**FINAL MANAGEMENT REPORT**

**DEPARTMENT OF PUBLIC WORKS**

**31 March 2015**

**MANAGEMENT REPORT**

**DEPARTMENT OF PUBLIC WORKS**

**31 March 2015**

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**FINAL MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE DEPARTMENT OF PUBLIC WORKS FOR THE YEAR ENDED 31 MARCH 2015**

**INTRODUCTION**

1. Our responsibility is to:

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

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

1. This management report includes audit findings arising from the audit of the financial statements, reporting on predetermined objectives and compliance with legislation for the year ended 31 March 2015. These findings were communicated to management, and the report also details management’s response to these findings. The report furthermore includes information on the internal control deficiencies that we identified as the root causes of the matters reported. Addressing these deficiencies will help to improve the audit outcome.
2. The management report consists of an executive summary and annexures containing the detailed audit findings.

**EXECUTIVE SUMMARY**

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

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

|  |  |
| --- | --- |
| **Stakeholder** | **Number of interactions** |
| Portfolio committee on Public Works | 4 |
| Standing committee on public accounts | 2 |
| Minister of Public Works | 4 |
| Accounting officer | 4 |
| Audit committee | 6 |

1. At these interactions, we shared audit outcomes relating to the 2013-14 audit cycle for the Public Works sector in totality. With respect to the current audit we discussed the terms of the audit engagement (with specific emphasis on the roles and responsibilities of the auditor and management as well as those charged with governance), overall audit strategy including the proposed nature, timing and extent of audit procedures to be performed, risk assessment (including fraud risk assessment) and the effectiveness of internal control. Audit progress and findings were discussed on a continuous basis and the audit outcome for 2014-15 will be discussed prior to the finalisation of the audit report.
2. Some of the stakeholders made commitments to implement initiatives that can improve the audit outcome. The commitments given and the progress of previous commitments are included in part F of section 2, which deals with the assessment of assurance providers.

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

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

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

| **Material misstatements** | | | **Impact**  **R**  current year | **Impact**  **R**  prior year |
| --- | --- | --- | --- | --- |
| **Financial statement item** | **Finding** | **Occurred in prior year** |
| **Material misstatements not corrected** | | | | |
| **Irregular expenditure disclosure note** | Irregular expenditure identified through the audit process not identified and disclosed by the department.  (Of the amount identified R16 977 638,00 relates to current year procurement and R69 027,00 to prior year procurement) | Yes, however necessary adjustments were effected. | 17 046 655 | Not applicable as necessary adjustments were effected. |
| **Transfer of functions disclosure note** | The transfer of functions disclosure note was materially misstated due to the department having neglected to quantify and disclose the following items that were transferred to PMTE in the disclosure note as prescribed: |  |  |  |
|  | Commitments: Although it was indicated in the disclosure note for commitments that the reduction of the balance is due to the transfer of budget and related functions to PMTE, there were no balances disclosed in the transfer of functions note pertaining to commitments that were transferred to PMTE. As the funds were transferred from 1 April 2015, the balances as at 31 March 2015 transferred to PMTE should have been disclosed. This should have included all commitments transferred. In an attempt to quantify the financial impact an extract from the commitments as per the WCS schedules of PMTE was made to identify commitments where Public Works is the client department. The total commitments amounted to R843 659 206,31. | No | 843 659 206 | Not applicable |
|  | Commitments: The financial statements of PMTE submitted on 30 June 2015 contain LOGIS commitments of DPW amounting to R56 832 454,41. The transfer of these commitments was not included in the transfer of functions note. | No | 832 454 | Not applicable |
|  | Accruals and payables not recognised:  The following accruals existed at year end in the financial statements of PMTE pertaining to DPW (these items were always disclosed by DPW prior to transfer of functions):  Construction (PACE) - R115 879 768  Construction (CA) - R9 039 266  Municipal services - R27 822 998 | No | 152 742 032 | Not applicable |
|  | Accruals and payables not recognised:  According to the financial statements submitted by PMTE on 30 June 2015, accruals amounting to R21 474 238,57 were transferred from DPW to PMTE. This transfer was also not included in the transfer of functions disclosure note in the DPW financial statements. | No | 21 474 239 | Not applicable |
|  | Lease commitments:  Although it was indicated in the lease commitments disclosure note that the budget for office accommodation has been transferred to PMTE as part of the transfer of functions, no balances as at year end transferred to PMTE were disclosed in the transfer of functions disclosure note. As no schedules to support the lease commitment pertaining to DPW was prepared and submitted with the annual financial statements, the financial impact of the non-disclosure cannot be accurately determined. It was however noted that at year-end DPW owed PMTE R90 533 092,07 pertaining to private leases. | No | 90 533 092 | Not applicable |
|  | Employee benefits:  Although it was indicated in the description of the note that staff was also transferred to PMTE, the balance of the liability as at 31 March 2015 was not disclosed in the transfer of function note. As there were no schedules provided with the financial statements to indicate which staff members were transferred to PMTE the extent to which this note was understated could not be determined. | No | Extent cannot be determined | Not applicable |
| **Material misstatements corrected** | | | | |
| None presently |  |  |  |  |

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

**EMPHASIS OF MATTER PARAGRAPHS**

1. The following emphasis of matter paragraphs will be included in our auditor’s report to draw the users’ attention to matters presented or disclosed in the financial statements:

**Immovable assets**

1. As disclosed in note 32 to the financial statements all immovable assets were transferred to the Property Management Trading Entity with effect 1 April 2013. We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the value of immovable assets at 31 March 2013, thus the value of assets transferred. The effects of the unresolved matter have no impact on the comparability of the current and corresponding figures.

**Restatement of corresponding figures**

1. As disclosed in note 34 to the financial statements, the corresponding figures for 31 March 2014 have been restated as a result of errors discovered during the financial year ended 31 March 2015 in the financial statements of the Department of Public Works at, and for the year ended, 31 March 2014.

**Material impairments**

1. As disclosed in note 12 to the financial statements, material impairments to the amount of R52 971 000 were provided for as a result of irrecoverable receivables.

**Material underspending of the vote**

1. As disclosed in the appropriation statement, the department has materially underspent the budget on Programme 2: Immovable Asset Management, Sub-Programme 1 – Infrastructure (Public Works) – to the amount of R70 638 000. Consequently, certain planned infrastructure projects were not completed.

**ADDITIONAL MATTER PARAGRAPH**

1. The following additional matter paragraph 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

**PART C – CONCLUSIONS ON REPORTED INFORMATION RELATING TO THE PERFORMANCE OF THE DEPARTMENT AGAINST PREDETERMINED OBJECTIVES**

1. Included below are our conclusions on the reported performance information for selected programmes presented in the annual performance report.

**Introduction**

1. We have audited the reported performance information for the following selected programmes presented in the annual performance report of the department for the year ended 31 March 2015:

* Programme 2: Immovable Asset Management on pages X to X
* Programme 3: Expanded Public Works Programme (EPWP) on pages X to X
* Programme 4: Property and Construction Industry Policy Regulation on pages X to X

**The accounting officer’s responsibilities**

1. The accounting officer is responsible for the preparation of the annual performance report in accordance with the identified performance management and reporting framework, as defined in paragraph 6 of the general notice issued in terms of the PAA. This framework deals with the planning, management, monitoring and reporting of performance against predetermined objectives. The accounting officer is also responsible for internal controls determined by management as necessary to enable the preparation of an annual performance report that is useful and reliable.

**Auditor-general’s responsibilities**

1. As required by sections 4 and 20 of the PAA, read with the general notice issued in terms thereof, our responsibility is to express reasonable assurance conclusions on the reported performance information for selected programmes presented in the annual performance report.
2. We conducted our audit in accordance with the International Standards on Assurance Engagements (ISAE) 3000: *Assurance engagements other than audits or reviews of historical financial information*.
3. We will report on whether we have received all the information and explanations required to conduct the engagement or if we became aware of additional information, the omission of which may result in the reported performance information being materially misstated or misleading.
4. We evaluated the reported performance information against the overall criteria of usefulness and reliability.
5. We evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury’s annual reporting principles and whether the reported performance was consistent with the planned programmes. We further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant as required by the National Treasury’s *Framework for managing programme performance information (FMPPI)*.
6. We assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
7. During the audit, we performed procedures to obtain audit evidence about the usefulness and reliability of the reported performance information. The procedures selected depend on the auditor’s judgement, including our assessment of the risks of material misstatement of the annual performance report. Because of the test nature and other inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that we may not detect some misstatements, even material ones, even though we properly planned and performed the audit in accordance with ISAE 3000. The procedures performed include the following:

* Understanding and testing the internal policies, procedures and controls relating to the management of, and reporting on, performance information.
* Evaluating and testing the processes, systems and controls and reviewing the documentation maintained at the auditee that support the generation, collation, aggregation, monitoring and reporting of the performance indicators and targets.
* Evaluating, testing and confirming the usefulness of planned and reported performance information in accordance with the identified performance management and reporting framework.
* Conducting detailed audit testing and obtaining sufficient appropriate audit evidence to verify the reliability of the reported performance information in terms of its validity, accuracy and completeness.

1. We believe that the evidence obtained from the work performed provides an appropriate basis for the reasonable assurance conclusions on the usefulness and reliability of the reported performance information expressed below.

**Summary of audit conclusions**

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

| **Selected programme** | **Usefulness** | **Reliability** |
| --- | --- | --- |
| *Programme 2: Immovable Asset Management* | *Qualified* | *Qualified* |
| *Programme 3: Expanded Public Works Programme (EPWP)* | *Unqualified* | *Qualified* |
| *Programme 4: Property and Construction Industry Policy Regulation* | *Unqualified* | *Unqualified* |

**Programme 2: Immovable Asset Management**

**Basis for qualified conclusion on usefulness**

**Presentation of performance information**

1. Adequate and reliable corroborating evidence could not be provided for 22% of variances as disclosed in the annual performance report. This was due to limitations placed on the scope of our work by the department. Consequently, we did not obtain sufficient appropriate audit evidence to satisfy ourselves as to the reliability of the reasons for variances.

**Basis for qualified conclusion on reliability**

**Reliability of reported performance information**

1. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to a lack of frequent review of the validity of reported achievements against source documentation.

**Qualified conclusion on usefulness and reliability**

1. In our opinion, except for the effects of the matters described in the basis for qualified conclusion paragraphs, the reported performance information of programme 2, Immovable Asset Management, is useful and reliable, in all material respects, in accordance with the identified performance management and reporting framework.

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

**Unqualified conclusion on usefulness**

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

**Basis for qualified conclusion on reliability**

**Reliability of reported performance information**

1. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objective, indicators and targets. Adequate and reliable corroborating evidence could not be provided for 31% of the targets to assess the reliability of the reported performance information. This was due to the absence of guidelines on document retention and records management for implementing bodies of the EPWP programme.

**Qualified conclusion reliability**

1. In our opinion, except for the effects of the matter described in the basis for qualified conclusion paragraph, the reported performance information of programme 3, EPWP, is reliable, in all material respects, in accordance with the identified performance management and reporting framework.

**Programme 4: Property and Construction Industry Policy Regulation**

**Unqualified conclusion on usefulness and reliability**

1. In our opinion, the reported performance information of programme 4, Property and Construction Industry Policy Regulation, is useful and reliable, in all material respects, in accordance with the identified performance management and reporting framework.

**Additional matters**

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

**Achievement of planned targets**

1. Refer to the annual performance report on pages X to X for information on the achievement of planned targets for the year. This information should be considered in the context of the qualified conclusion expressed on usefulness and reliability of the reported performance information in paragraphs 28 and 31 of this report.

**Audit findings in the audit report**

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

**PART D – FINDINGS ON NON-COMPLIANCE WITH LEGISLATION**

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

**Strategic planning and performance management**

1. Effective, efficient and transparent systems of risk management and internal control with respect to performance information and management was not maintained as required by section 38(1)(a)(i) of the PFMA.
2. Specific and appropriate information systems to enable the department to monitor the progress made towards achieving the goals, targets and core objectives as indicated in the strategic plan and annual performance plan were not implemented and operational as required by Public Service Regulation Part IIIB.1(f)(i)(ii).

**Financial statements**

1. The financial statements submitted for auditing were not fully prepared in accordance with generally recognised accounting practice as prescribed by National Treasury as required by section 40(1)(b) of the PFMA and Treasury Regulation 18.2.

**Internal audit**

1. The operational procedure and monitoring mechanisms were not assessed over transfers in terms of the annual Division of Revenue Act as required by Treasury Regulation 3.2.8.

**Human resource management and compensation**

1. Appointments were not only made in posts that were approved and funded as required by Public Service Regulation 1/III/F.1(a) and (d).
2. Funded vacant posts were not filled within 12 months after becoming vacant as prescribed by Public Service Regulation 1/VII/C.1A.2.

**Expenditure management**

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

**Consequence management**

1. Effective and appropriate disciplinary steps were not in certain instances taken against officials who made or permitted irregular expenditure as required by section 38(1)(h)(iii) of the PFMA and Treasury Regulation 9.1.3.
2. Some allegations of corruption, improper conduct or failure to comply with the SCM system were not yet investigated as required by Treasury Regulation 16A9.1(b).

**PART E – INTERNAL CONTROL**

**IMPLEMENTATION OF THE DRIVERS OF INTERNAL CONTROL**

1. Below is our assessment of the implementation of the drivers of internal control, based on significant deficiencies identified during our audit of the financial statements, the annual performance report and compliance with legislation. Significant deficiencies occur when internal controls do not exist, are not appropriately designed to address the risk, or are not implemented, which either had or could cause the financial statements or the annual performance report to be materially misstated and material instances of non-compliance with legislation to occur.
2. When the required preventative or detective controls are in place, it is assessed with a ; when progress on the implementation of such controls was made but improvement is still required or where actions taken are not sustainable, it is assessed with a ; while indicates that internal controls are not in place and intervention is required to design and implement appropriate controls. The movement in the status of the drivers from the previous year-end to the current year-end is indicated collectively for each of the three audit dimensions (namely financial statements, performance reporting, and compliance with legislation) under the three fundamentals of internal control (namely leadership, financial and performance management, and governance), with (improved), (unchanged) or (regressed).

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

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

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

**LEADERSHIP**

**Effective leadership**

1. During the year under review the implementation of measures aimed at embedding a culture of honesty, ethical behaviour and good governance in the department continued. A formal code of conduct that addresses appropriate ethical and moral behaviour is in place. Cognisance is taken of the progress made pertaining to addressing the backlog of investigations, to this effect the establishment of the Governance, Risk and Compliance Unit has been instrumental. The investigation of all irregular expenditure is not yet concluded, given the primary focus previously of generating a complete population of irregular expenditure. Thus there should be a continued focus on expediting the outstanding investigations. With regards to consequence management, an improvement has been noted however considering the outstanding investigations corrective measures, including disciplinary steps where applicable, can’t be timeously enforced in certain instances.

**Oversight responsibility**

1. Oversight responsibility in terms of financial reporting improved during 2014-15 and continues to strengthen although vigilance will be required to ensure compliance with applicable financial reporting frameworks when accounting for the transfer of functions to PMTE.
2. Compliance matters, particularly with regards to supply chain management, have received considerable attention from the department. It has been noted that the department confirmed that all awards are subject to a pre-audit by Inspectorate and Compliance unit across the department since September 2014 in order to prevent any potential irregular and fruitless and wasteful expenditure. To date it has been partially effective given that instances of non-compliance are still being identified by management and through the audit process.
3. There should be an increased level of oversight in the upcoming year over performance reporting against predetermined objectives. This includes the interrogation of reasons why particular targets are not being achieved, but even more importantly putting in place mechanisms of ensuring that all performance reported is accurate, valid and complete and that the required supporting documentation is in place and easily retrievable for audit purposes.

**Human resource management**

1. The department complied in the approval and implementation of the HR Plan. The department is however still in the process of finalising the updated organisational structure in line with the radical restructuring that took place between the department and PMTE. A migration framework was also developed.
2. Several pre-consultation meetings have been held with DPSA whilst the structure still needs to be formally submitted to DPSA for analysis and concurrence purposes. Once DPSA indicates that they concur with the new proposed structure it must be approved by the Minister and it must be ensured that sufficient funding is in place. As indicated below the department has a lot of unfunded filled positions, thus it is imperative that this process is concluded as soon as possible. If the updated organisational structure is implemented but not yet approved it could result in overspendings, thus unauthorised expenditure and if National Treasury does not approve the increase in compensation of employee cost the latter will result in irregular expenditure.
3. The vacancy rate at the end of March 2015 amounted to 21.6% based on the old approved structure. Furthermore, there are 1 101 posts additional to the establishment that have been filled as at 31 March 2015. It is a concern that the vacancy rate has increased from 18,9% at previous year-end to 21,6% in the current financial year. This could have a negative impact on the core business of the department as there might not be sufficient human resources to fulfil the mandate of the department. Further, the large number of posts additional to the establishment is preventing the permanent appointment of sufficiently skilled staff due to the reduction of available budget which results from paying the people on contract appointments.

**Policies and procedures**

1. Management has materially completed the process of approving and communicating policies during the year under review, to ensure the sustainability of this process it is suggested that an annual policy review is undertaken going forward. The process of documenting standard operating procedures throughout the business has also commenced. This includes a review of internal controls where relevant to ensure that business processes are imbued with the necessary checks and balances and internal controls.
2. It was however noted during the audit process that even though policies were approved and communicated, policies are not always implemented and compliance with the requirement enforced. Monitoring controls must thus be strengthened.
3. There is still not an effective, efficient and transparent system of risk management and internal control in place with respect to performance information and management. This is evidenced by the lack of improvement in the audit outcome pertaining to the reliability of reported performance.

**Action plans to address internal control deficiencies**

1. The department developed comprehensive action plans to address internal and external audit findings and adherence to the plan is monitored on a regular basis by the appropriate level of management. Whilst taking into account that the turn-around plan of the department is a multi-year project it should be noted that the implementation of the action plans are not as effective as they could be given that a number of critical findings (particularly regarding performance information and compliance remain partially resolved).
2. It is strongly recommended that the action plan is concluded within maximum a month of the audit report being issued and that the plan should focus on critical matters. Historically the plan took too long to finalise which resulted in limited time to focus on the implementation thereof.

**Information technology governance framework**

1. A longer term contract was not negotiated with the acting CIO as the duration of the IT projects was not adequately estimated. In addition; the process of appointing a permanent CIO had not been finalised which resulted in the Acting CIO being required for a longer period.
2. The service provider had not provided a suitably skilled resource for the department’s needs. Furthermore we were informed that the SITA account manager had not been available for monitoring meetings during the period under review.

**FINANCIAL AND PERFORMANCE MANAGEMENT**

**Proper record keeping**

1. With regards to financial reporting the department has made massive strides with regards to proper record keeping and minimal instances of limitation of scope were encountered during the audit. Documentation relating to non-successful bidders could be obtained in the majority of instances, although it was still noted.
2. The department however still does not have a proper system of record management that provides for the maintenance of information that supports the reported performance contained in the annual performance report. This includes information that relates to the collection, collation, verification, storage and reporting of actual performance information. This matter should receive priority in the 2015-16 financial year.

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

1. There has been an improvement in the daily and monthly processing and reconciling of transactions, two matters remain a concern:

* IDT: Transactions with IDT must be fully reconciled at least on a monthly basis and where applicable management should request supporting documentation to ensure that the correct information has been communicated.
* PMTE: Transactions between DPW and PMTE are not being completely reconciled and accounted for on an ongoing basis. This has resulted in incomplete reporting in the transfer of functions disclosure note.

1. Challenges are still being experienced with the capturing of EPWP data we have however been informed that this should be resolved to a large degree with the implementation of the new system in 2015-16.

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

1. The review of the interim financial statements (which have been submitted timeously to National Treasury during the year under review) and annual financial statements submitted for auditing has shown significant improvement over the past number of years to ensure that it is accurate and complete. Incomplete disclosure has however again been identified during the audit process. The transfer of functions to PMTE that was incompletely disclosed is of particular concern given the level of access to information with the department and entity sharing certain senior management officials.
2. Although the Monitoring and Evaluation Unit (M&E) met with branches/units to clarify the information required and advised on the type of POEs (portfolio of evidence) that should support the information in the performance reports there is still a significant shortcoming in the verification of evidence supporting reported performance to ensure that what is getting reported in quarterly reports and the final annual performance report is valid in all instances.

**Compliance monitoring**

1. Compliance monitoring has improved evidenced by the reduction of non-compliance reported but is not successfully preventing non-compliance from occurring yet. The detection controls surrounding irregular as well as fruitless and wasteful expenditure have improved, although certain instances that were not identified are still being identified through the audit process. Going forward specific attention must be given to ensuring that the reasons for requests for deviations from the prescribed procurement process are properly documented prior to being approved, and also it must be ensured that it is in line with the circumstances in which a deviation is allowable. The completeness of deviation registers must be confirmed on a monthly basis and should be interrogated at the Accountability EXCO meeting – thus in more detail than in the past. Trend analysis must be performed to determine that certain suppliers are not being unfairly favoured through the granting of deviations.

**Information technology systems**

1. The position of the Chief Director for Information Systems was vacant and this resulted in policies not being signed off on time. Formal alternative procedures for approval have not been defined.
2. The Persal manager who was responsible for initiating user access and system controllers’ review processes is no longer serving in that position. In addition; the acting Persal controllers were not adequately trained to facilitate these reviews resulting in the reviews not being performed. The acting Persal controllers could also not review one another’s’ activities on the system as they had equal system access.
3. The process of developing and testing the Disaster Recovery Plan (DRP) has been delayed due to the changes being implemented within the IT environment. These changes are related to the turnaround strategy. The changes include new server infrastructure, new backup infrastructure, new disaster recovery site and upgrades to the Microsoft suite of product.

**GOVERNANCE**

**Risk management activities and risk strategy**

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

**Internal audit**

1. The internal audit function was still short staffed during the year under review considering the size of and risk relating to the department and the PMTE, the mitigation of this risk by means of insourcing of private companies is noted however the department must devise a sustainable strategy to ensure adequate in-house capacity.
2. With respect to normal internal audits, some valuable reports have been issued; however it remains a concern that high risk audits are only scheduled for completion in the last quarter as this does not afford management with the opportunity to implement the recommendations prior to year-end. It remains a concern that certain important scheduled internal audits, such as the review of the financial statements, the audit of immovable assets and the audit of performance information, including EPWP information, are audited by external sources.
3. In line with the provisions of the Institute of Internal Auditors, an independent review has to be performed on the quality of the work of internal audit every five years. This review is currently under way and scheduled to be completed by the end of August 2015.
4. The aforementioned results in an inability from an external audit perspective to conclude whether the Internal Audit function is currently adhering to the provisions contained in Treasury Regulation 3.2.6 which requires that *“Internal audit must be conducted in accordance with the standards set by the Institute of Internal Auditors.”*

**Audit committee**

1. The audit committee is currently effectively involved from a governance perspective in the department’s turnaround process, which is an ongoing project. The audit committee should continue to focus on ensuring that the internal audit of the department is capacitated and operates effectively and that sufficient priority is allocated within the department to ensuring that all reported performance can be validated.

**SUMMARY**

1. The matters above are summarised as follows:

**Leadership**

1. Leadership did not exercise effective oversight with regard to performance reporting and compliance as well as related internal controls.
2. Leadership was not successful in improving the high vacancy rate in the department, the human resource plan has been approved and implemented however the approval of the revised organisational structure, taking into account the transfer of functions from DPW to PMTE, is still pending.

**Financial and performance management**

1. Proper record keeping was not always implemented in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support performance reporting.
2. Regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information were not prepared throughout the financial year.
3. The review and monitoring of compliance with applicable laws and regulations were ineffective in certain instances.

**Governance**

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

**PART F – 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, and one of the important oversight functions of legislatures is to consider auditees’ annual reports. To perform their oversight function, they need assurance that the information in the annual report is credible. To this end, the annual report also 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 part E of section 2) and the impact of the different role players on these controls. We provide our assessment for this audit cycle below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Assurance levels** | | |  |
|  | | |
| Senior management |  | ***Provides some assurance*** |
|  |  |
| Director-General | ***Provides some assurance*** |
|  |  |
| Minister of Public Works | ***Provides some assurance*** |
|  |  |
| Internal audit | ***Provides some assurance*** |
|  |  |
| Audit committee | ***Provides assurance*** |
|  |  |
|  |  |

**STATUS OF IMPLEMENTATION OF COMMITMENTS AND RECOMMENDATIONS**

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

| **No.** | **Commitment** | **Made by** | **Due Date** | **Status** |
| --- | --- | --- | --- | --- |
| **1. Audit qualification matters for 2012-13** | | | | |
| 1(a) | The Department will update the Contract Price Adjustment Provision CPAP policy and recalculate the provision in line with the policy. | DG: Mr. M Dlabantu | 31 May 2014 | Resolved. CPAP fairly reflected in financial statements of DPW where applicable. Function was however transferred to PMTE. |
| 1(b) | Data cleansing of the WCS | DG: Mr. M Dlabantu | 31 May 2014 | In progress, certain discrepancies were still noted during the interim phase of the audit. This commitment however now pertains mainly to PMTE as commitments calculated based on WCS data have been transferred to the entity. |
| **2. Supply chain management** | | | | |
| 2(a) | The department commits to clear irregular expenditure and non- compliant expenditure by developing relevant policies and procedures, enhancing the monitoring, enforcing compliance and holding officials accountable. | DG: Mr. M Dlabantu | 31 March 2015 | Process is ongoing. Legislative deadlines pertaining to follow up of irregular expenditure and the implementation of disciplinary actions needs to be considered and adhered to by management. |
| 2(b) | Records management will also be improved to enable proper audit trail. | DG: Mr. M Dlabantu | 31 Dec. 2014 | In progress, largely resolved for financial reporting however still significant limitation of scope identified pertaining to performance information. |
| 2(c) | To enhance better planning, demand management function will be institutionalised. | DG: Mr. M Dlabantu | 31 March 2015 | Ongoing. The budget on infrastructure was again materially underspent. This function has however also now been transferred to PMTE. |
| 2(d) | Capacity will be created at head office and regional level in line with revised or organisational structure. To be completed by 31 December 2014. | DG: Mr. M Dlabantu | 31 Dec. 2014 | Ongoing, new organisational structure pending approval. Vacancy rate based on old approved structure increased when compared to the prior year. |
| 2(e) | Training will be provided to all SCM officials by 31 March 2015. | DG: Mr. M Dlabantu | 31 March 2015 | Training was provided during the year under review however due to the dynamic nature of the SCM environment it is suggested that ongoing training continues to be a focus area. |
| **3. Predetermined objectives** | | | | |
| 3(a) | The department commits to improving the monitoring of performance information by capacitating the unit, improving the reliability, validity and measurability of targets. The operational and strategic plans will be improved to show reliable information. | DG: Mr. M Dlabantu | 31 March 2015 | Resolved pertaining to the setting of objectives, indicators and targets (usefulness objective) however still unresolved pertaining to the reliability of reported performance. |
| **4. Financial management** | | | | |
| 4(a) | The department commits to improving the financial management by conducting monthly reconciliations, managing the commitments, contingent liabilities and assets, and accruals better. | DG: Mr. M Dlabantu | 31 March 2015 | Resolved – financial management has improved and monthly reconciliations are being performed. |
| 4(b) | Improving review of financial statements. The regions will be provided with support to ensure that they provide quality information. Managers will be held accountable for non-compliance. | DG: Mr. M Dlabantu | 31 May 2014 | Improvement has been realised however continued effort must be put into review of financial statements (both at interim and final stage) as material misstatements are still being identified – although greatly diminished. |
| 4(c) | Progress on the action plans to deal with audit findings will be closely monitored. | DG: Mr. M Dlabantu | 31 March 2014 | Comprehensive audit action plans per directorate were compiled and monitored. However it was not in all instances effective given the number of repetitive audit findings, particularly in the area of compliance. |
| **5. Information technology controls** | | | | |
| 5(a) | An IT master plan to be developed. | DG: Mr. M Dlabantu | 31 Dec. 2014 | ICT governance framework has been developed and signed into effect by the DG. The department must prioritise the appointment of sufficient appropriately skilled ICT staff to enable the effective implementation of the ICT governance framework. Most notably the position of Chief Information Officer (CIO) must be filled as a matter of urgency. |
| **6. Human resource management** | | | | |
| 6(a) | Enhancement of controls around the signing of payroll certificates | DG: Mr. M Dlabantu | 30 Nov. 2014 | Not yet addressed across all locations. Non-compliance identified during the audit process. |
| 6(b) | Finalising the development and approval of organisational structure | DG: Mr. M Dlabantu | 30 Aug. 2014 | In progress, the updated structure has been designed but not yet approved. |
| 6(c) | The filling of vacant posts is on-going and strictly monitored | DG: Mr. M Dlabantu | 31 March 2015 | Concerns pertaining to the high vacancy rate remain and should continue to receive priority attention. |
| **7. Governance** | | | | |
| 7(a) | The Governance, Risk and Compliance management is being elevated to a Branch level and will be capacitated to enable improved risk management for all operations. | DG: Mr. M Dlabantu | 3 Dec. 2014 | Done – GCR unit functional and risk management improvements noticeable. |
| **8. Asset management** | | | | |
| 8(a) | The on-going improvements of the movable asset register following the transfer of functions and the operationalisation of the PMTE. | DG: Mr. M Dlabantu | 31 Dec. 2014 | Ongoing, it was noted that the movable asset register is not being rigorously updated throughout the year. Quarterly reporting must be improved. |
| **9. Compliance** | | | | |
| 9(a) | The department will review, align, communicate and ensure implementation of all the operational and financial management policies. | DG: Mr. M Dlabantu | 30 Sept. 2014 | Ongoing, policies have been updated and the department is in the process of drafting standard operating procedures. Monitoring of compliance with provisions contained in policies can still be enhanced. |

1. Six audit recommendations accepted by management in the prior year regarding matters included in the auditor’s report were implemented or alternative actions were taken to resolve the finding. Seven recommendations are still in the process of being implemented and only one audit recommendation of the prior year was not addressed by the audit action plan.
2. The status of implementation contributed to the number of repeat findings in the audit report when compared to the prior year.

**PART G – OTHER REPORTS**

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

**INVESTIGATIONS**

1. Numerous allegations, mainly relating to transgressions with respect to supply chain management, potential fraud and financial misconduct, are still being investigated on an ongoing basis by the SIU and the Governance, Risk and Compliance unit of the department. Concerns have been raised regarding internal capacity to timeously investigate these allegations and to take timely action pertaining to recommendations made in completed investigation reports. Interim action has been taken in the form of in-sourcing of independent firms to assist in clearing the backlog. Leadership is in the process of formulating and implementing a long-term strategy to conclusively resolve this matter as part of the turnaround process.
2. Proclamation No. R. 59 of 2013 was approved on 20 December 2013 by the president for the Special Investigating Unit to probe allegations relating to the prestige project involving the security upgrading of the private residence of the President situated at Nkandla, KwaZulu-Natal. This report was concluded on 20 August 2014.

**SECTION 3: SPECIFIC FOCUS AREAS**

**PART A – PROCUREMENT AND CONTRACT MANAGEMENT**

**SIGNIFICANT FINDINGS FROM THE AUDIT OF PROCUREMENT AND CONTRACT MANAGEMENT**

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

**Irregular expenditure**

1. R45 219 610 (80%) of irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation. A further R231 028 that was incurred in prior years was also identified. 37% (30% prior year) of this irregular expenditure was identified during the audit process and not detected by monitoring processes of the Department. The root cause of the lack of effective prevention and detection are ineffective procurement planning and contract management as well as DPW receiving last minute procurement instructions from other departments. However to a large extent irregular expenditure disclosed by the department in the current year relates to contracts being declared irregular during prior years in terms of which cost was still incurred in the current year, these contracts were declared irregular due to limitation of scope relating to non-successful bidders.

**Limitations on audit**

1. Sufficient appropriate audit evidence could not be provided that two of the selected contracts awarded and that one of the selected quotations accepted (hereinafter referred to as “awards”) to the value of R1 812 009 were made in accordance with the requirements of the SCM legislation. No alternative audit procedures could be performed to obtain reasonable assurance that the expenditure incurred on these awards was not irregular.
2. No specific reasons for the limitations experienced were provided by the department, thus it is concluded that it was as a result of non-compliance with the records management system of the department. As a result of the limitations experienced, the findings reported in the rest of this section might not reflect the true extent of irregularities and SCM weaknesses.

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

1. The audit included an assessment of the interests of officials and their close family members in suppliers to the Department. Legislation does not prohibit such awards but compliance with the legislation and policies was tested in an endeavour to ensure that conflicts of interest do not result in the unfair awarding of contracts or acceptance of unfavourable price quotations, and requires employees to obtain approval for performing remunerative work outside their employment.

The findings were as follows:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Finding | Number and value of awards made | Number 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 the awarding of the contract/ quotation. |
| Awards made to close family members, partners and associates of officials of the department | One award to the value of R20 457 | One position – Senior Admin Officer: Interior Decor | One | None, a declaration was submitted | One | None, this was not required as official was not part of the SCM process. | None |

**Procurement processes**

1. The following findings on procurement processes result from the testing of 54 contracts with a total value of R295 310 621 and 64 price quotations with a total value of R12 270 200.
2. Procurement mainly pertained to the provision of infrastructure for prestige events and the provision of movable assets for prestige houses. Prestige events include, amongst others, state funerals and schedules events that take place on an annual basis e.g. State of the Nation Address and the National Orders Event.
3. The selected contracts include one contract for an awarded amount of R127 418 715 (43% of sampled value) of which an amount of R123 313 547 was spent during the year under review. This contract pertains to the procurement, installation and care pack service for network equipment.

Procurement processes – General

1. Nine awards with the total value of R2 456 516 were procured without inviting at least three written price quotations from prospective suppliers and the deviation was approved even though it was possible to obtain 3 quotations.
2. Six contracts with the total value of R9 167 495 were procured without inviting competitive bids, and the deviations were approved even though it was practical to invite competitive bids.
3. Invitations for competitive bids for the procurement of four contracts with a total value of R3 398 015 were not advertised for the required minimum number of days.
4. Two competitive bids with a total value of R6 101 542 were not adjudicated by properly constituted bid adjudication committee. Both pertain to the provision of infrastructure for the reburial of Mr. M Kotane and Mr. JB Marks.
5. One quotation to the value of R37 450 was awarded to a bidder who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state.
6. Two instances with a total value of R2 102 452 were identified where orders were split to avoid complying with the requirements of SCM laws and regulations. Quotations were obtained when in fact a competitive bidding process should have been followed.
7. Preferential Procurement Regulation 9 requires the department to promote local production and content. Thus all suppliers who are regarded as being part of a designated sector, as stipulated by Department of Trade and Industry, should complete the SBD 6.2. Six quotations and one contract were identified where the invitation did not specify the minimum threshold for local production and content despite it being part of a designated sector.
8. Nominated procedures were followed for procurement to the value of R16 766 796 awarded to a single service provider. This related to the management, maintenance and erection of the marquee dome purchased from this service provider during the prior financial year for R15 937 200 as the department noted that they do not have the capacity to perform these functions due to the complexity thereof.

**Internal control deficiencies**

1. Deviations from prescribed procurement processes are still being approved without properly investigating the reasons for validity or failing to completely document the reasons based on which the approval was granted. The frequency of deviations pertaining to service providers were not analysed as recommended in the prior year to identify problem areas where for example there is continuous failure to obtain three quotations. Additionally, we were unable to perform a trend analysis on deviations for the year under review due to the deviation registers being incomplete.
2. The deficiency surrounding limitation of scope relating to documentation for unsuccessful bidders not having been retrievable has largely been resolved; however instances where this occurred in the current year were still identified. Thus there should be a continued focus to ensure that these documents are properly filed and retained for the required period.
3. The department struggles with the responsiveness of bidders; this was identified in numerous instances during the performance of our audit procedures. This necessitates a review of the supplier database to ensure that all information contained therein is still relevant and updated. This should be done in line with the guidance provided by National Treasury pertaining to the cleansing, enhancing and updating of these databases.
4. Our prior year management report contained the following recommendations on prestige procurement. Although corrective action has commenced in certain areas these matters remain mostly unaddressed:

* *Completing of the updates to the Ministerial handbook. Proposed updates to the information contained in the Ministerial handbook have been in the pipeline for the past couple of years however it is still not finalised. It is suggested that the updated version will contain guidelines with respect to what is considered to be reasonable and acceptable to spend on prestige related procurement for example furniture.*
* *The department must formalise their processes surrounding the classifying of documents in line with government protocol. There was no formal policy in this regard during the year under review and it was identified that such confidential/classified documents are not in all instances easily retrievable after the fact. Thus that there was no consistent way of dealing with classified/confidential information.*
* *It is critical that the department update the prestige supplier database and roster on an ongoing basis but formally at least once a year. This is considered to be a more intensive process than updating the normal database given that suppliers must in most instances have to have security clearance. A concerted effort must be made to ensure that information remains up to date to avoid instances of non-responsiveness when suppliers are required to provide quotations/tenders; this was particularly noted in the area of procuring furniture for prestige residences where in numerous instances the minimum number of quotations was not secured.*
* *Analysis of prestige procurement (with a particular focus on which suppliers, contractors and consultants were awarded with contracts/projects) must be performed on a quarterly basis to ensure that the same service providers are not utilised on a consistent basis to ensure that the principles of fair, equitable, transparent, competitive and cost-effective procurement are adhered to. Corrective action must be taken where necessary.*
* *Deviations from the prescribed procurement process should only be approved in cases where there are proper justification to do so. To that end the Department should again enter into high level talks with the Presidency to ensure that they are timeously informed about planned prestige events that will take place. Although it is understandable that in certain instances these events take place with limited notice there are a fair number of planned events in every financial year, for example planned state visits and celebrations, and it has been noted that instructions are not always being issued on a timeous basis to enable DPW to adhere to SCM prescripts. Should this matter be resolved it will aid towards limiting the extent of emergency/urgent procurement.*
* *It has been noted that the department has procured assets, for example tents and chairs, for utilisation at these prestige events. It will be followed up in the upcoming financial year whether the department utilised their own equipment instead of procuring from outside parties in order to curb the costs of these prestige events.*

**PART B – SERVICE DELIVERY MATTERS**

**Public works**

1. The audit included an assessment of specific service delivery aspects relevant to the department. For the financial year under review, we focused on the following:

* Management of accommodation for client departments
* Project management of infrastructure projects
* Expanded Public Works Programme

1. The first two areas highlighted above are functions being performed by the Property Management Entity (PMTE) and therefore specific findings in respect of these areas will be reflected in the management report of the PMTE.
2. With respect to EPWP we were unable to satisfy ourselves as to the reliability of performance results reported in respect of the following indicators:

* Number of work opportunities created through EPWP labour intensive approach aligned to the EPWP business plan (Phase 3)
* Number of work opportunities created in rural municipalities aligned to the EPWP business plan.
* Number of EPWP work opportunities created by DPW.

1. It was also noted, despite having been reported during previous years, that the EPWP performance indicators are still not aligned across the Public Works sector.

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**PART C – FINANCIAL INDICATORS**

1. Management is responsible for the sound and sustainable management of the affairs of the department and for implementing an efficient, effective and transparent financial management system for this purpose, as regulated by the PFMA.
2. Our audit included a high-level assessment of selected financial indicators as at year-end. The purpose of the assessment is to provide management with an overview of financial indicators to enable timely corrective action where financial health and service delivery may be at risk. The information should be used to complement, rather than substitute, management’s own financial assessment.
3. We assessed the department’s financial indicators according to the following areas:

* Budget management
* Expenditure management
* Revenue management
* Asset and liability management
* Cash management

**Reconciliation of modified-cash financial performance and position with accrual financial performance and position**

1. The financial indicator assessment below is based on the department’s financial statement amounts adjusted to reflect certain accrual accounting concepts.
2. The department’s modified-cash position and performance and its accrual position and performance are based on the same underlying activities, but the differences arise due to the timing of recognising the revenues from, and costs of, certain activities:

* For the modified-cash position and performance, revenues and costs are recorded when cash payments are received or made.
* For the accrual position and performance, revenues and costs are recognised when goods are provided or used, or when services are received or performed. Therefore, the accrual position and performance includes revenues earned and costs incurred today but paid for in the future

1. The key differences between the modified-cash and accrual measures result from changes in liabilities (as expenses are accrued, those that are not yet paid at year-end increase the department's liabilities); changes in receivables (as revenues are accrued, those that are not yet received at year-end increase the department's receivables); as well as expensing the full cost of capital assets at purchase (instead of initially recognising the cost of capital assets in the statement of financial position and spreading it over the assets’ useful lives to match the assets’ cost with their use through the recognition of a depreciation expense).
2. Consequently, the modified-cash position and performance and the accrual position and performance can result in different assessments of the department’s financial position and its ability to perform in accordance with its mandate. The accrual-adjusted financial information adds a longer-term focus to the department’s financial picture, by providing more information on longer term consequences of today's policy decisions and operations. The information will help management, those charged with governance, oversight bodies and the public to assess whether the department’s current and future resources are likely to be sufficient to sustain public service delivery and to meet obligations as they become due.
3. We show our assessment of the financial indicators in the table below.

| **FINANCIAL INDICATORS** | | | |
| --- | --- | --- | --- |
|  | | **AS AT 31 MARCH 2015** | **AS AT 31 MARCH 2014** |
| **BUDGET MANAGEMENT** | | | |
| 1.1 | Percentage over-spending of the final appropriation for current expenditure | Not over-spent | Not over-spent |
| * Amount over-spent * Amount of the final appropriation for current expenditure | R0  R3 057 806 000 | R0  R2 843 933 000 |
| 1.2 | Percentage under-spending of the final appropriation for capital expenditure | Under-spent 14,4% | Under-spent 13,4% |
| * Amount under-spent * Amount of the final appropriation for capital expenditure | R70 687 000  R491 401 000 | R97 292 000  R728 352 000 |
| 1.3 | Appropriation (voted funds) to be surrendered to the Revenue Fund as a percentage of the final appropriation for the current year | 1,7% | 2,6% |
| * Amount of the current year’s final appropriation (voted funds) to be surrendered to the Revenue Fund * Amount of the final appropriation for the current year | R104 798 000  R6 121 320 000 | R158 838 000  R6 175 261 000 |
| 1.4 | Appropriation (voted funds) not requested / not received as a percentage of the final appropriation for the current year | 0% | 0% |
| * Amount of the current year’s appropriation (voted funds) not requested / not received * Amount of the final appropriation for the current year | R0  R6 121 320 000 | R0  R6 175 261 000 |
| **EXPENDITURE MANAGEMENT** | | | |
|  | Creditor-payment period | 6,4 days | 13 days |
| 2.2 | 30+ day accruals as a percentage of total accruals | 1,2% | 3,96% |
| * Amount of 30+ day accruals * Amount of total accruals | R397 000  R31 973 000 | R2 680 000  R67 638 000 |
| **REVENUE MANAGEMENT\*** | | | |
|  | Debtor-collection period (before impairment) | 19,8 Days | 0 Days |
| 3.2 | Debtor-collection period (after impairment) | 19,8 Days | 0 Days |
| 3.3 | Debtors impairment provision as a percentage of accrued departmental revenue | 0% | 0% |
| * Amount of debtors impairment provision * Amount of accrued departmental revenue | R0  R269 000 | R0  R0 |
| 3.4 | Bad debts written-off as a percentage of revenue from goods and services rendered on credit (revenue not collected) | 0% | 0% |
| * Amount of bad debts written-off * Amount of revenue from goods and services rendered on credit | R0  R4 955 000 | R0  R0 |
| **ASSET AND LIABILITY MANAGEMENT** | | | |
|  | An accrual-adjusted deficit for the year was realised (total expenditure exceeded total revenue) | No | No |
| * Amount of accrual-adjusted surplus for the year | R622 416 000 | R1 051 730 000 |
| 4.2 | An accrual-adjusted net current liability position was realised (total current liabilities exceeded total current assets) | No | Yes |
| * Amount of accrual-adjusted net current assets / (liability) position | R124 706 000 | (R68 711 000) |
| 4.3 | An accrual-adjusted net liability position was realised (total liabilities exceeded total assets) | No | No |
| * Amount of accrual-adjusted net asset position | R571 101 000 | R488 795 000 |
| **CASH MANAGEMENT** | | | |
|  | The year-end bank balance was in overdraft | Yes | Yes |
| * Amount of year-end bank balance (cash and cash equivalents) / (bank overdraft) | (R159 373 000) | (R98 177 000) |
| 5.2 | Cash shortfall as a percentage of next year’s total appropriation (budget) \*\* | 4 % | 1,3 % |
| * Amount of the cash surplus / (shortfall) * Amount of the appropriation (budget) for the next year | (R257 062 000)  R6 411 087 000 | (R79 341 000)  R6 121 320 000 |
| 5.3 | Cash shortfall as a percentage of next year’s appropriation (budget), excluding “compensation of employees” \*\* | 4,3 % | 1,8 % |
| * Amount of the cash surplus / (shortfall) * Amount of next year’s appropriation (budget), excluding “compensation of employees" | (R257 062 000)  R5 936 092 000 | (R79 341 000)  R4 507 701 000 |
| **OVERALL ASSESSMENT** | | | |
| Overall the results of the above financial indicator evaluation is assessed as: | | **No material unfavourable indicators** | **Unfavourable indicators** |
| \* The department is not revenue intensive and minimal departmental revenue is received (R16 132 000 for the year under review)  \*\* This indicator assumes that the unauthorised expenditure of R261 169 000, per note 9 will not be approved with funding. | | | |

1. An improvement has been noted compared to the previous year (when the impact of the transfer of immovable assets eroded the asset base of the department).
2. Underspending of the capital assets remains a concern, given the direct impact on the achievement of the department’s mandate and objectives in terms of the infrastructure delivery.
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 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.

**PART D – CONSULTANTS**

**USE OF CONSULTANTS**

1. The audit included an assessment of the use of consultants. In the public sector environment, the partnership between the private and public sector has become important in driving strategic goals.
2. The table below shows the extent and nature of the department’s use of consultants:

|  |  |  |
| --- | --- | --- |
| **Type of consultancy services** | **Number of consultants** | **Expenditure** |
| Financial reporting services | None | |
| Preparation of performance information | 1 | R458 412 |
| IT related services | 5 | R20 058 172 |
| Other consultancy services | 46 | R28 569 693 |

1. The table below shows the consultancy contracts tested and related audit findings.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Name of consultant** | **Description of service** | **Value of contract** | **Reason for appointing consultant[[1]](#footnote-1)** | **Material misstatements or findings identified in areas of consultant’s responsibilities?** |
| Core Focus (Pty) Ltd | Preparation of performance information | R458 412 | Specialist knowledge was required | No |
| Exponant | Information technology (IT) application and software maintenance | R3 636 275 | Specific specialist IT services were required from consultant | No |
| Computer Foundation (Pty) Ltd | Information technology (IT) application and software maintenance | R1 422 720 | Specific specialist IT services were required from consultant | No |
| Mentor Management SA (Pty) Ltd | Information technology (IT) application and software maintenance | R2 744 755 | Specific specialist IT services were required from consultant | No |
| Comsel Eighteen (Pty) Ltd T/A Kanimambo | Information technology (IT) application and software maintenance | R345 732 | Specific specialist IT services were required from consultant | No |

**PART E – FRAUD**

1. The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance. We are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Due to the inherent limitations of an audit, there is a risk that some material misstatements, including fraud, may not be detected.
2. Ongoing investigations into potential fraudulent activities have been highlighted in section 2 part G above. The department should continue to explore ways and means of expediting the investigations of alleged irregularities to eradicate the back-log of matters still to be investigated and corrective action that must be taken as recommended in finalised investigation reports.

**PART F – CONSEQUENCES MANAGEMENT**

**SIGNIFICANT FINDINGS FROM THE AUDIT OF CONSEQUENCES MANAGEMENT**

1. The MFMA, PFMA and their 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, and disciplinary steps taken based on the results of the investigations.

**Failure to implement consequences**

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

**Irregular/ fruitless and wasteful expenditure**

|  |  |  |
| --- | --- | --- |
| Finding | Number of instances | Value |
| Irregular expenditure identified in prior year was not investigated to determine if a person was liable for the expenditure. | 24 | R67 508 057 |
| Fruitless and wasteful expenditure identified in prior year was not investigated to determine if a person was liable for the expenditure. | 3 | R58 254 |
| Effective and appropriate disciplinary steps were not taken against officials who made and/or permitted irregular expenditure | 24 | R67 508 057 |
| Effective and appropriate disciplinary steps were not taken against officials who made and/or permitted fruitless and wasteful expenditure | 3 | R58 254 |
| Losses resulting from fruitless and wasteful expenditure were not recovered from the liable person. | 1 | R845 885 |

**Possible fraud and improper conduct in SCM**

|  |  |  |
| --- | --- | --- |
| Finding | Number of instances | Value |
| Allegations of fraud against an official were not investigated. | 1 | R93 544 |

**Financial misconduct**

| Finding | Number of instances |
| --- | --- |
| Disciplinary hearings were not held for confirmed cases of financial misconduct committed by officials | 2 |

**Transgressions identified in the current year**

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

| Finding | Number of instances | Value |
| --- | --- | --- |
| Possible performance of additional remunerative work without approval | *7* | R15 200 |

**PART G – MANAGEMENT OF CONDITIONAL GRANTS**

**EXPANDED PUBLIC WORKS PROGRAMME (EPWP)**

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

* Expanded Public Works Programme Integrated Grant for Municipalities
* Expanded Public Works Programme Integrated Grant for Provinces
* Social Sector Expanded Public Works Programme Incentive Grant for Provinces

|  |  |  |  |
| --- | --- | --- | --- |
|  | Expanded Public Works Programme Integrated Grant for Municipalities | Expanded Public Works Programme Integrated Grant for Provinces | Social Sector Expanded Public Works Programme Incentive Grant for Provinces |
| **Total available to spend** | 594 575 000 | 348 947 000 | 257 972 000 |
| Total amount utilised/ spent in current financial year | 594 575 000 | 319 767 000 | 247 212 000 |
| **Unspent allocation** | **0** | **29 180 000** | **10 760 000** |
| **Percentage of under/(over)spending** | **0%** | **8,36%** | **4,17%** |

We will include additional information on EPWP here.

**SECTION 4: EMERGING RISKS**

**Accounting and compliance matters**

**Modified Cash Standard**

1. 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. [Source: Capital assets Accounting Manual for departments Chapter 11]

1. Capital work in progress:

The annexure on “Movement in Capital Work in Progress” has to be included in the notes to the financial statements from 1 April 2016. [Source: Capital assets Accounting Manual for departments Chapter 11]

1. Measurement of immovable capital assets:

Paragraph 70 of the MCS currently allows departments to measure the immovable asset at R1 where the cost of an immovable asset cannot be determined accurately, unless the fair value of the asset has been reliably estimated, in which case fair value shall be used. The use of fair value or R1 as initial measurement for initial recording of an immovable capital asset is deemed cost. This paragraph is valid until 31 March 2016 thereafter immovable assets should be valued at cost.

**New legislation**

**National Treasury instruction note 05 of 2014-15**

1. The National Treasury prescribed month-end closure procedures for 2015-16 applicable to accounting officers of departments which are effective from 1 April 2015.

**Treasury Regulations**

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

**Corporate governance of information and communication technology policy framework**

1. The Department of Public Service and Administration (DPSA), in cooperation with the Government Information Technology Officer Council (GITO), developed the corporate governance of information and communication technology policy framework (CGICTPF), which is applicable to all spheres of government, organs of state and public enterprises. Parliament approved the CGICTPF for implementation on 21 November 2012.
2. The CGICTPF provides the political and executive leadership with a set of principles and practices that must be complied with, together with a phased implementation approach to be followed for corporate governance of information and communication technology (ICT). Each phase extends over a financial year and for each a number of implementation deliverables have been set.
3. The implementation deliverables for phase 2, which have to be completed by March 2015, should also receive attention. This phase is about strategic alignment between business and ICT.  Several frameworks are already in place to guide the implementation of phase 2 requirements. For example:

* National Treasury’s Framework for Strategic Plans and Annual Performance Plans
* The DPSA’s Service Delivery Framework and Methodology
* Government-wide enterprise architecture

1. Phase 3 will run from April 2015 onwards and will focus on the continuous improvement of corporate governance of ICT and the governance of the ICT environment.  The governing principles for this phase will be:

* The contribution of ICT to the realisation of business value
* Continuous improvement of the management of ICT – COBIT processes.

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

1. In terms of the PFMA, the department has certain oversight responsibilities regarding the entities over which it has ownership control. The audit outcomes of these entities are summarised below

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Name of entity** | **Anticipated audit outcome** | | | **Significant deficiencies in internal control** | | | | | |
| **Financial statement opinion** | **Findings on the performance report** | **Findings on non-compliance** | **Leadership** | | **Financial and performance management** | | **Governance** | |
| **Assessment** | **Movement** | **Assessment** | **Movement** | **Assessment** | **Movement** |
| **Property Management Trading Entity (PMTE)** | **Qualified** | **N/A[[2]](#footnote-2)** | **Yes** |  |  |  |  |  |  |
| **Construction Industry Development Board (CIDB)** | **Unqualified** | **No** | **Yes** |  |  |  |  |  |  |
| **Council for the Built Environment (CBE)** | **Unqualified** | **No** | **Yes** |  |  |  |  |  |  |
| **Independent Development Trust (IDT)** | **Disclaimed** | **Yes** | **Yes** |  |  |  |  |  |  |

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

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

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

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

**SECTION 7: CONCLUSION**

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

Yours faithfully

Corné Myburgh

Business Executive: National A

31 July 2015

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**Distribution:**

Director-General

CFO

Audit committee

Head of internal audit unit

1. It was assessed whether any of these appointments related to a lack of skills or vacancies within the department, this was not the case in any of the appointments tested and reflected in this table. [↑](#footnote-ref-1)
2. Reported as part of the performance information of the Department of Public Works. [↑](#footnote-ref-2)