmental website. A nominated procedure was followed to procure the services.

B-BBEE certificate:

A copy of a certified B-BBBEE certificate is herewith attached.

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken |  | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
|  |  | |
| If yes, what corrections will be made to the population |  | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. |  | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. |  | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | |  |
|  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions |  | | |
| Estimated completion date for corrective action |  | | |
|  |  |  |  |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

*Name: Raymond Naidoo*

*Position: CD: SCM*

*Date: 07/03/2015*

**Auditor’s conclusion**

Bid Specification and Evaluation Committee:

Management comment noted, information was submitted and the finding is resolved

Advertisement and publication of bidders on website:

Management comment noted. The audit finding regarding the advertisement in the Government Tender Bulletin and publication of the bidders on the website remains. However a competitive bidding process was not followed and the following finding will remain:

* Service above R500 000 was procured without inviting competitive bids. These instances didn’t relate to cases of emergency where immediate action was necessary or where the goods and services required were procured from sole service providers and a lack of proper planning does not constitute a reason for dispensing with prescribed bidding processes.
* The deviation from inviting competitive bids was not recorded and approved by the accounting officer
* The deviation was not reported to the AGSA within 10 working days

B-BBEE certificate

The B-BBEE certificate was provided which expires on 5 December 2014. This is prior to this award and therefore the finding remains

1. **Procurement: quotations (R30 000 to R500 000) – J Kekana Interiors CC**

**Audit finding**

Practice Note 8 of 2007 paragraph6.1 states that the accounting officer must be in possession of an original valid tax clearance certificate for all price quotations and competitive bids exceeding the value of R30 000 (VAT included). Paragraph 6.2 further states that if an accounting officer is in possession of a supplier’s original valid tax clearance certificate, it is not necessary to obtain a new tax clearance certificate each time a price quotation or bid is submitted from that specific supplier. This provision may be applied only if the closing date of the price quotation or bid falls within the expiry date of the tax clearance certificate that is in the accounting officer’s possession. Whenever this ruling is applied, cross-reference must be made to the original tax certificate for audit purposes

PPR 5 (2) states that points must be awarded to a tenderer for attaining the B-BBEE status level of contributor for procurement equal or below R1 million as follows.

|  |  |
| --- | --- |
| **B-BBEE Level** | **Points** |
| 1 | 20 |
| 2 | 18 |
| 3 | 16 |
| 4 | 12 |
| 5 | 8 |
| 6 | 6 |
| 7 | 4 |
| 8 | 2 |

PPR 5 (3) states that a maximum of 20 points may be allocated in accordance with PPR 5 (2).

PPR 5 (4) states that the points scored by a tenderer in respect of B-BBEE contribution must be added to the points scored for price.

PPR 5 (5) states that the contract must be awarded to the tenderer who scores the highest total number of points.

PPR 11(4) states that points scored must be rounded off to the nearest 2 decimal places.

The following discrepancy was identified:

|  |  |  |  |
| --- | --- | --- | --- |
| **Contractor** | **FANO number** | **Order number** | **Amount** |
| J Kekana Interiors CC | 1401859 | 057986 | 64 834 |

Tax clearance certificate:

The supplier didn’t submit an original tax clearance certificate from SARS certifying that the tax affairs are in order.

Preference points:

Sixteen (16) points were awarded (level 3 contributor) for attaining a BBBEE status level contribution (level 1 contributor as per the copy of the certificate), instead of 0 points because the supplier did not submit an original or certified B-BBEE certificate. Consequently the incorrect points scored in respect of the level of B-BBEE contribution were added to the points scored for price. This would not have resulted in the incorrect bidder being awarded

**Risk**

Non-compliance with laws and regulations resulting in irregular expenditure.

**Internal control deficiency**

## Leadership

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Although management did develop action plans to address internal control deficiencies, they were not effective to prevent irregular expenditure as well as non-compliance with applicable laws and regulations.

Financial and performance management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored

**Recommendation**

Management should ensure that the entity complies with all applicable laws and regulations.

Management must develop policies and procedures to ensure compliance with all prescribed laws and regulations.

A compliance checklist should be completed and reviewed before the payment is approved to ensure that the correct procurement process was followed.

Should the expenditure be regarded as irregular expenditure, the department must follow up and take appropriate steps against the applicable individuals as section 38(i)(h)(iii) of the PFMA states that "the Accounting Officer for the department must take effective appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who— makes or permits an unauthorised expenditure, irregular expenditure or fruitless and  wasteful expenditure".

**Management response**

Tax clearance certificate:

Management is not in agreement with the finding for the following reasons: the Supply Chain Management practitioner complied with Practice Note 8 of 2007 Paragraph 6.2 copy of tax clearance certificate with a date stamp indicating that original with sub directorate: Supplier Register dated 21 July 2015 which shows that the department was in possession of a supplier’s original valid tax clearance certificate within its database records. Find attached tax clearance certificate for your ease of reference

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken |  | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
|  | X | |
| If yes, what corrections will be made to the population |  | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. |  | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. |  | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | |  |
|  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions |  | | |
| Estimated completion date for corrective action |  | | |
|  |  |  |  |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | N/A | |

*Name: Maria Lekota*

*Position: D DAM*

*Date: 09 March 2016*

Preference points:

Management is not in agreement with the finding for the following reasons: upon closing, quotations were checked for administrative responsiveness and only J Kekana Interiors was found to be responsive. In situation like this calculation of points for price and BEE was immaterial as it had no bearing to the outcome of the evaluation. Awarding of bid to J Kekana did not disadvantage any supplier.

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken |  | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
|  | X | |
| If yes, what corrections will be made to the population |  | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. |  | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. |  | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | |  |
|  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions |  | | |
| Estimated completion date for corrective action | N/A | | |
|  |  |  |  |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | N/A | |

*Name: Maria Lekota*

*Position: D DAM*

*Date: 09 March 2016*

**Auditor’s conclusion**

Tax clearance certificate:

The original tax clearance was subsequently provided and the finding is resolved.

Preference points:

Management comment noted, however the finding remains. Points were awarded, instead of no points because the supplier did not submit an original or certified B-BBEE certificate and the non-compliance thereof is reported.

1. **Procurement: competitive bidding – NVT Communications**

**Audit finding**

Practice Note 6 of 2007 states that the accounting officer must report within ten (10) working days to the relevant treasury and Auditor-General, all cases where goods and services above the value of R1 million (Vat Included) which were procured in terms of Treasury Regulation 16A6.4. The report must include the description of the goods or services, the names of the suppliers, the amounts involved and the reasons for dispensing with the prescribed competitive bidding processes.

Instruction note 32 section 3.2.1 states that within ten (10) working days after the closure of any advertised competitive bid, institutions must publish on its website the names of all bidders that submitted bids in relation to that particular advertisement. Where practical, institutions must also publish the total price and the preferences claimed by the respective bidders. The information should remain on the website for at least thirty (30) days. The details of the winning bidder, contract number and description, preference claimed and contract price must also be published in the government tender bulleting.

PPR 6 (2) states that points must be awarded to a tenderer for attaining the B-BBEE status level of contributor for procurement equal or above R1 million as follows:

|  |  |
| --- | --- |
| B-BBEE Level | Points |
| 1 | 10 |
| 2 | 9 |
| 3 | 8 |
| 4 | 5 |
| 5 | 4 |
| 6 | 3 |
| 7 | 2 |
| 8 | 1 |

PPR 6 (3) states that a maximum of 10 points may be allocated in accordance with PPR 6 (2)

Preferential Procurement Regulation paragraph 6 (1) states that the 90/10 preference point system for acquisition of services, works or goods with a Rand value above R1 million. The following formula must be used to calculate the points for price in respect of tenders with a Rand value above R1 000 000 (all applicable taxes included):

|  |  |
| --- | --- |
| |  | | --- | | Ps= 90  1-  Pt – Pmin | |
| Pmin |

Ps     = Points scored for comparative price of tender or offer under consideration;

Pt      = Comparative price of tender or offer under consideration; and

Pmin = Comparative price of lowest acceptable tender or offer.

PPR 4 states that the points scored by a tenderer in respect of the level of B-BBEE contribution must be added to the points scored for price

The following discrepancy was identified:

|  |  |  |
| --- | --- | --- |
| **Contractor** | **Tender No** | **Award** |
| NVT Communications | HP15/001 | 865 587.29 |

Reporting:

The tender was awarded based on a deviation from tender process, however National Treasury and the AGSA was not notified within 10 working days.

Publication of bidders on website

No evidence was provided that the names of all bidders who submitted bids in relation to the advertisement were published on the website within ten (10) working days after the closure of the advertised bid and remained on the website for a minimum of thirty (30) days.

Unsuccessful bidders

The unsuccessful bidders documentation was not provided and therefore we are unable to determine if the preference points and price points were correctly calculated for the unsuccessful bidder. We are consequently further unable to determine if the bid was awarded to the bidder with the highest points

**Risk**

Non-compliance with laws and regulations resulting in irregular expenditure.

**Internal control deficiency**

## Leadership

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Although management did develop action plans to address internal control deficiencies, they were not effective to prevent irregular expenditure as well as non-compliance with applicable laws and regulations.

Financial and performance management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored

**Recommendation**

Management should ensure that the entity complies with all applicable laws and regulations.

Management must develop policies and procedures to ensure compliance with all prescribed laws and regulations.

A compliance checklist should be completed and reviewed before the payment is approved to ensure that the correct procurement process was followed.

Should the expenditure be regarded as irregular expenditure, the department must follow up and take appropriate steps against the applicable individuals as section 38(i)(h)(iii) of the PFMA states that "the Accounting Officer for the department must take effective appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who— makes or permits an unauthorised expenditure, irregular expenditure or fruitless and  wasteful expenditure".

**Management response**

Reporting:

Management does not agree with the finding. This is not a reportable transaction to either AGSA or National Treasury as the value thereof is less than the reportable threshold of R1 million.

Publication of bidders on website

Management does not agree with the finding as this was a closed bid process (Nominated Procedure was followed). Furthermore details of the winning bidder were not published in the government tender bulletin and departmental website as the tender was not advertised in the government tender bulletin in the first instance and departmental website a requirement applicable to only an open bid process. Instruction Note 32 section 3.2.1 states that within (10) working days after the closure of any advertised competitive bid institutions must publish on its website the names of all bidders that submitted bids in relation to that particularadvertisement.

Unsuccessful bidders

The Department is in the process of locating the bid documents of the unsuccessful bidders that have been misplaced by the relevant practitioner. A disciplinary enquiry relating to non-compliance to Departmental processes relating to management of documents is in process that will determine culpability and consequence management in this regard.

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken | As stated in the paragraph supra. | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
|  | X | |
| If yes, what corrections will be made to the population | N/A | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. | N/A | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. | N/A | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | | X |
| N/A | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | N/A | | |
| Position of official responsible to take corrective actions | D: SCM | | |
| Estimated completion date for corrective action | Dependent on the disciplinary processes. | | |
|  |  |  |  |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  | X |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | Negligence on the part of the relevant practitioner and the requisite action is being instituted in this regard. | |

Name: Raymond Naidoo

Position: CD: SCM

Date: 13 April 2016

**Auditor’s conclusion**

Reporting:

Management comment noted and the audit finding is resolved.

Publication of bidders on website

Management comment noted and the audit finding is resolved.

Unsuccessful bidders

The unsuccessful bidders’ documentation was not provided and therefore we are unable to determine if the preference points and price points were correctly calculated for the unsuccessful bidder. We are consequently further unable to determine if the bid was awarded to the bidder with the highest points

1. **Procurement: competitive bidding – Side Production CC**

**Audit finding**

Treasury Regulations 16A.6.2 states that a supply chain management system must, in the case of procurement through a bidding process, provide for

* the adjudication of bids through a bid adjudication committee;
* the establishment, composition and functioning of bid specification, evaluation and adjudication committees;
* the selection of bid adjudication committee members;
* bidding procedures; and
* approval of bid evaluation and/or adjudication committee recommendations.

Treasury Regulation section 16A.6.3 (c) states that bids must be advertised in at least the Government Tender Bulletin for a minimum period of 21 days before closure, except in urgent cases when bids may be advertised for such shorter period as the accounting officer or accounting authority may determine.

Instruction note 32 section 3.2.1 states that within ten (10) working days after the closure of any advertised competitive bid, institutions must publish on its website the names of all bidders that submitted bids in relation to that particular advertisement. Where practical, institutions must also publish the total price and the preferences claimed by the respective bidders. The information should remain on the website for at least thirty (30) days. The details of the winning bidder, contract number and description, preference claimed and contract price must also be published in the government tender bulleting.

Preferential Procurement Regulations (PPR) 4(4) states that no tender must be regarded as an acceptable tender if it fails to achieve the minimum qualifying score for functionality as indicated in the tender invitation. No

PPR 4(5) states that tender that achieve the minimum qualification score for functionality must be evaluated further in terms of preference point systems prescribed in regulation 5 and 6.

The following discrepancy was identified:

|  |  |  |
| --- | --- | --- |
| **Contractor** | **Tender No** | **Award** |
| Side Production CC | HP14/180 | 2 720 013 |

Bid Specification Committee:

The bid specification committee was not composed in accordance with the policy as there was no SCM official that served on the specification committee.

Advertisement:

The tender was not advertised in the Government Tender Bulletin.

Publication of bidders on website

No evidence was provided that the names of all bidders who submitted bids in relation to the advertisement were published on the website within ten (10) working days after the closure of the advertised bid and remained on the website for a minimum of thirty (30) days. Furthermore no evidence was provided that the details of the winning bidder were published in the government tender bulleting or website of the department.

Functionality

No reasons / basis for scoring were provided in terms of the scores allocated for functionality. This lead to 16 suppliers disqualified in terms of functionality and only one supplier being further evaluated for preference points. We are therefore unable to determine if the valuation was correctly performed and all suppliers were considered to be further evaluated in terms of preference points.

**Risk**

Non-compliance with laws and regulations resulting in irregular expenditure.

**Internal control deficiency**

## Leadership

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Although management did develop action plans to address internal control deficiencies, they were not effective to prevent irregular expenditure as well as non-compliance with applicable laws and regulations.

Financial and performance management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored

**Recommendation**

Management should ensure that the entity complies with all applicable laws and regulations.

Management must develop policies and procedures to ensure compliance with all prescribed laws and regulations.

A compliance checklist should be completed and reviewed before the payment is approved to ensure that the correct procurement process was followed.

Should the expenditure be regarded as irregular expenditure, the department must follow up and take appropriate steps against the applicable individuals as section 38(i)(h)(iii) of the PFMA states that "the Accounting Officer for the department must take effective appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who— makes or permits an unauthorised expenditure, irregular expenditure or fruitless and  wasteful expenditure".

**Management response**

Management doesn’t agree with the findings:

Bid Specification Committee if appointed by Chief Director: SCM by signing PA 25.1 with the names of the members who will be committee members. Please find attached copy of PA 25.1

The tender was advertised on Government Tender Bulletin: please find attached copy of advert.

The tender was published on the departmental website: please find attached copy

Please find attached scoring sheet

**Auditor’s conclusion**

Bid Specification Committee:

Minutes were subsequently provided and the finding is resolved

Advertisement:

Management comment noted and the finding is resolved

Publication of bidders on website

The supporting documentation provided is not readable and we can also not find it on the website. Subsequently the information was provided and the finding is resolved

Functionality

Only one member’s scoring sheets were provided and no basis was provided for reasons provided on the scoring sheet. No reasons / basis for scoring were provided for any other members in terms of the scores allocated for functionality. Therefore the finding remains.

1. **Procurement: competitive bidding – Aluwani’s Investment**

**Audit finding**

Practice Note 6 of 2007 states that the accounting officer must report within ten (10) working days to the relevant treasury and Auditor-General, all cases where goods and services above the value of R1 million (Vat Included) which were procured in terms of Treasury Regulation 16A6.4. The report must include the description of the goods or services, the names of the suppliers, the amounts involved and the reasons for dispensing with the prescribed competitive bidding processes.

Instruction note 32 section 3.2.1 states that within ten (10) working days after the closure of any advertised competitive bid, institutions must publish on its website the names of all bidders that submitted bids in relation to that particular advertisement. Where practical, institutions must also publish the total price and the preferences claimed by the respective bidders. The information should remain on the website for at least thirty (30) days. The details of the winning bidder, contract number and description, preference claimed and contract price must also be published in the government tender bulleting.

PPR 6 (2) states that points must be awarded to a tenderer for attaining the B-BBEE status level of contributor for procurement equal or above R1 million as follows:

|  |  |
| --- | --- |
| B-BBEE Level | Points |
| 1 | 10 |
| 2 | 9 |
| 3 | 8 |
| 4 | 5 |
| 5 | 4 |
| 6 | 3 |
| 7 | 2 |
| 8 | 1 |

PPR 6 (3) states that a maximum of 10 points may be allocated in accordance with PPR 6 (2)

Preferential Procurement Regulation paragraph 6 (1) states that the 90/10 preference point system for acquisition of services, works or goods with a Rand value above R1 million. The following formula must be used to calculate the points for price in respect of tenders with a Rand value above R1 000 000 (all applicable taxes included):

|  |  |
| --- | --- |
| |  | | --- | | Ps= 90  1-  Pt – Pmin | |
| Pmin |

Ps     = Points scored for comparative price of tender or offer under consideration;

Pt      = Comparative price of tender or offer under consideration; and

Pmin = Comparative price of lowest acceptable tender or offer.

PPR 4 states that the points scored by a tenderer in respect of the level of B-BBEE contribution must be added to the points scored for price

The following discrepancy was identified:

|  |  |  |
| --- | --- | --- |
| **Contractor** | **Tender number** | **Amount** |
| Aluwani’s Investment | HP 15/008 | 710 357 |

Reporting:

The tender was awarded based on a deviation from tender process, however National Treasury and the AGSA was not notified within 10 working days.

Publication of bidders on website

No evidence was provided that the names of all bidders who submitted bids in relation to the advertisement were published on the website within ten (10) working days after the closure of the advertised bid and remained on the website for a minimum of thirty (30) days.

Unsuccessful bidders

The unsuccessful bidders’ documentation was not provided and therefore we are unable to determine if the preference points and price points were correctly calculated for the unsuccessful bidder. We are consequently further unable to determine if the bid was awarded to the bidder with the highest points

**Risk**

Non-compliance with laws and regulations resulting in irregular expenditure.

**Internal control deficiency**

## Leadership

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Although management did develop action plans to address internal control deficiencies, they were not effective to prevent irregular expenditure as well as non-compliance with applicable laws and regulations.

Financial and performance management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored

**Recommendation**

Management should ensure that the entity complies with all applicable laws and regulations.

Management must develop policies and procedures to ensure compliance with all prescribed laws and regulations.

A compliance checklist should be completed and reviewed before the payment is approved to ensure that the correct procurement process was followed.

Should the expenditure be regarded as irregular expenditure, the department must follow up and take appropriate steps against the applicable individuals as section 38(i)(h)(iii) of the PFMA states that "the Accounting Officer for the department must take effective appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who— makes or permits an unauthorised expenditure, irregular expenditure or fruitless and  wasteful expenditure".

**Management response**

No management response received

**Auditor’s conclusion**

In terms of paragraph 32 of our engagement letter, audit findings concerning control deficiencies, identified misstatements in the financial statements and non-compliance with laws and regulations will be communicated during the course of the audit and management will be requested to address these. Submission of a response to these communications, whether it be comments, information or documentation in support of action taken, will be required within a reasonable time, which should not exceed three working days from the date of the communication of the finding, unless a different timeline is expressly agreed in writing with the auditors.

Management responses were not submitted within the agreed three days and as such will no longer be taken into consideration in finalising the audit.

1. **Procurement: quotations (R30 000 to R500 000) – Kayros Decorating Planet CC**

**Audit finding**

Practice Note 8 of 2007 paragraph6.1 states that the accounting officer must be in possession of an original valid tax clearance certificate for all price quotations and competitive bids exceeding the value of R30 000 (VAT included). Paragraph 6.2 further states that if an accounting officer is in possession of a supplier’s original valid tax clearance certificate, it is not necessary to obtain a new tax clearance certificate each time a price quotation or bid is submitted from that specific supplier. This provision may be applied only if the closing date of the price quotation or bid falls within the expiry date of the tax clearance certificate that is in the accounting officer’s possession. Whenever this ruling is applied, cross-reference must be made to the original tax certificate for audit purposes

PPR 5 (2) states that points must be awarded to a tenderer for attaining the B-BBEE status level of contributor for procurement equal or below R1 million as follows.

|  |  |
| --- | --- |
| **B-BBEE Level** | **Points** |
| 1 | 20 |
| 2 | 18 |
| 3 | 16 |
| 4 | 12 |
| 5 | 8 |
| 6 | 6 |
| 7 | 4 |
| 8 | 2 |

PPR 5 (3) states that a maximum of 20 points may be allocated in accordance with PPR 5 (2).

PPR 5 (4) states that the points scored by a tenderer in respect of B-BBEE contribution must be added to the points scored for price.

PPR 5 (5) states that the contract must be awarded to the tenderer who scores the highest total number of points.

PPR 10 states that tenderers with annual total revenue of R5 million or less qualify as Exempted Micro Enterprises (EMEs) in terms of the Broad-Based Black Economic Empowerment Act, and must submit a certificate issued by a registered auditor, accounting officer (as contemplated in section 60(4) of the Close Corporation Act, 1984 (Act No. 69 of 1984)) or an accredited verification agency. Tenderers other than Exempted Micro-Enterprises (EMEs) must submit their original and valid B-BBEE status level verification certificate or a certified copy thereof, substantiating their B-BBEE rating

The following discrepancy was identified:

|  |  |  |  |
| --- | --- | --- | --- |
| **Contractor** | **FANO number** | **Order number** | **Amount** |
| Kayros Decorating Planet CC | PM-146038 | 057527 | 130 398.90 |

Tax clearance certificate:

The supplier didn’t submit an original tax clearance certificate from SARS certifying that the tax affairs are in order.

Preference points:

Sixteen preference points were awarded for being a level three contributor. However no points should have been awarded as the BEE certificate was a copy of the certified original. This didn't result in the incorrect bidder getting the awards

**Risk**

Non-compliance with laws and regulations resulting in irregular expenditure.

**Internal control deficiency**

## Leadership

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Although management did develop action plans to address internal control deficiencies, they were not effective to prevent irregular expenditure as well as non-compliance with applicable laws and regulations.

Financial and performance management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored

**Recommendation**

Management should ensure that the entity complies with all applicable laws and regulations.

Management must develop policies and procedures to ensure compliance with all prescribed laws and regulations.

A compliance checklist should be completed and reviewed before the payment is approved to ensure that the correct procurement process was followed.

Should the expenditure be regarded as irregular expenditure, the department must follow up and take appropriate steps against the applicable individuals as section 38(i)(h)(iii) of the PFMA states that "the Accounting Officer for the department must take effective appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who— makes or permits an unauthorised expenditure, irregular expenditure or fruitless and  wasteful expenditure".

**Management response**

a) Management agrees/ does not agree with the finding.

Management does not agree with the finding for the following reasons:

The Supply Chain Management practitioner complied with Practice Note 8 of 2007 Paragraph 6.2 copy of tax clearance certificate with a date stamp original with sub directorate: Supplier Register dated 19 March 2015 which shows that the department was in possession of a supplier’s original valid tax clearance certificate. See the attached copy of Tax Clearance certificate.

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken | N/A | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
|  | X | |
| If yes, what corrections will be made to the population |  | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. |  | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. |  | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | | X |
|  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions |  | | |
| Estimated completion date for corrective action |  | | |
|  |  |  |  |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  | X |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | N/A | |

*Name: Maria Lekota*

*Position: Director*

*Date: 06 July 2016*

b) Management agrees/ does not agree with the finding.

Management acknowledges the finding and would like to respond as follows:

The current practice in the Department we receive majority of our quotations and standard bidding documents via emails and in that case the Department cannot claim they have received either original or copy hence the awarding of points. In a case when they submitted the quotations in the Quotation Box then the bidder is not awarded the BEE points.

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken | N/A | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
|  | X | |
| If yes, what corrections will be made to the population |  | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. |  | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. |  | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | | X |
|  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions |  | | |
| Estimated completion date for corrective action |  | | |
|  |  |  |  |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  | X |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | N/A | |

*Name: Maria Lekota*

*Position: Director*

*Date: 06 July 2016*

c) Management agrees/ does not agree with the finding.

Management acknowledges the finding and would like to respond as follows:

This transaction is neither a deviation nor an irregular expenditure as this did not result in the incorrect bidder getting the awards.

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken | N/A | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
|  | X | |
| If yes, what corrections will be made to the population |  | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. |  | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. |  | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | | X |
|  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions |  | | |
| Estimated completion date for corrective action |  | | |
|  |  |  |  |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  | X |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | N/A | |

*Name: Maria Lekota*

*Position: Director: Demand and Acquisition*

*Date: 06 July 2016*

**Auditor’s conclusion**

Tax clearance certificate:

Management comment noted and the finding is resolved

Preference points:

Management comment noted, however the non-compliance will be reported. This didn't result in the incorrect bidder getting the awards

1. **Procurement: quotations (R30 000 to R500 000) – J Kekana Interiors CC**

**Audit finding**

Practice Note 8 of 2007 paragraph6.1 states that the accounting officer must be in possession of an original valid tax clearance certificate for all price quotations and competitive bids exceeding the value of R30 000 (VAT included). Paragraph 6.2 further states that if an accounting officer is in possession of a supplier’s original valid tax clearance certificate, it is not necessary to obtain a new tax clearance certificate each time a price quotation or bid is submitted from that specific supplier. This provision may be applied only if the closing date of the price quotation or bid falls within the expiry date of the tax clearance certificate that is in the accounting officer’s possession. Whenever this ruling is applied, cross-reference must be made to the original tax certificate for audit purposes

PPR 5 (2) states that points must be awarded to a tenderer for attaining the B-BBEE status level of contributor for procurement equal or below R1 million as follows.

|  |  |
| --- | --- |
| **B-BBEE Level** | **Points** |
| 1 | 20 |
| 2 | 18 |
| 3 | 16 |
| 4 | 12 |
| 5 | 8 |
| 6 | 6 |
| 7 | 4 |
| 8 | 2 |

PPR 5 (3) states that a maximum of 20 points may be allocated in accordance with PPR 5 (2).

PPR 5 (4) states that the points scored by a tenderer in respect of B-BBEE contribution must be added to the points scored for price.

PPR 5 (5) states that the contract must be awarded to the tenderer who scores the highest total number of points.

PPR 10 states that tenderers with annual total revenue of R5 million or less qualify as Exempted Micro Enterprises (EMEs) in terms of the Broad-Based Black Economic Empowerment Act, and must submit a certificate issued by a registered auditor, accounting officer (as contemplated in section 60(4) of the Close Corporation Act, 1984 (Act No. 69 of 1984)) or an accredited verification agency. Tenderers other than Exempted Micro-Enterprises (EMEs) must submit their original and valid B-BBEE status level verification certificate or a certified copy thereof, substantiating their B-BBEE rating

The following discrepancy was identified:

|  |  |  |  |
| --- | --- | --- | --- |
| **Contractor** | **FANO number** | **Order number** | **Amount** |
| J Kekena Interiors CC | PM-146075 | 057593 | 499 100 |

Tax clearance certificate:

The supplier didn’t submit an original tax clearance certificate from SARS certifying that the tax affairs are in order.

Price points:

The control deficiency will be reported that all quotations must be evaluated even if it is above the R500 000 threshold. Tlaledi Trading was disqualified based on the fact that their quotation is above R500 000. This didn't result in the incorrect bidder getting the awards

Preference points:

Sixteen preference points were awarded for being a level three contributor. However no points should have been awarded as the BEE certificate was a copy of the certified original. This didn't result in the incorrect bidder getting the awards

**Risk**

Non-compliance with laws and regulations resulting in irregular expenditure.

**Internal control deficiency**

## Leadership

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Although management did develop action plans to address internal control deficiencies, they were not effective to prevent irregular expenditure as well as non-compliance with applicable laws and regulations.

Financial and performance management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored

**Recommendation**

Management should ensure that the entity complies with all applicable laws and regulations.

Management must develop policies and procedures to ensure compliance with all prescribed laws and regulations.

A compliance checklist should be completed and reviewed before the payment is approved to ensure that the correct procurement process was followed.

Should the expenditure be regarded as irregular expenditure, the department must follow up and take appropriate steps against the applicable individuals as section 38(i)(h)(iii) of the PFMA states that "the Accounting Officer for the department must take effective appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who— makes or permits an unauthorised expenditure, irregular expenditure or fruitless and  wasteful expenditure".

**Management response**

a) Management agrees/ does not agree with the finding.

Management does not agree with the finding for the following reasons:

The Supply Chain Management practitioner complied with Practice Note 8 of 2007 Paragraph 6.2 copy of tax clearance certificate with a date stamp original with sub directorate: Supplier Register dated 18 March 2015 which shows that the department was in possession of a supplier’s original valid tax clearance certificate. See the attached copy of Tax Clearance certificate.

b) Management agrees/ does not agree with the finding.

Management acknowledges the finding and would like to respond as follows:

The current practice in the Department is to evaluate all quotations even if it’s above quotation threshold.

*Name:*

*Position:*

*Date:*

c) Management agrees/ does not agree with the finding.

Management acknowledges the finding and would like to respond as follows:

The current practice in the Department we receive majority of our quotations and standard bidding documents via emails and in that case the Department cannot claim they have received either original or copy hence the awarding of points. In a case when they submitted the quotations in the Quotation Box then the bidder is not awarded the BEE points.

*Name: Maria Lekota*

*Position: Director: Demand and Acquisition*

*Date: 29 June 2016*

d) Management agrees/ does not agree with the finding.

Management acknowledges the finding and would like to respond as follows:

This transaction is neither a deviation nor an irregular expenditure as this did not result in the incorrect bidder getting the awards.

*Name: Maria Lekota*

*Position: Director: Demand and Acquisition*

*Date: 29 June 2016*

**Auditor’s conclusion**

Tax Clearance

Management comments are noted and the finding is resolved.

Price points

Management agrees with the finding and finding remains.

Preference points

Management agrees with the finding and finding remains.

1. **Procurement: Competitive bidding – Crocia Events (Pty) Ltd**

**Audit Finding**

Treasury Regulation16A6.2 (b) states that a supply chain management system must, in the case of procurement through a bidding process, provide for the establishment, composition and functioning of bid specification, evaluation and adjudication committees;

The Code of Conduct for Bid Adjudication Committee dated 30 March 2006 paragraph 2.6 states that if a bid other than the one recommended by the Bid Evaluation Committee is approved by the Bid Adjudication Committee, the accounting officer / authority or a senior official delegated by the accounting officer, must first be notified. The accounting officer / authority or the delegated official may after consideration of the reasons for the deviation, ratify or reject the decision of the Bid Adjudication Committee. If the decision of the Bid Adjudication Committee to approve a bid other than the one recommended by the Bid Evaluation Committee is ratified, the Auditor- General, the relevant provincial treasury and the National Treasury must be notified of the reasons for deviating from such recommendation.

Preferential procurement regulation paragraph 4 (4) states that no tender must be regarded as an acceptable tender if it fails to achieve the minimum qualifying score for functionality as indicated in the tender invitation.

Preferential procurement regulation paragraph 4 (5) states that tenders that have achieved the minimum qualification score for functionality must be evaluated further in terms of the preference point systems prescribed in regulations 5 and 6.

Section 38(i)(h)(iii) of the PFMA states that the Accounting Officer for the department must take effective appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who— makes or permits an unauthorised expenditure, irregular expenditure or fruitless and  wasteful expenditure.

The following discrepancies were identified:

|  |  |  |  |
| --- | --- | --- | --- |
| **Supplier name** | **Tender description** | **Tender no** | **Award** |
| Crocia events (Pty) Ltd | Provisioning of infrastructure support for marquees, décor for 28-30 July Cabinet Lekgotla | HP15/002 | R1 060 470.18 |

Functionality:

Crocia events (Pty) Ltd did not achieve the minimum qualification score for functionality of 65% as per hand written evaluation and PA-20.5 (functionality score), however Crocia Events (Pty) Ltd was evaluated further in terms of the preference point system and was eventually awarded the bid.

Highest scoring bidder:

The National Bid Adjudication committee awarded the bid to Crocia Event Pty Ltd dated 24 July 2015 as per recommendation of the Bid Evaluation committee dated 24 July 2015. Side Production was the highest scoring bidder and therefore the bid should have been awarded to Side Production. Bid Adjudication committee did not state the reasons for not awarding the highest scorer being Side Production.

| **Bidder** | **Functionality score** | **Price tendered** | **Bid Evaluation calculations** | **Auditors calculation** | **Differences** |
| --- | --- | --- | --- | --- | --- |
| Dmlet Trading Enterprise | 87% | R 1 418 600.04 | 67.61 | 74.28 | 6.67 |
| Side Production | 92% | R 1 122 715.00 | 94.72 | 100 | 5.28 |
| Let’s Settle Our Dues Corporations | 93% | R 1 199 664.14 | 88.19 | 93.83 | 5.64 |
| Crocia Events Pty Ltd | 0% | 1 060 470.18 | 100 | 0 | 100 |
| RBJ Marketing Solutions | 83% | R786 870.92 | Not evaluated further due to negative clearance | | |

**Impact**

Non-compliance with laws and regulations resulting in irregular expenditure

**Internal control deficiency**

Leadership

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Although management did develop action plans to address internal control deficiencies, they were not effective to prevent irregular expenditure as well as non-compliance with applicable laws and regulations.

Financial and performance management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

**Recommendations**

Management should ensure that the entity complies with all applicable laws and regulations.

Management must develop policies and procedures to ensure compliance with all prescribed laws and regulations.

A compliance checklist should be completed and reviewed before the payment is approved to ensure that the correct procurement process was followed.

Should the expenditure be regarded as irregular expenditure, the department must follow up and take appropriate steps against the applicable individuals as section 38(i)(h)(iii) of the PFMA states that "the Accounting Officer for the department must take effective appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who— makes or permits an unauthorised expenditure, irregular expenditure or fruitless and  wasteful expenditure".

**Management response**

No management response received

**Auditor’s conclusion**

In terms of paragraph 32 of our engagement letter, audit findings concerning control deficiencies, identified misstatements in the financial statements and non-compliance with laws and regulations will be communicated during the course of the audit and management will be requested to address these. Submission of a response to these communications, whether it be comments, information or documentation in support of action taken, will be required within a reasonable time, which should not exceed three working days from the date of the communication of the finding, unless a different timeline is expressly agreed in writing with the auditors.

Management responses were not submitted within the agreed three days and as such will no longer be taken into consideration in finalising the audit.

1. **Procurement: competitive bidding – Imbawula Civil Projects (Pty) Ltd**

**Audit finding**

PPR 6 (2) states that points must be awarded to a tenderer for attaining the B-BBEE status level of contributor for procurement equal or above R1 million as follows:

|  |  |
| --- | --- |
| B-BBEE Level | Points |
| 1 | 10 |
| 2 | 9 |
| 3 | 8 |
| 4 | 5 |
| 5 | 4 |
| 6 | 3 |
| 7 | 2 |
| 8 | 1 |

The following discrepancies were identified:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Contractor** | **Tender No** | **Client score** | **Auditor’s calculation** | **Differences** |
| Imbawula Civil Engineering Academy | HP13/101 | 0 | 10 | 10 |

Preference points

A certified copy of BBEE was attached to the file, the bidder is a level 3 contributor, however no points were given to the bidder, it was also found on the Bid Adjudication committee minutes dated 14 May 2014 that the NBAC notes that preference points should have been scored for Imbawula Civil Engineering Academy but failure to have done so does not affect the outcome. The difference noted did not result in wrong supplier being awarded the bid

**Risk**

Non-compliance with laws and regulations

**Internal control deficiency**

Leadership

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Although management did develop action plans to address internal control deficiencies, they were not effective to prevent irregular expenditure as well as non-compliance with applicable laws and regulations.

Financial and performance management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

**Recommendations**

Management should ensure that the entity complies with all applicable laws and regulations.

Management must develop policies and procedures to ensure compliance with all prescribed laws and regulations.

A compliance checklist should be completed and reviewed before the payment is approved to ensure that the correct procurement process was followed.

**Management response**

I am partially in agreement with the findings based on the fact that indeed no points were given to the highest point scoring bidder however the difference noted did not result in wrong supplier being awarded the bid.

|  |  |  |  |
| --- | --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | | |
| Corrective action to be taken: |  | | |
| Does the finding affect an amount disclosed in the financial statements? | Yes | | No |
|  | | No |
| If yes, what corrections will be made to the population? | N/A | | |
| If yes, and no corrections will be made, the reason why such a conclusion has been reached | N/A | | |
| Position of official responsible to take corrective action: |  | | |
| Estimated completion date for corrective action: | N/A | | |
| Does management agree with the root cause indicated | Yes | No | |
|  | N/A | |
| If management does not agree with the root cause indicated, please provide the root cause according to management | N/A | | |

Name: Raymond Naidoo

Position: Chief Director

Date: 15/07/2016

**Auditor’s conclusion**

Management comment noted and the audit finding remains

**ANNEXURE B: OTHER IMPORTANT MATTERS**

1. **Predetermined objectives: Not all the targets from MTSF and Strategic plan of the department were included in the APP**

Laws, rules and regulations

a) Treasury Regulation 5.2.4 requires the strategic plan / annual performance to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents.

b) In terms of the Medium Term Strategic Framework (MTSF) 2014 – 2019 page 11 paragraph 2.1 Public employment schemes to provide relief for the unemployed and build community solidarity

*“In the context of the current high levels of unemployment, government will be scaling up the Expanded Public Works Programmes (EPWP), in particular the Community Work Programme (CWP), to generate additional employment opportunities, provide training and work experience and increase social cohesion. The EPWP as a whole will provide 6 million work opportunities by 2019, with 1 million participants reached through the CWP and CWP sites expanded in 234 municipalities by 2019”.*

The department has created yearly targets to achieve the creation 6 million work opportunities by 2019 which is included in the department five strategic plan.

c) In terms of the framework for strategic plans and annual performance plans page 6 paragraph 4.1 Strategic plans – linked to

An annual performance plan should be linked to the strategic plan, the budget and the MTEF, and should be informed by updates to government‘s long term plans, the MTSF and Government Implementation Action.

d) In terms of the prior year annual report 2014/15 page 12 the department stated that the:

*“Firstly, 1, 1 million work opportunities have been created through Government’s flagship programme, the Expanded Public Works Programme (EPWP) against the target of 1million work opportunities. Public Works is on track to achieve the target of 6 million job opportunities that which the ANC government has committed to, during the period of this Administration”.*

e) In terms of the MTSF paragraph 7

*“Fourteen appendices to the MTSF contain detailed plans for the next five years for each of the outcome areas. They set out the core objectives, the major challenges that have been identified and programmes and actions to be implemented during the 2014-2019 period.*

*Each outcome is broken down into sub-outcomes containing a set of actions together with*

*Indicators for measuring progress, targets and timeframes.”*

f) In terms of Appendix 4 of outcome 4: Decent employment through inclusive economic

growth of the MTSF:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Sub Outcome Nine: Public employment schemes provide relief for the unemployed and build community solidarity and agency** | | | | |
| EPWP Phase 3 (including CWP) implemented, monitored and evaluated including the establishment of a Presidential Public Employment Commission to coordinate the rollout of Public Employment Programmes | DPW Minister, supported by sector lead departments, , NT, COGTA, Social Development and Environment | Number of work opportunities (mostly time-bound and some part-time) created | 6 million work opportunities over 5 years with most CWP targets achieved in the outer years of the MTSF | Plan targets achieved |

The following deviations were noted:

a) The annual performance plan for 2016/17 is not aligned to the MTSF as the indicator for the “number of work number of work opportunities created “ was not included in the department annual performance plan.

b) Additional in terms of the “*Appendix 4 of outcome 4: Decent employment through inclusive economic growth*” of the MTSF the Minister of Public Works is responsible for the indicator “Number of work opportunities” however this indicator was not included in the Annual performance plan of the department.

c) In the approved strategic plan 2015 – 2020 it was noted that the department has performance indicator for work opportunities created, however this indicator is not included in the annual performance plan for 2016/17 financial year.

d) The department has included the work opportunity created targets in the annual performance plan and achievement in the prior and current financial year, however we noted that the next financial year the department has not included the work opportunities targets in their annual performance plans meaning that work opportunities created in terms of outcome 4 – will not be reported by the department.

e) It was also noted that the indicator “number of work opportunities” has been included in the conditional grant table on both the annual performance plan 2016/17 and the revised strategic plan however there is no annual performance target included in the EPWP which may result inconsistencies within the two documents.

Impact of the finding:

The department’s Annual performance plan for 2016/17 is not be aligned to the MTSF.

**Internal control deficiency**

Reason for the deviation

The department amended the APP without ensuring that it is aligned to the strategic plan and MTSF.

Based on the aforementioned the matter is as a result of the following internal control deficiency:

**Financial and performance management**

The department did not review and monitor compliance with applicable legislation

**Leadership**

The accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls

**Recommendation**

Management should develop a policy to be implemented during strategic planning which will enforce thorough review of the annual performance plan and the strategic plan; this will also ensure designing of indicators and targets that only meet the criteria required by the National Treasury’s Framework for managing programme performance information (FMPPI).

The department must ensure that the annual performance plan is aligned to the MTSF.

**Management response**

I am not in agreement with the finding for the following reasons:

Public bodies implementing EPWP projects receive budgets for the creation of work opportunities through to their respective votes.

The Department of Public Works (DPW), through its Expanded Public Works Programme Branch is responsible for the national coordination, monitoring, evaluation and reporting of the work opportunities created through the Expanded Public Works Programme (EPWP).

Based on the budgets received and the principle of “*funds follow function*”, public bodies are responsible for the implementation of EPWP projects towards the creation of the six (6) million work opportunities target for the EPWP Phase 3. Accordingly, the public bodies are also responsible to capture, on the EPWP Reporting System, the work opportunities created.

The DPW then (1) verifies the work opportunities captured by public bodies in the EPWP Reporting System and (2) consolidates and reports on the work opportunities created by public bodies across the country. Based on the above principle, the DPW EPWP Branch does not receive a budget for the creation of work opportunities. The budget provided to the DPW EPWP Branch is for the national coordination, monitoring and evaluation of the programme and the generation of reports for the work opportunities created through the Expanded Public Works Programme (EPWP).

In line with the Cabinet approval for EPWP Phase 3 reporting, as from the 2016/17 financial year, the EPWP will be reporting on the work opportunities created, training provided, assets created and services delivered. Hence the DPW 2016/17 APP indicator (on number of work opportunities created) was amended to “*Number of quarterly reports on Public Employment Programmes (PEPs) completed”* to address the Cabinet decision on the reporting of EPWP.

Notwithstanding the changes to the 2016/17 APP, the Minister of Public Works as the coordinator of EPWP will continue to report on the number of work opportunities reported by public bodies in the EPWP Reporting System to the MTSF Outcomes 4. The above-mentioned quarterly reports will serve as a source for reporting to Outcomes 4.

| **Description** | **Response** | | |
| --- | --- | --- | --- |
| Corrective action to be taken | None | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
|  | X | |
| If yes, what corrections will be made to the population |  | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. |  | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. |  | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | |  |
|  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions |  | | |
| Estimated completion date for corrective action |  | | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  | X |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | Alignment between the MTSF and APP exists. The quarterly reports to be produced, will speak to amongst others, the work opportunities reported by public bodies. | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the internal control deficiencies indicated | **Yes** | **No** |
|  | X |
| If management does not agree with the internal control deficiency indicated, please provide the internal control deficiency according to management. | Through a peer review mechanism, the DPW APP was reviewed by the National Treasury and DPME. There was concurrence on the amendment to the above-mentioned indicator. Additional engagements were held with DPME and DPW is waiting for a formal response from DPME in support of the amended APP. | |

*Name:*

*Position:*

*Date:*

**Auditor’s conclusion**

Management comments were noted, however according to the MTSF the Public Works Minister is responsible for implementation, monitoring and evaluation of the EPWP Phase 3. Therefore the department must include the indicator *“Number of work opportunities (mostly time-bound and some part-time) created”* in the 2016/17 Annual performance plan.

*And in terms of the MTSF Paragraph 5 monitoring implementation “The President will enter into a performance agreement with each Minister. These will contain key indicators and targets from the MTSF. Regular assessments of progress, including through performance assessments of Ministers, will be used to identify and tackle obstacles to implementation.*

*The annual performance plans of national and provincial departments for 2014-15 already*

*include key elements of the NDP. National and provincial departments will submit strategic*

*plans for the period 2015-2020 to Parliament and provincial legislatures by February 2015.*

*These will incorporate the relevant actions and targets in the MTSF, which will subsequently*

*be incorporated into future annual performance plans, which provide the vehicle for*

*identifying and responding to any challenges that arise during implementation. One of the*

*aims of this alignment of indicators and targets is to reduce the reporting burden on*

*government institutions”.*

Additional based on the above the indicator *“Number of work opportunities (mostly time-bound and some part-time) created”* must be included in the department’s Annual performance plan for 2016/17.

The new indicator does not indicate how the department will report on wok opportunities, as it only states the quarterly reports completed, thus resulting in the department finding it difficult to report on the achievement of work opportunities.

Therefore this finding is not resolved

1. **Predetermined objectives: Errors on beneficiary reported on EPWP systems for quarter 4 – ending 31 March 2016.**

**Audit Finding**

Laws, rules and regulations

Public Finance Management Act section 40 states the following:

Section 40(3) (a) states:

*“The annual report and audited financial statements referred to in subsection (1)(d) must fairly present the state of affairs of the department, trading entity or constitutional institution, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned;”*

The following exceptions were noted while validating EPWP beneficiaries on the systems.

|  |  |  |
| --- | --- | --- |
| **Test** | **Interim - Number of records** | **Final - Number of records** |
| Beneficiaries have valid ID numbers | 610 | 0 |
| All beneficiaries have a valid date of birth and verify the ID number where possible | 19 078 | 0 |
| Beneficiaries wages not less than R75,00 per day | 0 | 13 624 |
| The maximum of 230 days worked in a year | Outstanding | 4992 |
| Beneficiaries gender were processed correctly and validated where possible to their respective ID Number | 570 | 0 |
| Beneficiaries with the Persal number | 37 497 | 77588 |
| Beneficiaries with the Persal number and not indicated as additional to the establishment | 536 |  |
| Deceased beneficiaries in the current year worked more than available days | 96 | 0 |
| Deceased beneficiaries in the prior year appearing in the current year beneficiary list | 299 | 0 |
| Deceased beneficiaries | 1 590 | 0 |
| Beneficiaries indicated as youth while they are not | 16 | 0 |
| Beneficiaries appearing in the multiple projects in the current year | 8 057 | 0 |

Impact of the finding:

a) Non-compliance with Section 40(3) of the PFMA

b) Non-compliance with clause 13(2) of the EPWP Ministerial Determination.

**Internal control deficiency**

Reason for the deviation:

a) Failure by the department to adequately monitor and review information captured on the EPWP systems for accuracy and validity.

b) Absence of adequate controls on the information systems to facilitate accurate, complete and valid reporting on predetermined objectives, for example validation testing on identity documents.

c) Lack of involvement from internal audit to verify actual results reported throughout the year.

The above matter is as a result of the following internal control deficiency:

**Financial and performance management**

The Department did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

**Recommendation**

a) The department must run test on of all beneficiaries on MIS and WBS regularly and also provide evidence to the auditors that the above findings were resolved.

b) Frequent reviews should be performed by internal audit to ensure that information reported in quarterly reports and eventually the annual report is reliable.

c) Matters reported on during the AGSA interim audit should receive the necessary attention to avoid re-occurrence at year-end.

**Management Response**

Management response not yet due

**Auditor’s conclusion**

Management response not yet due

1. **Predetermined Objectives: Non submission of attendance registers and non- implementation of Epwp wage increase**

Laws, rules and regulations

a) In terms of Public Finance Management Act (PFMA)

Section 40(1) (a) states that:

*a) “The accounting officer for a department, trading entity or constitutional institution-*

*(a)   must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;*

Section 40(3) (a) states that:

*b)“The annual report and audited financial statements referred to in subsection (1)(d) must fairly present the state of affairs of the department, trading entity or constitutional institution, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned;”*

b) In terms of clause 13 (2) of the Expanded Public Works Programme (EPWP) Ministerial Determination increased to R78.86 from R75.10 per day or per task performed that is with effect from 01 November 2015.

c) In terms of section 12 of the basic conditions of employment ministerial determination 4: expanded public works programmes:

*“12.1 Every employer must keep a written record of at least the following –*

*(a) The worker's name and position;*

*(b) Copy of an acceptable worker identification*

*(c) in the case of a task-rated worker, the number of tasks completed by the worker;*

*(d) in the case of a time-rated worker, the time worked by the worker;*

*(e) payments made to each worker.*

*12.2 The employer must keep this record for a period of at least three years after the completion of the EPWP.”*

The following deviations were noted on EPWP Community Mobalisers incentive project by Department of Public Works at Uthungulu District Municipality

The increase of the minimum wage not implemented from the 01 November 2015, It was noted

that the wage per day remained at R76.00 for the entire financial year for all the beneficiaries on

the project.

Impact of the finding:

a) Non-compliance with Section 40(3) of the PFMA

b) Understatement of work opportunities created.

c) Non-compliance with clause 13(2) of the EPWP Ministerial Determination.

d) Salaries might be paid to the beneficiaries who did not work.

**Internal control deficiency**

Reason for the deviation:

The department does not adequately monitor the public bodies to ensure that the EPWP project

files are properly filed and maintained.

The above matter is as a result of the following internal control deficiency:

**Financial and performance management**

a) The department did not review and monitor compliance with applicable laws and regulations

b) The Department did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

**Recommendation**

The department should inform the political officer bearer of non-compliance by his/her own public

body.

**Management response**

The management of Public Works coordinates EPWP (implemented by public bodies). All budget allocations for EPWP are made directly to implementing bodies (national, provincial and municipal levels) through their respective budget votes.

I am in agreement with the finding for the following reasons:

1. No attendance registers were provided from September 2015 to March 2016.

The supporting documents were kept by the service provider that provide project management services to the local municipality. At the time of the audit, the service provider was not available to supply the required records. Both attendance registers and payment registers are now available at the municipal offices. Due to the size and volume of the documents, it cannot be scanned and emailed. DPW will endeavor to get documents and submit to the AGSA.

1. The increase of the minimum wage not implemented from the 01 November 2015, it was noted that the wage per day remained at R76.00 for the entire financial year.

It has been noted by the department that the minimum wage rate was not adjusted in accordance to the rate adjustment pronounced, in November 2015, by the Department of Labour. Dpw will follow-up with the local municipality to ensure that participants are back paid.

1. There were 28 beneficiaries that were not included in the 4 Quarter report submitted for audit by the National Department of Public Works on the attendance register.

The 28 participants did not pass the validation requirements of the EPWP-RS due to poor quality of the supporting documents uploaded on the system. The participants will remain on the pending list of the EPWP Reporting System (EPWP-RS)

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken | Municipality to implement the back payment of participants | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
|  | X | |
| If yes, what corrections will be made to the population | N/A | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. | N/A | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. | N/A | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | | X |
| N/A | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | N/A | | |
| Position of official responsible to take corrective actions | Municipal Manager of Uthungulu Municiality | | |
| Estimated completion date for corrective action | 30th June 2017 | | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  | X |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the internal control deficiencies indicated | **Yes** | **No** |

**Auditor’s conclusion**

Management is in agreement with the finding, the remains as the attendance register is still outstanding.

For minimum wages the department agrees with the finding, therefore the finding will remain in the management as result of non-compliance with the EPWP Basic Conditions of Employment Ministerial Determination.

1. **Agent principle Arrangement – Understatement of Agent principle amounts disclosed in the note**

Laws, rules and regulations

In terms of the Accounting Manual for Departments Accounting by Principals and Agents – chapter 16 paragraph 9.2 accounting treatment it states that:

i) Accounting by a **principal** applying MCS:

* *Recognises or records revenue (for example fees collected for principal by agent) and expenditure (for example assets constructed for principal by agent) that arise from transactions and third parties in a principal-agent arrangement*
* *Recognises and/or records assets and liabilities in accordance with the requirements of other chapters of the MCS*

ii) Accounting by an agent applying MCS

* *Recognises only that portion of the revenue (for example administrative fee charged to the principal) and expenses (salaries paid to agent’s employees involved with doing work on behalf*

The following finding was noted

During the inspection of the prepayment and advances general ledger account from 01 April 2015 to 31 March 2016, It was noted that the agent principle amount disclosed in the annual financial statements was understated by R 3 306 000,00

Impact of the finding:

Agent principle arrangement has been understated.

**Internal control deficiency**

Reason for the deviation:

The agent principle note was not adequately disclosed against the general ledger account for prepayment and advances.

Based on the aforementioned the matter is as a result of the following internal control deficiency:

**Financial and Performance Management**

The department did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

**Recommendation**

The notes to the annual financial statements should be properly reviewed against the general ledger and other supporting documentation.

**Management response**

I am in agreement with the finding for the following reasons: The Agent principal arrangement was understated by R3 million and the financial statements have been adjusted. See annexure A and B showing corrections done on the financials.

| **Description** | **Response** | | |
| --- | --- | --- | --- |
| Corrective action to be taken |  | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
| X |  | |
| If yes, what corrections will be made to the population |  | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. |  | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. |  | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | |  |
|  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions |  | | |
| Estimated completion date for corrective action |  | | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
| X |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the internal control deficiencies indicated | **Yes** | **No** |
| X |  |
| If management does not agree with the internal control deficiency indicated, please provide the internal control deficiency according to management. |  | |

*Name:* Lesiba Ledwaba

*Position: Acting Director*

*Date: 14/07/2016*

**Auditor’s conclusion**

Management response is acknowledged however the finding remains in the management report due to corrected misstatement to the already submitted annual financial statements.

1. **Employee Benefits – Overstatement of employee benefits as result of leave no captured timeously.**

Laws, rules and regulations

a) Public Finance Management Act sections 40(i):

*“The accounting officer for a department, trading entity or constitutional institution must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards”*

b) In terms of the Modified Cash Standard: Provisions and other liabilities

*“5(b) Accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees (for example, amounts relating to leave entitlements). Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much less than for provisions”.*

**Measurement of provisions**

**Best estimate**

*“25 The amount disclosed as a provision shall be the best estimate of the funds required to settle the present obligation at the reporting date. The time value of money is ignored where the obligation will be settled some-time after the reporting date”.*

*“48 A department shall disclose the value of each major class of provisions for employee benefits as at the reporting date”.*

The following finding has been noted

It was further that the department requested the Persal report for leave entitlement on 03 May 2016, however we noted that the cases attached in annexure A list all cases where the manual leave forms have been captured on PERSAL after the 03 May 2016 which relates to the prior financial year which were taken into account by the department.

A total number of 345.92 leave days is not captured on the system which relates to the current financial year.

Impact of the finding:

Employee benefit amount disclosed which relate to leave entitlement in the annual financial statements might be overstated as result of the leave taken not captured on the Persal system.

**Internal control deficiency**

Reason for the deviation:

The manual leave forms are not captured timeously into Persal system

Based on the aforementioned the matter is as a result of the following internal control deficiency:

**Financial and Performance Management**

a) The department did not implement controls over daily and monthly processing and reconciling of transactions

b) The department did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

**Recommendation**

a) Human Resource manager should ensure that the reconciliation between the manual leave forms and leave captured on Persal system is performed on a monthly basis and reviewed by the senior official.

b) The department should capture all leave taken before 31 March 2016 on the Persal system in the same current financial year to avoid overstating the employee benefit amount.

**Management response**

I am in agreement with the finding for the following reason:

HR received leave forms after 31 March 2016 from various Units, Those leave form were relating to the reporting period under review. A circular will be issued to all officials and Managers to sensitize and remind Managers to approve leave forms immediately after receiving them and to ensure that leave administrators submit to HR timeous. HR personnel will ensure that leave forms are captured in the system immediately.

The necessary amendments to the financial statement in terms of leave liability will be effected. See attached Annexure A for correction done on the financials.

| **Description** | **Response** | | |
| --- | --- | --- | --- |
| Corrective action to be taken | Ensure all leave is captured timeous. A circular will be issued to all staff and Managers to sensitize them each quarter before the end of the quarter on leave management and ensuring that leave is submitted to HR timeous. | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
| **X** |  | |
| If yes, what corrections will be made to the population | Leave entitlement must change from R19 223 mil to R19882 mil and Capped leave must change from R8 671 mil to R8 681 mil. | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. |  | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. |  | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | |  |
|  | |  |
|  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions | **D: Financial Accounting/ D HRA** | | |
|  |  | | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
| **X** |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the internal control deficiencies indicated | **Yes** | **No** |
| **X** |  |
| If management does not agree with the internal control deficiency indicated, please provide the internal control deficiency according to management. |  | |

*Name:* Elizabeth Mathebula

*Position: DD: Policy & PILIR*

*Date: 08/07/2016*

**Auditor’s conclusion**

Management response is acknowledged and the finding is resolved, however the finding remains in the management report as changes to the annual financial statements and follow ups will be performed in the next financial year.

1. **Key Management Personnel: Incorrectly calculated**

Laws, rules and legislation:

In terms of Accounting Manual for Departments Chapter 15: Related party disclosures - disclosures of key management personnel paragraph 6

*(1)  The following remuneration needs to be disclosed of* ***key management personnel*** *and   their close family members:*

*(a)  Compensation paid to key management personnel including their family members where relevant;*

*(b) Short-term employee benefits such as salaries, unemployment insurance and workmen’s compensation funds (where applicable), paid annual leave and paid sick leave, profit sharing and bonuses and non-monetary benefits such as medical benefits, housing, cars and free or subsidised goods and services;*

*(c)  Post-employment benefits (social benefits) such as pensions, other retirement benefits, post-employment life insurance and medical care;*

*(d)  Other long-term employee benefits, including long-service leave or sabbatical leave, long term disability benefits; and*

*(e)  Termination benefits.*

*(2) The aggregate compensation of the senior management of the department and the number of individuals determined on full time equivalent basis received remuneration within this category, showing separately major levels of senior management must be disclosed.*

*(3) All officials from level 14 and above are deemed to be key management personnel.*

*Remuneration of employees on level 13 or below acting for key management of level 14 and above during the financial year must be included in this note. The amount that must be disclosed is the acting employee’s full remuneration including his or her acting allowance during the acting period. The full month’s or months’ remuneration during the acting period must be disclosed and not pro-rated. Remuneration of family members of the acting employee must also be included in this note.*

The following deviations were noted:

Remuneration paid to the below mentioned employees was incorrectly calculated resulting in an understatement of the key management disclosure note.

| **No.** | **Persal Number** | **Amount per auditee calculation** | **Amount per auditors recalculation** | **Differences** |
| --- | --- | --- | --- | --- |
| 1 | 26685116 | 1 053 333.34 | 1 033 626.06 | 19 707.28 |
| 2 | 26195569 | 1 066 106.00 | 1 042 569.69 | 23 536.31 |
| 3 | 81803435 | 1 102 210.36 | 993 553.82 | 108 656.54 |
| 4 | 19079711 | 1 170 030.37 | 1 087 071.62 | 82 958.75 |
| 5 | 80998488 | 1 133 459.97 | 1 103 382.67 | 30 077.30 |
| 6 | 18651640 | 1 061 917.32 | 1 091 827.76 | -29 910.44 |
| 7 | 13540866 | 1 009 993.20 | 1 042 569.96 | -32 576.76 |
| 8 | 21732566 | 916 227.88 | 1 000 547.94 | -84 320.06 |
| 9 | 18628192 | 1 117 585.97 | 1 189 448.82 | -71 862.85 |
| 10 | 27028780 | 968 438.91 | 1 038 523.46 | -70 084.55 |
| 11 | 5335396 | 1 089 464.85 | 1 173 625.72 | -84 160.87 |
| 12 | 13514245 | 1 027 095.55 | 1 103 072.48 | -75 976.93 |
| 13 | 16675789 | 1 289 605.63 | 1 275 893.24 | 13 712.39 |
| 14 | 18959784 | 1 061 271.27 | 1 045 299.58 | 15 971.69 |
| 15 | 21735514 | 1 197 905.73 | 1 191 285.74 | 6 619.99 |
| 16 | 22681078 | 1 123 727.19 | 1 104 260.74 | 19 466.45 |
| 17 | 22682554 | 1 159 713.70 | 1 106 273.76 | 53 439.94 |
| 18 | 27036235 | 71 006.84 | 780 049.00 | 709 042.16 |
| 19 | 53516117 | 1 158 901.23 | 1 147 962.27 | 10 938.96 |
| 20 | 80090419 | 1 111 725.11 | 1 103 382.67 | 8 342.44 |
| 21 | 80381529 | 1 170 420.10 | 1 131 212.94 | 39 207.16 |
| 22 | 81917805 | 1 129 190.80 | 1 123 152.79 | 6 038.01 |
| 23 | 10958011 | 1 302 993.20 | 1 269 720.81 | 33 272.39 |
| 24 | 18886655 | 1 203 674.98 | 1 155 976.64 | 47 698.34 |
| 25 | 27334694 | 1 298 118.61 | 1 268 799.86 | 29 318.75 |
| 26 | 18649726 | 1 369 794.21 | 1 365 864.82 | 3 929.39 |
| 27 | 11621567 | 1 269 170.59 | 1 267 875.87 | 1 294.72 |
|  | **Total** |  |  | **(603 747.82)** |

Impact of the finding

Understatement of Key Management Personnel disclosure note.

Reason for the deviation:

The schedule used to prepare the annual financial statements is not adequately reviewed to ensure that it is accurate and complete.

Based on the aforementioned the matter is as a result of the following internal control deficiencies:

**Internal control deficiency**

**Financial and Performance Management**

The department did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

**Recommendation**

All supporting schedules used in the preparation of the Key Management Disclosure Note should be adequately reviewed by both Human Resources Directorate and Finance Directorate to ensure that information used in the preparation of the annual financial statements is accurate and complete.

**Management response**

I am in agreement with the finding for the following reasons: The Key Management Personnel disclosure note was understated, due to incomplete report used when reporting, the understatement was on two officials however the when verifying AFS figures visa vie those of the Auditors, it was evident that the Auditors figures did not include S&T amounts hence the vast discrepancies. Attached as an annexure is changes to the financials.

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken | Adjustment on Financial Statements the amount of R943 388.15. .must be added to Level 14 | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
| x |  | |
| If yes, what corrections will be made to the population | The AFS will be adjusted accordingly with R943 388.15.. | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. | A latest report was drawn and reconciliation between year-end figures and those of the latest report was performed and discrepancies were identified. | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. | See attached Annexure A | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | | x |
|  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions |  | | |
| Estimated completion date for corrective action |  | | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
| x |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the internal control deficiencies indicated | **Yes** | **No** |
| x |  |
| If management does not agree with the internal control deficiency indicated, please provide the internal control deficiency according to management. |  | |

*Name:* Ms R Mostert

*Position: D: HRA*

*Date: 15/7/2016*

**Auditor’s conclusion**

The finding is resolved management amended the note and correct amounts are disclosed, however the finding remains in the management report, management should ensure that the note to the annual financial statements are adequately reviewed to avoid misstated in the financial statements submitted for audit.

1. **Procurement and Contract Management: Competitive bidding**

**Audit finding**

Rules, Laws and Regulation

a) Practice Note 8 of 2007/08 states that “*the accounting officer should invite competitive bids for all procurement above R 500 000. Should it be impractical to invite competitive bids for specific procurement, e.g. in urgent or emergency cases or in case of a sole supplier, the accounting officer may procure the required goods or services by other means, such as price quotations or negotiations in accordance with Treasury Regulation 16A6.4.*

*The reasons for deviating from inviting competitive bids should be recorded and approved by the accounting officer are required to report within ten (10) working days to the relevant treasury and the Auditor-General all cases where goods and services above the value of R1 million (VAT inclusive) were procured in terms of Treasury Regulation 16A6.4.*

*The report must include the description of the goods or services, the name/s of the supplier/s, the amount/s involved and the reasons for dispensing with the prescribed competitive bidding process”.*

b) Treasury Regulations 16A6.1 states that “*procurement of goods and services, either by way of quotations or through a bidding process, must be within the threshold values as determined by the National Treasury*”.

c) Treasury regulation16A6.4  states that “*if in a specific case it is impractical to invite competitive bids, the accounting officer or accounting authority may procure the required goods or services by other means, provided that the reasons for deviating from inviting competitive bids must be recorded and approved by the accounting officer or accounting authority”.*

d) Practice note 6 of 2007/08 states “*that in instances where it would be impractical to invite competitive bids, Treasury Regulation 16A6.4 provides for such instances where accounting officers are allowed to dispense with competitive bidding processes to procure goods and services by other means. This provision is intended for cases of emergency where immediate action is necessary or if the goods and services required are produced or available from sole service providers. The reasons for such action must be recorded and approved by the accounting officer or accounting authority”.*

Practice note 6 of 2007/08 further states “*that an effective system of supply chain demand management requires an accounting officer or accounting authority to ensure that the resources required to support the strategic and operational commitments of an institution are properly budgeted for and procured at the correct time. Planning for the procurement of such resources must take into account the period required for competitive bidding processes. It must therefore be emphasized that a lack of proper planning does not constitute a reason for dispensing with prescribed bidding processes”.*

d) Instruction note 32 section 3.2.1 states “*that within ten (10) working days after the closure of any advertised competitive bid, institutions must publish on its website the names of all bidders that submitted bids in relation to that particular advertisement. Where practical, institutions must also publish the total price and the preferences claimed by the respective bidders. The information should remain on the website for at least thirty (30) days. The details of the winning bidder, contract number and description, preference claimed and contract price must also be published in the government tender bulleting”.*

The following discrepancies were identified:

a) Uneconomical use of resources

A nominated procedure was followed and not a competitive bidding process. We are in agreement that it was not practicable to follow a competitive bidding process as this was a funeral. However, we are unable to determine if the procurement was economical.

|  |  |  |
| --- | --- | --- |
| **Contractor** | **Tender No** | **Award** |
| Euro International Suppliers | HP15/010 | 2 728 362 |
| Crocia Events | HP15/011 | 1 076 810 |
| Gearhouse SA | HP15/006 | 5 226 548 |

b) Publication of bidders on website

No evidence was provided that the details of the winning bidder were published in the government tender bulleting or website of the department.

|  |  |  |
| --- | --- | --- |
| **Contractor** | **Tender No** | **Award** |
| Euro International Suppliers | HP15/010 | 2 728 362 |

c) Deviation from competitive bidding:

Service above R500 000 was procured without inviting competitive bids. These instances didn’t relate to cases of emergency where immediate action was necessary or where the goods and services required were procured from sole service providers and a lack of proper planning does not constitute a reason for dispensing with prescribed bidding processes.

|  |  |  |
| --- | --- | --- |
| **Contractor** | **Tender No** | **Award** |
| Euro International Suppliers | HP15/010 | 2 728 362 |

d) Preference point system:

Bid documentation (PA01) specified the 80/20 preference point system to be used. This is not as prescribed in terms of the PPPFA whereas the 90/10 system must be used and this procurement is above R1 million.

|  |  |  |
| --- | --- | --- |
| **Contractor** | **Tender No** | **Award** |
| Kreditinform Experian | HP14/152 | 2 684 745 |

**Impact**

a) Non-compliance with laws and regulations resulting in possible fruitless and wasteful expenditure

b) Non-compliance with laws and regulations resulting in irregular expenditure.

**Internal control deficiency**

Reason for the deviation

Although management did develop action plans to address internal control deficiencies, they were not effective to prevent irregular expenditure as well as non-compliance with applicable laws and regulations.

Based on the aforementioned the matter is as a result of the following internal control deficiency:

## Leadership

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Financial and performance management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored

**Recommendation**

a) A compliance checklist should be completed and reviewed before the payment is approved to ensure that the correct procurement process was followed.

b) Should the expenditure be regarded as irregular expenditure, the department must follow up and take appropriate steps against the applicable individuals as section 38(i)(h)(iii) of the PFMA states that "the Accounting Officer for the department must take effective appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who— makes or permits an unauthorised expenditure, irregular expenditure or fruitless and  wasteful expenditure".

**Management response**

Management doesn’t agree with the findings:

Procurement of the following tenders was economical:

* HP15/010 – marquee was procured from Euro international Suppliers for VVIP and family dining.
* HP15/011 – marquee was procured from Crocia Events for kitchens and EMS
* HP15/006 - Euro international Suppliers was responsible for collection, erect and removal of the Dome marquee

The details of the winning bidder were not published in the government tender bulletin and departmental website as the tender was not advertised in the government tender bulletin and departmental website. A nomination and negotiations procedure was followed to procure the services.

Name: Raymond Naidoo

Position: CD: SCM

Date: 16/03/2016

**Auditor’s conclusion**

Uneconomical use of resources:

Management comment noted, however the audit finding remains:

* Gearhouse SA: HP 15/006: The dome marque was purchased by the department during the 2013/14 financial year. One of the conditions of approval to purchase the dome marque in the prior years was that a term agreement be entered into with the service provider to offer training to a departmental team who in the future would be able to manage the assembly and demobilisation of the dome marquee. Therefore the expenditure incurred to pay another service provider erect and remove the dome marque is fruitless and wasteful expenditure.
* Euro International Suppliers (HP15/010) and Crocia Events (HP15/011): No evidence was provided to substantiate as to why the procurement is considered economical by management.

Publication of bidders on website

Management comment noted however the audit finding remains. More than one bidder (three bidders) were invited, and therefore the details of the winning bidder must be published

1. **Procurement and Contract Management: Quotations (R30 000 to R500 000) non-compliance**

**Laws, rules and regulation**

a) Practice note 7 of 2009/10 states that:

*“if a supply chain management official or other role player, or any close family member, partner or associate of such official or other role player, has any private or business interest in any contract to be awarded, that official or other role player must disclose that interest and withdraw from participating in any manner whatsoever in the process relating to that contract.  To give effect to the above, the National Treasury issued a standard bidding document (SBD 4) “Declaration of Interest” on 5 December 2003 as part of Supply Chain Management (SCM) Practice Note Number SCM 1 of 2003. In terms of this document the accounting officer is required to customize and utilize the form as part of their bidding documents so that bidders or their authorized representatives could declare their position in relation to any person employed by the principal institution”.*

b) Practice Note 8 of 2007 paragraph6.1 states that:

*“The accounting officer must be in possession of an original valid tax clearance certificate for all price quotations and competitive bids exceeding the value of R30 000 (VAT included). Paragraph 6.2 further states that if an accounting officer is in possession of a supplier’s original valid tax clearance certificate, it is not necessary to obtain a new tax clearance certificate each time a price quotation or bid is submitted from that specific supplier. This provision may be applied only if the closing date of the price quotation or bid falls within the expiry date of the tax clearance certificate that is in the accounting officer’s possession. Whenever this ruling is applied, cross-reference must be made to the original tax certificate for audit purposes.”*

c) PPR 5 (2) states that points must be awarded to a tenderer for attaining the B-BBEE status level of contributor for procurement equal or below R1 million as follows.

|  |  |
| --- | --- |
| **B-BBEE Level** | **Points** |
| 1 | 20 |
| 2 | 18 |
| 3 | 16 |
| 4 | 12 |
| 5 | 8 |
| 6 | 6 |
| 7 | 4 |
| 8 | 2 |

d) PPR 5 (3) states that a maximum of 20 points may be allocated in accordance with PPR 5 (2).

e) PPR 5 (4) states that the points scored by a tenderer in respect of B-BBEE contribution must be added to the points scored for price.

f) PPR 5 (5) states that the contract must be awarded to the tenderer who scores the highest total number of points.

g) PPR 11(4) states that points scored must be rounded off to the nearest 2 decimal places.

The following discrepancy was identified:

a) Tax clearance certificate:

The supplier didn’t submit an original tax clearance certificate from SARS certifying that the tax affairs are in order.

|  |  |  |  |
| --- | --- | --- | --- |
| **Contractor** | **FANO number** | **Order number** | **Amount** |
| J Kekana Interiors CC | 1401859 | 057986 | 64 834 |

b) i) Preference points:

Sixteen (16) points were awarded (level 3 contributor) for attaining a BBBEE status level contribution (level 1 contributor as per the copy of the certificate), instead of 0 points because the supplier did not submit an original or certified B-BBEE certificate. Consequently the incorrect points scored in respect of the level of B-BBEE contribution were added to the points scored for price. This would not have resulted in the incorrect bidder being awarded

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| --- | --- | --- | --- |
| **Contractor** | **FANO number** | **Order number** | **Amount** |
| J Kekana Interiors CC | 1401859 | 057986 | 64 834 |

ii) Preference points:

The supplier submitted an uncertified copy of the B-BBEE certificate and not an original or certified copy. The PA20 was not on file to enable us to ensure that no points were awarded as the supplier did not submit an original or certified B-BBEE certificate. Furthermore we are unable to determine the points awarded to the unsuccessful bidders

|  |  |  |  |
| --- | --- | --- | --- |
| **Contractor** | **FANO number** | **Order number** | **Amount** |
| Lesedi Corporate Technology (Pty) Ltd | 1398879 | 057855 | 478 274 |

iii) Price points:

The PA20 was not on file to enable us to ensure that points for price were correctly calculated and whether the preference points were correctly added to the price points. Furthermore we noted some suppliers were disqualified and their quotations disregarded but could not find appropriate supporting documentation to determine the reason or substantiate the correctness for disregarding certain quotations. Consequently we were unable to determine if the award was made to the highest scoring.

|  |  |  |  |
| --- | --- | --- | --- |
| **Contractor** | **FANO number** | **Order number** | **Amount** |
| Lesedi Corporate Technology (Pty) Ltd | 1398879 | 057855 | 478 274 |

c) Tax clearance certificate:

The supplier didn’t submit an original tax clearance certificate from SARS certifying that the tax affairs are in order

|  |  |  |  |
| --- | --- | --- | --- |
| **Contractor** | **FANO number** | **Order number** | **Amount** |
| Lesedi Corporate Technology (Pty) Ltd | 1398879 | 057855 | 478 274 |

**Risk**

a) Non-compliance with laws and regulations resulting in irregular expenditure.

b) Non-compliance with Practice note 7 of 2009/10 and 8 of 2007

**Internal control deficiency**

Reason for the deviation

Although management did develop action plans to address internal control deficiencies, they were not effective to prevent irregular expenditure as well as non-compliance with applicable laws and regulations.

Based on the aforementioned the matter is as a result of the following internal control deficiency:

## Leadership

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Financial and performance management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored

**Recommendation**

a) A compliance checklist should be completed and reviewed before the payment is approved to ensure that the correct procurement process was followed.

b) Should the expenditure be regarded as irregular expenditure, the department must follow up and take appropriate steps against the applicable individuals as section 38(i)(h)(iii) of the PFMA states that "the Accounting Officer for the department must take effective appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who— makes or permits an unauthorised expenditure, irregular expenditure or fruitless and  wasteful expenditure".

**Management response**

Tax clearance certificate:

Management is not in agreement with the finding for the following reasons: the Supply Chain Management practitioner complied with Practice Note 8 of 2007 Paragraph 6.2 copy of tax clearance certificate with a date stamp indicating that original with sub directorate: Supplier Register dated 21 July 2015 which shows that the department was in possession of a supplier’s original valid tax clearance certificate within its database records. Find attached tax clearance certificate for your ease of reference

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| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken |  | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
|  | x | |
| If yes, what corrections will be made to the population |  | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. |  | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. |  | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | |  |
|  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions |  | | |
| Estimated completion date for corrective action |  | | |
|  |  |  |  |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | N/A | |

*Name: Maria Lekota*

*Position: D DAM*

*Date: 09 March 2016*

Preference points:

Management is not in agreement with the finding for the following reasons: upon closing, quotations were checked for administrative responsiveness and only J Kekana Interiors was found to be responsive. In situation like this calculation of points for price and BEE was immaterial as it had no bearing to the outcome of the evaluation. Awarding of bid to J Kekana did not disadvantage any supplier.

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken |  | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
|  | x | |
| If yes, what corrections will be made to the population |  | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. |  | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. |  | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | |  |
|  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions |  | | |
| Estimated completion date for corrective action | N/A | | |
|  |  |  |  |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | N/A | |

*Name: Maria Lekota*

*Position: D DAM*

*Date: 09 March 2016*

**Auditor’s conclusion**

Tax clearance certificate:

The original tax clearance was subsequently provided and the finding is resolved.

Preference points:

Management comment noted, however the finding remains. Points were awarded, instead of no points because the supplier did not submit an original or certified B-BBEE certificate and the non-compliance thereof is reported.

1. **Procurement and Contract Management: No deviation was provided for not selected the supplier with the lowest quoted amount : Mmabatho (COFF 8)**

Laws, rules and regulations

In terms of Treasury Regulation chapter 16A3.1 which states that:

*“The accounting officer or accounting authority of an institution to which these regulations apply must develop and implement an effective and efficient supply chain management system in his or her institution for—*

*a) the acquisition of goods and services; and*

*b) the disposal and letting of State assets, including the disposal of goods no longer required.*

*16A3.2  A supply chain management system referred to in paragraph 16A3.1 must—*

1. *be fair, equitable, transparent, competitive and cost effective”;*

**The following the deviation were noted**

It was noted that during the inspection of the batch 1418267 the supplier with the lowest quoted amount was not selected. No deviation was recorded and approved by the delegated officials.

| **No.** | **Supplier name** | **Quotation amount** |
| --- | --- | --- |
| 1 | Khap’s construction and service | R 5 265.00 |
| 2 | Fragile Trading – Avusa Project | R 4 290.00 |

**Impact of the finding:**

a) Non-compliance with laws and regulations resulting in irregular expenditure.

b) Non-compliance with Treasury Regulation 16A3.2 (d)(vi) which will result proper processes not being followed and the desired objectives will not be achieved.

c) Non-compliance with laws and regulations resulting in irregular and fruitless and wasteful expenditure.

**Internal control deficiency**

## Leadership

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

**Recommendation**

a) Management should ensure that the entity complies with all applicable laws and regulations.

b) A compliance checklist should be completed and reviewed before the payment is approved to ensure that the correct procurement process was followed.

c) Should the expenditure be regarded as irregular expenditure, the department must follow up and take appropriate steps against the applicable individuals as section 38(i)(h)(iii) of the PFMA states that "the Accounting Officer for the department must take effective appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who— makes or permits an unauthorised expenditure, irregular expenditure or fruitless and  wasteful expenditure".

**Management response**

I am in agreement with the finding for the following reasons

The office nominated and invited suppliers for the required service, three (3) quotations were received before closing date, before an order was generated, the lowest bidder called and stated that he/she will not be able to deliver as he/she had other commitments; we requested that she send a withdrawal letter but she didn’t.

Seeing that there was no time and the service was needed, the second lowest bidder was then called to deliver and she accepted.

The transaction will be disclosed in the irregular expenditure register.

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken |  | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
|  |  | |
| If yes, what corrections will be made to the population |  | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. |  | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. |  | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | |  |
|  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions |  | | |
| Estimated completion date for corrective action |  | | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the internal control deficiencies indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the internal control deficiency indicated, please provide the internal control deficiency according to management. |  | |

**Auditor’s conclusion**

Management agree the finding, therefore the matter remains unresolved.

1. **Procurement: quotations (R30 000 to R500 000) – Glorina General Traders**

**Audit finding**

Treasury Regulations 16A6.1 states that procurement of goods and services, either by way of quotations or through a bidding process, must be within the threshold values as determined by the National Treasury.

Practice Note 8 of 2007/08 paragraph 3.3 states that an accounting officer should invite and accept written price quotations for requirements up to an estimated value of R500 000 from as many suppliers as possible, that are registered on the list of prospective suppliers. Where no suitable suppliers are available from the list of prospective suppliers, written price quotations may be obtained from other possible suppliers. If it is not possible to obtain at least three (3) written price quotations, the reasons should be recorded and approved by the accounting officer or his / her delegate.

Paragraph 2.5 of Practice Note 6 of 2007/08 emphasized that a lack of proper planning does not constitute a reason for dispensing with prescribed procurement processes.

Treasury regulation 8.2.1 and 8.2.2 states that an official of an institution may not spend or commit public money except with the approval (either in writing or by duly authorised electronic means) of the accounting officer or a properly delegated or authorised officer.

Practice Note 8 of 2007 paragraph6.1 states that the accounting officer must be in possession of an original valid tax clearance certificate for all price quotations and competitive bids exceeding the value of R30 000 (VAT included). Paragraph 6.2 further states that if an accounting officer is in possession of a supplier’s original valid tax clearance certificate, it is not necessary to obtain a new tax clearance certificate each time a price quotation or bid is submitted from that specific supplier. This provision may be applied only if the closing date of the price quotation or bid falls within the expiry date of the tax clearance certificate that is in the accounting officer’s possession. Whenever this ruling is applied, cross-reference must be made to the original tax certificate for audit purposes

The following discrepancy was identified:

|  |  |  |  |
| --- | --- | --- | --- |
| **Contractor** | **FANO number** | **Order number** | **Amount** |
| Glorina General Traders | 146065 | 057803 | 197 592 |

Three quotations not obtained:

Three price quotations were not obtained from different prospective suppliers. The reasons don’t appear reasonable/ justified on the basis that it was impossible/ impractical to obtain 3 written quotations. Furthermore the reasons were not recorded and approved by the delegated official:

Tax clearance certificate:

The supplier didn’t submit an original tax clearance certificate from SARS certifying that the tax affairs are in order.

Evaluation criteria

We are unable to determine if the evaluation criteria applied in evaluating the quotations are the same as those indicated in the original request for quotations as no evaluation criteria were stipulated in the request / invitation for quotations.

**Risk**

Non-compliance with laws and regulations resulting in irregular expenditure.

**Internal control deficiency**

## Leadership

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Although management did develop action plans to address internal control deficiencies, they were not effective to prevent irregular expenditure as well as non-compliance with applicable laws and regulations.

Financial and performance management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored

**Recommendation**

Management should ensure that the entity complies with all applicable laws and regulations.

Management must develop policies and procedures to ensure compliance with all prescribed laws and regulations.

A compliance checklist should be completed and reviewed before the payment is approved to ensure that the correct procurement process was followed.

Should the expenditure be regarded as irregular expenditure, the department must follow up and take appropriate steps against the applicable individuals as section 38(i)(h)(iii) of the PFMA states that "the Accounting Officer for the department must take effective appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who— makes or permits an unauthorised expenditure, irregular expenditure or fruitless and  wasteful expenditure".

**Management response**

Three quotations not obtained:

Management does not agree with the finding.

The Department invited quotations from five service providers registered under the commodity at the time. Three of the invited service providers did not the quotation and one indicated through email that they were unable to quote. In the view of the Department, having to re-invite quotations up to the point where at least three are obtained would be unfair to the others that have initially responded.

This practice leads to two consequences:

1. Cancelling the quotation process, disregarding the ones that responded, reinitiating the quotation process by inviting a new set of prospective service providers. This practice is not considered fair for the service providers that are disregarded. The proper rotation of service providers gets compromised if this process is followed. **Or**
2. Extending invitation of quotations to more service providers than initially invited, consolidating the subsequent quotations to the initial ones in order to obtain to at least three. This process is not considered fair for service providers that initially responded as the subsequent ones may be at a better competitive state. The proper rotation is also compromised in case. On the other hand, there is a risk that the Department may be put to task by service providers that initially quoted when it was their time to quote but were not considered. It is worth noting that in all fairness, no one must be privy to the quoted amounts prior to closing off all quotations at cut off. Reengaging other service providers after having received others’ contradict this notion.

In order to ensure a fair process, the Department deemed it proper to proceed with the two quotations received at the closing date /cut off time due to the two concerns raised above.

The approval to proceed with less than 3 quotations was granted by the Chief Director SCM who is the Delegated Authority to approve all deviation transactions below R500 000.

Tax clearance certificate:

Management acknowledges the finding and would like to respond as follows:

The Department had in their possession, the original and valid Tax Clearance Certificate within Supplier Register / Database and attached a copy to the batch. The Certificate will be presented to the Auditor.

Evaluation criteria

Management does not agree with the finding. As the Department managed to compare two quotations and evaluated them in accordance with the 80/20 preference point system, management is satisfied that the process was duly followed and that the successful supplier succeeded fairly let alone the fact that they were the cheaper supplier of the two. The Standard Bidding Document which is called Preference Points Claim for Quotations: PA-16.3 clearly state that 80/20 preference point system will be utilised. See the attached Scoring Model- PA20.5 which is part of the batch file.

Name: Maria Lekota

Position: Director DAM

Date: 30 March 2016

**Auditor’s conclusion**

Three quotations not obtained:

Management comment noted, however the audit finding remains. Practice Note 8 of 2007/08 paragraph 3.3 states that as many suppliers as possible must be invited and at least three quotations must be obtained.

Tax clearance certificate:

Management subsequently provided the original tax clearance and the finding is resolved.

Evaluation criteria:

Management comment noted and the finding is resolved.

1. **Procurement: quotations (R30 000 to R500 000) – Lesedi Corporate Technology (Pty) Ltd**

**Audit finding**

Practice Note 8 of 2007 paragraph6.1 states that the accounting officer must be in possession of an original valid tax clearance certificate for all price quotations and competitive bids exceeding the value of R30 000 (VAT included). Paragraph 6.2 further states that if an accounting officer is in possession of a supplier’s original valid tax clearance certificate, it is not necessary to obtain a new tax clearance certificate each time a price quotation or bid is submitted from that specific supplier. This provision may be applied only if the closing date of the price quotation or bid falls within the expiry date of the tax clearance certificate that is in the accounting officer’s possession. Whenever this ruling is applied, cross-reference must be made to the original tax certificate for audit purposes

PPR 5 (2) states that points must be awarded to a tenderer for attaining the B-BBEE status level of contributor for procurement equal or below R1 million as follows.

|  |  |
| --- | --- |
| **B-BBEE Level** | **Points** |
| 1 | 20 |
| 2 | 18 |
| 3 | 16 |
| 4 | 12 |
| 5 | 8 |
| 6 | 6 |
| 7 | 4 |
| 8 | 2 |

PPR 5 (3) states that a maximum of 20 points may be allocated in accordance with PPR 5 (2).

PPR 5 (4) states that the points scored by a tenderer in respect of B-BBEE contribution must be added to the points scored for price.

PPR 5 (5) states that the contract must be awarded to the tenderer who scores the highest total number of points.

PPR 11(4) states that points scored must be rounded off to the nearest 2 decimal places.

The following discrepancy was identified:

|  |  |  |  |
| --- | --- | --- | --- |
| **Contractor** | **FANO number** | **Order number** | **Amount** |
| Lesedi Corporate Technology (Pty) Ltd | 1398879 | 057855 | 478 274 |

Tax clearance certificate:

The supplier didn’t submit an original tax clearance certificate from SARS certifying that the tax affairs are in order.

Preference points:

The supplier submitted an uncertified copy of the B-BBEE certificate and not an original or certified copy. The PA20 was not on file to enable us to ensure that no points were awarded as the supplier did not submit an original or certified B-BBEE certificate. Furthermore we are unable to determine the points awarded to the unsuccessful bidders

Price points:

The PA20 was not on file to enable us to ensure that points for price were correctly calculated and whether the preference points were correctly added to the price points. Furthermore we noted some suppliers were disqualified and their quotations disregarded but could not find appropriate supporting documentation to determine the reason or substantiate the correctness for disregarding certain quotations. Consequently we were unable to determine if the award was made to the highest scoring.

**Risk**

Non-compliance with laws and regulations resulting in irregular expenditure.

**Internal control deficiency**

## Leadership

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Although management did develop action plans to address internal control deficiencies, they were not effective to prevent irregular expenditure as well as non-compliance with applicable laws and regulations.

Financial and performance management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored

**Recommendation**

Management should ensure that the entity complies with all applicable laws and regulations.

Management must develop policies and procedures to ensure compliance with all prescribed laws and regulations.

A compliance checklist should be completed and reviewed before the payment is approved to ensure that the correct procurement process was followed.

Should the expenditure be regarded as irregular expenditure, the department must follow up and take appropriate steps against the applicable individuals as section 38(i)(h)(iii) of the PFMA states that "the Accounting Officer for the department must take effective appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who— makes or permits an unauthorised expenditure, irregular expenditure or fruitless and  wasteful expenditure".

**Management response**

Tax clearance certificate

Management is not in agreement with the finding for the following reasons: the Supply Chain Management practitioner complied with Practice Note 8 of 2007 Paragraph 6.2 copy of tax clearance certificate with a date stamp indicating that original with sub directorate: Supplier Register dated 25 June 2015 which shows that the department was in possession of a supplier’s original valid tax clearance certificate within its database records. Find attached tax clearance certificate for your ease of reference.

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| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken |  | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
|  | x | |
| If yes, what corrections will be made to the population |  | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. |  | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. |  | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
| N/A | |  |
|  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions |  | | |
| Estimated completion date for corrective action |  | | |
|  |  |  |  |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

Name: Maria Lekota

Position: D DAM

Date: 09 March 2016

Preference points:

Management is not in agreement with the finding for the following reasons: the PA 20 is included in the Procurement file / batch and no B-BBEE points were allocated to the service provider. Upon closing, administrative responsiveness checks of quotations was done and only Lesedi Corporate Technology (Pty) Ltd was found to be administratively responsive. Non-responsive quotation are not considered for price and preference evaluation and as such only Lesedi Corporate Technology (Pty) Ltd reflects on the PA 20. Find attached copy of PA 20 for your ease of reference.

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken |  | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
|  |  | |
| If yes, what corrections will be made to the population |  | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. |  | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. |  | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | |  |
|  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions |  | | |
| Estimated completion date for corrective action |  | | |
|  |  |  |  |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

Name: Maria Lekota

Position: D DAM

Date: 09 March 2016

Price points

Management is not in agreement with the finding for the following reasons: scoring Model – PA 20.5 is attached in this file as well as the non-responsive supplier’s quotations date stamped with quotation received stamp on the 22 June 2015. Reasons for disqualifying other bidders are reflected on the PA 02 and paragraph 2.2 of memorandum dated 26 June 2015 contained in the Procurement file / batch. Attached for your ease of reference.

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken |  | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
|  | x | |
| If yes, what corrections will be made to the population |  | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. |  | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. |  | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
| N/A | |  |
|  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions |  | | |
| Estimated completion date for corrective action |  | | |
|  |  |  |  |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | N/A | |

Name: Maria Lekota

Position: D DAM

Date: 09 March 2016

**Auditor’s conclusion**

Management comment noted, however the audit finding remains:

Tax clearance certificate:

The original tax clearance certificate was provided and the finding is resolved.

Preference points:

Management comment noted. The PA20 was subsequently submitted which was not on the tender file, and the finding is resolved

Price points:

The PA20 was subsequently submitted which was not on the tender file, and the finding relating to the non-compliance and irregular expenditure is resolved. However the control deficiency will be reported that all quotations must be evaluated even if it is above the R500 000 threshold

1. **Procurement: quotations (R10 000 to R30 000) – Mokonyane's Catering & General Services**

**Audit finding**

Treasury Regulations 16A6.1 states that procurement of goods and services, either by way of quotations or through a bidding process, must be within the threshold values as determined by the National Treasury.

Practice Note 8 of 2007/08 paragraph 3.3 states that an accounting officer should invite and accept written price quotations for requirements up to an estimated value of R500 000 from as many suppliers as possible, that are registered on the list of prospective suppliers. Where no suitable suppliers are available from the list of prospective suppliers, written price quotations may be obtained from other possible suppliers. If it is not possible to obtain at least three (3) written price quotations, the reasons should be recorded and approved by the accounting officer or his / her delegate.

The following discrepancy was identified:

|  |  |  |
| --- | --- | --- |
| **Contractor** | **Order number** | **Amount** |
| Mokonyane's Catering & General Services | 058649 | 17 325 |

Three quotations not obtained:

Three price quotations were not obtained from different prospective suppliers. The reasons don’t appear reasonable/ justified on the basis that it was impossible/ impractical to obtain 3 written quotations.

**Risk**

Non-compliance with laws and regulations resulting in irregular expenditure.

**Internal control deficiency**

## Leadership

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Although management did develop action plans to address internal control deficiencies, they were not effective to prevent irregular expenditure as well as non-compliance with applicable laws and regulations.

Financial and performance management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored

**Recommendation**

Management should ensure that the entity complies with all applicable laws and regulations.

Management must develop policies and procedures to ensure compliance with all prescribed laws and regulations.

A compliance checklist should be completed and reviewed before the payment is approved to ensure that the correct procurement process was followed.

Should the expenditure be regarded as irregular expenditure, the department must follow up and take appropriate steps against the applicable individuals as section 38(i)(h)(iii) of the PFMA states that "the Accounting Officer for the department must take effective appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who— makes or permits an unauthorised expenditure, irregular expenditure or fruitless and  wasteful expenditure".

**Management response**

Management takes note of the finding.

It must be noted that the transaction was discovered by management and reported in the monthly register of irregular expenditure. The amount has been disclosed in the annual financial statements of 2015/16 currently being audited. See the attached checklist and irregular expenditure register that was submitted to the AG.

|  |  |  |  |
| --- | --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | | |
| Corrective action to be taken: | N/A | | |
| Does the finding affect an amount disclosed in the financial statements? | Yes | | No |
|  | | x |
| If yes, what corrections will be made to the population? |  | | |
| If yes, and no corrections will be made, the reason why such a conclusion has been reached |  | | |
| Position of official responsible to take corrective action |  | | |
| Estimated completion date of corrective action: |  | | |
| Does management agree with the root cause indicated | Yes | No | |
| x |  | |
| If management does not agree with the root cause indicated, please provide the root cause according to management |  | | |

Name: Lesetja Toona

Position: Director: Inspectorate and Compliance

Date: 28 June 2016

**Auditor’s conclusion**

Management comments noted and the non-compliance it reported.

1. **Procurement: quotations (R10 000 to R30 000) – Woman Unite Entertainment & Projects**

**Audit finding**

Treasury Regulations 16A6.1 states that procurement of goods and services, either by way of quotations or through a bidding process, must be within the threshold values as determined by the National Treasury.

Practice Note 8 of 2007/08 paragraph 3.3 states that an accounting officer should invite and accept written price quotations for requirements up to an estimated value of R500 000 from as many suppliers as possible, that are registered on the list of prospective suppliers. Where no suitable suppliers are available from the list of prospective suppliers, written price quotations may be obtained from other possible suppliers. If it is not possible to obtain at least three (3) written price quotations, the reasons should be recorded and approved by the accounting officer or his / her delegate.

TR 16A3.2(a) states that a supply chain management system must be fair, equitabe, transparent, cost effective and competitive

The following discrepancy was identified:

|  |  |  |
| --- | --- | --- |
| **Contractor** | **Order number** | **Amount** |
| Woman Unite Entertainment & Projects | 057729 | 25 000 |

Three quotations not obtained:

Three price quotations were not obtained from different prospective suppliers. The reasons don’t appear reasonable/ justified on the basis that it was impossible/ impractical to obtain 3 written quotations.

Lowest quotation not selected:

The supplier with the lowest price quote or that scored the highest on other predetermined criteria was not selected. Hands On Promotions quoted R20 862 which included refreshments and meals which was specifically excluded from the request for quotations. However this being included they are still the lowest quotation

**Risk**

Non-compliance with laws and regulations resulting in irregular expenditure.

**Internal control deficiency**

## Leadership

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Although management did develop action plans to address internal control deficiencies, they were not effective to prevent irregular expenditure as well as non-compliance with applicable laws and regulations.

Financial and performance management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored

**Recommendation**

Management should ensure that the entity complies with all applicable laws and regulations.

Management must develop policies and procedures to ensure compliance with all prescribed laws and regulations.

A compliance checklist should be completed and reviewed before the payment is approved to ensure that the correct procurement process was followed.

Should the expenditure be regarded as irregular expenditure, the department must follow up and take appropriate steps against the applicable individuals as section 38(i)(h)(iii) of the PFMA states that "the Accounting Officer for the department must take effective appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who— makes or permits an unauthorised expenditure, irregular expenditure or fruitless and  wasteful expenditure".

**Management response**

Management does not agree with the finding.

Management acknowledges the finding and would like to respond as follows:

Three quotations not obtained:

It must be noted that SCM only received the request on the 30th April 2015 as the jazz band was required on the 06th May 2015 in Parliament: Minister’s Budget Vote Speech, SCM was unable to re-invite for additional quotes. Due to the tight timelines it was impractical for SCM to extend invitations to more suppliers. The reasons for deviation were found justifiable by the approving authority (Chief Director: SCM) and the approved quotation of R 25 000 was deemed cost-effective as it was 16% lower than the estimated cost of R30 000. Apart from the issue of meals and transport, Hands on Promotions was disqualified mainly for their condition requiring payment by 06 May 2016. The Department pays service providers after duly rendering services and even if exception was to be approved, it was too late for payment to go through by the 06th May 2016 given the payment process sand the system run.

|  |  |  |  |
| --- | --- | --- | --- |
| DESCRIPTION | RESPONSE | | |
| Corrective action to be taken: | N/A | | |
| Does the finding affect an amount disclosed in the financial statements? | Yes | | No |
|  | |  |
| If yes, what corrections will be made to the population? |  | | |
| If yes, and no corrections will be made, the reason why such a conclusion has been reached |  | | |
| Position of official responsible to take corrective action |  | | |
| Estimated completion date of corrective action: |  | | |
| Does management agree with the root cause indicated | Yes | No | |
|  |  | |
| If management does not agree with the root cause indicated, please provide the root cause according to management |  | | |

Lowest quotation not selected:

Management does not agree with the finding and would like to respond as follows:

In the Request for Quotation there was a special conditions:

1. The Department wanted to avoid extra charges for transport and accommodation.
2. Supplier should provide for their own meals and transport.

Hands on Promotions was disqualified due to the fact that in their quote meals were included and in the approved memo by Chief Director: Supply Chain, In Par 2.4.1 reasons were captured why Hands on Promotions was disqualified.

|  |  |  |  |
| --- | --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | | |
| Corrective action to be taken: |  | | |
| Does the finding affect an amount disclosed in the financial statements? | Yes | | No |
|  | |  |
| If yes, what corrections will be made to the population? |  | | |
| If yes, and no corrections will be made, the reason why such a conclusion has been reached |  | | |
| Position of official responsible to take corrective action |  | | |
| Estimated completion date of corrective action: |  | | |
| Does management agree with the root cause indicated | Yes | No | |
|  |  | |
| If management does not agree with the root cause indicated, please provide the root cause according to management |  | | |

Management does not agree to the finding because as much as this transaction is a deviation, it is not irregular.

|  |  |  |  |
| --- | --- | --- | --- |
| **DESCRIPTION** | **RESPONSE** | | |
| Corrective action to be taken: |  | | |
| Does the finding affect an amount disclosed in the financial statements? | Yes | | No |
|  | |  |
| If yes, what corrections will be made to the population? |  | | |
| If yes, and no corrections will be made, the reason why such a conclusion has been reached |  | | |
| Position of official responsible to take corrective action |  | | |
| Estimated completion date of corrective action: |  | | |
| Does management agree with the root cause indicated | Yes | No | |
|  |  | |
| If management does not agree with the root cause indicated, please provide the root cause according to management |  | | |

Name: Maria Lekota

Position: Director

Date: 27 June 2016

**Auditor’s conclusion**

Three quotations not obtained:

The Minister’s Budget Vote Speech is an annual event, and it was therefore not impractical or impossible for the department to obtain three quotations. A lack of proper planning doesn’t make it impracticable to obtain three quotations. Therefore the finding remains and the expenditure incurred is irregular expenditure

Lowest quotation not selected:

Considering the fact that Hands on promotion submitted a lower quotation than the winning bidder, Hands on promotion did not include the required specifications. The matter is therefore resolved.

1. **Procurement: Testing R10 000 to R30 000 – final decision of acceptance of quotation**

**Audit finding**

Treasury regulation 8.2.1 and 8.2.2 states that an official of an institution may not spend or commit public money except with the approval (either in writing or by duly authorised electronic means) of the accounting officer or a properly delegated or authorised officer.

The following discrepancies were identified:

Appointment:

The final decision on which quotation to accept was not made by an appropriately delegated official or committee.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **No** | **Supplier** | **Order number** | **Award**  **R** | **Expenditure to date** | **Expenditure current year** |
| 1 | Refhumudze Trading (Pty) Ltd | 1389039 | 11 850.00 | 11 850.00 | 11 850.00 |

**Risk**

Non-compliance with laws and regulations resulting in irregular expenditure

**Internal control deficiency**

Leadership

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Although management did develop action plans to address internal control deficiencies, they were not effective to prevent irregular expenditure as well as non-compliance with applicable laws and regulations.

Financial and performance management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

**Recommendation**

Management should ensure that the entity complies with all applicable laws and regulations.

Management must develop policies and procedures to ensure compliance with all prescribed laws and regulations.

A compliance checklist should be completed and reviewed before the payment is approved to ensure that the correct procurement process was followed.

Should the expenditure be regarded as irregular expenditure, the department must follow up and take appropriate steps against the applicable individuals as section 38(i)(h)(iii) of the PFMA states that "the Accounting Officer for the department must take effective appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who— makes or permits an unauthorised expenditure, irregular expenditure or fruitless and  wasteful expenditure".

**Management response**

Management is in agreement with the finding.

This was an oversight. All our procurements are approved by a delegated authority.

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken | Investigation will be conducted to determine who caused the irregular expenditure in line with PFMA | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
|  | X | |
| If yes, what corrections will be made to the population |  | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. |  | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. |  | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | |  |
|  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions |  | | |
| Estimated completion date for corrective action |  | | |
|  |  |  |  |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
| X |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

Name: M Dondashe

Position: Regional manager

Date: 15/03/2016

**Auditor’s conclusion**

Management is in agreement with the finding and the finding remains

1. **Procurement : Interest in State - Supplier did not declare interest**

**Audit finding**

Practice note 7 of 2009/10 states that if a supply chain management official or other role player, or any close family member, partner or associate of such official or other role player, has any private or business interest in any contract to be awarded, that official or other role player must disclose that interest and withdraw from participating in any manner whatsoever in the process relating to that contract.  To give effect to the above, the National Treasury issued a standard bidding document (SBD 4) “Declaration of Interest” on 5 December 2003 as part of Supply Chain Management (SCM) Practice Note Number SCM 1 of 2003. In terms of this document the accounting officer is required to customize and utilize the form as part of their bidding documents so that bidders or their authorized representatives could declare their position in relation to any person employed by the principal institution.

Instruction note on enhancing compliance monitoring SCM part 3.3.1 states that there must be verification of the names and identity numbers of directors / trustees / shareholders of companies, enterprises, closed corporations and trusts against the relevant staff structure on the Standard Bid Document (SBD 4) Declaration of Interest has been augmented to compel bidders to submit the names of their directors / trustees /shareholders, their individual identity numbers, personal tax reference number and state1 employee / persal numbers as part of their bid (includes written price quotations, advertised competitive bids, limited bids and proposals) submissions.

Accounting officers and accounting authorities are required to utilize the revised SBD 4 when inviting bids and to verify the identity numbers of the directors

/ trustees / shareholders of the preferred bidder(s) against the institution’s staff

establishment in order to determine whether or not any of the directors / trustees /

shareholders are in the service of the state or officials employed by the specific

institution. Such verification must take place during the bid evaluation process. If a

bidder / director / trustee / shareholder declares that he / she is an employee of the

state and furnishes, where applicable, proof that appropriate authority exists for

him or her to undertake remunerative work outside his or her employment in the

public service, such a bid must be evaluated in accordance with normal

procurement processes. If a bidder / director / trustee / shareholder is found to be

an official who is in the service of the state and has failed to make such a

declaration in the bid documents, the bidder may be disqualified and the matter

must be dealt with as financial misconduct and the relevant accounting officer /

authority must take the necessary disciplinary steps against the official concerned.

Instruction note 32 states that any legal person, including persons employed by the state, or persons having a kinship with persons employed by the state, including a blood relationship, may make an offer or offers in terms of this invitation to bid (includes a price quotation, advertised competitive bid, limited bid or proposal).  In view of possible allegations of favouritism, should the resulting bid, or part thereof, be awarded to persons employed by the state, or to persons connected with or related to them, it is required that the bidder or his/her authorised representative declare his/her position in relation to the evaluating/adjudicating authority where:

1. the bidder is employed by the state; and/or
2. the legal person on whose behalf the bidding document is signed, has a relationship with persons/a person who are/is involved in the evaluation and or adjudication of the bid(s), or where it is known that such a relationship exists between the person or persons for or on whose behalf the declarant acts and persons who are involved with the evaluation and or adjudication of the bid.

The following discrepancies were identified:

The declaration of interest (SBD4) was completed and signed by the winning supplier but there was no declaration whether the bidder or any person connected with the bidder is employed by the state.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Employee Name** | **Entity Name** | **Connection** | **State institution where employee with interest in supplier is employed** | **FANO** | **Region** | **Amount [R]** |
| DG Mthethwa | Ndawehle Trading Enterprise | Supplier is a state employee | SARS | OR-057920 | Head Office | 9 928,00 |
| M Noyana | Noyana's Management Consultancy | Supplier is a state employee | CIDB | OR-053791 | Head Office | 2 686 068,00 |
| ZM Mkhabela | Isihlanjeni Trading cc | Supplier is a state employee | MP: Public Works, Roads &Transport |  | Nelspruit | 19 528,00 |
| N SETAI | Mosebetsi Business Enterprise | Supplier is a state employee | National Treasury |  | Cape Town | 555 630,00 |

This may result in possible fraudulent act by the supplier (i.e. false declaration or misrepresentation).  If the auditee fails to investigate or take action after being informed of the possible fraud, auditors may consider reporting this as a non-compliance with TR 16A9.1 (f)

**Internal control deficiency**

Financial and performance management

Review and monitor compliance with applicable laws and regulations

Suppliers did not disclose in the SBD 4 whether the bidder or any person connected with the bidder is employed by the state.

**Recommendation**

The auditee must investigate and/ or take action against the suppliers who knowingly supplied/ declared false information in their bids.

Management should ensure that the department complies with all applicable laws and regulations.

**Management response:**

1. Management agrees/ does not agree with the finding.

Management acknowledges the finding and would like to respond as follows:

The current practice in the Department is to use all suppliers that are registered in Central Supplier Database by National Treasury and it is expected that before the final award of any quotation or bid, SCM practitioner to check CSD registration report whether the winning bidder is in the employ of the State or not. This approach will assist SCM as the practitioners did not have such a function of checking prior to the introduction of CSD.

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken | N/A | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
|  | X | |
| If yes, what corrections will be made to the population |  | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. |  | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. |  | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | | X |
|  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions |  | | |
| Estimated completion date for corrective action |  | | |
|  |  |  |  |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  | X |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

*Name: Maria Lekota*

*Position: Director: Demand and Acquisition*

*Date: 07 July 2016*

**Auditor’s conclusion**

Management comment noted, management agrees with the finding.

1. **Procurement: competitive bidding – Business Pulse Project Management CC**

**Audit Finding**

Practice Note 8 of 2007/08 states that the accounting officer should invite competitive bids for all procurement above R 500 000. Should it be impractical to invite competitive bids for specific procurement, e.g. in urgent or emergency cases or in case of a sole supplier, the accounting officer may procure the required goods or services by other means, such as price quotations or negotiations in accordance with Treasury Regulation 16A6.4. The reasons for deviating from inviting competitive bids should be recorded and approved by the accounting officer are required to report within ten (10) working days to the relevant treasury and the Auditor-General all cases where goods and services above the value of R1 million (VAT inclusive) were procured in terms of Treasury Regulation 16A6.4. The report must include the description of the goods or services, the name/s of the supplier/s, the amount/s involved and the reasons for dispensing with the prescribed competitive bidding process

Treasury Regulations 16A6.1 states that procurement of goods and services, either by way of quotations or through a bidding process, must be within the threshold values as determined by the National Treasury.

Treasury regulation16A6.4  states that if in a specific case it is impractical to invite competitive bids, the accounting officer or accounting authority may procure the required goods or services by other means, provided that the reasons for deviating from inviting competitive bids must be recorded and approved by the accounting officer or accounting authority.

Practice note 6 of 2007/08 states that in instances where it would be impractical to invite competitive bids, Treasury Regulation 16A6.4 provides for such instances where accounting officers are allowed to dispense with competitive bidding processes to procure goods and services by other means. This provision is intended for cases of emergency where immediate action is necessary or if the goods and services required are produced or available from sole service providers. The reasons for such action must be recorded and approved by the accounting officer or accounting authority.

Practice note 6 of 2007/08 further states that an effective system of supply chain demand management requires an accounting officer or accounting authority to ensure that the resources required to support the strategic and operational commitments of an institution are properly budgeted for and procured at the correct time. Planning for the procurement of such resources must take into account the period required for competitive bidding processes. It must therefore be emphasized that a lack of proper planning does not constitute a reason for dispensing with prescribed bidding processes.

Section 38(1)(a)(iv) of the PFMA states that the accounting officer for a department must ensure that the department has and maintains a system for properly evaluating all major capital projects prior to a final decision on the project. A proper needs assessment must be done prior to a final decision on a project.

The following discrepancies were identified:

|  |  |  |  |
| --- | --- | --- | --- |
| **Supplier name** | **Tender description** | **Tender no.** | **Award** |
| Business Pulse project management CC | Provision of mentorship services on the EPWP vuk'uphilile learnership programme for Tlokwe city council local municipality | HP14/073 | R2 720 610.00 |

Deviation from competitive bidding:

Service above R500 000 was procured without inviting competitive bids (a nominated procedure was followed). These instances didn’t relate to cases of emergency where immediate action was necessary or where the goods and services required were procured from sole service providers and a lack of proper planning does not constitute a reason for dispensing with prescribed bidding processes. This is lack of planning as the department could have followed and open tender process and invited bidders to participate.

There was no evidence of reasons motivating the deviation and furthermore there was no evidence of approval of the deviation by the accounting officer or delegated official.

Needs assessment:

A proper needs assessment was not done including a proper evaluation of major capital projects prior to a final decision on the project. It was noted that there is no evidence of the procurement instruction letter, only a copy of procurement plan was filed.

Reporting:

The tender was awarded based on a deviation from tender process, however National Treasury and the AGSA was not notified within 10 working days.

**Risk**

Non-compliance with laws and regulations resulting in irregular expenditure.

**Internal control deficiency**

Leadership

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Although management did develop action plans to address internal control deficiencies, they were not effective to prevent irregular expenditure as well as non-compliance with applicable laws and regulations.

Financial and performance management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

**Recommendations**

Management should ensure that the entity complies with all applicable laws and regulations.

Management must develop policies and procedures to ensure compliance with all prescribed laws and regulations.

A compliance checklist should be completed and reviewed before the payment is approved to ensure that the correct procurement process was followed.

Should the expenditure be regarded as irregular expenditure, the department must follow up and take appropriate steps against the applicable individuals as section 38(i)(h)(iii) of the PFMA states that "the Accounting Officer for the department must take effective appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who— makes or permits an unauthorised expenditure, irregular expenditure or fruitless and  wasteful expenditure".

**Management response:**

Management doesn’t agree with the finding;

Deviation from competitive bidding:

The department advertised the tender (HP 13/126) on 14 March 2014, all three (3) bidders were not compliant with SACPCMP. The department followed a nominated procedure approved by NBAC, find attached PA12 and memorandum.

Needs assessment:

DPW has an MOA with Tlokwe Municipality on how the parties are going to manage the training interventions in the municipality. Find attached copy of MOA.

Reporting:

Deviation was reported to both National Treasury and AGSA. Find attached correspondence.

Name: Raymond Naidoo

Position: Chief Director

Date: 08/06/2016

**Auditor’s conclusion**

Deviation from competitive bidding

Management comments are noted, the instances didn’t relate to cases of emergency where immediate action was necessary or where the goods and services required were procured from sole service providers, therefore finding remains unresolved.

Need assessment

Management comments are noted and finding is resolved

Reporting to AGSA and National Treasury

Management comments are noted and finding is resolved

1. **Procurement: quotations (R10 000 – 30 000) – Kaliphat Curtains CC**

**Audit finding**

PFMA Section 38(1)(c)(ii) states that the accounting officer for a department, trading entity or constitutional institution must take effective and appropriate steps to prevent unauthorized, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct.

Practice note 7 of 2009/10 states that if a supply chain management official or other role player, or any close family member, partner or associate of such official or other role player, has any private or business interest in any contract to be awarded, that official or other role player must disclose that interest and withdraw from participating in any manner whatsoever in the process relating to that contract.  To give effect to the above, the National Treasury issued a standard bidding document (SBD 4) “Declaration of Interest” on 5 December 2003 as part of Supply Chain Management (SCM) Practice Note Number SCM 1 of 2003. In terms of this document the accounting officer is required to customize and utilize the form as part of their bidding documents so that bidders or their authorized representatives could declare their position in relation to any person employed by the principal institution.

The following discrepancies were identified:

|  |  |  |
| --- | --- | --- |
| **Supplier name** | **Batch number** | **Award Amount** |
| Kaliphat Curtains CC | OR-057844 | 28 329,00 |

Through inspection of batch number OR-057844 it was noted that two PA-11(Declaration of Interest and Bidders Past Practices) were attached to the batch however none of the declarations were signed by the winning bidder prior to the closing date 13/05/2015.

The signed declaration of interest attached to the batch number OR-057844 was signed on 03/12/2015 which was 6 months after the closing date.

**Risk**

Non-compliance with laws and regulations resulting in irregular expenditure.

**Internal control deficiency**

## Leadership

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Although management did develop action plans to address internal control deficiencies, they were not effective to prevent irregular expenditure as well as non-compliance with applicable laws and regulations.

Financial and performance management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored

**Recommendations**

Management should ensure that the entity complies with all applicable laws and regulations.

Management must develop policies and procedures to ensure compliance with all prescribed laws and regulations.

A compliance checklist should be completed and reviewed before the payment is approved to ensure that the correct procurement process was followed.

**Management response:**

Management acknowledges the finding and would like to respond as follows:

The current practice in the Department is to use all suppliers that are registered in Central Supplier Database by National Treasury and it is expected that before the final award of any quotation or bid, SCM practitioner to check CSD registration report whether the winning bidder is in the employ of the State or not. This approach will assist SCM as the practitioners did not have such a function of checking prior to the introduction of CSD.

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken | n/a | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
|  | X | |
| If yes, what corrections will be made to the population |  | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. |  | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. |  | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | | X |
|  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions |  | | |
| Estimated completion date for corrective action |  | | |
|  |  |  |  |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  | X |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

Name: Maria Lekota

Position: Director

Date: 15 July 2016

**Auditor’s conclusion**

Management comments noted, management agrees with the finding and the finding remains.

1. **Procurement: competitive bidding – Business Pulse Projects Management**

**Audit finding**

Practice Note 8 of 2007/08 states that the accounting officer should invite competitive bids for all procurement above R 500 000. Should it be impractical to invite competitive bids for specific procurement, e.g. in urgent or emergency cases or in case of a sole supplier, the accounting officer may procure the required goods or services by other means, such as price quotations or negotiations in accordance with Treasury Regulation 16A6.4. The reasons for deviating from inviting competitive bids should be recorded and approved by the accounting officer are required to report within ten (10) working days to the relevant treasury and the Auditor-General all cases where goods and services above the value of R1 million (VAT inclusive) were procured in terms of Treasury Regulation 16A6.4. The report must include the description of the goods or services, the name/s of the supplier/s, the amount/s involved and the reasons for dispensing with the prescribed competitive bidding process

Treasury Regulations 16A6.1 states that procurement of goods and services, either by way of quotations or through a bidding process, must be within the threshold values as determined by the National Treasury.

Treasury regulation16A6.4  states that if in a specific case it is impractical to invite competitive bids, the accounting officer or accounting authority may procure the required goods or services by other means, provided that the reasons for deviating from inviting competitive bids must be recorded and approved by the accounting officer or accounting authority.

Practice note 6 of 2007/08 states that in instances where it would be impractical to invite competitive bids, Treasury Regulation 16A6.4 provides for such instances where accounting officers are allowed to dispense with competitive bidding processes to procure goods and services by other means. This provision is intended for cases of emergency where immediate action is necessary or if the goods and services required are produced or available from sole service providers. The reasons for such action must be recorded and approved by the accounting officer or accounting authority.

Practice note 6 of 2007/08 further states that an effective system of supply chain demand management requires an accounting officer or accounting authority to ensure that the resources required to support the strategic and operational commitments of an institution are properly budgeted for and procured at the correct time. Planning for the procurement of such resources must take into account the period required for competitive bidding processes. It must therefore be emphasized that a lack of proper planning does not constitute a reason for dispensing with prescribed bidding processes.

The following discrepancy was identified:

|  |  |  |  |
| --- | --- | --- | --- |
| **Supplier name** | **Tender or lease number** | **Description** | **Tender value** |
| Business pulse projects management | HP14/130 | Provision of mentorship services on the EPWP VukPhile learnership programme for Johannesburg water SOC | 5 213 456.00 |

Deviation from competitive bidding:

Service above R500 000 was procured without inviting competitive bids. These instances didn’t relate to cases of emergency where immediate action was necessary or where the goods and services required were procured from sole service providers and a lack of proper planning does not constitute a reason for dispensing with prescribed bidding processes.

Approval

The deviation was approved by the Chief Director dated 13 February 2015 and not the delegated official or the accounting officer.

Report to AGSA and National Treasury

No evidence was provided that the deviation was reported to the AGSA within 10 working days

**Risk**

Non-compliance with laws and regulations resulting in irregular expenditure

**Internal control deficiency**

Leadership

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Although management did develop action plans to address internal control deficiencies, they were not effective to prevent irregular expenditure as well as non-compliance with applicable laws and regulations.

Financial and performance management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

**Recommendation**

Management should ensure that the entity complies with all applicable laws and regulations.

Management must develop policies and procedures to ensure compliance with all prescribed laws and regulations.

A compliance checklist should be completed and reviewed before the payment is approved to ensure that the correct procurement process was followed.

Should the expenditure be regarded as irregular expenditure, the department must follow up and take appropriate steps against the applicable individuals as section 38(i)(h)(iii) of the PFMA states that "the Accounting Officer for the department must take effective appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who— makes or permits an unauthorised expenditure, irregular expenditure or fruitless and  wasteful expenditure".

**Management response**

Deviation from Competitive Bidding:

Management is not in agreement with the finding. A nominated Procedure was followed when procuring this service based on the fact that bidders who did not have people appropriately registered with SACPCMP as Construction Mentors or Professional Construction Mentors could not bid for this work as they would not satisfy the Risk Criteria of the bid particularly where it states *‘Allocation of suitably qualified and appropriately qualified human resources*’. An open tender process would not yield results because only bidders who have people registered as Construction Mentors and Professional Construction Mentors can bid for this type of professional service work.

A list of registered members was obtained from SACPCMP and all the people appropriately registered as Construction Mentors and Professional Construction Mentors were invited to Bid.

Approval

A Nominated Procedure for inviting only SACPCMP registered service providers was approved by a duly delegated authority which is the NBAC as per attached PA12 dated 11 March 2015.

Report to AGSA and National Treasury

The award was made on 17 March 2015 as per attached appointment letter (copy attached). The deviation report was submitted to National treasury and AGSA on 24 March 2015, which is within 5 days after award; therefore deviation was reported within 10 working days of reporting.

**Auditor’s conclusion**

Deviation from competitive bidding:

Management comment noted however the audit finding remains. No supporting evidence was provided to substantiate management comments

Approval

Management comment noted however the audit finding remains. The deviation was approved by the Chief Director dated 13 February 2015 and not the delegated official or the accounting officer.

Report to AGSA and National Treasury

Management comment noted and the audit finding is resolved as information was subsequently provided

1. **Procurement: competitive bidding – Kredietinform Experian**

**Audit finding**

Practice Note 8 of 2007/08 states that the accounting officer should invite competitive bids for all procurement above R 500 000. Should it be impractical to invite competitive bids for specific procurement, e.g. in urgent or emergency cases or in case of a sole supplier, the accounting officer may procure the required goods or services by other means, such as price quotations or negotiations in accordance with Treasury Regulation 16A6.4. The reasons for deviating from inviting competitive bids should be recorded and approved by the accounting officer are required to report within ten (10) working days to the relevant treasury and the Auditor-General all cases where goods and services above the value of R1 million (VAT inclusive) were procured in terms of Treasury Regulation 16A6.4. The report must include the description of the goods or services, the name/s of the supplier/s, the amount/s involved and the reasons for dispensing with the prescribed competitive bidding process

Treasury Regulations 16A6.1 states that procurement of goods and services, either by way of quotations or through a bidding process, must be within the threshold values as determined by the National Treasury.

Treasury regulation16A6.4  states that if in a specific case it is impractical to invite competitive bids, the accounting officer or accounting authority may procure the required goods or services by other means, provided that the reasons for deviating from inviting competitive bids must be recorded and approved by the accounting officer or accounting authority.

Practice note 6 of 2007/08 states that in instances where it would be impractical to invite competitive bids, Treasury Regulation 16A6.4 provides for such instances where accounting officers are allowed to dispense with competitive bidding processes to procure goods and services by other means. This provision is intended for cases of emergency where immediate action is necessary or if the goods and services required are produced or available from sole service providers. The reasons for such action must be recorded and approved by the accounting officer or accounting authority.

Practice note 6 of 2007/08 further states that an effective system of supply chain demand management requires an accounting officer or accounting authority to ensure that the resources required to support the strategic and operational commitments of an institution are properly budgeted for and procured at the correct time. Planning for the procurement of such resources must take into account the period required for competitive bidding processes. It must therefore be emphasized that a lack of proper planning does not constitute a reason for dispensing with prescribed bidding processes.

Preferential Procurement Regulations 3(b) states that prior to making an invitation to tender the appropriate preference point system must be determined and stipulated

Treasury Regulation 16A6.3(b) states that bid documentation must include evaluation and adjudication criteria, including the criteria prescribed in Preferential Procurement Policy Framework Act, 2000.

The following discrepancy was identified:

|  |  |  |
| --- | --- | --- |
| **Contractor** | **Tender No** | **Award** |
| Kreditinform Experian | HP14/152 | 2 684 745 |

Deviation from competitive bidding:

Service above R500 000 was procured without inviting competitive bids. These instances didn’t relate to cases of emergency where immediate action was necessary or where the goods and services required were procured from sole service providers and a lack of proper planning does not constitute a reason for dispensing with prescribed bidding processes.

Preference point system:

Bid documentation (PA01) specified the 80/20 preference point system to be used. This is not as prescribed in terms of the PPPFA whereas the 90/10 system must be used and this procurement is above R1 million.

**Risk**

Non-compliance with laws and regulations resulting in irregular expenditure.

**Internal control deficiency**

## Leadership

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored.

The entity does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Although management did develop action plans to address internal control deficiencies, they were not effective to prevent irregular expenditure as well as non-compliance with applicable laws and regulations.

Financial and performance management

Reviewing and monitoring of compliance with applicable laws and regulations is insufficient and not properly monitored

**Recommendation**

Management should ensure that the entity complies with all applicable laws and regulations.

Management must develop policies and procedures to ensure compliance with all prescribed laws and regulations.

A compliance checklist should be completed and reviewed before the payment is approved to ensure that the correct procurement process was followed.

Should the expenditure be regarded as irregular expenditure, the department must follow up and take appropriate steps against the applicable individuals as section 38(i)(h)(iii) of the PFMA states that "the Accounting Officer for the department must take effective appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who— makes or permits an unauthorised expenditure, irregular expenditure or fruitless and  wasteful expenditure".

**Management response**

Deviation from competitive bidding:

Management does not agree to the finding. This was a single source requirement based on the recommendation by SSA – as a primary source of information by the State Security Agency (SSA) which is the main custodian of the security mandate in the country. This is to ensure consistency and hand-shaking of systems throughout the country. (See attached letter)

The deviation based on single source is allowable with the condition of approval by the delegated authority.

Preference point system:

Bid documentation (PA01) specified the 80/20 preference point system to be used. This is not as prescribed in terms of the PPPFA whereas the 90/10 system must be used and this procurement is above R1 million. Management does not agree with the finding: the PA01 is an internal initiating document and does not form part of the standard bidding documents that are sent to a service provider. In addition at the point of approving the PA01, the NBAC approved with a condition that the estimate should be updated in line with the proposed 36 months contract period. Due to this condition, the estimated R 900 000 per annum was adjusted to the 2.7 million which then informed the 90/10 preference that was subsequently used. The final determining documents of the transactions are the PA04: Notice and Invitation to Bid that stipulates the evaluation criteria for the bid – and reflects the final evaluation criteria for the bid. This document is the one that is sent out to the bidder alongside other bid documents. The PA04 reflected the 90/10 preference point system. Subsequently the bid was evaluated using the 90/10 point scoring system as per the attached PA20.5 scoring model as stipulated by the bid invitation document. This transaction was therefore compliant to the PPPFA requirements in terms of the preference point scoring system.

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken | N/A | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
|  | X | |
| If yes, what corrections will be made to the population |  | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. | N/A | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. | N/A | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | |  |
| N/A | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | N/A | | |
| Position of official responsible to take corrective actions | N/A | | |
| Estimated completion date for corrective action | N/A | | |
|  |  |  |  |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  | X |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | N/A | |

Name: Raymond Naidoo

Position: Chief Director: SCM

Date: 2016/04/13

**Auditor’s conclusion**

Deviation from competitive bidding:

Management comment noted, however the audit finding remains. The letter provided from the National Intelligence Agency is dated 13 February 2009 and it is merely a recommendation made by them subsequent to your letter requesting a recommendation. Furthermore no supporting evidence was provided to substantiate it being a sole supplier.

Preference point system:

The notice and invitation to bid (PA04) was subsequently submitted indicating that the 90/10 scoring model will be utilized and the finding relating to the preference point system us resolved.

1. **Goods and Services: Payments made after 30 days**

Laws, rules and regulations

1. In terms of Public Finance Management Act (PFMA)

Section 38(1)(f) states that:

“*The accounting officer for a “department, trading entity or constitutional institution must settle all contractual obligations and pay all money owing, including inter-governmental claims, within the prescribed or agreed period;”*

1. In terms of Treasury Regulations

Regulation 8.2.3states that:

*“Unless determined otherwise in a contract or other agreement, all payments due to creditors must be settled within 30 days from receipt of an invoice or, in the case of civil claims, from the date of settlement or court judgement.”*

1. Instruction Note number 34 of National Treasury dated 30 November 2011

Paragraph 4.1 statesthat:

“*The accounting officer’s responsibility [in terms of section 38(1) (f)] to settle all*

*contractual obligations and to pay all money owing, including intergovernmental claims, within the prescribed (30 days) or agreed period is hereby re-iterated.”*

“*4.1 The accounting officer’s responsibility [in terms of section 38(1) (f)] to settle all*

*contractual obligations and to pay all money owing, including intergovernmental claims, within the prescribed (30 days) or agreed period is hereby re-iterated.*

*4.2 Within thirty days (30) days from the date of this Instruction Note, all departments are required to have in place systems (processes and procedures) that will enable the tracking of each invoice received from the various service providers.*

*4.3 The system referred to in paragraph 4.2 above may either be manual or electronic in nature and such a system must also be able to track progress with the processing of each invoice.*

*4.4 At any given time, such a system must be able to provide information related to the date on which an invoice was received, the date on which it was paid and the time period between the date of receipt and the date of payment, if the invoice was indeed paid*

*4.6 The information required in paragraph 4.5 above must be submitted to the*

*National Treasury within seven (7) days after the end of the preceding month in the format prescribed in the enclosed Annexure A.*

*4.7 The accuracy of information in paragraph 4.5 must be confirmed by signature of the department’s accounting officer prior to its submission to the National Treasury.*

*4.11 If accounting officers of national and provincial departments delegate the power to confirm the accuracy of information in paragraph 4.5 to their respective department’s chief financial officer or to any other functionary, the accounting officers are not divested of the responsibility concerning the exercising of the delegated power, as provided in section 44(1)(d) of the PFMA.”*

During the testing of expenditure it was noted that the following payments were not made within 30 days from the date of receipt of the invoice:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **No.** | **Supplier** | **Invoice number** | **Date invoice received** | **Payment date of invoice** | **Days** | **Amount** | **Region** |
| 1 | FRAMA (Pty) Ltd | 183357 | 05/01/2016 | 02/03/2016 | 35 | 19 200,00 | Durban |
| 2 |  | 1424431 | 2015/12/15 | 2016/04/18 | 125 | 47 700,00 | Mmabatho |
| 3 | 3G Relocation | 11505 | 16-Sep-15 | 19-Oct-15 | 33 | 23 486,75 | Bloemfontein |
| 4 | DR Lawnmower | 18230 | 09-Sep-15 | 16-Oct-15 | 37 | 19 350,55 | Bloemfontein |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| **Total** | | | | | |  |  |

Impact of the finding:

a) Non-compliance with Section 38(1) (f) of the Public Finance Management Act.

b) Non-compliance with Regulation 8.2.3 of the Treasury Regulation.

c) Non-compliance with Paragraph 4.1of Instruction Note 34 of National Treasury.

Similar matters were also raised in the prior year therefore the action implemented is still not effective as instances of payments not made in 30 days are still reported in the current financial year and it was indicated in the audit action plan of financial accounting and management the following activities were indicated to address this matter:

a) Customisation of the invoice tracking system.

b) Implementation/roll out of the invoice tracking system.

c) Entrenched accountability on late payments by issuing warning letters to officials that are in contravention of the legislation.

Under milestones it was indicated that there would be an automated invoice tracking system.

The action implemented is still not effective as instances of payments not made in 30 days are still reported in the current financial year.

**Internal control deficiency**

Reason for the deviation:

Based on the aforementioned the matter is as a result of the following internal control deficiency:

**Leadership**

Monitoring controls did not ensure that creditors were paid within the required 30 days of receipt of the invoice.

## Financial and Performance Management

The department did not effectively review and monitor compliance with applicable laws and regulations

**Recommendation**

a) It is recommended that payments be processed in a speedy manner without compromising internal controls.

b) Management needs to review the system being used if such instances when the system will not be allowing payments to be captured occur in future.

c) Management needs to plan properly for the officials taking leave and ensure that there will be other officials in their absence who will be performing their duties.

**Management response**

I am in agreement with the finding for the following reasons: We had a problem with BAS system whereby 5 payments captured and authorized per day until the cut-off date (financial year end).

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken |  | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
| X |  | |
| If yes, what corrections will be made to the population | Will advise the suppliers to submit their invoices 10 days before cut-off. | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. | Advise Project leaders to submit invoices in time | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. |  | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | |  |
|  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions |  | | |
| Estimated completion date for corrective action |  | | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the internal control deficiencies indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the internal control deficiency indicated, please provide the internal control deficiency according to management. |  | |

**Auditor’s conclusion**

Management agree with the finding, therefore the matter remains unresolved.

1. **Goods and Services: Limitation of scope of information requested at Mmabatho Regional Office (COFF 3)**

**Audit Finding**

Laws, rules and regulations

a) Public Finance Management Act sections 40 and 41 states the following:

1. section 40(1)

*“The accounting officer for a department, trading entity or constitutional institution-*

1. *must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;”*
2. section 41

*“An accounting officer for a department, trading entity or constitutional institution must submit to the relevant treasury or the Auditor-General, such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor-General may require”*

As per request for information DPW MMA number 06 issued on 27 June 2016 and due on 29 June 2016, it was requested that the following information be provided for audit purposes. However to date not all the information requested has been received. The following information has not yet been received:

RFI 6 no. 1 Payment batch:

* AP 1414357

The aforementioned findings may result in:

a) Non- compliance with Section 40 and 41 of the Public Finance Management Act.

b) The audit process being delayed as the required audit work cannot be performed.

c) Non submission of the above information is a limitation of scope, and will have a negative impact on the audit outcome.

**Internal control deficiency**

Reason for the deviation:

a) The controls to ensure the timeous submission of information are not effective.

b) Management have not yet implemented effective record keeping of information in an easily retrievable manner.

Based on the aforementioned the matter is as a result of the following internal control deficiency:

**Financial and Performance Management**

The department did not yet 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.

**Recommendation**

It is recommended that all information requested be provided to the AGSA within three days from the date of request.

**Management response**

I am in agreement with the finding, management is still locating the documentations as soon we get it will make it available to the auditors.

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken |  | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
|  |  | |
| If yes, what corrections will be made to the population |  | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. |  | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. |  | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | |  |
|  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions |  | | |
| Estimated completion date for corrective action |  | | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the internal control deficiencies indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the internal control deficiency indicated, please provide the internal control deficiency according to management. |  | |

*Name:* Alfred Seane

*Position: Acting ASD*

*Date: 07 July 2016*

**Auditor’s conclusion**

Management agree with the finding, therefore the matter remain unresolved.

1. **Human Resource Management: Performance agreement deviations**

**Audit finding**

Laws, rules and regulations

a) In terms of PSR 4/III/B.1 and chapter 4 of the SMS handbook, SMS must enter into performance agreements. In terms of the amendment to the SMS handbook (issued via DPSA circular 15/4/9 dated 5 June 2009 ad DPSA circular 15/4/1 dated 26 May 2010), all performance agreements are required to be signed by 31 May of each year.

b) In terms of Chapter 4 of the SMS Handbook Section 8.1 “*A newly appointed member of the SMS shall complete her/his PA within the first three months of appointment”*

The following deviations were noted:

1. The below mentioned SMS members did not submit their signed performance agreements for the 2015/16 performance cycle.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No** | **Persal No.** | **Appointment Date** | **Region** | **Department** |
| 1 | 13540866 | 01-Feb-2014 | Head Office | DPW |
| 2 | 26935911 | 01-Nov-2013 | Head Office | DPW |
| 3 | 21881596 | 18-Aug-2004 | Head Office | DPW |
| 4 | 21761175 | 02-Feb-2015 | Head Office | DPW |

1. Performance agreements for the period 1 April 2015 to 31 March 2016 for the below mentioned SMS members were not signed by the supervisors:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **No** | **Persal No** | **Date performance contract was signed by SMS member** | **Date performance contract was signed by supervisor** | **Region** | **Department** |
| 1 | 18762719 | 11-May-2015 | Not signed | Head Office | DPW |
| 2 | 26959470 | 24-Apr-2015 | Not signed | Head Office | DPW |
| 3 | 61687499 | 09-Apr-2015 | Not signed | Head Office | DPW |

1. The following official signed the performance agreement late for the 2015/16 performance cycle in terms of the performance and management and development policy

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **No** | **Persal No.** | **Appointment date** | **Prescribed date** | **Date that the official signed** | **Number of  days late** | **Region** | **Department** |
| 1 | 12774901 | 01-Nov-2014 | 31-May-2015 | 05-Jun-2015 | 003 | Head office | DPW |
| 2 | 61915866 | 06-May-2015 | 05-Aug-2015 | 16-Jan-2016 | 164 | Head office | DPW |
| 3 | 18886655 | 05-May-2015 | 04-Aug-2015 | 06-Oct-2015 | 063 | Head office | DPW |
| 4 | 53503732 | 01-Aug-2014 | 31-May-2015 | 14-Sep-2015 | 106 | Head office | DPW |

1. The 2015/16 Performance agreement for Persal No. 19074425 was not dated and signed by the supervisor

Similar matters have been raised since 2012-13 and it was included in the department’s action plan but insufficient steps have been taken to date to implement the recommendations provided.

This matter was again included in the action plan 2014-15 which states that the Department will continue to sensitize SMS Members on the need to comply with DPSA requirements and guidelines via email communiqué and over and above this intervention the provisions of the DPSA guidelines will be implemented consistently, e.g. withholding performance related rewards and or instituting disciplinary action.

The impact of the finding:

a) Non-compliance with Performance Management and Development Policy in terms of PSR 4/III/B.1 and chapter 4 of the SMS handbook

b) Non-compliance with of Chapter 4 of the SMS Handbook section 8.1

c) In the absence of properly concluded performance agreements proper performance management cannot take place and difficulties can be encountered in holding officials responsible for their actions.

**Internal control deficiency**

The finding occurred as a result of the following:

The human resource section did not exercise oversight responsibility in ensuring that the Department complies with Chapter 4 Part III of the Public Service Regulations and Chapter 4 of the SMS Handbook by ensuring that performance contracts are signed timeously.

Based on the aforementioned the matter is as a result of the following internal control deficiencies:

**Financial and performance management**

The department did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls

**Recommendation**

1. The department should compile a register to track the signing and submission of performance agreements.
2. Disciplinary action must be instituted against the officials who do not sign their performance agreements timeously

**Management response**

I am in agreement with the finding for the following reasons:

* 5 of the above mentioned SMS members did not submit their Performance Agreements for 2015/16 performance cycle.
* 3 of the above mentioned SMS member’s performance agreements for the 2015/16 performance cycle were not signed by their supervisors.
* 4 SMS Members signed their performance agreements for the 2015/16 performance cycle later.
* Performance Agreements of the SMS Member (Persal number: 19074425) was not signed and dated by the supervisor.

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken |  | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
|  | X | |
| If yes, what corrections will be made to the population |  | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. |  | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. |  | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | | X |
|  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions |  | | |
| Estimated completion date for corrective action |  | | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  | X |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the internal control deficiencies indicated | **Yes** | **No** |
|  | X |
| If management does not agree with the internal control deficiency indicated, please provide the internal control deficiency according to management. |  | |

*Name:*

*Position:*

*Date:*

**Auditor’s conclusion**

Management agrees with the finding and the finding remains unresolved will remain in the management report.

1. **Human Resource Management: Management of vacancy rates**

**In terms of circular No 08 of 2015 reference no 14/1/1/P to all head of national department, offices of premiers, provincial department, and Government Components – Reducing the recruitment period and the vacancy rate in the public service paragraph 3, 5, 6 which states that:**

*“3. The minister of the Public Service and Administration is responsible for leading the implementation of outcome 12, which seeks to establish “An efficient, effective and development oriented Public Service”. Outcome 12 contains various objectives, of which one entails that the Public Service must reduce –*

*3.1 The average vacancy rate in respect of funded posts to at most10% and*

*3.2 The median period it takes to fill a funded vacancy to 6 months.”*

*5. The DPSA will on a regular basis monitor the position and provide oversight reports to its governance structures. The envisaged reporting will be based on information extracted from PERSAL. Department and Government components must thus ensure that their information is correctly captured on PERSAL.(A separate arrangement will be made in the case of the Departments of Defence and Police that do not utilise the PERSAL system).*

*6. The DPSA will, through FOSAD, request under-achieving national departments and provincial administrations (in respect of their respective provincial departments) to report on the following matters:*

*6.1 Their average vacancy rates and median period to fill posts as determined according to their records*

*6.2 if applicable, reasons for any differences between the departmental figures and that of PERSAL.*

*6.3 Reasons for any shortfalls in respect of the set targets.*

The following deviations were noted:

a) The overall vacancy rate has increased from the previous year to the current year.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Current year** | | | **Prior year** | | |
|  | **Vacancy rate** | **Total filled posts** | **Total positions** | **Vacancy rate** | **Total filled posts** | **Total positions** |
| Overall | 21.40% | 5 894 | 7 499 | 20.75% | 5 824 | 7 349 |

b) The overall vacancy rate from the department

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Current year** | | | **Prior year** | | |
|  | **Vacancy rate** | **Total filled posts** | **Total positions** | **Vacancy rate** | **Total filled posts** | **Total positions** |
| Overall | 11.06% | 1 416 | 1 592 | n.a | n.a | n.a |

c) The overall vacancy rate from PMTE.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Current year** | | | **Prior year** | | |
|  | **Vacancy rate** | **Total filled posts** | **Total positions** | **Vacancy rate** | **Total filled posts** | **Total positions** |
| Overall | 24.19% | 4 478 | 5 907 | n.a | n.a | n.a |

The impact of the finding

a) Service delivery might be negatively affected if vacancies are not filled timeously.

b) The department may not be able fulfil its mandate or objective due to staff shortages.

The action plan indicated that the department will deactivate unfunded positions from the PERSAL establishment in the implementation of the new structure (in line with the DPSA circular and subject to internal approval by the delegated authority)

**Internal Control deficiency**

The finding occurred as a result of the following:

a) The total employee cost budget allocated to the department is not sufficient to fill all vacant posts.

b) The department is currently reviewing their organizational structure.

c) The department’s often restructure and create new posts but do not abolish posts which will no longer be used

d) The department is experiencing difficulty attracting retaining managers and professionals (owing to remuneration and working environment, amongst other factors)

e) Lack of implementation of corrective action on audit findings. In response to the same audit finding during the previous year management responded that *“Development and implementation of the Recruitment Plan and deactivation of unfunded positions from the PERSAL establishment in the implementation of the new structure.”*

Based on the aforementioned, the matter is as a result of the following internal control deficiencies:

**Leadership**

The department did not implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored

**Recommendation**

a) The department should as a matter of urgency fill all vacant post which are approved on the structure, as they are funded post.

b) The department should ensure that the information regarding their establishment and vacancies on their establishment are captured properly and on time, this will assist in ensuring that PERSAL operates as closely as possible to real-time information than is currently the case

c) The department should ensure that information on PERSAL is verified and corrected as a matter of urgency, this will assist in improving the integrity of the information in its database and it will also enhance the confidence of its stakeholders who access such information on a day to day basis.

**Management Response**

I am in agreement with the finding. The Department and the PMTE have been sustained high vacancy rates resulting from insufficient allocation under compensation budget to cater for filled and vacant positions, scarcity of critical professional and technical skills and inability to attract and retain same. However over and above the filling of critical vacancies (within budget). The Department has put measures to reduce the vacancy rate, which include the abolishment of positions that have been vacant for more than 24 months (with a few exceptions) and the continuing review of the organisational structure. The Director-General has approved the abolishment. See attached Annexure C. The process for the review of the structure is currently at consultation stages with the DPSA. It is anticipated that on approval of the new structure will result in the activation of funded posts.

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken | Department has put measures to reduce the vacancy rate, which include the abolishment of positions that have been vacant for more than 24 months (with a few exceptions) and the continuing review of the organisational structure | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
|  | X | |
| If yes, what corrections will be made to the population | Not applicable | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. | Not applicable | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. | Not applicable | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | |  |
| Not applicable | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions | Chief Director: HRM | | |
| Estimated completion date for corrective action | On going | | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
| X |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the internal control deficiencies indicated | **Yes** | **No** |
| X |  |
| If management does not agree with the internal control deficiency indicated, please provide the internal control deficiency according to management. |  | |

*Name: Ms TB Hlatshwayo*

*Position: Chief Director: Human Resource Management*

*Date: 01 March 2016*

**Auditor’s conclusion**

Management response is acknowledged however, the department’s high vacancy rate remains a significant concern and we reiterate our recommendation that posts that are critical to service delivery in the department must be regularised and approved on the organisational structure.

1. **Human Resource Management: Posts vacant for over 12 months**

Laws, Rules and Regulations

In terms of section C.1A of the Public Service Regulation

a) Section C.1A.2

*“A funded vacant post, other than a post referred to in regulation C.1A.1, shall be advertised within six months after becoming vacant and be filled within 12 months after becoming vacant.”*

b) Section C.1A.3

*“If a department does not comply with regulation 1/VII/C.1A.1 or 1/VII/C.1A.2, the reasons for non-compliance shall be recorded in writing.”*

The following deviations were noted:

The following DPW posts have been vacant for more than 12 months

| **NO** | **COMPONENT DESCRIPTION** | **POST SALARY LEVEL** | **POST JOB TITLE DESCRIPTION** | **VACANT DATE** |
| --- | --- | --- | --- | --- |
| 1 | HO SUB DIR: COMPLIANCE & FINANCIAL ANALYSIS | 9 | ASSISTANT DIRECTOR STRATEGIC BUSINESS PLANNING | 20140814 |
| 2 | HO DIR: PUBLIC ENTITY | 6 | ASSISTANT ADMINISTRATIVE OFFICER:SECRETARIAT | 20130501 |
| 3 | HO DDG: FINANCE & SUPPLY CHAIN MANAGEMENT | 11 | EXECUTIVE OFFICE MANAGER | 20140801 |
| 4 | HO DDG: FINANCE & SUPPLY CHAIN MANAGEMENT | 15 | DEPUTY DIRECTOR GENERAL:FINANCE & SUPPLY CHAIN MNG | 20120430 |
| 5 | HO SUB DIR: BUDGET ANALYSIS | 7 | STATE ACCOUNTANT | 20140106 |
| 6 | HO SUB DIR: BUDGET ANALYSIS | 10 | ASSISTANT DIRECTOR: MANAGEMENT ACCOUNTING | 20150201 |
| 7 | HO DIR: FINANCIAL ACCOUNTING | 13 | DIRECTOR: FINANCIAL ACCOUNTING | 20131101 |
| 8 | HO SUB DIR: ACCOUNTS RECEIVABLE | 7 | STATE ACCOUNTANT: ACCOUNTS RECEIVABLE | 20140516 |
| 9 | HO SUB DIR: ACCOUNTS RECEIVABLE | 7 | STATE ACCOUNTANT: ACCOUNTS RECEIVABLE | 20150131 |
| 10 | HO DIR:INSPECTORATE AND COMPLIANCE | 9 | ASSISTANT DIRECTOR:PAYMENTS:COMPLIANCE | 20140915 |
| 11 | HO DEPUTY DIRECTOR GENERAL: CORPORATE SERVICES | 7 | PERSONAL ASSISTANT | 20090901 |
| 12 | HO LEGISLATIVE DRAFTING & CONTRACT ADMINISTRATION | 8 | SENIOR ADMINISTRATIVE OFFICER:LEGISLATION | 20140401 |
| 13 | HO CD: INFORMATION SERVICES | 14 | CHIEF DIRECTOR: INFORMATION SERVICES | 20120113 |
| 14 | HO SUB DIR: SYSTEM ARCHITECT | 12 | DEPUTY DIRECTOR SYSTEM ARCHITECT | 20120801 |
| 15 | HO SUB DIV: IT TECHNICIAN | 8 | IT TECHNICIAN | 20140910 |
| 16 | HO DIR:HUMAN RESOURCES PLANNING & RECRUITMENT | 5 | SECRETARY | 20130401 |
| 17 | HO DIR: HR ADMINISTRATION | 5 | SECRETARY | 20140401 |
| 18 | HO DIV: RECORDS MANAGEMENT | 4 | SECONDARY DRIVER | 20130401 |
| 19 | HO CD: MARKETING & COMMUNICATIONS | 14 | CHIEF DIRECTOR: COMMUNICATION & MARKETING | 20150305 |
| 20 | HO DIR: INTERNAL COMMUNICATIONS | 13 | DIRECTOR: INTERNAL COMMUNICATIONS & MOBILISATION | 20140901 |
| 21 | HO DIV: INTERNAL COMMUNICATIONS | 7 | SENIOR COMMUNICATIONS OFFICER | 20110719 |
| 22 | HO DIR:MEDIA AND STAKEHOLDER MANAGEMENT | 13 | DIRECTOR MEDIA & STAKEHOLDER MANAGEMENT | 20100401 |
| 23 | HO DIV: MINISTERIAL PUBLIC APPEARANCESÄPROGRAMME | 8 | SENIOR COMMUNICATIONS OFFICER | 20140617 |
| 24 | HO SUB DIR: JOB ANALYSIS & EVALUATION | 12 | DEPUTY DIRECTOR: ORGANISATIONAL DEVELOPMENT | 20140422 |

The impact of the finding:

Service delivery might be negatively affected if vacancies are not filled timeously. The department may not be able fulfil its mandate or objective due to staff shortages.

**Internal control deficiency**

The finding occurred as result of the fact that:

a) The total employee cost budget allocated to the department is not sufficient to fill all vacant posts.

b) Lack of implementation of corrective action on audit findings. In response to the same audit finding during the previous year management responded that *“Development and implementation of the Recruitment Plan and deactivation of unfunded positions from the PERSAL establishment in the implementation of the new structure.”*

Based on the aforementioned, the matter is as a result of the following internal control deficiencies:

**Leadership**

The department did not implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.

**Recommendation**

a) The department should as a matter of urgency filled all vacant post which are approved on the structure, as they are funded post.

b) Vacant positions should be monitored and filled within reasonable period to ensure cost effective service delivery by the department.

c) The department should consider abolishing the posts which will not filled on the PERSAL organizational structure.

**Management response**

I am in agreement with the finding. The Department and PMTE have sustained high vacancy rates and not in the position to fill all vacancies resulting from insufficient allocation under compensation budget and scarcity of critical professional and technical skills. The filling of the positions was limited to positions identified and prioritise for filling. The Department has over and above the filling vacancies (within budget), put measures to reduce the vacancy rate, which include the abolishment of the position that have been vacant for more than 24 months (few exception) and continuing review of the organisational structure. The Director-General has approved the abolishment of the position that has been vacant for more than 24 months from the PERSAL establishment. See attached. The process for the review of the structure is currently at consultation stages with the DPSA. It is anticipated that on approval of the new structure will in the activation of funded posts.

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken | Finalisation of the new structure  Abolishment of unfunded positions vacant for more than twenty four months | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
| N/A |  | |
| If yes, what corrections will be made to the population | N/A | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. | N/A | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. | N/A | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | |  |
|  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | N/A | | |
| Position of official responsible to take corrective actions | Chief Director:HRM | | |
| Estimated completion date for corrective action | Ongoing | | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
| X |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | N/A | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the internal control deficiencies indicated | **Yes** | **No** |
| X |  |
| If management does not agree with the internal control deficiency indicated, please provide the internal control deficiency according to management. | N/A | |

Name: Ms TB Hlatshwayo

Position: Chief Director: HRM

Date: 03 March 2016

**Auditor’s Response**

Management Response is acknowledged, we will follow up during the final audit whether the post which are vacant more than 24 months and not critical post have abolished from the Persal system as per approved submission by the DG on 13 November 2015 and follow up its impact on the post vacant more than 12 months.

We noted that the abolishment had an impact the number of posts vacant for over 12 months, which results in decrease from 75 to 24 posts vacant for over 12 months; however the finding still remains unresolved as the critical posts are still not filled.

1. **Human Resource Management: Posts not advertised within six months of being vacant**

Laws, Rules and Regulations

a) In terms of the PSCBC Resolution no 1 of 2007 paragraph 14 Filing of funded vacant posts which states that:

*“14.1 The employer will ensure that:*

*14.1.1 All current funded vacancies are advertised, in terms of existing departmental policies, within 06 months of the date of the date of agreement.*

*14.1.2 All new funded vacancies are advertised, in terms of existing departmental policies, within 6 months of the date of these vacancies arising.*

*14.1.3 As far as possible all vacant and funded posts should be advertised and filled within 12 months of signature or from date of arising.*

*14.1.4 The employer will provide council with regular reports on advertising and filling of posts in the public service. The report to include the number of funded vacancies, number advertised, number filled, number unfilled and the reasons for non-filling. These reports to be submitted every 6 months to council for distribution to trade union parties to council”.*

b) In terms of section C.1A.2 of the Public Sector Regulation

Section C.1A.2

*“A funded vacant post, other than a post referred to in regulation C.1A.1, shall be advertised within six months after becoming vacant and be filled within 12 months after becoming vacant.”*

Section C.1A.3

*“If a department does not comply with regulation 1/VII/C.1A.1 or 1/VII/C.1A.2, the reasons for non-compliance shall be recorded in writing”.*

The following deviations were noted:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |

The following positions for DPW were not advertised within six months after becoming vacant.

| **No** | **COMPONENT DESCRIPTION** | **POST SALARY LEVEL** | **POST JOB TITLE DESCRIPTION** | **VACANT DATE** |
| --- | --- | --- | --- | --- |
| 1 | HO DIR:OFFICE OF THE DIRECTOR-GENERAL | 5 | SENIOR REGISTRY CLERK:REGISTRY | 20130816 |
| 2 | HO DIR:OFFICE OF THE DIRECTOR-GENERAL | 13 | DIRECTOR: OFFICE OF THE DIRECTOR-GENERAL | 20121001 |
| 3 | HO DIR: COMPUTER AUDITS AND SPECIAL ASSIGNMENTS | 13 | DIRECTOR:COMPUTER AUDITS & SPECIAL ASSIGNMENTS | 20110324 |
| 4 | HO DIR: FRAUD AWARENESS & INVESTIGATIONS | 5 | SECRETARY | 20030901 |
| 5 | HO CD STRATEGIC MANAGEMENT UNIT | 7 | PERSONAL ASSISTANT | 20040701 |
| 6 | HO D:STRATEGIC & KNOWLEDGE MANAGEMENT | 5 | SECRETARY | 20030901 |
| 7 | HO D:BUSINESS ANALYSIS & RISK MANAGEMENT | 5 | SECRETARY | 20050701 |
| 8 | HO SUB DIR: BUSINESS ANALYSIS | 12 | DEPUTY DIRECTOR: BUSINESS ANALYSIS | 20070814 |
| 9 | HO SUB DIR: COMPLIANCE & FINANCIAL ANALYSIS | 9 | ASSISTANT DIRECTOR STRATEGIC BUSINESS PLANNING | 20140814 |
| 10 | HO SUB DIR: COMPLIANCE & FINANCIAL ANALYSIS | 10 | ASSISTANT DIRECTOR:COMPLIANCE & FINANCIAL ANALYSIS | 20120801 |
| 11 | HO DIR:STRATEGIC PLANNING | 5 | SECRETARY | 20040801 |
| 12 | HO DIR: DEVELOPMENT ECONOMIST | 5 | SECRETARY | 20050101 |
| 13 | HO DIR: DEVELOPMENT ECONOMIST | 13 | DIRECTOR: DEVELOPMENT ECONOMIST | 20040801 |
| 14 | HO DIR: MONITORING & EVALUATION:P1 DG | 5 | SECRETARY | 20030901 |
| 15 | HO DIR:MONITORING & EVALUATION P2:DG | 5 | SECRETARY | 20030901 |
| 16 | HO DIR: STAKEHOLDER MANAGEMENT | 5 | SECRETARY | 20140401 |
| 17 | HO DIR: PUBLIC ENTITY | 6 | ASSISTANT ADMINISTRATIVE OFFICER:SECRETARIAT | 20130501 |
| 18 | HO DDG: FINANCE & SUPPLY CHAIN MANAGEMENT | 11 | EXECUTIVE OFFICE MANAGER | 20140801 |
| 19 | HO DDG: FINANCE & SUPPLY CHAIN MANAGEMENT | 15 | DEPUTY DIRECTOR GENERAL:FINANCE & SUPPLY CHAIN MNG | 20120430 |
| 20 | HO SUB DIR: BUDGET ANALYSIS | 7 | STATE ACCOUNTANT | 20140106 |
| 21 | HO SUB DIR: BUDGET ANALYSIS | 10 | ASSISTANT DIRECTOR: MANAGEMENT ACCOUNTING | 20150201 |
| 22 | HO DIR: FINANCIAL ACCOUNTING | 5 | SECRETARY | 20090901 |
| 23 | HO DIR: FINANCIAL ACCOUNTING | 13 | DIRECTOR: FINANCIAL ACCOUNTING | 20131101 |
| 24 | HO SUB DIR: FINANCIAL REPORTING & RECONCILIATION | 4 | ACCOUNTING CLERK | 20080201 |
| 25 | HO SUB DIR: ACCOUNTS RECEIVABLE | 5 | ACCOUNTING CLERK | 20150401 |
| 26 | HO SUB DIR: ACCOUNTS RECEIVABLE | 6 | SENIOR ACCOUNTING CLERK | 20030901 |
| 27 | HO SUB DIR: ACCOUNTS RECEIVABLE | 7 | STATE ACCOUNTANT: ACCOUNTS RECEIVABLE | 20140516 |
| 28 | HO SUB DIR: ACCOUNTS RECEIVABLE | 7 | STATE ACCOUNTANT: ACCOUNTS RECEIVABLE | 20150131 |
| 29 | HO SUB DIR: ACCOUNTS PAYABLE | 5 | ACCOUNTING CLERK | 20140331 |
| 30 | HO DIR:INSPECTORATE AND COMPLIANCE | 9 | ASSISTANT DIRECTOR:PAYMENTS:COMPLIANCE | 20140915 |
| 31 | HO DEPUTY DIRECTOR GENERAL: CORPORATE SERVICES | 7 | PERSONAL ASSISTANT | 20090901 |
| 32 | HO CD: LEGAL SERVICES & CONTRACT ADMINISTRATION | 14 | CHIEF DIRECTOR: LEGAL SERVICES | 20121130 |
| 33 | HO DIR: LEGISLATIVE DRAFTING & CONTRACT ADMIN. | 5 | SECRETARY | 20080201 |
| 34 | HO DIR: LEGISLATIVE DRAFTING & CONTRACT ADMIN. | 13 | DIRECTOR:LEGISLATIVE DRAFTING & CONTRACT ADMINISTR | 20130909 |
| 35 | HO LEGISLATIVE DRAFTING & CONTRACT ADMINISTRATION | 8 | SENIOR ADMINISTRATIVE OFFICER:LEGISLATION | 20140401 |
| 36 | HO LEGISLATIVE DRAFTING & CONTRACT ADMINISTRATION | 12 | SENIOR LEGAL ADMINISTRATION OFFICER | 20120301 |
| 37 | HO LEGISLATIVE DRAFTING & CONTRACT ADMINISTRATION | 10 | MR5 LEGAL ADMINISTRATION OFFICER GRADE 5 | 20100601 |
| 38 | HO LEGISLATIVE DRAFTING & CONTRACT ADMINISTRATION | 8 | MR4 LEGAL ADMINISTRATION OFFICER GRADE 4 | 20100601 |
| 39 | HO LEGISLATIVE DRAFTING & CONTRACT ADMINISTRATION | 12 | MR6 LEGAL ADMINISTRATION OFFICER SENIOR | 20100601 |
| 40 | HO DIR: LITIGATION | 5 | SECRETARY | 20030801 |
| 41 | HO SUB DIR: LITIGATION | 10 | ASSISTANT DIRECTOR:LAND REFORM & PROPERTY RIGHTS | 20120801 |
| 42 | HO SUB DIR: LITIGATION | 10 | MR5 LEGAL ADMINISTRATION OFFICER GRADE 5 | 20130601 |
| 43 | HO SUB DIR: LITIGATION | 8 | MR4 LEGAL ADMINISTRATION OFFICER GRADE 4 | 20120301 |
| 44 | HO SUB DIR: LITIGATION | 8 | MR4 LEGAL ADMINISTRATION OFFICER GRADE 4 | 20120521 |
| 45 | HO DIR: HR LABOUR RELATIONS | 5 | SECRETARY | 20100701 |
| 46 | HO DIR INTERNATIONAL RELATIONS: AFRICAN COOPERAT. | 5 | SECRETARY | 20080301 |
| 47 | HO DIR: INT. RELATIONS GLOBAL PARTNERSHIPS | 5 | SECRETARY | 20080301 |
| 48 | HO DIR: INT. RELATIONS GLOBAL PARTNERSHIPS | 12 | DEPUTY DIRECTOR: GLOBAL PARTNERSHIPS | 20120801 |
| 49 | HO CD: INFORMATION SERVICES | 14 | CHIEF DIRECTOR: INFORMATION SERVICES | 20120113 |
| 50 | HO DIR: IT APPLICATIONS MANAGEMENT | 5 | SECRETARY | 20100701 |
| 51 | HO SUB DIR: DATABASE ADMINISTRATION | 12 | DD: DATABASE ADMINISTRATOR | 20120801 |
| 52 | HO SUB DIR: SYSTEM ARCHITECT | 12 | DEPUTY DIRECTOR SYSTEM ARCHITECT | 20120801 |
| 53 | HO DIR: IT SUPPORT | 5 | SECRETARY | 20100701 |
| 54 | HO DIV: CLIENT SUPPORT MANAGEMENT | 4 | HELPDESK ADMINISTRATOR | 20130401 |
| 55 | HO SUB DIV: IT TECHNICIAN | 8 | IT TECHNICIAN | 20140910 |
| 56 | HO DIR:HUMAN RESOURCES PLANNING & RECRUITMENT | 5 | SECRETARY | 20130401 |
| 57 | HO SUB DIR: RECRUITMENT | 10 | ASSISTANT DIRECTOR: RECRUITMENT | 20120801 |
| 58 | HO DIR: HR ADMINISTRATION | 5 | SECRETARY | 20140401 |
| 59 | HO DIV: RECORDS MANAGEMENT | 4 | SECONDARY DRIVER | 20130401 |
| 60 | HO DIR:YOUTH DEVELOPMENT AND CHILDREN'S RIGHTS | 11 | DEPUTY DIRECTOR YOUTH | 20140630 |
| 61 | HO CD: MARKETING & COMMUNICATIONS | 7 | PERSONAL ASSISTANT | 20030901 |
| 62 | HO CD: MARKETING & COMMUNICATIONS | 14 | CHIEF DIRECTOR: COMMUNICATION & MARKETING | 20150305 |
| 63 | HO DIR: INTERNAL COMMUNICATIONS | 5 | SENIOR SECRETARY | 20100401 |
| 64 | HO DIR: INTERNAL COMMUNICATIONS | 13 | DIRECTOR: INTERNAL COMMUNICATIONS & MOBILISATION | 20140901 |
| 65 | HO DIV: INTERNAL COMMUNICATIONS | 5 | RECEPTIONIST | 20130601 |
| 66 | HO DIV: INTERNAL COMMUNICATIONS | 5 | RECEPTIONIST | 20130501 |
| 67 | HO DIV: INTERNAL COMMUNICATIONS | 7 | SENIOR COMMUNICATIONS OFFICER | 20110719 |
| 68 | HO DIR: CLIENT RELATIONS MANAGEMENT | 7 | SENIOR SECRETARY | 20150310 |
| 69 | HO DIR:MEDIA AND STAKEHOLDER MANAGEMENT | 13 | DIRECTOR MEDIA & STAKEHOLDER MANAGEMENT | 20100401 |
| 70 | HO DIV: MINISTERIAL PUBLIC APPEARANCESÄPROGRAMME | 8 | SENIOR COMMUNICATIONS OFFICER | 20140617 |
| 71 | HO: DIR ORGANISATIONAL DEVELOPMENT | 5 | SECRETARY | 20090901 |
| 72 | HO SUB DIR: JOB ANALYSIS & EVALUATION | 12 | DEPUTY DIRECTOR: ORGANISATIONAL DEVELOPMENT | 20140422 |
| 73 | HO SUB DIR: EMPLOYEE HEALTH & WELLNESS | 10 | ASD: EMPLOYEE HEALTH & WELLNESS PROGRAMME | 20120801 |
| 74 | HO DIR: HR DEVELOPMENT | 5 | SECRETARY | 20100701 |
| 75 | HO SUB DIR: TRAINING & DEVELOPMENT | 12 | DEPUTY DIRECTOR: TRAINING & DEVELOPMENT | 20120801 |

The impact of the finding:

Service delivery might be negatively affected if vacancies are not advertised and filled timeously. The department may not be able fulfil its mandate or objective due to staff shortages.

The action does not indicate when the deactivation will be completed and when will the funded posts be filled on the proposed structure.

**Internal control deficiency**

The finding occurred as result of the fact that:

a) The total employee cost budget allocated to the department is not sufficient to fill all vacant posts.

b) Scarce skills and the unavailability of selection committee members are the two top factors impacting on the filling of posts.

c) The restructuring of the department which is in the process of restructuring could have had an impact on the substantial variation in the number of vacancies on PERSAL compared to the information provided by departments.

d) The department is experiencing difficulty attracting retaining managers and professionals (owing to remuneration and working environment, amongst other factors)

.

e) The department’s often restructure and create new posts but do not abolish posts which will no longer be used

Based on the aforementioned the matter is as a result of the following internal control deficiency:

**Leadership**

The department did not implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.

**Recommendation**

a) The department should design and implement specific strategies for the filling of vacant posts and should prioritize areas where service delivery is compromised by high vacancy rates.

b) The department should prioritize the filling of vacancies on key management personnel level as a matter of urgency.

b) The department should ensure that the information regarding their establishment and vacancies on their establishment are captured properly and on time, this will assist in ensuring that PERSAL operates as closely as possible to real-time information than is currently the case

c) The department should ensure that information on PERSAL is verified and corrected as a matter of urgency, this will assist in improving the integrity of the information in its database and it will also enhance the confidence of its stakeholders who access such information on a day to day basis.

**Management response**

I am in agreement with the finding. The Department and PMTE have sustained high vacancy rates and not in the position to fill all vacancies resulting from insufficient allocation under compensation budget and scarcity of critical professional and technical skills. The filling of the positions was limited to positions identified and prioritise for filling. The Department has over and above the filling vacancies (within budget), put measures to reduce the vacancy rate, which include the abolishment of the position that have been vacant for more than 24 months (few exception) and continuing review of the organisational structure. The Director-General has approved the abolishment of the position that has been vacant for more than 24 months from the PERSAL establishment. See attached. The process for the review of the structure is currently at consultation stages with the DPSA. It is anticipated that on approval of the new structure will in the activation of funded posts.

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken | Finalisation of the new structure  Abolishment of unfunded positions vacant for more than twenty four months | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
| N/A |  | |
| If yes, what corrections will be made to the population | N/A | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. | N/A | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. | N/A | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | |  |
|  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. | N/A | | |
| Position of official responsible to take corrective actions | Chief Director:HRM | | |
| Estimated completion date for corrective action | Ongoing | | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
| X |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | N/A | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the internal control deficiencies indicated | **Yes** | **No** |
| X |  |
| If management does not agree with the internal control deficiency indicated, please provide the internal control deficiency according to management. | N/A | |

Name: Ms TB Hlatshwayo

Position: Chief Director: HRM

Date: 03 March 2016

**Auditor’s conclusion**

Management Response is acknowledged, we will follow up during the final audit whether the post which are vacant more than 24 months and not critical post have abolished from the Persal system as per approved submission by the DG on 13 November 2015 and follow up its impact on the post not advertised within six months.

1. **Human Resource Management - Payroll requested was not received**

Laws, rules and regulations

a) Public Finance Management Act sections 40 and 41 states the following:

1. Section 40(1)

*“The accounting officer for a department, trading entity or constitutional institution-*

*(a)must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;”*

1. Section 41

*“An accounting officer for a department, trading entity or constitutional institution must submit to the relevant treasury or the Auditor-General, such information, returns, documents, explanations and motivations as may be prescribed or as the relevant treasury or the Auditor-General may require”*

b) In terms of Treasury Regulation

1. Paragraph 8.3.4

*“For all employees, the person in charge at the respective pay-points must certify on the date of payment that all persons listed on the payroll report are entitled to payment. Employees paid by cheque must sign the payroll report when collecting their cheques.”*

1. Paragraph 8.3.5

*“Within ten days of being certified, the payroll report must be returned to the chief financial officer. The accounting officer must ensure that all pay-point certificates have been received on a monthly basis.”*

The following payroll certificates were not submitted for audit.

| **No** | **Pay Point No** | **Pay Point Description** | **Month** | **Region** |
| --- | --- | --- | --- | --- |
| 1 | 9906 | EPWP | April 2015 | Pretoria |

Impact of the finding:

a) Non-compliance with Section 40 and 41 of the Public Finance Management Act on-compliance with Section 40(3) of the PFMA.

b) The audit process being delayed as the required audit work cannot be performed.

**Internal control deficiency**

Reason for the deviation:

a) There are no adequate controls in place to ensure timeous submission of information requested by auditors.

b) Management have not yet implemented effective record keeping of information in an easily retrievable manner.

c) No consequence management implemented by the region/head office for non-compliance with the required legislation to ensure that the payroll certificates certified by the supervisors.

Based on the aforementioned the matter is as a result of the following internal control deficiency:

**Financial and Performance Management**

The department did not 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

**Recommendation**

It is recommended that all information requested be provided to the AGSA within three days from the date of request as agreed with management.

**Management response**

There is agreement with the audit finding.

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken | The payroll cannot be produced because it has been misplaced. Arrangements are being made to obtain a copy from Head Office for completion. As soon as same is compliant, it will be provided to Finance. Portfolio Managers/ Supervisors are going to collect payrolls in Finance for their staff and distribute them physically as a corrective measure and ensure compliance. | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
|  | X | |
| If yes, what corrections will be made to the population |  | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. |  | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. |  | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | | X |
|  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions | Acting: ASD Cleaning and Gardening | | |
| Estimated completion date for corrective action |  | | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
| X |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the internal control deficiencies indicated | **Yes** | **No** |
| X |  |
| If management does not agree with the internal control deficiency indicated, please provide the internal control deficiency according to management. |  | |

*Name:* Mr S Ngcobo

*Position: Acting ASD: Cleaning and Gardening Section*

*Date: 26/02/2015*

**Auditor’s conclusion**

Payroll certificates which are not certified might results in salaries which are incorrectly been paid to officials not been detected and recovered.

Payroll certificates not submitted for audit results in a limitation on the ability of the auditors to perform the required procedures.

1. **Human Resource Management: Payroll certificates not certificate and returned timeously.**

**Audit Finding**

Laws, rules and regulations

In terms of Treasury Regulation

a) Paragraph 8.3.4

*“For all employees, the person in charge at the respective pay-points must certify on the date of payment that all persons listed on the payroll report are entitled to payment. Employees paid by cheque must sign the payroll report when collecting their cheques.”*

b) Paragraph 8.3.5

*“Within ten days of being certified, the payroll report must be returned to the chief financial officer. The accounting officer must ensure that all pay-point certificates have been received on a monthly basis.”*

The following deviations were noted:

(a) The following payroll certificates were certified by the person in charge of the pay point after payment date.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **No** | **Pay point** | **Description** | **Period** | **Date payroll certificate signed** | **Region** |
| 1 | 9911 | EPWP | 15 May 2015 | 17 June 2015 | Durban |
| 2 | 9909 | EPWP | 15 April 2015 | 05 May 2015 | Mmabatho |
| 3 | 1310 | D: Property Policy Development | 15 March 2016 | 14 April 2016 | Head Office |
| 4 | 1343 | CD: Monitoring & Evaluation | 31 March 2016 | 11 April 2016 | Head Office |
| 5 | 9913 | EPWP | 15 March 2016 | 18 March 2016 | Mthatha |
| 6 | 9915 | EPWP | 15 March 2016 | 11 April 2016 | Bloemfontein |
| 7 | 9910 | EPWP | 15 March 2016 | 01 April 2016 | Cape Town |
| 8 | 9908 | EPWP | 15 March 2016 | 26 May 2016 | Polokwane |
| 9 | 9907 | EPWP | 15 August 2015 | 02 February 2016 | Nelspruit |
| 10 | 9914 | EPWP | 15 June 2015 | 24 June 2015 | Kimberley |
| 11 | 9905 | EPWP | 15 March 2016 | 23 March 2016 | Johannesburg |

(b) There was no evidence that the following payroll certificates were returned to the finance section within ten days of being certified.

| **No** | **Pay point** | **Description** | **Period** | **Region** |
| --- | --- | --- | --- | --- |
| 1 | 9909 | EPWP | 15 April 2015 | Mmabatho |
| 2 | 9913 | EPWP | 15 March 2016 | Mthatha |
| 3 | 9905 | EPWP | 15 March 2016 | Johannesburg |
| 4 | 9905 | EPWP | 31 March 2016 | Johannesburg |

The aforementioned findings may result in:

a) Non-compliance with section 8.3.4 and 8.3.5 of the Treasury Regulation

b) Should incorrect payments be present on the payroll reports, they will not be timeously detected and corrected, might lead to possible fictitious payments or losses to the state.

The prior year action plan stated that the different units will reconcile payroll register to the actual payrolls and that non non-compliance report will be submitted to Branch Heads at Head Office and Regional Managers in Regions

**Internal control deficiency**

Reason for the deviation:

(a) The person in charge at the paypoints received the payroll certificates after payment date.

(b) The department does not have proper systems/ payroll register with regards to monitoring movements of payroll certificates which resulted in some of the payroll certificates not been signed and returned timeously.

Based on the aforementioned the matter is as a result of the following internal control deficiency:

**Financial and Performance Management**

The department did not implement controls over daily and monthly processing and reconciling of transactions.

**Recommendation**

a) The regional must investigate the possibility of printing the payrolls from another provincial department in their province.

b) The department must implement the register for movement and monitoring of payrolls from human resource unit to the different unit in the department.

**Management response**

I am in agreement with the finding the Payroll Certificates was received late from the units. The recommendation is however not correct since the four pay points mentioned is Head Office and not the Regional Office.

A new process was recently introduced to assist with ensuring compliance by Units. Immediately after closure the salary run there is a reminder set for collection of Payroll Certificates from Buro Beta by HR Payroll. The moment the pay slips are available it is posted to the Regions and forwarded to Head Office Units. An email by Communication is sent for collection. Reminders to Units to submit within 10 days after pay date. Units that do not comply will be reported to CD: HRM on a quarterly basis.

HR Payroll is investigating other options as well for example printing in Provinces. There are however other factors that must be considered that impacts on the process such as the new structure.

| **Description** | **Response** | | |
| --- | --- | --- | --- |
| Corrective action to be taken | Units to be informed of non-compliance | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
|  | X | |
| If yes, what corrections will be made to the population |  | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. |  | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. |  | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | |  |
|  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions |  | | |
| Estimated completion date for corrective action |  | | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  | X |
| If management does not agree with the root cause indicated, please provide the root cause according to management. | Noncompliance by certain Units to submit within the timelines as indicated by Treasury | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the internal control deficiencies indicated | **Yes** | **No** |
|  | X |
| If management does not agree with the internal control deficiency indicated, please provide the internal control deficiency according to management. | Registers and follow-ups are being done on a monthly basis  Compliance by individual Units is a problem and action against those should be taken | |

*Name:* Ms R Mostert

*Position: D: HRA*

*Date: 15/07/2016*

**Auditor’s conclusion**

1. **Movable Assets: Ministerial vehicles not in use**

Laws, rules and regulations

a) Public Finance Management Act sections 38 (1) (d) states the following:

*“The accounting officer for a department, trading entity or constitutional institution is responsible for the management, including the safe-guarding and the maintenance of the assets and for the management of the liabilities, of the department, trading entity or constitutional institution”*

b) Treasury Regulation sections 10.1.1 and 10.1.2 states the following:

1. section 10.1.1

*“The accounting officer of an institution must take full responsibility and ensure that proper control systems exist for assets and that*

*(a)     Preventative mechanisms are in place to eliminate theft, losses, wastage and misuse and*

*(b)     Stock levels are at an optimum and economical level.”*

ii) Section 10.1.2

*“The accounting officer must ensure that processes (whether manual or electronic) and procedures are in place for the effective, efficient, economical and transparent use of the institution’s assets.”*

c) Movable assets policy section 56 states that:

*“When movable assets become surplus, redundant, obsolete, un-serviceable or irreparable the Department shall dispose of such assets.”*

During the inspection of the department premises it was noted the under-mentioned ministerial vehicle parked at CGO building on the 07 July 2016 has not been used by the Department for more than three years and we were informed by the department three years ago that the department is in process of disposing the vehicle.

|  |  |  |  |
| --- | --- | --- | --- |
| **No.** | **Description** | **Serial number** | **Cost Price per Asset Register (R)** |
| 1. | MOTOR VEHICLE BMW X5 | ZLL897GP | 643 399,88 |

Impact of the finding:

a)      Non-compliance with Movable Asset Management Policy pertaining to the disposal of assets

b)      The department may suffer losses due to the decrease in book value of the vehicles as the vehicles are not being timeously of.

**Internal control deficiency**

The finding occurred as a result of the fact that:

The department was waiting for approval from National Treasury to auction the vehicle internally to the staff members.

Based on the aforementioned the matter is as a result of the following internal control deficiency:

**Financial and performance management**

The department did not review and monitor compliance with applicable laws and regulations

**Recommendation**

a) Management should identify assets not used by the department during asset verification and update the asset register as such.

b)         Management must put processes in place to ensure that assets are timeously disposed of.

c)         Assets no longer in used should be disposed of according to the relevant laws, rules and regulations.

**Management response**

Management agrees with the finding:

* The Department did approach Treasury for direction.
* The Director General approved the internal auction/sale (See Annexure A).
* The disposal committee met, and the processes are underway to finalise the disposal thereof (See Annexure B and C)

| **Description** | **Response** | | |
| --- | --- | --- | --- |
| Corrective action to be taken |  | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
|  | X | |
| If yes, what corrections will be made to the population |  | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. |  | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. |  | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | | X |
|  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions |  | | |
| Estimated completion date for corrective action |  | | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the internal control deficiencies indicated | **Yes** | **No** |
|  | X |
| If management does not agree with the internal control deficiency indicated, please provide the internal control deficiency according to management. |  | |

Name: T Mamabolo

Position: Deputy Director: Movable Section

Date: 12 July 2016

**Auditor’s conclusion**

Management agrees with the finding and therefore the finding remains unresolved. The matter will be followed in the next financial year whether the assets has been sold.

1. **Movable Assets – Asset register did not agree the amount disclosed in the disclosure note for movable assets.**

**Audit finding**

Laws, rules and regulations

1. Public Finance Management Act section 40 states the following:

Section 40(1)

*“The accounting officer for a department, trading entity or constitutional institution-*

1. *must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;*
2. *must prepare financial statements for each financial year in accordance with generally recognized accounting practice;”*

Section 40(3)(a) states:

*“The annual report and audited financial statements referred to in subsection (1)(d) must fairly present the state of affairs of the department, trading entity or constitutional institution, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned;”*

The following differences were identified when reconciling the total of net book value as per the supporting schedule (asset register) to the annual financial statements per category of assets for the period ending 31 March 2016.

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Supporting schedule** | **Financial Statements** | **Difference** |
| Total Movable Assets | 398 344 000 | 398 709 000 | 365 000 |
|  |  |  |  |

The impact of the finding

a) Non-compliance with Section 40 of the PFMA.

b) Property, Plant and Equipment might be misstated.

**Internal control deficiency**

The finding occurred as a result of the following

Annual financial statements are not properly reviewed to ensure that asset supporting schedule agrees to the amount disclosed in the annual financial statement.

Based on the aforementioned the matter is as a result of the following internal control deficiencies:

**Financial and Performance Management**

The department did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

**Recommendation**

The department should ensure that the annual financial statements are properly reviewed to ensure that amounts disclosed under Property, plant and equipment note are accurate and agrees to the supporting schedule

**Management response**

Management is in agreement with the finding and the cause of the difference between the financial statement and the supporting is due to the manual adjustment of R 365 000 that was done twice on the supporting schedule. The manual adjustments have been corrected. See the attached supporting documents.

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Response** | | |
| Corrective action to be taken |  | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
|  |  | |
| If yes, what corrections will be made to the population |  | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. |  | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. |  | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
| X | |  |
|  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions |  | | |
| Estimated completion date for corrective action |  | | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the internal control deficiencies indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the internal control deficiency indicated, please provide the internal control deficiency according to management. |  | |

*Name:*

*Position:*

*Date:*

**Auditor’s conclusion**

The management has been provided the schedule and the finding has been resolved, however it will remain in the management as control weaknesses identified.

1. **Departmental Revenue – Departmental revenue is overstated**

Laws, rules and regulations

a) In terms of the Public Finance Management Act, Section 40(1).

*“The accounting officer for a department, trading entity or constitutional institution-*

1. *must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;*
2. *must prepare financial statements for each financial year in accordance with generally recognized accounting practice;”*

b) In terms of Treasury Regulation Part 4 – Revenue and Expenditure Management paragraph 7.2 Responsibility for revenue management which states that:

*“7.2.1 The accounting officer of an institution must manage revenue efficiently and effectively by developing and implementing appropriate processes that provide for the identification, collection, recording, reconciliation and safeguard of information about revenue.”*

The following deviation was noted

The department collects insurance premiums from employee and pays these over to the insurer on their behalf, however it was noted that the amount of R 970 193.81 disclosed as service rendered: commission insurance included the pay out of the PMTE employees.

Impact of the finding:

a) Non-compliance with Public Finance Management Act, Section 40(1)(a) and (b).

b) Non-compliance with Treasury Regulation Part 4 – Revenue and Expenditure Management paragraph 7.2

c) Overstatement of the departmental revenue.

**Internal control deficiency**

Reason for the deviation:

The financial statements were not appropriately reviewed against the supporting documentation prior to the submission for auditing.

Based on the aforementioned the matter is as a result of the following internal control deficiency:

**Financial and Performance Management**

The department did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

**Recommendation**

The financial statements should be appropriately reviewed against the supporting documentation prior to the submission for auditing.

**Management response**

I am in agreement with the finding for the following reasons: The insurance premiums collected by the department from officials might include PMTE employees; currently there is no report on systems (both Persal and Bas) that can assist to determine the split between DPW and PMTE. The department will engage National Treasury to assist in order to resolve this issue going forward.

The financials will not be adjusted as this matter will be reported as part of Overs and Unders schedule.

| **Description** | **Response** | | |
| --- | --- | --- | --- |
| Corrective action to be taken |  | | |
| Does the finding affect an amount disclosed in the financial statements | **Yes** | **No** | |
|  | **x** | |
| If yes, what corrections will be made to the population |  | | |
| If yes, the process followed to correct the population, including the internal controls put in place to ensure that the misstatement does not recur in future. |  | | |
| If yes and the population was adjusted, the proposed adjusting journal entries to correct the population, with the supporting documentation. |  | | |
| Acknowledgement that additional audit costs will be incurred in order to audit the proposed adjustments and that the financial statements will not be adjusted if material misstatements still exist. (Under these circumstances the misstatements identified originally will be reported by the auditor.) | **Yes** | | **No** |
|  | | x |
|  | | |
| If yes and no corrections will be made, the reason why such a conclusion has been reached should be indicated. |  | | |
| Position of official responsible to take corrective actions |  | | |
| Estimated completion date for corrective action |  | | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the root cause indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the root cause indicated, please provide the root cause according to management. |  | |

|  |  |  |
| --- | --- | --- |
| **Description** | **Response** | |
| Does management agree with the internal control deficiencies indicated | **Yes** | **No** |
|  |  |
| If management does not agree with the internal control deficiency indicated, please provide the internal control deficiency according to management. |  | |

*Name:*

*Position:*

*Date:*

**Auditor’s conclusion**

Management agrees with the finding and the finding has been included in the overs and under.

**ANNEXURE C: INFORMATION SYSTEMS AUDIT FINDINGS**

**General Control Review**

1. **INFORMATION TECHNOLOGY GOVERNANCE**

Audit finding

IT governance is the responsibility of executive management. It is an integral part of organisational governance and consists of leadership, organisational structures and processes that ensure that the organisation’s IT resources would sustain its strategies and objectives. IT governance allows the organisation to manage IT risks and derive value from IT investments and it supports the achievement of business objectives that are dependent on IT systems.

Key audit finding identified:

The following key IT functions were being performed by consultants/contractors:

* Chief Information Officer
* System developer
* Business analyst
* System tester
* Business intelligence
* System administrators for the PMIS, WCS and Paper Trail applications

In addition the contractors/consultants played an integral part in the IT projects which were in progress and knowledge sharing with permanent staff was highlighted as a concern. The department was dependent on the contractors/consultants for the successful completion of IT projects and for performing key operations.

In the event that the contractors/consultants leave the organisation, the IT department might not be able to adequately provide IT support in order to meet the department’s needs. Furthermore the high cost of maintaining contractors/ consultants may not be sustainable in the long run.

**Internal control deficiency**

**Financial and Performance Management:** Implement formal controls over IT systems

The lack of an effective training plan to ensure that internal stuff is capacitated to perform their job functions.

**Recommendation**

Management should put measures in place to ensure that IT staff is competent to perform their job functions. There should be knowledge sharing between consultants/contractors and permanent staff to ensure that there is continuity in the event that contractors/consultants leave the department. Key positions such as the CIO position should be filled with a permanent staff member.

**Management comments**

* All vacant positions (including CIO position) have been submitted to HR for advertising and will be filled as soon as possible. Some posts will be filled through long term contracts.
* Consultants are continuously paired with permanent staff; however this is not always possible for skills transfer. The filling of the vacant posts will improve on the pairing of consultants with permanent staff to insure continuity.
* Tasks such as system testing and business analysis are largely temporary in nature. It thus might not always be economical to have permanent resources and therefore the use of consultants will be more practical in such cases.
* Some of the consulting work cannot be done by permanent staff as some of these systems are proprietary and the proprietor only allows certified companies to do any development work on such systems as Paper trail, WCS and PMIS.

Name and surname: Sulieman Patel

Position of responsible official: Acting CIO

Target date for implementation: May 2016

**Auditor’s conclusion**

Management comments are noted; however, an assessment of the corrective actions agreed upon by management will be performed during the next financial audit.

1. **IT SERVICE CONTINUITY**

Audit finding

IT service continuity is the process of managing the availability of hardware, system software, application software and data to enable an organisation to recover/re-establish information systems services in the event of a disaster. The process includes disaster recovery plans and backups.

Key audit findings identified:

An ICT Disaster recovery plan (DRP) had been documented however the plan had not been approved. In addition, the draft DRP had not been tested to ensure that the department would be able to recover in the event of a disruption.

Without an approved and adequately tested DRP the department may be unable to recover critical business functions within an acceptable timeframe in the event of a disruption. This may result in lengthy disruptions which could affect the department’s delivery on its core mandate which includes effectively managing the state’s fixed property.

Internal control deficiency

Financial and Performance Management: Implement formal controls over IT systems

The department was undergoing an infrastructure refresh project and updates to the DRP had not been finalised due to the changes being effected within the new environment.

**Recommendation**

Management should ensure that the BCP and DRP are finalised and approved. Once the plan has been approved DRP testing should be performed at least annually to ensure that the department is able to effectively execute the plan in the event of a disruption. Exceptions noted during DRP testing should be reported and followed up on to ensure that they are adequately addressed.

**Management comments**

The department is in the process of updating the draft DRP and once this has been finalised it will be submitted for approval.

Name and surname: Masutu Ramatlotlo

Position of responsible official: Director IT Project Office

Target date for implementation: July 2016

**Auditor’s conclusion**

Management comments are noted; however, an assessment of the corrective actions agreed upon by management will be performed during the next financial audit.