FINAL MANAGEMENT REPORT

Department of Public Works and Infrastructure

**31 March 2021**

**Communicated to the accounting authority: XX July 2021**

MANAGEMENT REPORT

Department of Public Works and Infrastructure

**31 March 2021**

**Discussed with the accounting officer on: XX July 2021**

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## MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE DEPARTMENT OF PUBLIC WORKS AND INFRASTRUCTURE FOR THE YEAR ENDED 31 MARCH 2021

## 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 2021. 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.
4. 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

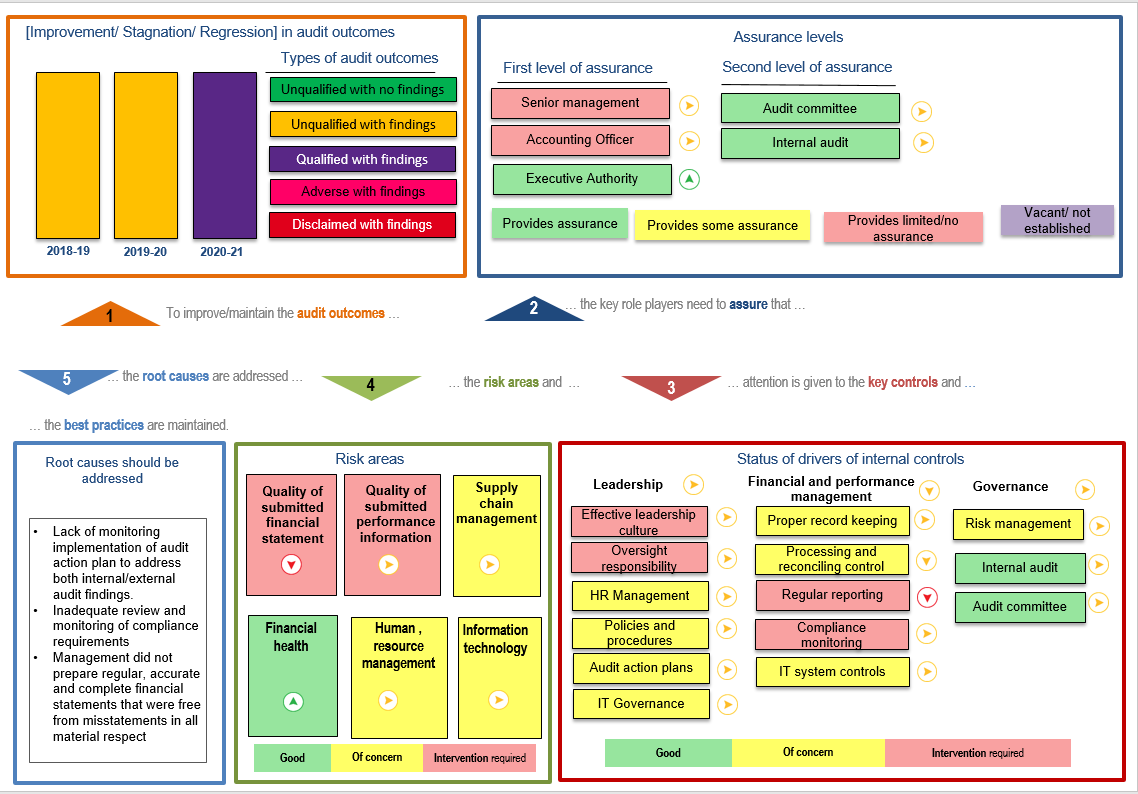
1. Root causes to be addressedMovement from the previous year is depicted as follows:



Improved

Unchanged / slight improvement / slight regression

Regressed



## OVERALL MESSAGE

-

1. The financial audit outcome regressed from an unmodified audit opinion to a qualification of audit opinion in the year 2020-21, the opinion on performance against predetermined objectives remained as a qualification of audit opinion. Instances of material non-compliance also increased when compared to the previous year.
2. The department developed a plan to address internal and external audit findings, however, based on the regression of the financial audit outcome and the lack of improvement on the audit of predetermined objectives as well as the reported issues on the audit of compliance subject matters, the appropriate level of management did not monitor adherence to the plan on time.
3. The department over the years has been working on operation clean audit opinion with the focus being on improving internal controls within the predetermined objectives reporting processes and procedures concerning the public bodies, while the audit has been creating awareness towards maintaining good practices and the department's internal controls did not identify and prevent he material misstatements from occurring.The audit of predetermined objectives has been faced with challenges for the past three to five years, while the department is responsible for reporting job opportunires reported in the EPWP reporting system;- the process of validating and verifying the created and reported job opportunities is a shared function between the department and the implementing public bodies. The department does not enjoy synergies from these combined efforts because the audit opinion does not impact the implementing public bodies.
4. Notwithstanding the challenges posed by the implementing public bodies, It is concerning that in the current year, some of the findings emanate from the projects implemented by the department and it’s implementing agent, Independent Development Trust. This is an indication that preventative controls within the department ought to be enhanced by strengthening the verification, review and monitoring processes such that all work opportunities created from projects implemented under the control of the department are recorded in a manner that enables reliability of reported performance information. Failure to address and prevent poor record keeping of the number of work opportunities created from projects implemented by the department and its implementing agent may continue to be a hindrance to the department in achieving the desired audit outcomes.
5. The increase in non-compliances paragraphs is a concern because in the prior year, two material irregularity notifications were issued to the accounting officer and the accounting officer.

## 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/s of the department

| Key stakeholder | Purpose of interaction | Number of interactions |
| --- | --- | --- |
| Portfolio committee on Public Works and Infrascture |  Meeing to share the audit outcomes and present the BRRR   Presentation of the Special audit report 1 on Covid-19 expenditure   Letter to the chairperson of the portfolion committee on DPWI presenting a summary of the issues on Special audit report 1 and 2 on Covid-19 expenditure | 3 |
| Minister |  Presentation on audit outcomes and key messages   Letter was sent following up on the progress made in the disciplinary of the minister’s special advisor   Presentation of the Special audit report 1 on Covid-19 expenditure   Presentation of the Special audit report 2 on Covid-19 expenditure | 5 |
| Director-general |  Refresher Presentation on amendments to Public Audit Act   Detail discussion on interim management report and Status of Records review.   Discussion of the engagement letter and audit Strategy   :Letters on Audit progress of the Public works portfolio   Discussion on progress made in addressing material irregularities communicated in the prior year  Meeting with DPWI, DPME & AGSA to discuss the challenges on EPWP indicator reporting   Meeting about the audit action plans to address both internal and external audit findings on AoPO and compliance subject matters. | 7 |
| Audit committee |  Discussion of the engagement letter and audit strategy   Communication of the interim management report and Status of Records review.   Approval of the Department’s Annual Financial Statements   Management presentation on the audit action plans to address both internal and external audit findings. | 4 |
| Senior Management |  Weekly Audit Steering Committee meeting   Presentation of the engagement letter and audit strategy   Presentation of the interim management report   Sevela presentations by management on the audit action plans to address both internal and external audit findings on AoPO and compliance subject matters. | 12 |

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

* Audit engagement (with specific emphasis on the roles and responsibilities of the auditor and management as well as those charged with governance).
* Overall audit strategy including the proposed nature, timing and extent of audit procedures to be performed.
* Status of key controls, the weaknesses in the internal control environment identified through the Status of Records Review and interim audit process and actions to be taken to correct these.
* PAA Amendments with the focus on progress made in addressing the material irregularities reported in the prior year.

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

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

### AUDIT OF THE FINANCIAL STATEMENTS

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

| Material misstatement | | | Impact  R  current year | Impact  R  prior year |
| --- | --- | --- | --- | --- |
| Financial statement item | Finding  [Include a brief description of the misstatement as per the findings and the auditor’s report. Include the reasons for the auditee not correcting the misstatement where applicable.] | Occurred in prior year  [Insert Yes/No] |
| Material misstatements not corrected | | | | |
| Principal- agent relations balances | The department did not recognise accrued departmental revenue due to the department from NSF for project implementation and monitoring | Yes | R2 902 725 | R5 079 768 |
| Trade Receivables | Limittation of scope – The Property Management Trading Entity failed to confirm existence of a balance due to DPWI | No | R15 019 875 | - |
| Goods and services | Prepayments and advances incorrectly classified as goods and services | No | R1 850 000 | - |
| Irregular expenditure | Irregular expenditure disclosure note not complete | No | R20 908 028 | - |
| Fruitless and wasteful | Fruitless and wasteful expenditure not complete | No | R433 346 | - |
| Provision for impairment | The recoverability of the debtor is uncertain as there are no funds to honor the debt. | No | R54 541 470 |  |
| Contingent liabilities | 1. The department disclosed the estimate of the financial effect of the contingent liabilities, the following was not disclosed:  * a brief description of the nature of the contingent liability: * an indication of the uncertainties relating to the amount or timing of any outflow; * the possibility of any reimbursement  1. The department did not include any narrative on note 19: Contingent liabilities and contingent assets pertaining to salary increases. | No | Unknown | - |

### 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 schedule(s) and, accordingly, I do not express an opinion on them.

### 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 performance 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 department’s annual performance report for the year ended 31 March 2021.

|  |  |  |  |
| --- | --- | --- | --- |
| [Programmes/ objectives] | 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(R): *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[s].

#### 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 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.Other matter

| **Indicator description** | **Reported achievement** |
| --- | --- |
| Number of work opportunities reported in the EPWP- RS system | 938 688 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 | 69%% Youth  42%% Women  0,98%% persons with disabilities |

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

##### Achievement of planned targets

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

#### Responsibilities of the partyAccounting 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 do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. 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 Managagement

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. As reported in the basis for qualified of opinion the value as disclosed in note xx of the financial statements does not reflect the full extent of the irregular expenditure incurred. The majority of the irregular expenditure disclosed in the financial statements was caused by salaries paid to employees that were appointed irregularly.
2. Effective internal controls were not in place for approval and processing of payments, as required by treasury regulation 8.1.1.

**Annual financial Statement and Annual Report**

1. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 40(1)(a) of the PFMA.
2. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected, which resulted in the financial statements receiving a qualified opinion.

### 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 informationand 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. Management established a formal code of conduct that addressed appropriate ethical and moral behaviour, however, the official Director-General is currently on suspension and undergoing disciplinary processes. More instances of non-compliances that resulted in material irregularities are being investigated, as indicated under the Other reports section of this report.
2. The acting Director-General did not implement all the appropriate actions (investigate, identify responsible officials and implement disciplinary processes against the officials as well recover the financial loss) he committed in response to the material irregularity notification on **state events** expenditure that exceeded the contract amount.

##### Oversight responsibility

1. The department did not have sufficient monitoring controls to ensure the proper implementation of the overall process of reporting based on the lack of improvement on the outcomes of the audit of predetermined objectives.
2. The department developed a plan to address internal and external EPWP audit findings, however, some of the findings identified emanate from the projects implemented by the department and its implementing agency Independent Development Trust, the appropriate level of management did not monitor adherence to the plan in a timely manner to address the issues reported in the prior year audit. The review processes to ensure credibility of the reported achievements in annual performance report did not identify issues of material misstatement.
3. The suspension of the Director-General left an instability in the leadership of the department with the following senior management positions either being vacant or filled by acting incumbents as at 31 March 2021:-

* DDG: Inter-Governmental Relations (IGR)
* DDG: Policy, Research, and Regulations
* DDG: Expanded Public Works Programme (EPWP)
* DG position
* DDG: Governance Risk and Compliance Services (GRC)
* Head of Performance monitoring, evaluation and reporting (PM&E)

##### Human resource management

1. The overall vacancy rate at year-end increased from 10.6% in the previous year to 15.6% in the current year.
2. The senior management vacancy rate at year-end increased from 24.3% in the previous year to 31.9% in the current year.
3. Positions in senior management were vacant for more than 12 months.
4. The 12 position had been vacant for more than 12 months (include specific posts that are critical for financial and performance reporting and monitoring compliance with legislation, i.e. key officials as defined in the HR working papers).

* Deputy Director : Fosad & Cluster Co-Ordination
* Director General: Deputy=
* Chief Director: Monitoring & Evaluation Epwp
* Director:Epwp Data Management
* Deputy Director:Technical Support & Managementepwp
* Director: Social Development Specialist
* Director: Environment & Culture Sector (Epwp)
* Deputy Director: Training Coordinator (Epwp)
* Deputy Director:Compliance:Dpw
* Chief Director:Construction Sector Regulation
* Director: Property Policy & Legislative Analysis
* Director: Projects And Programme Management

1. Vacant positions in senior management were not advertised within six months.

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

1. The department developed a plan to address internal and external audit findings, but the appropriate level of management did not monitor adherence to the plan in a timely manner. Findings reported on the audit of predetermined objectives are recurring and there is an increase in the issues reported as non- compliance as well as a regression on the material misstatement identified in the audit of financial statements.
2. The implementation of recommendations of the state funerals investigation as well as the PSC reports were not fully implement due to numerous reasons i.e. court interdicts by implicated officials of the department as well as challenges with securing the investigating bodies as witnesses for disciplinary hearings.
3. The investigation into the matters of DPWI material irregulariy 02 were not investigated as previousy commited in the response to the notification.

##### 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:
2. The ICT structure was recently approved, 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 2021. 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.
3. Management failed to meet key performance indicators (KPIs) as per the Annual Performance Plan (APP) due to the impact of the covid-19 pandemic. Productivity was slowed down the department was not fully equipped for employees to continue being productive while working from home. SCM personnel work on rotational basis, which means they were not available all the time to assist with finalizing ICT contracts.

#### Financial and performance management

##### Proper record keeping

1. The department did not have a proper records management system to maintain information that supported the reported performance in the annual performance report. This includes information that related to the collection, collation, verification, storage, and reporting of actual performance information.
2. The department did not have a proper records management system to maintain information that supported the, classes of transactions, balances and disclosures in the annual financial statements. This includes information that related to the presentation of the Irregular, Fruitless and Wasteful expenditure, contingent liabilities as well as impairment provision disclosure note, classification of goods and services and limitation in the audit of Receivables.

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

1. As indicated in section XX, the financial statements contained numerous material uncorrected misstatements. While the requisite and compulsory in-year financial reports were prepared, these were not accurate and complete.This was mainly due to an incorrect understanding and interpretation of the financial reporting framework. The quality of the annual financial statements submitted for auditing regressed in the current compared to 2019-20, whereby there were no material financial audit adjustments
2. As indicated in section XX, the annual performance report contained numerous material uncorrected misstatements. While the requisite and compulsory in-year performance reports were prepared, these were not valid, accurate and complete.This was mainly due to the extent of reliance placed on the public bodies to ensure valid , accurate and complete performance information reported. There is no improvement in the quality of the annual performance report submitted for auditing.

##### Compliance monitoring

1. There is an increased in the number of issues of non-compliance with legislation. Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored.
2. We commend the department for the improvement noted on the non – compliance issue of payments not made within 30 days that was reported in the prior year and there were also limited to no Supply Chain Management non- compliances identified. Howevetr there is an increase on the number of issues of non-compliance paragragphs reported on the audit report .e. The paragraph on the non- compliance with PFMA on the Annual Financial Statements and Annual Report and recurring issues of Expenditure management on irregular expenditure that was not prevented and effective internal controls that were not in place for approval and processing of payments.

##### 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.

* There was lack of consequence management for not resolving prior audit findings on IT Service Continuity, as there were not controls around backup management due to the department running out of space on the drive for backups due to the expired backup tool.
* The review of administrator activities on AD was not performed due to resource constraints within the ICT function.
* Management did not in all instances implement proper record keeping of reviews of user access rights and system administrator’s activities on Reapatala and EPWP systems in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support Information Systems Audit reporting.
* Noncompliance to the approved procedures as the of user access management controls around PERSAL were inadequately implemented.
* Failure by IT management in ensuring that application systems in use can log and track changes that have been implemented and lack of consequence management to ensure recommendation made by the AG were implemented.
* Lack of capacity from a skills and technology perspective within the department to ensure that adequate security control measures are implemented and consistently performed

#### Governance

##### Risk management activities and risk strategy

1. The department conducted a risk assessment, as required by the PFMA. However, the investigation into expenditure on state events was not conducted to quantify the full extent of the financial loss, identify the responsible parties and initiate the internal disciplinary processes.

##### Internal audit

1. The internal audit performed a number of audits throughout the financial period (relating to, inter alia, quarterly performance information and contract management controls) and thus effectively discharged its d, 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 i.e. the regression in the financial audit opinion to enable oversight responsibility by other role players such as the audit committee and the accounting officer.

##### Audit committee

1. The audit committee was in place, fully functional for the financial period, and complied with relevant legislation.
2. The audit committee vigorously interrogated the audit action plans that were designed to address audit finds from both internal and external auditors and consistently monitored the implementation thereof. The audit committee members are highly skilled and experienced which enables the robustness in the environment and the committee holds the executive as well as the accounting officer accountable for their actions that may hinder the department from obtaining the desired audit outcome

#### Summary

1. The matters above, as they relate to the basis for the qualified opinion, 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 developed a plan to address internal and external audit findings, but the appropriate level of management did not monitor adherence to the plan in a timely manner. Findings reported on the audit of predetermined objectives are recurring and there is an increase in the issues reported as non- compliance as well as a regression on the material misstatement identified in the audit of financial statements.
3. The department did not have a proper records management system to maintain information that supported the reported performance in the annual performance report. This included information that related to the collection, collation, verification, storage, and reporting of actual performance information.
4. The financial statements and annual performance report contained numerous material uncorrected misstatements. While the requisite and compulsory in-year financial and performance reports were prepared, these were not accurate and complete.This was mainly due to an incorrect understanding of the financial reporting framework and the extent of reliance placed on the public bodies to ensure valid , accurate and complete performance information reporting

### 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 and on the status of material irregularities reported in the previous year.
2. We have notified the accounting office of material irregularities and suspected material irregularities identified during the audit and the actions the AGSA will take with regard to these material irregularities. We also assessed the progress made in resolving the material irregularities reported in the previous year.
3. The auditor’s report will include the following summarised information:

### Status of previously reported material irregularities

### State events epeenditure exceeded the contract amount

1. The prices that were charged on the invoice were different from the prices that were quoted on the pricing schedule that was submitted by the supplier during the tender process of state events and the non-compliance resulted into likely material financial loss of R825 832. The non-compliance was identified with TR 8.1.1 as the internal procedures and internal control measures did not identify or prevent the irregular payments mentioned above.
2. The Accounting Officer was notified of the MI on 03 September 2020 and the appropriate actions committed in response to the notification ( Investigate the expenditure into state events, quantify the full quantum of the likey financial loss, identify responsible officials and initiate the process to recover the financial loss) have not been implemented within reasonable time.
3. I recommend that the accounting officer should take the following actions to address the material irregularity, which should be implemented by 31 March 2022:-

* The accounting officer should investigate the non-compliance and quantify the amount of the financial loss incurred in accordance with the applicable instruction note(s) issued by the National Treasury dealing with fruitless & wasteful expenditure
* Appropriate action should be taken to determine whether the responsible official is liable by law for the losses suffered by the department for the purpose of recovery, as required by treasury regulations 9.1.4 and 12.7.1
* Effective and appropriate disciplinary steps should be taken against any official that the investigation found to be responsible, as required by section 38(1)(h) of the PFMA and in accordance with treasury regulation 9.1.3.

### State funerals expenditure exceeded the contract amount

1. The prices that were charged on the invoice were different from the prices that were quoted on the pricing schedule that was submitted by the supplier during the tender process. This resulted in a financial loss of R 9 121 374. The non-compliance was identified with TR 8.1.1 as the internal procedures and internal control measures did not identify or prevent the irregular payments mentioned above. The Accounting Officer was notified of the MI on 02 September 2020 and the appropriate
2. An investigation by the Special Investigating Unit (SIU) on the matter commenced in 2020 with the plan to institute civil claim against the supplier based on the outcome of the investigation and the contract with the supplier was terminated in the prior year. I will follow up on the investigation and the implementation of the planned actions during my next audit.
3. An investigation into the matter by the external service provider concluded on 29 March 2019. The executive authority, accounting officer and the Hon. Minister in the Office of Presidency are takin disciplinary actions against the officials found responsible. The accounting officer opened a criminal case with the South African Police Service (SAPS) on CAS 792/3/2020 against the service provider and notified the supplier of the intention to prohibit the supplier from doing business with the state. I will follow up on the implementation of the planned actions during my next audit.

### OTHER REPORTS

1. We draw attention to the following engagements conducted by various parties that have or could potentially have an impact on the dfepartment’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:
2. 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 XX) 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

1. The implementation of action plans by senior management were in certain instances not effective as it resulted in the department financial audit opinion regressing. The is a slight increase in the number of non-compliance paragraphs. These actions plans were not adequate and were not implemented timeously to improve the outcome of the audit of predetermined objectiv which remains a qualification.

##### Accounting officer: provides limited assurance

1. The accounting officer has put initiatives in place to provide assurance. The 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 as well regression in the financial audit opinion.
2. The accounting officer did not implement all the appropriate actions he committed in response to the material irregularity notification on state events expenditure exceeding the contract amount.

##### Executive authority provides assurance

1. The executive authority has been receptive to recommendations from the auditors, and 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. The minister was receptive to the issues communicated on special audit report 1 and 2, took a compliance approach to speedily resolfve audit issues and hold responsible officials accountable. She also initiated compulsory training on the PAA amendments for all the executives to enforce the culture of performance with the understanding of the repercursions of non- compliance.

##### Internal audit: provides assurance

1. Legislation in South Africa requires the establishment, roles and responsibilities of internal audit units. Internal audit units form 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.
2. 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.
3. The internal audit unit effectively discharges its duties and responsibilities, however, the full extent or benefit will be realised once management effectively and timeously implements the recommendations from the outcomes of these audits.

##### Audit committee: provides assurance

1. The audit committee is an independent advisory body to the accounting officer and the management and staff of the department on matters relating to internal financial control and internal audits; risk management; accounting policies; adequacy, reliability and accuracy of financial reporting and information; performance management; effective governance; the PFMA, Treasury Regulations and any other applicable legislation; performance evaluation and any other issues.
2. The audit committee is also expected to review the annual financial statements to provide an authoritative and credible view of the department, its efficiency and effectiveness and its overall level of compliance with the applicable legislation.
3. The audit committee met regularly throughout the year. The committee reviewed and approved the annual financial statements and annual reports before submission. The audit the committee also follows up with management on the implementation of internal and external audit recommendations.

### 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. | Commitment | Made by | Auditors comments | Status |
|  | 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 | M. Sithole (Chief  Financial Officer) | One instance of misstatement was identified | In progress |
|  | 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 noncompliance  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 recordsmanagement  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 DDGEPWP) | Similar findings  were identified  during Special Report (1& 2), interim and  final audit | In progress |
|  | 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 | R. Naidoo (ADDG:  Supply Chain  Management) | There was an improvement on the issues of non- compliance with legislation on procurement and contract management, however, Instances of non- compliances with legislation were identified and noted an increase in the non-compliance paragraphs | In progress |

## SECTION 4: Specific focus areas

### FINANCIAL VIABILITY

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

| **FINANCIAL VIABILITY ASSESSMENT** | | | |
| --- | --- | --- | --- |
|  | | **AS AT 31 MARCH 2021** | **AS AT 31 MARCH 2020** |
| **EXPENDITURE MANAGEMENT** | | | |
| 1.1 | Creditor payment period | **24.8 Days** | **17.8 Days** |
| 1.2 | 30+ day accruals as a percentage of total accruals | **2.5%** | **0%** |
| * Amount of 30+ day accruals * Amount of total accruals | **R399 000**  **R16 068 000** | **R0**  **R23 506 000** |
| **REVENUE MANAGEMENT** | | | |
| 2.1 | Debtor-collection period (after impairment) | **69.1 Days** | **35 Days** |
| 2.2 | Debtors’ impairment provision as a percentage of accrued departmental revenue | **0%** | **0%** |
| * Amount of debtors’ impairment provision * Amount of accrued departmental revenue | **R0**  **R1 416 000** | **R0**  **R1 416 00** |
| **ASSET AND LIABILITY MANAGEMENT** | | | |
| 3.1 | An accrual-adjusted deficit for the year was realised (total expenditure exceeded total revenue) | **No** | **No** |
| * Amount of accrual-adjusted surplus/(deficit) for the year | **R58 101 000\*** | **R116 698 000** |
| 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 | **(R478 953 000)\*** | **(R420 891 000)** |
| 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 | **R84 211 000\*** | **R265 637 000** |
| **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) | **(R83 112 000)** | **(R153 176 000)** |
| 4.2 | Cash shortfall as a percentage of next year’s appropriation (budget), excluding “compensation of employees” and “transfers and subsidies” \*\* | **37.4%** | **62.2%** |
| * Amount of the cash surplus/(shortfall) * Amount of next year’s appropriation (budget), excluding “compensation of employees” and “transfers and subsidies” | **(R188 739 000)**  **R504 904 000** | **(R298 438 000)**  **R480 005 000** |
| 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” | **6.4 %** | **7.8%** |
| * Amounts payable in future periods * Amount of the next three years’ appropriation (budget), excluding “compensation of employees” and “transfers and subsidies" | **R98 853 000**  **R1 545 904 000** | **R124 765 000**  **R1 589 800 000** |
| 4.4 | Guarantees issued by the department as a percentage of next year’s budget, excluding “compensation of employees” and “transfers and subsidies” | **0,01%** | **No guarantees issued** |
| * Amount of guarantees issued * Amount of next year’s appropriation (budget), excluding “compensation of employees” and “transfers and subsidies” | **R53 000**  **R504 904 000** | **R0**  **R480 005 000** |
| 4.5 | Claims against the department as a percentage of next year’s budget, excluding “compensation of employees” and “transfers and subsidies” | **2%** | **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” | **R10 000 000**  **R504 904 000** | **R0**  **R480 005 000** |
| **OVERALL ASSESSMENT** | | | |
| Overall the financial viability is assessed as: | | **Green (Good)** | **Green (Good)** |
| *\* These amounts have been adjusted for uncorrected misstatements that resulted in the modification of the audit opinion and will therefore not agree with the financial statement amounts. The uncorrected misstatements included understatement of provision for impairment by R54 541 000 relating to DBE and overstatement of Claims recoverable by R15 019 000 relating to PMTE.*  *\*\* 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’s financial position improved as indicated by the significant decline in the bank overdraft balance. This is however due to low spending in the current year as a results of COVID-19 which impacted operations and activities nationwide. The bank overdraft will however remain until such time when the unauthorised expenditure is approved with funding.
2. The financial position is affected by the uncorrected misstatements relating to receivables and impairment of receivables which negatively affected the net assets balances.
3. The creditors payment period has regressed mostly due to employees working from home and not being able to process payments on a timely manner. However, the creditors payment period is still within the legislated 30 days payments period.
4. The department is involved in a legal dispute where a previous contractor is claiming for damaged against the department and if the claim is successful it might present financial challenges to the department.

### 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 004 818(79%) of irregular expenditure incurred in the current financial year was as a result of salaries of employees that were appointed irregularly. Further irregular expenditure incurred in previous years amounting to R19 662 211 as also identified in the current year. 100% 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 of payment processes.

##### 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** | *61* | *78 672 036* | *47* | *8 621 337* | *14* | *70 050 700* |
| **Expenditure incurred on selected awards – current year** |  | *18 049 397* |  | *7 061 373* |  | *10 988 025* |
| **Limitations – awards selected but could not be tested** | *0* | *0* | *0* | *0* | *0* | *0* |
| **Awards on which non-compliance was identified** | *1* | *53 423* | *1* | *53 423* | *0* | *0* |
| **Irregular expenditure identified** | *1* | *53 423* | *1* | *53 423* | *0* | *0* |
| **Instances of irregular expenditure where goods/ services were not received** | *0* | *0* | *0* | *0* | *0* | *0* |

##### Local content and production (designated sectors)

* One (1) quotation with a total value of R53 423,25 was awarded to a bidder that did not meet the minimum threshold for local production and content.

### 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.
3. The PFMA and its regulations clearly stipulate that matters such as incurring unauthorised, irregular as well as fruitless and wasteful expenditure, the possible abuse of the SCM system (including fraud and improper conduct) and allegations of financial misconduct should be investigated. Disciplinary steps should be taken based on the results of the investigations. Our audits included an assessment of the department’s management of consequences.

##### Ongoing investigations

1. A total of 05 (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:

|  |  |
| --- | --- |
| Total number of ongoing investigations as at year-end | 5 |
| * Number of SCM-related investigations | 1 |
| * Number of fraud-related investigations | 4 |
| Number of investigations exceeding a period of six months | 5 |

### BROAD-BASED BLACK ECONOMIC EMPOWERMENT (B-BBEE) ACT AND REGULATIONS REQUIREMENTS

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

* The department did not submit the FORM B-BBEE 1, the approved audited annual financial statements and the approved annual report pertaining to the 2019-20 financial year to the B-BBEE Commission as required by regulation 12(2) of the B-BBEE Regulations.
* The annual report of the department did not include a report on compliance with broad-based black economic empowerment as required by section 13G(1) of the B-BBEE Act.

## 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:
2. The following internal audit report was considered for risk identification purposes i.e.

* Follow up audits where Internal Audit assessed management’s progress in addressing internal and external audit findings from prior periods, procurement and contract vmanagement as well as audit of the quarterly performance report for scoped-in programme and IT audit.

## SECTION 6: 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 | In progress | In progress |  |  |  |  |  |  |
| Independent  Development  Trust (IDT) | Did not submit AFS | Did not submit APR and does not have approved APP | In progress |  |  |  |  |  |  |
| Construction  Industry  Development  Board(CIDB) | Unqualified | NO\* | YES |  |  |  |  |  |  |
| Council for  the Built  Environment  (CBE) | Unqualified | NO | NO |  |  |  |  |  |  |
| Agrément  South Africa  (ASA) | Unqualified\* | NO\* | YES |  |  |  |  |  |  |
| \* Material adjustments were made | | | | | | | | | |

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

## SECTION 7: Emerging risks

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

###### New pronouncements

###### Modified cash standard

1. The following emerging risks are relevant for the 2020-21 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.

#### Subsequent events

1. Management should consider the following sources to identify subsequent events and adequately account for the in accordance with the reporting framework

* Media reports
* Political initiatives
* Changes in oversight
* Transfer of functions

#### 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
    - standardised indicators related to the core functions prioritised for the year under review are included in planning documents (provincial departments and provincial public entities only).

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.

## SECTION 8: Conclusion

1. The matters communicated throughout this report relate to the three fundamentals of internal control that should be addressed to improve the internal control environment and ultimately the audit opinion. 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

Tintswalo Masia

Senior Manager: National A

2021/07/22

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## 