FINAL MANAGEMENT REPORT

DEPARTMENT OF PUBLIC WORKS AND INFRASTRUCTURE

**31 MARCH 2020**

**Communicated to the accounting officer on: 15 September 2020**

MANAGEMENT REPORT

**DEPARTMENT OF PUBLIC WORKS AND INFRASTRUCTURE**

**31 March 2020**

**Discussed with the accounting officer on: 18 September 2020**

CONTENT

[MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE DEPARTMENT OF PUBLIC WORKS AND INFRASTRUCTURE FOR THE YEAR ENDED 31 MARCH 2020 4](#_Toc51154064)

[INTRODUCTION 4](#_Toc51154065)

[The figure that follows provides a pictorial summary of the audit results and our key messages on how to improve the audit outcomes with the focus on the following: 5](#_Toc51154066)

[OVERALL MESSAGE 7](#_Toc51154067)

[SECTION 1: Interactions with stakeholders responsible for oversight and governance 8](#_Toc51154068)

[SECTION 2: Matters relating to the auditor’s report 11](#_Toc51154069)

[AUDIT OF THE FINANCIAL STATEMENTS 11](#_Toc51154070)

[MATTERS TO BE BROUGHT TO THE ATTENTION OF USERS 13](#_Toc51154071)

[AUDIT OF THE ANNUAL PERFORMANCE REPORT 13](#_Toc51154072)

[AUDIT OF COMPLIANCE WITH LEGISLATION 15](#_Toc51154073)

[OTHER INFORMATION 15](#_Toc51154074)

[INTERNAL CONTROLS 16](#_Toc51154075)

[MATERIAL IRREGULARITIES 22](#_Toc51154076)

[OTHER REPORTS 22](#_Toc51154077)

[SECTION 3: Assurance providers and status of implementation of commitments and recommendations 22](#_Toc51154078)

[ASSESSMENT OF ASSURANCE PROVIDERS 22](#_Toc51154079)

[STATUS OF IMPLEMENTING COMMITMENTS AND RECOMMENDATIONS 24](#_Toc51154080)

[SECTION 4: Specific focus areas 28](#_Toc51154081)

[FINANCIAL VIABILITY 28](#_Toc51154082)

[PROCUREMENT AND CONTRACT MANAGEMENT 30](#_Toc51154083)

[FRAUD AND CONSEQUENCE MANAGEMENT 32](#_Toc51154084)

[SECTION 5. Using the work of internal audit 34](#_Toc51154085)

[SECTION 6: Emerging risks 34](#_Toc51154086)

[SECTION 7: Entities controlled by the department 35](#_Toc51154087)

[SECTION 8: Ratings of detailed audit findings 36](#_Toc51154088)

[SECTION 9: Conclusion 37](#_Toc51154089)

[SECTION 10: Summary of detailed audit findings 38](#_Toc51154090)

[DETAILED AUDIT FINDINGS: ANNEXURES A TO C 43](#_Toc51154091)

[ANNEXURE A: MATTERS AFFECTING THE AUDITOR’S REPORT 43](#_Toc51154092)

[ANNEXURE B: OTHER IMPORTANT MATTERS 94](#_Toc51154093)

[ANNEXURE D: PERFORMANCE MANAGEMENT AND REPORTING FRAMEWORK 163](#_Toc51154094)

[ANNEXURE E: AUDITOR GENERAL’S RESPONSIBILITY FOR THE AUDIT OF THE REPORTED PERFORMANCE INFORMATION 169](#_Toc51154095)

[QUALITY CONTROL RELATING TO ASSURANCE ENGAGEMENTS 169](#_Toc51154096)

[REPORTED PERFORMANCE INFORMATION 169](#_Toc51154097)

[COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE 169](#_Toc51154098)

[ANNEXURE F: ASSESSMENT OF INTERNAL CONTROLS 171](#_Toc51154099)

## MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE DEPARTMENT OF PUBLIC WORKS AND INFRASTRUCTURE FOR THE YEAR ENDED 31 MARCH 2020

## INTRODUCTION

1. The purpose of the management report is to communicate audit findings and other key audit observations to the accounting officer and to provide a summary of the material irregularities and suspected material irregularities of which the accounting officer was notified. The report does not constitute public information.

The management report includes audit findings arising from the audit of the financial statements, performance information and compliance with legislation for the year ended 31 March 2020. These findings were communicated to management and this report details management’s response to these findings. The report includes information on the internal control deficiencies that we identified as the root causes of the matters reported. Addressing these deficiencies will help to improve the audit outcome.

1. In accordance with the terms of engagement, our responsibility in this regard is to:

* express an opinion on the financial statements
* express an opinion in the management report on the usefulness and reliability of the reported performance information for selected programmes, and report the material findings in the auditor’s report
* report on material findings relating to compliance with specific requirements in key applicable legislation, as set out in the general notice issued in terms of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA)
* notify the accounting officer of any material irregularity or suspected material irregularities identified during the audit, and report on it in the auditor’s report.

1. Our engagement letter sets out our responsibilities and those of the accounting officer in detail.
2. This management report consists of the overall message arising from the audit, summary of key findings and observations, annexures containing the detailed audit findings, annexures to the report on the audit of performance information as well as the annexure to internal control deficiencies reported.
3. The auditor’s report is finalised only after the management report has been communicated. All matters included in this report that relate to the auditor’s report remain in draft form until the final auditor’s report is signed. In adherence to section 50 of the PAA, we do not disclose any information obtained during the audit and contained in this management report.

### The figure that follows provides a pictorial summary of the audit results and our key messages on how to improve the audit outcomes with the focus on the following:

* Status of the audit outcomes
* Status of the level of assurance provided by key role players
* Status of the drivers of internal controls
* Status of risk areas
* Root causes to be addressed

1. Movement from the previous year is depicted as follows:



Improved

Unchanged / slight improvement / slight regression

Regressed

****

## OVERALL MESSAGE

-

1. The department’s audit outcomes remain stagnant as unqualified opinion with material findings on compliance and performance information. We commend the department for the credible and quality of financial statements that were submitted for the audit. In addition, measures put in place to monitor payment period of invoices have yield the desired impact on payment made by the department in less than 30 days. This is an improvement that has seen the department clearing this as a non-compliance finding when compared to the prior year.
2. In contrast, although senior management implemented measures to monitor the payment period, such measures were not extended timeously to enable the department to monitor payments made against the contract terms. As a result, material non-compliances that were identified within the Prestige programme in the prior year were still not addressed in the current year evident by payments made relating to state funerals and state events not in line with the pricing as per existing contracts. This is an indication that management’s action plans have been slow in responding and addressing the root causes that led to such non-compliances. Consequently, these non-compliances resulted in irregular expenditure incurred and material irregularities identified, regarding which the acting accounting officer was notified. Furthermore, the department was also impacted by irregular expenditure that was incurred related to irregular appointment of senior officials of the department. The above irregularities negatively affected the effectiveness of leadership culture as both investigation reports for state funerals and the public service commission cited that senior management of the department were implicated on the irregularities noted which resulted in material irregularities in certain instances.
3. During the audit of performance information, material findings similar to the prior years were identified on Programme 3: Expanded Public Works Programme (EPWP), where reported achievements were not complete, and in other instances reported achievements were not supported by adequate source information. For the projects implemented by the department, a number of limitations and findings related to under reporting of number of work opportunities created which were raised during the interim audit were resolved with information being submitted and to a certain extent under reporting was also addressed when follow up was performed during final audit as management effectively used the additional time granted by National Treasury to address interim findings in preparing the annual performance report.; however, this was only possible due to over-reliance on the audit process to identify findings instead of management actions or measures such as verification processes and review being enhanced to prevent repeat findings. As a result, similar findings were still identified during the final audit that could not be resolved, which is a clear indication of slow responses in implementation of action plans that will address these recurring findings from senior management.

1. Concerns remain at the public bodies responsible for implementation, where findings recurred from prior period, and were not resolved in certain instances even after being identified by interim audit work. These public bodies are currently not required to report on achievements relating to EPWP as this indicator is not a customised indicator in terms of MTSF, and thus do not allocate sufficient resources to ensure complete and valid reporting, and this is where the majority of negative findings were identified. Insufficient progress was made in the department’s engagements with National Treasury to enhance the conditions of EPWP DoRA grants. In addition, the engagements with the Department of Performance Monitoring and Evaluation did not progress fast enough in order to make the “number of work opportunities created” indicator customised for all public bodies for the current financial period. This will enhance accountability at public bodies with respect to managing the programme, which in turn may assist the department in ensuring that work opportunities reported is adequately reported, and supported by reliable audit evidence.
2. As noted above, the assurance provided by the key role players at the department is limited, as a number of senior management personnel were found to have been responsible for irregularities identified and the losses suffered by the department while some of the senior personnel were irregularly appointed and might not qualify to be in the positions they are currently placed. As a result, the overall assessment of internal controls is negatively affected by these factors which demonstrate that effective leadership is not being provided based on a culture of honesty, ethical business practices and good governance, as the best interests of the department were not protected and enhanced in certain instances. Moreover, there is an opportunity for senior management to enhance their monitoring and oversight responsibility through enhanced regular and timeous reporting and verification of number of work opportunities related EPWP in order for the department to see desired impact from performance information.
3. Senior management made progress in addressing prior year audit findings on areas relating to information technology (IT) governance. However, the following areas are of concerns and require attention; i.e., user access management, security management and IT service continuity still require improvement. As previously reported, we still noticed some vacancies around key ICT positions such as the CIO, project manager ICT and deputy project manager ICT which some of these positions were also reported as vacant in the prior year. This resulted in capacity constraints, which was evident in slow progress to address prior year’s findings.

The lack of implementing basic IT security and user access controls could further lead to unauthorised users gaining access to systems, resulting in data being compromised, denial of service attacks or data integrity issues and consequently overall disruption to business processes.

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

1. During the audit cycle, we met with the following key stakeholders responsible for oversight and governance to communicate matters relating to the audit outcome and matters identified during our status of records review of the department:

| Key stakeholder | Purpose of interaction | Number of interactions |
| --- | --- | --- |
| Portfolio committee on Public Works | * Budgetary review and recommendations report – 2018/19 Audit Outcomes and key messages * Presentation of annual report by the Department * Oversight visit to Beitbridge | 3 |
| Standing committee on public accounts | * Annual report hearings * Oversight visit to Beitbridge | 2 |
| Minister of Public Works | * Presentation on amendments to Public Audit Act * Presentation on audit outcomes and key messages * Letter was sent to the Minister notifying her of critical matters identified during 2018-19 audit which should be addressed to improved outcomes within Public Works Portfolio * Discussion on scope of COVID-19 special audit to be undertaken * Audit progress on COVID-19 special audit | 5 |
| Director-general | * Presentation on amendments to Public Audit Act * Detail discussion on quarterly Status of Records review and presentation of engagement letter and audit Strategy * Audit progress of the Public works portfolio * Messages relating to COVID-19 special audits * Discussion on material irregularities identified * Follow up on completed investigations | 6 |
| Audit committee | * Presentation on amendments to Public Audit Act * Presentation of quarterly Status of Records Review * Presenting the engagement letter and audit strategy * Approval of the Department’s Annual Financial Statements * Presentation of interim management report * Closed session between audit team and audit committee | 6 |

1. At these interactions, we shared the following key matters affecting audit outcomes and the auditee:

* The status of key controls of the Department of Public Works and Infrastructure (DPWI) and its entities (PMTE, IDT, CBE, CIDB, ASA and ECSA) were discussed with the Portfolio Committee.
* Terms of the engagement for the current year 2019/20 audit cycle with specific emphasis on the amendments to the Public Audit Act, and its impact on the audit of DPWI
* 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. Included in this discussion was the impact on COVID-19 on the audit scope for 2019/20 audit cycle.
* Material irregularities were discussed with the director-general as and when they were identified.
* Audit progress and findings were discussed on a continuous basis. The key issues discussed for DPWI related to EPWP.
* Interim management report was presented

1. Some stakeholders made commitments to implement initiatives that can maintain/improve the audit outcome. The commitments given and the progress of previous commitments are included in section 3.2, which deals with the assessment of assurance providers.

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

### AUDIT OF THE FINANCIAL STATEMENTS

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.

| Material misstatement | | | Impact  R  current year | Impact  R  prior year |
| --- | --- | --- | --- | --- |
| Financial statement item | Finding | Occurred in prior year |
| Material misstatements not corrected | | | | |
| None identified |  |  |  |  |
| Material misstatements corrected | | | | |
| **Disclosure** |  |  |  |  |
| Irregular Expenditure | During the audit of irregular expenditure (disclosure note 25), it was noted that the following irregular expenditure transactions were not adequately disclosed for the current financial year:   * expenditure incurred on the irregular appointments of officials as confirmed by investigation performed by the Public Service Commission (COFF 17) * irregular expenditure relating to state funerals identified during the audit, and confirmed by internal investigation (COFF 7, 9 and 15) * irregular expenditure relating to state events identified during the audit, and confirmed by internal investigation (COFF 9) * irregular identified from SCM testing performed (CPT COFF 1)   Management is still in the process of quantifying the amount disclosed as there is an ongoing investigation, the amount included is subject to change | Yes | 75 012 204 | Not quantified |
|  |  |  |  |  |

### MATTERS TO BE BROUGHT TO THE ATTENTION OF USERS

#### Other matter paragraphs

1. The following other matter paragraphs will be included in our auditor’s report to draw the users’ attention to matters regarding the audit, the auditor’s responsibilities and the auditor’s report:

###### Unaudited supplementary schedules

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.

### AUDIT OF THE ANNUAL PERFORMANCE REPORT

1. In terms of the general notice issued in terms of the PAA, the opinion on the audit of reported information will be included in the management report. The report is included below to enable management and those charged with governance to see what the report will look like once it is published in the auditor’s report. We will report all the audit findings included under the basis for opinion and the other matter sections of this report in the auditor’s report.

#### Introduction and scope

1. We have undertaken a reasonable assurance engagement on the reported performance information for the following selected programmes presented in the annual performance report of the department for the year ended 31 March 2020:

|  |  |  |  |
| --- | --- | --- | --- |
| Programmes | Pages in annual performance report | Opinion | Movement |
| Programme 3: Expanded Public Works Programme | x – x | Qualified |  |

1. We conducted our reasonable assurance engagement in accordance with the International Standard on Assurance Engagements, ISAE 3000: *Assurance engagements other than audits or reviews of historical financial information.*
2. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Programme 3 – Expanded Public Works Programme

##### Qualified opinion

1. In our opinion, except for the effects of the matters described in the basis for qualified opinion section of my report, the reported performance information for Programme 3 – Expanded Public Works Programme is useful and reliable, in accordance with the applicable criteria as developed from the performance management and reporting framework as set out in annexure D to this report.

##### Basis for Qualified opinion

##### Various indicators

1. The achievements below were reported in the annual performance report for the listed indicators. However, some supporting evidence provided materially differed from the reported achieved, while in other instances I was unable to obtain sufficient appropriate audit evidence. This was due to the lack of accurate and complete records. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to these reported achievements.

| **Indicator description** | **Reported achievement** |
| --- | --- |
| Number of work opportunities reported in the EPWP-RS by public bodies | 994 699 work opportunities reported in the EPWP-RS by public bodies (cumulative) |
| Percentage EPWP participation amongst designated groups (women, youth and persons with disability) reported on the EPWP-RS by public bodies | 41.94% Youth  68.33% Women  0.96% persons with disabilities |

#### Other matter

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

##### Achievement of planned targets

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

#### Responsibilities of the accounting officer for the reported performance information

1. The accounting officer is responsible for the preparation of the annual performance report in accordance with the prescribed performance management and reporting framework, as set out in annexure D to this report and for such internal control as the accounting officerdetermines is necessary to enable the preparation of performance information that is free from material misstatement in terms of its usefulness and reliability.

#### Auditor-general’s responsibilities for the reasonable assurance engagement on the reported performance information

1. Our objectives are to obtain reasonable assurance about whether the reported performance information for the selected programmes presented in the annual performance report is free from material misstatement and to issue a management report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that the assurance engagement conducted in accordance with the relevant assurance standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if they could reasonably be expected to influence the relevant decisions of users taken on the basis of the reported performance information.
2. Our procedures address the usefulness and reliability of the reported performance information, which must be based on the approved performance planning documents of the department. We have not evaluated the appropriateness of the performance indicators established and included in the planning documents. Our procedures do not examine whether the actions taken by the department enabled service delivery. Our procedures also do not extend to any disclosures or assertions relating to planned performance strategies and information relating to future periods that may be included as part of the reported performance. Accordingly, our opinion does not extend to these matters.
3. A further description of our responsibilities for the reasonable assurance engagement on reported performance information is included in annexure E to this report.

### AUDIT OF COMPLIANCE WITH LEGISLATION

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

#### Expenditure management

1. Effective and appropriate steps were not taken to prevent irregular expenditure, as required by section 38(1)(c)(ii) of the PFMA and treasury regulation 9.1.1. The value, as disclosed in note xx to the financial statements, is not complete as management was still in the process of quantifying the full extent of the irregular expenditure. The majority of the irregular expenditure disclosed in the financial statements was caused by expenditure on state funerals where payments were made in excess of amounts required on the contract.
2. Effective internal controls were not in place for approval and processing of payments in certain instances, as required by treasury regulation 8.1.1.

### OTHER INFORMATION

1. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor’s report and those selected programmes presented in the annual performance report that have been specifically reported on in the auditor’s report.
2. Our opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.
3. In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected programmes presented in the annual performance report, or our knowledge obtained during the audit or otherwise appears to be materially misstated.
4. The following paragraphs will be included in the auditor’s report to highlight to the users whether any inconsistencies in the other information exist:
5. I did not receive the other information prior to the date of this auditor’s report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor’s report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary

### INTERNAL CONTROLS

1. The significant deficiencies in internal control which led to our overall assessment of the status of the drivers of key controls, as included in the figure in paragraph x, are described below. The detailed assessment of the implementation of the drivers of internal control in the areas of financial statements, performance reporting and compliance with legislation is included in annexure F.

#### Leadership

##### Effective leadership culture

1. We commend the leadership of the department for the demonstrated commitment to preventative controls around material irregularities which is evident by the numerous sessions that the members of the executive committee had on PAA amendments to bring about awareness of the implications of PAA. This was further demonstrated by the leadership’s effort where investigation to state funerals was initiated by the department soon after we identified and communicated material non compliances in the prior year relating to state funerals. We however note with concern that the very leadership was implicated in the investigation report on state funerals where the leadership members allegedly contributed to the non-compliance that resulted in the department incurring financial losses which we identified as material irregularities in terms of the PAA. In addition, the Public Service Commission investigation report which was completed in the current year also cited senior management which were irregularly appointed which further resulted in irregular expenditure incurred by the department. This lack of effective leadership culture sets an undesirable tone of non-compliance which may permeate throughout the department and its trading entity trading entity.
2. We have noted from our review of the work of internal audit as well as the review of progress in implementation of action plans that management has, in some instances, been slow to respond to the findings of internal audit (which also incorporates follow ups on finding raised by external audit), or not committed to timeous submission of the information as requested by internal audit. Consequently, the reports of internal audit in most instances cite findings relating to limitation of scope where information requested by internal audit is not always provided by management to enable the internal audit function to provide full assurance that will strengthen the operating effectiveness of internal controls of the department. The internal audit unit will not be having the desired impact on control until management prioritises their findings, and embraces the value of preventative controls.

##### Oversight responsibility

1. The governance, risk and compliance (GRC) unit plays a key role in oversight for the department, as their functions include risk management as well investigations. The unit completed a number of investigations over the past two years, however, we note with a concern that these reports are not always completed timeously and that the recommendations from these reports are not always implemented timeous; thus the resultant consequence management required is always delayed.
2. Compliance matters, particularly with regards to supply chain management, have received attention from the department in the past three years, this is evident by the fact that no material non-compliance were identified related to supply chain management in the current and prior year. There were however still serious concerns noted with that measures and methods applied in monitoring state funerals and state events contracts were insufficient to ensure effective contract management, as instances of non-compliance were noted in the current and prior year which resulted in material amounts of irregular expenditure being incurred.

##### Human resource management

1. The overall vacancy rate at year-end increased from 7% in the previous year to 10.80% in the current year while the senior management vacancy rate at year-end increased from 22% in the prior year to 23.7% in the current year.
2. The main concern continues to be the key positions that remain vacant, which include among others, the heads of key programmes such as DDG: Supply Chain Management (SCM), DDG: Inter-Governmental Relations (IGR), DDG: Policy, Research and Regulations and DDG: Expanded Public Works Programme (EPWP). Although these positions are currently occupied by acting incumbents, this still creates instability in the overall department’s organigram which has continuously been highlighted as a key root cause for the stagnation in the audit outcomes of the department

##### Policies and procedures

##### The department should ensure that the existing policies are implemented and the implementation is regularly monitored. Non-implementation of the existing policies and regulations with respect to appointments was the root cause of irregular expenditure being incurred by the department on the irregular appointments identified by the Public Service Commission. In addition, the department committed to revise the policy with respect to state funerals and state events, however this was not yet finalised during the year under review.

##### Action plans to address internal control deficiencies

1. Implementation of the audit actions plan has not transpired in all instances. It is a concern that the majority of issues identified have been recurring for a number of years and were also raised during interim audit, and have not yet been adequately addressed. The lack of an effective leadership culture and slow response by senior management to implement action plans has combined to create an environment where people are not held accountable for causing the department to obtain negative audit outcomes.
2. Management should also review audit action plans currently in place to confirm their effectiveness, especially with regards to EPWP. While there has been a slight improvement noted with respect to document retention for reported work opportunities (mainly in relation to DPWI implemented projects), the issue of under reporting remains a serious area of concern for all projects. This indicates that the current action plan is not addressing the root cause of the issues identified.

##### Information technology governance framework

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

* The ICT structure was recently approved after the new Minister requested a re-evaluation of the organisational structure to be align to the new mandate of DPWI. Following the re-evaluation of the organisational structure, ICT has started advertising the key positions. Furthermore, the department did not receive qualifying candidates for positions that were advertised. As a result, key vacancies within ICT remain a concern as two (2) key ICT vacancies were still not filled at the end of March 2020. If the ICT function is not fully capacitated, some ICT resources may be overloaded with more responsibilities. This may result in lack of ability by other ICT resources to perform critical ICT activities leading to an increase in the number and impact of incidents caused by unavailability of essential skills.

#### Financial and performance management

##### Proper record keeping

1. Obtaining sufficient appropriate evidence to substantiate the reported performance for a significant number of projects included in Programme 3: *EPWP* remains a significant challenge, especially relating to projects implemented by public bodies other than the department. This includes reliable supporting evidence, such as identity documents, attendance registers and proof of payment, despite the fact that the department validated these work opportunities. This contributed to the negative audit outcome for Programme 3.

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

1. The department has benefitted from stability within the finance department, with improvements noted with respect to the annual financial statements submitted for audit. The issues that resulted in adjustments being required to some disclosures in the prior period did not recur in the current period, with the only adjustment required subsequent to submission for audit being in relation to irregular expenditure identified during the audit.
2. The reported achievements for predetermined objectives included in the annual performance report were not supported by appropriate audit evidence throughout the year. Significant findings were raised by internal audit with respect to quarterly reporting which were not addressed by management. In addition, similar findings with respect to under reporting as well as lack of adequate supporting documentation were reported during interim audit done on quarter three data by the external auditors. While some matters were subsequently resolved, the remaining unresolved matters combined with similar findings raised during final audit resulted in the negative audit outcome received for the programme.

##### Compliance monitoring

1. Some instances of non-compliance have been identified in the current audit cycle with respect to expenditure management, resulting in irregular expenditure being incurred by the department. This non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored when approving payments to suppliers.
2. Improvement was noted with respect to payments being made within 30 days, which was not included as a non-compliance item for the current financial period. The action plans with respect to this item were thus effectively implemented.

##### Information technology systems

1. IT controls pertaining to service continuity, security management, user access management and change control management were not effectively designed and implemented due to the following key internal control deficiencies:

* As previously reported, the following deficiencies were noted with regard to the management and implementation of IT Service Continuity/ Disaster Recovery processes at the department:
* Although Disaster Recovery Plan (DRP) was developed and approved, it was noted that the DRP was not tested in the financial year under review.
* There was no formal backup policy and procedure.
* There was no performance of periodic restoration of backups.
  + These matters were reported in 2018-19 financial year.
* Without a comprehensively documented, tested and regularly updated Disaster Recovery and Business Continuity Plan, it might not be possible to recover the key business operations, critical systems, applications, their supporting infrastructure or networking capability in the correct sequence and time, to ensure that the department’s business operations could be sufficiently resumed at an alternative processing site without considerable loss to its financial well-being and negative impact of service delivery should a disaster occur.
* The following security management processes weaknesses were noted:
* The ICT Security Policy was still in draft format;
* There was no process in place to review the activity logs on active directory for security significant events;
* Furthermore, the password security settings to the Archibus, EPWP, PMIS and SAGE systems were not in line with the department’s ICT security policy
* Without an approved ICT security policy, the organisation might not be able to adequately and effectively support the overall objective of the organisation in terms of security. Furthermore, security breaches and incidents may not be timely detected, which may affect the confidentiality, integrity and availability of the systems.
* The Consolidated Information and Communication Technology Policy included user access management and it was noted that the policy does not explicitly indicate the systems and/or applications that are covered by the policy. Furthermore, as previously reported in 2018/19 it was noted that the current policy was still in draft and does not provide adequate guidance on the process to follow when performing the below user access management activities:
* User account termination.
* User transfer requests.
* Monitoring of system controller actions on application security level (creation of IDs, user ID maintenance, allocating functions to users etc.)
* Periodic reviews of access and logon violation
* Inadequate implementation of user access management controls around EPWP, Reapatala and Persal. The following deficiencies were noted with regards to the administration of user access controls on the above DPW &PMTE systems:
* Evidence of review performed to monitor user's access rights was not adequate as it did not entail users access, furthermore there was no evidence indicating that the report/list was reviewed to ensure that the functions allocated to the users commensurate with their job responsibilities.
* Evidence of review performed to monitor activities performed system was not adequate as the audit logs did not detail activities performed by system controller such as user creation, user ID maintenance, allocation of functions, password resetting and termination of user accounts, furthermore there was no evidence indicating the logs were reviewed.
* Inadequate user account management processes could lead to unauthorised access to the system, which could result in potential system breaches and therefore compromising the integrity of data.
* The ICT policy governing change management and access to Reapatala and EPWP applications was still in draft since August 2018, and does not provide adequate guidance on the process to be followed when:
* Performing change management activities;
* Migration of changes to production
* Development of changes requested
* Testing of changes (QA and user acceptance test); and
* Implementation of changes.

Without adequate program change management policy, there might not be a process which provides a managed and orderly method in which changes to the information technology environment are requested, tested and approved prior to installation or implementation

#### Governance

##### Risk management activities and risk strategy

1. We have noted that the majority of investigations are initiated within the required time, however investigations take extremely long to finalise because of complexities associated with investigations in certain instances.
2. Some investigations are referred to Special Investigations Unit or to SAPS where criminal activities are suspected. Leadership is encouraged to be swift in implementing the recommendations in these reports, especially in relation to holding people accountable for causing the department to incur irregular, and fruitless and wasteful expenditure. Inadequate consequence management increases the likelihood of similar transgressions recurring, and the department not receiving value for the high costs incurred in conducting these investigations

##### Internal audit

1. While it was noted that internal audit performed a number of audits throughout the financial period (relating to, *inter alia,* quarter one performance information and contract management controls), it was noted that the majority of work focused on PMTE. The main areas of concern from last year’s external audit, with the exception of EPWP, was not scoped in for internal audit for the year under review, in light with the risk based approach, it is recommended that internal audit function incorporate these risks in their upcoming plans to further strengthen the department’s internal controls. While senior management has a responsibility to design and implement preventative controls, internal audit function can also play a fundamental role in identifying areas of vulnerability where there are no preventative controls or where such require improvement and report such to enable oversight responsibility by other role players such as the audit committee and the accounting officer.

##### Audit committee

1. New members have been appointed to the audit committee after the term of the previous members expired mid-way through the 2019/20 financial year. Regardless, the audit committee has consistently reported concerns with the number of control issues raised by Internal Audit and the Auditor General.
2. The previous members concurred at the end of the previous financial year that there were inadequate control processes and procedures, by design and implementation, to ensure the accuracy and completeness of the financial statements and performance information.
3. The audit committee is currently effectively involved from a governance perspective in the oversight of the department, however improvements in outcomes can only follow from effective implementation of action plans by management. Moreover, the audit committee will be more effective when senior management starts implementing all recommendations of the committee.
4. The Chairperson of the Audit Committee should meet and give regular feedback to the Minister of Public Works and Infrastructure.

#### Summary

1. The matters above, as they relate to the findings on the annual performance report and findings on compliance with legislation, will be summarised in the auditor’s report as follows:
2. The department was impacted by a number of investigations which implicated officials occupying senior management positions. In addition, there were vacancies at senior management level at a number of key programmes. This combination of instability in leadership and lack of effective leadership culture contributed to irregular expenditure being incurred by the department.
3. Inadequate monitoring of action plans to address the previous year’s findings resulted in similar findings on programme 3: expanded public works programme in the current year.
4. Inadequate review and monitoring of compliance when approving payments to suppliers resulted in irregular expenditure being incurred.

### MATERIAL IRREGULARITIES

1. In accordance with the PAA and the material irregularity regulations, we have a responsibility to report on material irregularities identified during an audit.
2. The auditor’s report will include the following summarised information:

##### Material irregularities in progress

1. I identified material irregularities during the audit and notified the accounting officer thereof as required by material irregularity regulation 3(2). By the date of this auditor’s report, the responses of the accounting officer were not yet due. These material irregularities will be included in the next year’s auditor’s report.

### OTHER REPORTS

1. We draw attention to the following engagements conducted by various parties that have or could potentially have an impact on the department’s financial statements, reported performance information and compliance with applicable legislation and other related matters. The reports noted do not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation. The summarised other reports will be included in the auditor’s report as follows:

##### Investigations

1. The Special Investigation Unit has been authorised to investigate the affairs of the Department of Public Works as follows:
   * An investigation into supply chain management irregularities within inter alia the Prestige branch at the department, which covered the period 2003-04 to 2010-11. The report was finalised in 2018-19. The investigation was then extended to cover the period 2010-11 to 2015-16, and further extended to cover the period 2015-16 to 2019-20. These investigations were still in progress at the date of this auditor’s report.

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

### ASSESSMENT OF ASSURANCE PROVIDERS

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.
3. We assess the level of assurance provided by these assurance providers based on the status of internal controls (as reported in section 2.6) and the impact of the different role players on these controls. We provide our assessment for this audit cycle below.

##### Senior management: provides limited assurance

* Some members of senior management were found to have been responsible for the department incurring irregular expenditure, as well as financial losses, during the financial year which significantly limited the level of assurance that may be obtained. In addition, the Public Service Commission found a number of senior management officials were appointed irregularly, with some not having the requisite qualifications for their positions.
* The implementation of action plans by senior management were in certain instances effective as it resulted in the department producing quality and credible financial statements which did not have material misstatements. In addition such plans assisted the department to monitor payments in which we have seen improvement on payments being made within 30 days. However, these plans were not adequate and were not implemented timeously to prevent any non-compliance related to contract management which was identified in the Prestige branch relating to state funerals and state events. This non-compliance together with irregular appointment of senior officials resulted in the department incurring irregular expenditure which was caused by senior management in certain instances.
* Senior management responses and mechanisms to address prior year findings relating to EPWP have been slow
* Senior management should monitor contracts on a regular basis and ensure that measures and methods applied in monitoring these contracts are sufficient and effective in order to prevent irregular expenditure

Accounting officer: provides limited assurance

* The accounting officer has put initiatives in place to provide assurance. Focus should be placed on ensuring that these initiatives are monitored regularly and management is held accountable where weaknesses are identified. Some of the interventions did not take place timeously, which contributed to the recurrence of the negative audit outcomes on performance information. However, the accounting officer was placed on suspension pending the outcome of a disciplinary process due to allegations made against him in the investigations conducted by SIU, Public Service Commission as well as the department’s internal investigations into state funerals.

##### Executive authority provides some assurance

* The executive authority has been receptive to recommendations from the auditors, and it was noted that she had requested investigations into certain irregularities identified at the department during the year under review. The Minister should continue to engage with the different assurance providers of the department for continuous monitoring of commitments made toward improving audit outcomes of the department.

##### Internal audit provides assurance

* Legislation in South Africa requires the establishment, roles and responsibilities of internal audit units. Internal audit unit forms part of the internal control and governance structures of the department and play an important role in its monitoring activities. Internal audit provides an independent assessment of the department’s governance, risk management and internal control processes.
* The internal audit unit of the department must prepare a risk-based audit plan and internal audit programme for each financial year. It must advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management, performance management, loss control and compliance with the PFMA. The internal audit unit must also perform such other duties as may be assigned by the accounting officer.
* While we note that the quality and scope of the internal audits performed were of the required standard, tangible improvements will only be realised once management effectively and timeously implements the recommendations from the outcomes of these audits.

##### Audit committee: provides assurance

* The audit committee met regularly throughout the year. The committee reviewed and approved the annual financial statements and annual report before submission. The audit committee also follows up with management on the implementation of internal and external audit recommendations. The impact of the interventions put in place by the audit committee is however limited by the fact that management has not timeously or adequately implemented these action plans.

### STATUS OF IMPLEMENTING COMMITMENTS AND RECOMMENDATIONS

1. Below is our assessment of the progress in implementing the commitments made by the department to address the prior and current year’s audit findings.

| **No** | **Commitments** | **Made by** | **Auditors comments** | **Status** |
| --- | --- | --- | --- | --- |
| 1 | **Understatement of Accruals**  a) Accrual schedules not accepted without valid supporting documents.  b) Escalate non-submission of accruals schedule and supporting documents on time.  c) Develop a checklist for the review of accruals inputs schedules.  d) Accruals schedules to be accompanied by a completed and signed off checklist. | M. Sithole (Chief Financial Officer) | AFS were accompanied by accruals schedule with a completed and signed off checklist.  The findings identified in previous years did not recur | Resolved |
| 2 | **Incorrect classification of expenditure**  a) Payments to be verified prior to processing to ensure full compliance;  b) Monthly review of the expenditure, and processing of journals to ensure correction of all misallocations. All expenditure misallocation from April 2019 are being corrected through journals and the project is estimated to be completed the end of September 2019;  c) Regular checking of the new Practise notes for implementation. Communication regarding the expenditure items changes to be sent out to all employees for compliance | M. Sithole (Chief Financial Officer) | The findings identified in previous years did not recur | Resolved |
| 3 | **Understatement of Commitments**  a) Develop a checklist for the review of commitments inputs schedules.  b) Signed off tender register will form part of Commitments schedule supporting documents.  c) Commitments schedules to be accompanied by a completed and signed off checklist.  d) Quarterly review of the commitments against Legal and SCM registers (awards and tender) to ensure full disclosure | M. Sithole (Chief Financial Officer) | The findings identified in previous years did not recur | Resolved |
| 4 | **The KPIs and targets were not measurable due to inadequate records management.**  ***Expanded Public Works Programme***  a) To conduct Public Body Visits throughout the year in the format of mini audits. These visits focus on the public body, rather than specific projects, to ensure public bodies with recurring audit findings are assisted.  b) To manage an Intervention Register of all non-compliance issues noted at these visits. In this register responsibility for and timelines for resolution are assigned to responsible parties.  c) To follow up with escalation to Accounting Officers and to relevant administrative and political heads the non-resolution within the specified timelines of non-compliance issues.  d) To keep a paper trail of the escalation as proof of the Department fulfilling its coordination mandate.  e) To withhold payments to public bodies receiving grants for non-compliant projects.  To continue to provide training on EPWP frameworks to public bodies.  f) To develop and consult on the viability of implementing an EPWP Audit Practice Note aimed at providing guidance on the roles and responsibilities of all EPWP stakeholders with regard to auditing processes and records-management requirements of the EPWP.  g) To forward a letter to the Head of Construction Project Management to instruct the branch to take responsibility for the reporting and capturing of its EPWP data.  ***Prestige***  (a) Liaise with ICT for creation of the shared drive and implementation of paper trail System  (b) Maintain manual filing system until the electronic system is functional | S. Henderson (previous DDG- EPWP)  M. Sazona (Chief Director: Prestige) | Similar findings were identified during interim and final audit  Prestige was not scoped in in the current year | In Progress |
| 5 | **Inadequate Contract Management that resulted in Irregular Expenditure**  (a) Develop a checklist for requisition and verification  (b) Segregation of duties between Events management and Finance section.  (c) Prestige and SCM to perform reconciliation between invoice and quotation  a) SCM will issue a Circular requiring submission of all contract related records to Legal Services for placement on the tender (Pink) file.  b) To provide internal workshop for Project Managers throughout the Department to be aware of applicable rules within the Contract Management space.  c) Utilisation of Paper trail for electronic storing of documents | R. Naidoo (ADDG: Supply Chain Management) | The finding was identified in the current period, however the amounts involved were much lower than previous year. Follows ups will be made during the next audit cycle. | In Progress |
|  | **Information Technology**  ***Inadequate Security Management controls***  a) Ensure that they expedite the process of approving the Account Management policy (31 October 2019).  b) Ensure that the ICT introduces security questions to assist in identifying users for password reset (Part of the policy – 31 November 2019).  c) Ensure that the activities performed by the users with administrator access is reviewed on a regular basis to ensure that only authorised activities were performed and evidence of review is retained for audit purposes (part of the policy 31 November 2019).  d) Ensure that there is an implemented formal process to suspend/disable/terminate user access on Active Directory (part of the policy 31 November 2019).  e) The ICT management should commit to findings resolution by implementing adequate user access controls within the AD environment (part of the policy 31 November 2019)  f) Execute consequence management if evidence of poor performance is established (March 2020)  ***Inadequately implementation of the user account management policy on EPWPRS***  Controls in this regard are established in Version 2 of the EPWP RS. It is expected that this version will be implemented in 2020/21.  ***Inadequate IT service continuity controls***  a) Procurement of the Disaster Recovery Solution (1 November 2019)  b) Testing Disaster Recovery Solution (1 January 2020)  c) Updating of the current Disaster Recovery Plan and Business Continuity Plan will be completed by (1 December 2019.) | C. Mtshisa (DDG: Corporate Services) | The IT general controls review was completed, and identified several areas of concern. | In progress |

* Three audit recommendations accepted by management in the prior year on matters included in the auditor’s report and other important matters were implemented, or alternative actions were taken to resolve the finding.
* Three recommendations are still being implemented and progress will be followed in the next audit cycle.
* Details on the status of implementing the recommendations made in the previous year(s) are provided in section 10, which summarises the detailed audit findings.

## SECTION 4: Specific focus areas

### 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.

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

| **FINANCIAL VIABILITY ASSESSMENT** | | | |
| --- | --- | --- | --- |
|  | | **AS AT 31 MARCH 2020** | **AS AT 31 MARCH 2019** |
| **EXPENDITURE MANAGEMENT** | | | |
| 1.1 | Creditor payment period | **17.8 Days** | **24 Days** |
| 1.2 | 30+ day accruals as a percentage of total accruals | **0%** | **0 %** |
| * Amount of 30+ day accruals * Amount of total accruals | **R 0**  **R 23 506 000** | **R 0**  **R 10 161 000** |
| **REVENUE MANAGEMENT** | | | |
| 2.1 | Debtor-collection period (after impairment) | **35 Days** | **365 Days** |
| 2.2 | Debtors’ impairment provision as a percentage of accrued departmental revenue | **0.00%** | **0.00%** |
| * Amount of debtors’ impairment provision * Amount of accrued departmental revenue | **R 0**  **R 1 416 000** | **R 0**  **R 12 128 000** |
| **ASSET AND LIABILITY MANAGEMENT** | | | |
| 3.1 | An accrual-adjusted deficit for the year was realised (total expenditure exceeded total revenue) | **No** | **Yes** |
| * Amount of accrual-adjusted surplus/(deficit) for the year | **R 116 698 000** | **(R104 049 000)** |
| 3.2 | An accrual-adjusted net current liability position was realised (total current liabilities exceeded total current assets) | **Yes** | **Yes** |
| * Amount of accrual-adjusted net current assets/(liability) position | **(R420 891 000)** | **(R348 850 000)** |
| 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 | **R265 637 000** | **R138 365 000** |
| **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) | **(R153 176 000)** | **(R266 533 000)** |
| 4.2 | Cash shortfall as a percentage of next year’s appropriation (budget), excluding “compensation of employees” and “transfers and subsidies” \*\* | **62.2 %** | **45.5 %** |
| * Amount of the cash surplus/(shortfall) * Amount of next year’s appropriation (budget), excluding “compensation of employees” and “transfers and subsidies” | **(R298 438 000)**  **R 480 005 000** | **(R224 957 000)**  **R 493 941 000** |
| 4.3 | Amounts payable in future periods as a percentage of the budget for the next three years, excluding “compensation of employees” and “transfers and subsidies” | **7.8 %** | **40.3 %** |
| * Amounts payable in future periods * Amount of the next three years’ appropriation (budget), excluding “compensation of employees” and “transfers and subsidies" | **R 124 765 000**  **R 1 589 800 000** | **R198 991 000**  **R493 941 000** |
| 4.4 | Guarantees issued by the department as a percentage of next year’s budget, excluding “compensation of employees” and “transfers and subsidies” | **No guarantees issued** | **1.2%** |
| * Amount of guarantees issued * Amount of next year’s appropriation (budget), excluding “compensation of employees” and “transfers and subsidies” | **R 0**  **R 1 589 800** | **R5 766 000**  **R493 941 000** |
| 4.5 | Claims against the department as a percentage of next year’s budget, excluding “compensation of employees” and “transfers and subsidies” | **No claims against the department** | **No claims against the department** |
| * Amount of claims against the department * Amount of next year’s appropriation (budget), excluding “compensation of employees” and “transfers and subsidies” | **R 0**  **R 480 000 000** | **R0**  **R1 036 000** |
| **OVERALL ASSESSMENT** | | | |
| Overall the financial viability is assessed as: | | **Green (Good)** | **Yellow (Concerning)** |
| *\*\* This indicator assumes that the unauthorised expenditure of R261 169 000, per note 9 will not be approved with funding.* | | | |

#### High-level comments

1. The department is able to undertake its objectives and the vote has not been depleted or exceeded and there is no significant unpaid expenditure.
2. Improvements have been noted with respect to creditor payment period, as well as debtor collection periods. This was as a result of specific consideration being placed on ensuring all payments are made within 30 days.
3. 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.
4. Should the unauthorised expenditure however not be approved with funding it could result in a shortage of available funds to implement planned activities, programs and projects in the future. The department should therefore continue in their efforts to obtain the necessary approval.

### PROCUREMENT AND CONTRACT MANAGEMENT

1. The audit included an assessment of procurement processes, contract management and the related controls in place. These processes and controls must comply with legislation to ensure a fair, equitable, transparent, competitive and cost-effective supply chain management (SCM) system and to reduce the likelihood of fraud, corruption, favouritism, and unfair and other irregular practices. A summary of the findings from the audit are as follows:

##### Irregular expenditure

1. R6 527 344 (100%) of irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation. Further irregular expenditure incurred in previous years amounting to R6 767 478 was also identified in the current year. 100% (100% in the prior year) of this irregular expenditure was identified during the audit process and not detected by the department’s monitoring processes. The root cause(s) of the lack of effective prevention and detection are inadequate review and monitoring with SCM processes and requirements.

##### 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 specific to procurement does not prohibit the Department of Public Works and Infrastructure from making such awards, but compliance with the legislation and policies was tested to ensure that conflicts of interest did not result in contracts being unfairly awarded or unfavourable price quotations being accepted, and that employees obtained approval for performing remunerative work outside their employment as required.
2. Based on the record of work done, no findings were identified from the exceptions identified through our CAATS procedures as indicated 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** |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

##### Procurement processes

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Total | | Quotations (below R500 000) | | Competitive bids (over R500 000) | | |
| Number | Value  *R* | Number | Value  *R* | Number | Value  *R* | |
| **Awards selected for testing** | *56* | *116 119 442* | *31* | *9 525 245* | *25* | *106 594 197* |
| **Expenditure incurred on selected awards – current year** |  | *47 836 525* |  | *8 186 556* |  | *39 649 969* |
| **Limitations – awards selected but could not be tested** | *0* | *0* | *0* | *0* | *0* | *0* |
| **Awards on which non-compliance was identified** | *3* | *1 105 423* | *3* | *1 105 423* | *0* | *0* |
| **Irregular expenditure identified** | *2* | *711 406* | *2* | *711 406* | *0* | *0* |
| **Instances of irregular expenditure where goods/ services were not received** | *0* | *0* | *0* | *0* | *0* | *0* |

##### Procurement processes – general

* One quotation with a value of R361 806 was awarded to a bidder who did not comply with specified pre-qualification criteria requirement.

##### Internal control deficiencies

1. The accounting officer did not in some instances exercise oversight responsibility of the reporting and compliance with laws and regulations.
2. Reviewing and monitoring of compliance with relevant laws and regulations was insufficient and not properly monitored in some instances.

### 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. Below is a summary of fraud risk factors that should be addressed to ensure that sufficient measures/controls are in place to prevent material misstatement due to fraud.

* Officials in high ranking positions may take the opportunity to misuse their authority.

1. 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 ’s management of consequences. The significant findings are provided below.

##### Measures to manage consequences

1. The following measures were not implemented to ensure that the environment is conducive to effective consequence management:

* There was a lack of proper record keeping to ensure that complete, relevant and accurate information is accessible and available to support the processes followed for financial misconduct/transgressions committed by officials and suppliers of the auditee.

##### Ongoing investigations

1. A total of five investigations were ongoing at year-end into allegations relating to financial misconduct, fraud and/or improper conduct in SCM. Some of these investigations have been ongoing for a period exceeding 12 months. The table below provides a summary of investigations which had not been completed as at year-end (source: *Allegations and Noclar* working paper):

|  |  |
| --- | --- |
| Total number of ongoing investigations as at year-end | 5 |
| * Number of SCM-related investigations | 1 |
| * Number of fraud-related investigations | 0 |
| Number of investigations exceeding a period of six months | 5 |

##### Transgressions reported to management for investigation

1. During the prior year audit, we reported findings relating to transgressions by officials or other role players for management to investigate. During the current year audit, we performed follow-up tests to determine whether the matters reported were dealt with by management.
2. The table below provides a summary of the transgressions reported in the prior year and an indication of how many were dealt with. It also provides a summary of transgressions identified in the current year that must be investigated and disciplinary steps taken based on the results of the investigations.

|  | Findings reported in prior year | | | Findings reported in current year | |
| --- | --- | --- | --- | --- | --- |
| Finding | Number of instances | Number of instances investigated | Number of instances resolved from those investigated | Number of instances | Value  (R) |
| **A: Improper conduct in SCM by suppliers** |  |  |  |  |  |
| Other improper conduct in SCM by suppliers | 1 | 1 | 0 | 0 | 0 |
| **B: Improper conduct in SCM by officials/role players** |  |  |  |  |  |
| Other improper conduct in SCM by officials or SCM role players | 8 | 8 | 0 | 0 | 0 |
| **C: Financial misconduct** |  |  |  |  |  |
| Employees of departments doing business with the state (only for departments) | 3 | 3 | 3 | 0 | 0 |
| Other financial misconduct-related allegation | 1 | 1 | 1 | 0 | 0 |

1. Irregular expenditure disclosed in note 25 to the financial statements must be investigated to determine whether any official is liable for losses incurred as a result of the irregular expenditure. Disciplinary steps must be taken against officials who caused or permitted the irregular expenditure, and losses incurred as a result must be recovered from the person liable.

## SECTION 5. Using the work of internal audit

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

* The following internal audit report was considered for risk identification purposes]
  + Follow up audits (DPW and PMTE) where Internal Audit assessed management’s progress in addressing internal and external audit findings from prior periods.
  + Audit of the quarterly report (Q1) for all programmes scoped in

## SECTION 6: Emerging risks

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

###### New pronouncements

###### Modified cash standard

1. The following emerging risks are relevant for the 2019-20 audit cycle.

**Componentisation of assets**

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

**Classification of housing-related expenditure**

* Departments of Human Settlements should implement the transitional provisions in the *Human Settlements Departments: Transition Guide on Classification of Expenditure* issued by the OAG to classify housing related-expenditure. The effective date to classify housing related-expenditure in accordance with the ERF without any deviation is 1 April 2022.

**New MCS chapters issued**

* The OAG has issued the following MCS chapters, with effective dates as indicated:

| **MCS chapter** | **Effective date** |
| --- | --- |
| MCS 19 on *Transfer of functions* | 1 Apr 2020 |
| MCS 20 on *Mergers* | 1 Apr 2020 |

* Early application of both chapters is permitted.

#### New legislation

##### Treasury Regulations

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

#### Subsequent events

#### In terms of the Coronavirus National Disaster Intervention Plan, the Department of Public Works and Infrastructure’s role is mobilisation of expanded public works programme participants in public health care services inclusive of public health education, screening and referrals.

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

1. The planned and reported performance information of selected programmes was audited against the following additional criteria as developed from the performance management and reporting framework:

* **Presentation and disclosure – overall presentation**:
  + Overall presentation of the performance information in the annual performance report is comparable and understandable
* **Relevance – completeness of relevant indicators:** 
  + Completeness of relevant indicators in terms of the mandate of the auditee, including:
    - relevant core functions are prioritised in the period under review
    - relevant performance indicators are included for the core functions prioritised in the period under review

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

* No material findings were identified in respect of the additional criteria.

## SECTION 7: 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** | ***In progress*** |  |  |  |  |  |  |  |  |
| **Independent Development Trust (IDT)** | ***In progress*** |  |  |  |  |  |  |  |  |
| **Construction Industry Development Board(CIDB)** | **Unqualified** | **No findings** | **Material findings** |  |  |  |  |  |  |
| **Council for the Built Environment (CBE)** | **Unqualified** | **No findings** | **No findings** |  |  |  |  |  |  |
| **Agrément South Africa (ASA)** | **Unqualified** | **No findings** | **Material findings** |  |  |  |  |  |  |

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

## SECTION 8: Ratings of detailed audit findings

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

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

## SECTION 9: Conclusion

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 remain committed to assist 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

30 September 2020

Enquiries: Tintswalo Masia

Telephone: 012 426 8178

Fax: 012 422 9619

Email: Tintswalom2@agsa.co.za

**Distribution:**

Audit committee

Head of internal audit unit

Executive authority

## SECTION 10: Summary of detailed audit findings

## DETAILED AUDIT FINDINGS: ANNEXURES A TO C

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

### ANNEXURE B: OTHER IMPORTANT MATTERS

## ANNEXURE D: PERFORMANCE MANAGEMENT AND REPORTING FRAMEWORK

The Performance Management and Reporting Framework (PMRF) consists of the following:

Legislation applicable to performance planning, management and reporting, which includes the following:

* Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA)
* Treasury Regulations, 2005 issued in terms of the PFMA
* National treasury practice notes 4 of 2009-10
* Public Service Act, 1994 (PSA)
* Public Service Regulations, 2016 issued in terms of the Public Service Act
* Financial Management of Parliament and Provincial Legislatures Act, 2009 (Act No. 10 of 2009) (FMPPL)
* Regulations for reporting by public higher education institutions, 2014, issued in terms of the Higher Education Act, 1997 (applicable to universities only)
* The Framework for Managing Programme Performance Information (FMPPI), issued by the National Treasury. This framework is applicable to all spheres of government.
* The Framework for Strategic Plans and Annual Performance Plans (FSAPP), issued by the National Treasury. This framework is applicable to all national and provincial departments, constitutional institutions and those public entities listed in parts A and C of schedule 3 of the PFMA.
* Circulars and guidance issued by the National Treasury and the Department of Public Service and Administration (DPSA), and supported by the Department of Planning Monitoring and Evaluation (DPME) regarding the planning, management, monitoring and reporting of performance against predetermined objectives.

**Annexure D – Criteria developed from the performance management and reporting framework**

| **CRITERIA** | **REFERENCES TO THE PMRF PER TYPE OF ENTITY** | | | |
| --- | --- | --- | --- | --- |
| **Departments / constitutional institutions / trading entities** | **Public entities** | **Parliament / provincial legislatures** | **Universities** |
| **Consistency: Objectives, performance measures / indicators and targets are consistent between planning and reporting documents** | | | | |
| 1. Reported strategic or development objectives are consistent or complete when compared to planned objectives | Section 40(3)(a) of the PFMA  TR 5.2.4  NT instruction note 33: implementation of the FSAPP  Section 25(1) and 31(1) of the PSR | Section 55(2)(a) of the PFMA TR 28.2.2  Applicable to 3A & 3C public entities: TR 30.1.3(g)  NT instruction note 33: Implementation of the FSAPP  Applicable to 2; 3B & 3D public entities: TR 29.1.1 & TR 29.2 | Section 55(3)(d) of the FMPPLA | Section 5(2)(k) & 7(4)(a)of the regulations for reporting by public higher education institutions |
| 1. Changes to strategic or development objectives are approved | TR 5.1.1  NT instruction note 33: implementation of the FSAPP  Section 4 of FSAPP | Applicable to schedule 3A & 3C public entities: TR 30.1.1  NT instruction note 33: implementation of the FSAPP  Section 4 of FSAPP  Applicable to schedule 2, 3B & 3D public entities: TR 29.1.1 and TR 29.2 | Section 15(1) and (2)(b) of the FMPPLA | Section 5(2)(m) & 7(4)(a) of the regulations for reporting by public higher education institutions |
| 1. Reported measures or indicators are consistent or complete when compared to planned measures or indicators | Section 40(3)(a) of the PFMA  TR 5.2.4  NT instruction note 33: implementation of the FSAPP  Sec 25(1) of the PSR | Section 55(2)(a) of the PFMA  TR 28.2.2  Applicable to 3A & 3C public entities: TR 30.1.3(g)  NT instruction note 33: implementation of the FSAPP  Applicable to 2; 3B & 3D public entities: TR 29.1.1 & TR 29.2 | Section 55(3)(d) of the FMPPLA | Section 5(2)(k) & 7(4)(a) of the regulations for reporting by public higher education institutions |
| 1. Changes to measures or indicators are approved | TR 5.1.1  NT instruction note 33: implementation of the FSAPP  Section 4 of FSAPP | Applicable to 3A & 3C public entities: TR 30.1.1  NT instruction note 33: implementation of the FSAPP  Section 4 of FSAPP  Applicable to 2; 3B & 3D public entities: TR 29.1.1 & TR 29.2 | Section 15(1) and (2)(b) of the FMPPLA | Section 5(2)(m) of the regulations for reporting by public higher education institutions |
| 1. Reported targets are consistent or complete when compared to planned targets | Section 40(3)(a) of the PFMA  TR 5.2.4  NT instruction note 33: implementation of the FSAPP  Section 25(1) of the PSR | Section 55(2)(a) of the PFMA  TR 28.2.2  Applicable to 3A & 3C public entities: TR 30.1.3(g)  Applicable to 2; 3B & 3D public entities: TR 29.1.1 & TR 29.2 | Section 55(3)(d) of the FMPPLA | Section 5(2)(k) & 7(4)(a) of the regulations for reporting by public higher education institutions |
| 1. Changes to targets are approved | TR 5.1.1  NT instruction note 33: implementation of the FSAPP  Section 4 of FSAPP | Applicable to 3A & 3C public entities: TR 30.1.1  NT instruction note 33: implementation of the FSAPP  Section 4 of FSAPP  Applicable to 2; 3B & 3D public entities: TR 29.1.1 & TR 29.2 | Section 15(1) and (2)(b) of the FMPPLA | Section 5(2)(m) of the regulations for reporting by public higher education institution |
| 1. Reported achievements are consistent with the planned and reported indicator and target | Section 40(3)(a) of the PFMA | Section 55(2)(a) of the PFMA | Section 55(3)(d) of the FMPPLA | Section 7(4)(a) of the regulations for reporting by public higher education institutions |
| **Measurability: Performance measures / indicators are well defined and verifiable, and targets are specific, measurable and time bound** | | | |  |
| 1. A performance measure or indicator is well defined when it has a clear definition so that data will be collected consistently and is easy to understand and use | FMPPI chapter 3.2 | | Criteria not applicable | Section 1(d) of the regulations for reporting by public higher education institutions |
| 1. A performance measure/indicator is verifiable when it is possible to validate or verify the processes and systems that produce the indicator | FMPPI chapter 3.2 | | Criteria not applicable | |
| 1. A target is specific when the nature and the required level of performance of the target are clearly identifiable | FMPPI chapter 3.3 | | Criteria not applicable | Section 1(a) of the regulations for reporting by public higher education institutions |
| 1. A target is measurable when the required performance can be measured | FMPPI chapter 3.3 | | Criteria not applicable | Section 1(b) of the regulations for reporting by public higher education institutions |
| 1. A target is time bound when the time frames for the achievement of the target are indicated | FMPPI Chapter 3.3 | | Criteria not applicable | Section 1(c) of the regulations for reporting by public higher education institutions |
| **Relevance: Performance measures / indicators relate logically and directly to an aspect of the entity’s mandate and the realisation of its strategic goals and objectives** | | | |  |
| 1. The performance measure/indicator and target relate logically and directly to an aspect of the entity’s mandate and the realisation of its strategic goals and objectives | FMPPI chapter 3.2 | | Criteria not applicable | Section 1(e) of the regulations for reporting by Public Higher Education Institutions |
| **Presentation and disclosure: Performance information in the annual performance report is presented and disclosed in accordance with the requirements contained in legislation, frameworks, circulars and guidance** | | | |  |
| 1. Reasons for variances between planned and actual performance are disclosed in the annual performance report | The NT’s annual report guide for national and provincial departments  Section 31(1) of the PSR | Applicable to schedule 3A & 3C public entities:  The NT’s annual report guide for schedule 3A and 3C public entities | Criteria not applicable | |
| 1. Reasons for variances are corroborated by source documentation | The NT’s annual report guide for national and provincial departments  FMPPI chapter 5 | Applicable to schedule 3A & 3C public entities:  The NT’s annual report guide for schedule 3A and 3C public entities  FMPPI chapter 5 | Criteria not applicable | |
| 1. Changes to objectives, performance indicators and performance targets are disclosed in the annual performance report | NT annual report guide for national and provincial departments  Section 31(1) of the PSR | Applicable to 3A & 3C public entities:  NT annual report guide for schedule 3A and 3C public entities | Criteria not applicable | |
| **Reliability: Recording, measuring, collating, preparing and presenting information on actual performance / target achievements that is valid, accurate and complete** | | | |  |
| 1. Reported performance occurred and pertains to the reporting entity | Section 40(3)(a) of the PFMA  Chapter 5 of the FMPPI  Section 25(1)(e) of the PSR | Section 55(2)(a) of the PFMA  chapter 5 of the FMPPI | Section 55 of the FMPPLA | Section 7 of the regulations for reporting by public higher education institutions |
| 1. Reported performance is recorded and reported accurately |
| 1. All actual performance is recorded and included in the reported performance information |

## ANNEXURE E: AUDITOR GENERAL’S RESPONSIBILITY FOR THE AUDIT OF THE REPORTED PERFORMANCE INFORMATION

1. As part of our engagement conducted in accordance with ISAE 3000, we exercise professional judgement and maintain professional scepticism throughout our reasonable assurance engagement on reported performance information for selected programmes.
2. We are independent of the department in accordance with the International Ethics Standards Board for Accountants’ *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are relevant to our audit in South Africa. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code.

### QUALITY CONTROL RELATING TO ASSURANCE ENGAGEMENTS

1. In accordance with the International Standard on Quality Control 1, the Auditor-General of South Africa maintains a comprehensive system of quality control that includes documented policies and procedures on compliance with ethical requirements and professional standards.

### REPORTED PERFORMANCE INFORMATION

1. In addition to our responsibility for the assurance engagement on reported performance information as described in the auditor’s report, we also:

* identify and assess risks of material misstatement of the reported performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. In making those risk assessments, we consider internal control relevant to the management and reporting of performance information per selected programme in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the department’s internal control
* evaluate the documentation maintained by the department that supports the generation, collation, aggregation, monitoring and reporting of performance indicators/measures and their related targets for the selected Programmes
* evaluate and test the usefulness of planned and reported performance information, including presentation in the annual performance report and its consistency with the approved performance planning documents of the department, and determine whether the indicators and related targets were measurable and relevant
* evaluate and test the reliability of information on performance achievement to determine whether it is valid, accurate and complete.

### COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

1. We communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
2. We also confirm to the accounting officer that we have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on our independence and, where applicable, related safeguards.

## ANNEXURE F: ASSESSMENT OF INTERNAL CONTROLS

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.

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. |

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, and 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 and implement 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 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 |  |  | **N/A** | **N/A** | **N/A** | **N/A** |
| **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 |  |  |  |  |  |  |