**INTERIM MANAGEMENT REPORT**

**PROPERTY MANAGEMENT TRADING ENTITY**

**YEAR END: 31 MARCH 2018**

**Communicated to the accounting officer on: 13 April 2018**

**MANAGEMENT REPORT**

**PROPERTY MANAGEMENT TRADING ENTITY**

**31 March 2018**

**Communicated to the accounting officer on: 13 April 2018**

**CONTENT**

|  |  |
| --- | --- |
| **Introduction** | **3** |
| **Section 1: Interactions with stakeholders responsible for oversight and governance** | **5** |
| **Section 2: Summary of Issues Identified** | **6** |
| **Section 3: Status of Records Review** | **8** |
| 3.1 Introduction | **8** |
| 3.2 Status of key focus areas | **9** |
| 3.3 Key matters for attention | **10** |
| **Section 4: Matters to be brought to the attention of the users** | **11** |
| **Section 5: Status of implementing commitments and recommendations** | **12** |
| **Section 6: Value Add Matters** | **18** |
| **Section 7: Interim review of the draft 2018/19 Annual Performance Plan** | **19** |
| **Section 8: Information System Audit – Project Assurance** | **20** |
| **Section 9: Emerging risks** | **22** |
| **Section 10: Ratings of detailed audit findings** | **22** |
| **Section 11: Conclusion** | **23** |
| **Section 12: Summary of detailed audit findings** | **24** |
| **Detailed audit findings contained in annexures B** | **27** |

**INTERIM MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE PROPERTY MANAGEMENT TRADING ENTITY FOR THE YEAR ENDED 31 MARCH 2018**

**INTRODUCTION and AUDIT SCOPE FOR INTERIM AUDIT**

1. The purpose of the management report is to communicate audit findings and other key audit observations to the accounting officer and does not constitute public information. This management report is provided to make it easier for the auditee to consider and correct the audit findings arising from the audit of the financial statements, performance information and compliance with legislation that have come to our attention to date. We will provide a final management report following the completion of the audit after year-end.

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

1. Through engagements with management at the outset of the audit, we were advised that interim financial statements will not be prepared for the 2017-18 financial period and thus certain financial statement areas should be excluded from the interim audit. This is due to these items not being ready for audit at interim audit stage. The items excluded from the scope of interim audit included opening balances relating to financial statement areas that were subject to qualifications in the prior period, as well as interim information relating to other areas included as significant risk areas.
2. The audit work performed to date was thus limited to the following:

**Financial statements**

* Employee related costs
* Operating expenditure (payment testing only)
* Property, plant and equipment (Movable assets only)

**Reporting on predetermined objectives**

* Interim review of Annual Performance Plan for 2018/19 which focused on assessment of the measurability and relevance of the indicators and targets planned for each selected programme.

**Compliance with legislation**

* Human Resource Management
* Supply chain management – tender and quotation process

**Other matters**

Information System Audit – Project assurance (Governance) on SAGE and ARCHIBUS.

1. This management report consists of the overall message arising from the audit, summary of key findings and observations and an annexure containing the detailed audit findings.
2. The auditor’s report is finalised only after the management report has been communicated. All matters included in this report that relate to the auditor’s report remains in draft form until the final auditor’s report is signed. In adherence to section 50 of the PAA, we do not disclose any information obtained during the audit and contained in this management report.

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

1. During the interim period, we met with the following key stakeholders responsible for oversight and governance at the department:

| **Key stakeholder** | **Purpose of interaction** | **Number of interactions** |
| --- | --- | --- |
| Chairperson of the portfolio committee on Public Works | * + Introductory meeting – Quarterly briefing | 1 |
| Portfolio Committee on Public Works | * + Budgetary review and recommendations report – 2016/17 Audit Outcomes and key messages   + Presentation of Action Plans by the Department | 2 |
| Director-General | * + Detail discussion on quarterly Status of Records review and presentation of engagement letter and audit Strategy | 1 |
| Audit committee | * + Presentation of quarterly status of Records Review   + Presenting the engagement letter and audit strategy | 2 |

1. At these interactions, we shared the following matters:

* The status of key controls was discussed with the Portfolio Committee. The significant issues as per the status of key controls included the following:
  + - 1. Immovable Assets: Material errors in assigning of values to assets in line with required principles of GRAP and projects relating to maintenance (operating expenditure) erroneously recognised as additions to PPE.
      2. Accrued expenses: Supporting documentation for accrued expenses could not be provided due to inadequate systems.
      3. Inadequate project management on infrastructure projects.
* Terms of the engagement for the current year 2017/18 audit cycle 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 are discussed on a continuous basis.

**SECTION 2: Summary of Issues Identified**

1. Through engagements with management at the outset of the audit, we were advised that interim financial statements will not be prepared for the 2017-18 financial period and thus certain financial statement areas should be excluded from the interim audit. This is due to these items not being ready for audit at interim audit stage. The items excluded from the scope of interim audit included opening balances relating to financial statement areas that were subject to qualifications in the prior period, as well as interim information relating to other areas included as significant risk areas
2. The audit areas were assessed as follows:

|  |  |
| --- | --- |
|  | The significant findings raised previously have been adequately addressed and no significant matters remain. |
|  | Progress was made in addressing the significant findings raised previously, but improvement is still required to ensure that no material misstatements remain. |
|  | Insufficient progress has been made in addressing the significant findings raised previously and urgent intervention is required to ensure that the audit area is free of material misstatements at year-end. |
|  | This area was excluded from the scope of the interim audit because the process of addressing significant issues from the prior period had not been completed. |

| **Key audit area** | **Progress** | **Status / Key findings** |
| --- | --- | --- |
| ***Prior period audit report matters*** | | |
| ***Audit of the financial statements*** | | |
| Immovable assets (deemed cost) |  | * Excluded from scope for interim audit. |
| Immovable assets (accumulated depreciation) |  | * Excluded from scope for interim audit. |
| Immovable assets (Loss on disposal/transfer of assets) |  | * Excluded from scope for interim audit. |
| Immovable assets (assets under construction and property maintenance) |  | * Excluded from scope for interim audit. |
| Accrued expenses (assets and scheduled maintenance) |  | * Excluded from scope for interim audit. |
| Revenue accrual |  | * Excluded from scope for interim audit. |
| Provision unscheduled maintenance |  | * Excluded from scope for interim audit. |
| ***Audit of the annual performance report*** | | |
| Quarterly reporting |  | • Our review of quarter 1 and 2 report identified that the reported results were not accurately recorded for some programmes. |
| ***Audit of compliance with legislation*** | | |
| Procurement and contract management |  | • The audit of procurement and contract management completed so far identified instances of irregular expenditure. |
| Expenditure management |  | • Our audit of operating expenditure identified a significant number of payments which were not settled within 30 days |
| ***Other key audit areas (not subject to qualification in prior period)*** | | |
| Operating leases |  | * Excluded from scope for interim audit. |

**SECTION 3: Status of Records Review**

**3.1 INTRODUCTION**

1. The Auditor-General of South Africa (AGSA) remains committed to assisting all government institutions in the process of identifying and communicating good practices to improve transparency, accountability and governance in the public sector. The purpose is to build public confidence in government’s ability to account for public resources in a transparent manner.
2. As part of our commitment to continually assist the department, we have performed a high level risk assessment process for the period ended 31 March 2018, with the aim of:

* identifying key areas of concern that may derail the department’s progress in the preparation of financial and performance reports and complying with the relevant legislation, which may result in a negative audit outcome
* providing our assessment of the status of the key focus areas that we reviewed
* assessing the progress made by the department in implementing action plans or carrying out commitments to address areas of concern that were communicated in previous engagements with the accounting officer
* identifying value-adding matters that can assist in putting measures or action plans in place well in advance to manage the possible risks that stem from the matters.

1. Our assessment was in the form of a status of records review which includes follow-up procedures and analysis of available financial and non-financial information. The assessment included a high level review of the records of the department, i.e. inspection of the department’s internal and external reports or documents and discussions with senior managers.

**3.2 STATUS OF KEY FOCUS AREAS**

1. The status as presented below is based on the review performed and reflects the involvement from the previous assessment.

The legend applied is as follows:

|  |  |
| --- | --- |
| Good | The basics are in place as no concerns were identified. |
| Concerning | Concerns identified. |
| Intervention required | Level of concerns identified is an indicator that the AO needs to urgently intervene to prevent audit failure. |

The movement is assessed as follows:

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

**3.3 KEY MATTERS FOR ATTENTION**

1. The following areas of concern have come to our attention during our review process. Some of the matters had been reported before or raised in the previous engagements and little progress has been made to address these matters.

**Oversight and monitoring**

1. Management accounts in accordance with the required accounting framework are not being prepared for the entity on a regular basis. This has a significant impact on the effective discharge of oversight responsibility as financial information in the required accounting framework is not consistently available. The impact is especially significant with respect to monitoring of the budget for unscheduled maintenance, as no up to date information is available regarding the amount owing in respect of work done throughout the financial period. The full implementation of the new financial accounting software will assist in this regard.

**Financial management**

1. The process of initially accounting for the immovable assets acquired through the transfer of functions was not adequately completed prior to the interim audit. The significant weaknesses identified in the opening balances of immovable assets in the previous audit cycle are still in the process of being corrected, and were therefore not available for review when performing this assessment.
2. The SAGE and ARCHIBUS systems have not yet been fully implemented to record transactions in accordance with GRAP. This impacted the trading entity’s ability to generate information within a reasonable time and accuracy and management has advised that interim financial statements will not be prepared due to the extensive effort required to manually compile these while also addressing the matters identified in the previous audit cycle.
3. Financial statements in line with the required accounting framework will only be prepared at year end.

**Compliance management**

1. Due to the audit of the previous audit cycle being delayed (audit report was signed on 22 September 2017), there was insufficient time to assess the progress made by management to investigate irregular expenditure that was reported in the previous year during interim audit. These follow up procedures will be performed together with our final audit procedures.

**Human resource management**

1. The National Department of Public Works (NDPW) has finalised updating the organisational structure in line with the radical restructuring that took place between NDPW and PMTE, which amongst others includes the approval of the new programme budget structure. During the first two quarters management has commenced a recruitment process in an attempt to fill the vacant positions within the new structure. This process was still in progress as at the date of this report.

**IT management**

1. The SAGE system (which will mainly be used for financial reporting) was still under development with a new service provider being sought to assist with full implementation. It is a concern that the system is not being fully utilised despite being purchased more than three years ago. The pilot for the ARCHIBUS system (which is intended to be used for the operations) commenced during the third quarter (starting in November), after initial attempt to go live during April 2017 was unsuccessful. More concerning is the challenges being experienced in interfacing between the two systems, as neither system will be able to be used optimally if the interface is not fully functional.

**Financial health**

1. The financial health of the entity remains a concern and the situation has been exacerbated by the fact that management has entered into agreements with implementing agents which require significant upfront payments, whereas client departments are billed for capital projects only after payments are made to suppliers. It is imperative that the business model is remedied as soon as possible as the situation may become untenable.

**Key service delivery matters**

1. Our audit for the current period will include and assessment of specific service delivery aspects relevant to the entity. Some matters were identified in the prior financial years which require follow up in the current financial year, especially where investigations were required to determine the full extent of fruitless and wasteful expenditure on projects. This follow up will be performed during the final audit.

**SECTION 4: MATTERS TO BE BROUGHT TO THE ATTENTION OF THE USERS**

Emphasis of matter paragraphs

1. Interim financial statements were not submitted for audit; we were unable to identify whether any emphasis of matter paragraphs may be required to be included in our auditor’s report to draw the users’ attention to matters presented or disclosed in the financial statements.

**SECTION 5: Status of implementation of commitments and recommendations**

**Status of implementing commitments and recommendations**

1. Below is an 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** | **Date** | **Status** |
| --- | --- | --- | --- | --- |
| 1.1 | **Property plant and equipment**  Multiple methods of deemed costs applied to one facility / property.   1. Reconciliation between Immovable Asset Register (IAR) and physical verification data to identify discrepancies between building counts on Quality Assurance System and the IAR. 2. Review of the parent/child grouping in the IAR to ensure that properties belonging in the same facility are grouped correctly. | DDG: REIRS, Ms S. Matthews | 28-Feb-18 | In progress, this will be confirmed during the final audit. |
| 1.2 | **Property plant and equipment**   1. Incorrect extents used in the calculation of deemed cost. 2. Identify the high risk areas 3. Review of GIS drawings against the IAR. 4. Perform physical verification. 5. Perform reasonability checks. | DDG: REIRS, Ms S. Matthews | 28-Feb-18 | In progress, this will be confirmed during the final audit. |
| 1.3 | **Capital projects linked to incorrect properties on the IAR.**   1. Engage Key Accounts Management (KAM) and revisit all AUC projects which were not accurately linked. 2. The PI should include property details such as site ID, property code, building / component ID and facility names | DDG: REIRS, Ms S. Matthews | 28-Feb-18 | In progress, this will be confirmed during the final audit. |
| 1.4 | **Property plant and equipment**  **Incorrect classification of projects between CAPEX and OPEX**   1. Develop an AUC Position Paper to address legacy issues and reengineering of the business processes. 2. Training of officials responsible for capturing projects on the Works Control System (WCS). 3. Procurement Instructions (PI) to include classification of projects and scope changes must be clearly captured on WCS. 4. Linking of CAPEX expenditure to immovable assets accounts (WIP and completed projects). 5. Physical verification of refurbishments projects, components and any other significant completed projects to be verified. | DDG: REIRS, Ms S. Matthews | 28-Feb-18 | In progress, this will be confirmed during the final audit. |
| 1.5 | **Property plant and equipment**  **Assets replaced /demolished through WCS not derecognised.**   1. Develop an AUC Position Paper to address legacy issues and reengineering of the business processes. 2. Identify duplications between deemed cost and WCS expenditure. 3. Roadshow by Finance and REIRS to identify and link replaced significant assets and components. 4. REIRS to obtain list of all demolitions from REIMS and damaged properties from Legal Services. 5. Linking of demolitions and damaged properties to the IAR for de-recognition. 6. PI to include list of asset components and structures to be demolished. | DDG: REIRS, Ms S. Matthews | 28-Feb-18 | In progress, this will be confirmed during the final audit. |
| 1.6 | **Property plant and equipment**  **Completed projects not recognised in the correct period due to completion dates not captured or statuses not updated WCS – impact on depreciation**   1. Linking of all completed capital projects to the IAR. 2. Identify completed projects which do not have completion dates on WCS and completed projects which do not have completion certificates. | DDG: REIRS, Ms S. Matthews | 30-Apr-18 | In progress, this will be confirmed during the final audit. |
| 1.7 | **Property plant and equipment**  **Depreciation policy incorrectly applied – review of useful lives not done correctly**   1. Archibus to calculate automatically in accordance with policy. 2. Review of remaining useful lives (based on the condition assessment). 3. Review of the basis for the allocation of Estimated Useful Lives. | DDG: REIRS, Ms S. Matthews | 28-Feb-18 | In progress, this will be confirmed during the final audit. |
| 2.1 | **Trade and other payables**  **Provisions**  **Commitments**  Information not provided   1. Ensure an audit file is compiled by all regional heads of finance, with sufficient proof of evidence supporting all inputs to the AFS. | DDG: Finance, Ms B. Van der Merwe | 31 Mar 18 | In progress, this will be confirmed during the final audit. |
| 2.2 | **Trade and other payables and provisions**  **Overstatement and Understatement of accrued assets & other accruals**   1. Full review of WCS accruals to identify misstatements and restate opening balances (2017/18) 2. Updated payables management action plan developed      1. Regional training 2. Archibus project modules and SAGE to assist in identifying accruals and ensure no duplication. 3. Implementation of Maintenance module on Archibus with full tracking of transactions 4. PMIS system to assist in determining accruals for variable payments 5. Develop reliable module to predict the amount due based on calls logged | DDG: Finance, Ms B. Van der Merwe | 31 Mar 18 | In progress, this will be confirmed during the final audit. |
| 3 | **Commitments:**   1. Differences between authorization amounts and supporting documentation 2. Differences found in capital commitments 2015-16; 3. Incorrect classification of a project; 4. Completeness of commitments 5. Cooperate with Projects to accurately update WCS with valid information to be used for financial reporting. 6. Regional workshops with Projects, KAM & Finance to investigate WCS projects and principles | DDG: Finance, Ms B. Van der Merwe | 31 Mar 18 | In progress, this will be confirmed during the final audit. |
| 4.1 | **Human Resource Management:**  **Payroll certificates not certified and returned timeously**   1. Investigate possibility of printing payroll certificates in regions. 2. Implement Payroll Delivery Registers to Regions. 3. Enhance the current Payroll Register to Units. 4. Possibly confirmation of Payroll Certificates in line with Treasury Regulations to be transferred to Heads of HR in the Regions | DDG: CS, Ms T. Hlatshwayo | 30 April 2017  30 Sept 2017 | In progress, this will be confirmed during the final audit. |
| 4.2 | **Human Resource Management:**  **Management of vacancy rates**   1. Implement approved organisational structures for PMTE and DPW (matching and placing). 2. Allocate sufficient compensation of employees’ budget to fill vacant positions. 3. Activate on Persal establishment the funded vacant positions for immediate advertising and filling. | DDG: CS, Ms T. Hlatshwayo | 31 March 18 | In progress, this will be confirmed during the final audit. |
| 4.3 | **Human Resource Management:**  **Performance agreement deviations**   1. Send reminders to all SMS members to submit signed PAs timeously. 2. Institute disciplinary action against members who do not comply with the SMS Handbook and the DPSA instructions. 3. Recommend members who do not comply with the SMS Handbook and DPSA instructions to not be considered to receive performance related incentives. | DDG: CS, Ms T. Hlatshwayo | 31 Mar 18 | In progress, this will be confirmed during the final audit. |
| 5 | **Irregular Expenditure**  **-** transaction duplicated on register   1. Long term - Engage IT to assist with the development or procurement of a software to manage the IE and FWE data in order to avoid duplication and other errors as it currently being kept on excel. | CFO, Ms R. Sadiki | 28 Feb 18 | In progress, this will be confirmed during the final audit. |
| 6 | **Irregular and Fruitless & Wasteful**  **not disclosed and differences identified between the register and the GL on transactions declared irregular expenditure.**   1. Reconcile the transactions relating to contracts already declared irregular against the GL to ensure completeness. 2. Review potential irregular and fruitless and wasteful expenditure transactions; and 3. Disclose confirmed transaction in 2017/18 financial year. | CFO, Ms R. Sadiki | 15 April 18 | In progress, this will be confirmed during the final audit. |
| 7 | **Non-Compliance to SCM policies/prescripts:**   1. contract management **–** extensions / variations 2. Name of bidders not published 3. information not submitted & contract not signed; 4. Noncompetitive bidding   Action:   1. Implement all administrative requirements as prescribed by National Treasury. Refer for investigation identified cases for appropriate actions to be taken. 2. Training of SCM officials and Bid Committee members. 3. Monitor and enhance existing internal controls, processes and procedures to enforce compliance. | ADDG: SCM, Mr R. Naidoo | 31-Mar-18 | In progress, Based on the interim audit procedures performed issues were still raised with regards to the publication of winning bidders. |
| 8 | **Pre –determined Objectives:**   1. Differences between the annual performance report and supporting listings: 2. Actual achievements not valid and accurate; 3. Project completed during the year not reported in the annual report; 4. Reasons for variances between the planned and reported targets not provided; 5. No supporting documentation for reported information; 6. Inconsistencies between annual performance report and annual performance plan;   WORX4U system   1. Inadequate closure of calls   Action   1. Engage Branches on a quarterly basis to discuss performance information and supporting evidence to ensure that the reported performance is valid, accurate and complete 2. Line functions at head office to engage Regional Offices to ensure that the information reported information is accurate | DDG: GRC, Mr I. Fazel | Quarterly  (August, November February and May | In progress, this will be confirmed during the final audit. |
| 9.1 | **Operating leases – Overpayments and Underpayments**   1. Perform quarterly reconciliation between PP38 vs Master database (MDB) 2. Analyse trend on PP38 vs MDB recons to assess the improvements in correcting PMIS inputs. 3. Follow up on the letters issued to landlords for the recoverability of the debt 4. Appoint an accounting firm to: 5. Perform a detail analysis reconcilition on the top 20 debtors, 6. Engage with debtors to confirm the over/under payments and recovery" | DDG: REMS, Ms N. Makhebele | 31 Mar 18 | In progress, this will be confirmed during the final audit. |
| 9.2 | **Lease expenditure incurred on expired leases and non-compliance with special dispensation:**   1. Issue a guideline on the extension of leases on a month-to-month basis 2. Approval of lease extensions for month to month limited to 12 months 3. Issue extension letters to landlords on leases extended 4. An analysis of the clause 4.3 of the each lease agreement which indicates that upon expiry lease continue on a month to month basis 5. Engage AGSA on this matter to have a position for expired leases | DDG: REMS, Ms N. Makhebele | 31 Mar 18 | In progress, this will be confirmed during the final audit. |

* Details on the status of implementing the previous year(s) recommendations is provided in section 10, which summarises the detailed audit findings.
* All commitments and actions implemented will be followed up and confirmed during the final audit.

**SECTION 6:** **VALUE ADD MATTERS**

1. The prior period audit included an assessment of service delivery to add additional value through our auditing. We focused on certain key projects which are related to the core mandate of the entity. The projects selected for this audit were:

* Repairs and Upgrade of C-Max Correctional Facility & Re-instatement of the Gallows, Pretoria (C-Max)
* Skilpadhek border post
* Replace existing temporary prison & facilities at Van Rhynsdorp Prison

The matters that were identified in the prior year are summarised below.

1. **Findings on C-Max Project**

* Fruitless and wasteful expenditure of R49 974 474 incurred on the amounts paid to the original contractor (Keren Kula Construction (KKC)).
* The amount identified was included in the fruitless and wasteful expenditure note as a matter under investigation. It should be noted that this is not the full extent of fruitless and wasteful expenditure, but rather the amount that could be identified from the information we inspected as part of our audit procedures
* Poor project management resulting in delays
* Failure by the department to recover financial losses from the contractor’s guarantor
* Irregular expenditure on the appointment of the new contractor (award amount of R169 988 000)

1. **Findings on Skilpadhek Border Post**

The following issues were identified during the performance of the audit work in the prior period:

* Delays claims on the project resulting in fruitless and wasteful expenditure. A total of 912 days’ delay claims from all contractors amounting to an estimated amount of R55 761 200 were issued on the project due to amongst other things the following:
  1. Delays in provision of site hand over to the project by the implementation agent
  2. Delays in approvals of project related documentation (e.g. designs, extension of times application)
  3. Delays in nomination of subcontractors by the implementation agent
  4. Delays in issuing of appointment letters to the subcontractors (e.g. SCM process)

The assessment of extension of time delays using information submitted by management revealed that all the approved delay claims expenditure could have been avoided had reasonable care been exercised during the planning stage of the project. The total amount of R55 761 000 for a total of 912 days (both main building contractor and civil contract) therefore constitutes fruitless and wasteful expenditure.

* Project scope not well defined resulting in increased project costs
* Delays in completion of the project. The project was planned to be completed within 20 months and practical completion anticipated to be achieved on 22 June 2010. The project was only completed on 24 October 2016.
* Weaknesses identified in project administration

1. **Findings on Van Rhynsdorp Prison**

The following issues were identified during the performance of the audit work in the prior period:

* Poorly defined scope of work contributed to cost escalation and overall increase in project cost. Although the project was planned to be completed within 24 months on 11 October 2009, it was only achieved 7 years later on 21 September 2016.
* The total variation order was in excess of 20% of the contract, however this was not timeously reported to the National Treasury and Auditor-General resulting in non-compliance with section 3.9.3 of National Treasury instruction note 32.

1. Some matters identified in the prior financial year require follow-up in the current financial year. Our focus for follow up in the current will relate to the quantification by management of the full extent of fruitless and wasteful expenditure incurred on the projects, and the actions taken by management with respect to consequence management.
2. In addition to the above, the following key project has been selected for the current year:

|  |  |  |  |
| --- | --- | --- | --- |
| **Project** | **Description of planned work** | **WCS no.** | **Expenditure to date** |
| 2 Military Hospital | Refurbishment and additions to Hospital | 049009 | R822 986 440 |

1. The regularity audit team is auditing compliance with relevant legislation, the accounting treatment of the transactions and the predetermined objectives of this project. In addition, we have partnered with the Performance Auditing unit to use their specialist and expert skills in the audit of the project to determine the economy, efficiency and effectiveness of the use of the resources

**SECTION 7: Interim review of the draft 2018/19 Annual Performance Plan**

1. As required by sections 4 and 20 of the Public Audit Act of South Africa, 2004 (Act No.25 of 2004) (PAA), read with General Notice 839 of 2011 issued in Government Gazette 34783 of 28 November 2011, my responsibility is to express a conclusion on the annual performance report. The conclusion will be expressed at the culmination of the final audit.
2. For purposes of this report we have performed an assessment of the usefulness criteria.
3. No findings were raised pertaining to the usefulness criteria for the approved 2018/19 annual performance plan (whether performance indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bond) and relevant, as required by the National Treasury Framework for managing programme performance information)
4. I have audited the usefulness of the draft annual performance plan 2018/19 for the entity and no material findings were raised.

**SECTION 8: Information System Audit – Project Assurance**

1. The audit included a system life cycle audit on SAGE and ARCHIBUS. The focus was on project assurance – Governance.

The matters that were identified are summarised below:

1. Findings on SAGE
2. *Lack of a business case for the SAGE project*

No evidence that there was a formal business case that was developed during the start-up of the SAGE project. Based on the NDPW project methodology, it is a requirement that the Project management office (PMO) develops a business case that is based on the user requirements and the feasibility study conducted.

As no business case was developed the following critical project controls were not addressed before the project activities commenced:

* No detailed cost, benefit and risk analysis of the investment.
* No clear stipulation of business value to be achieved from such an investment.
* The business benefits, in a traceable format, in support of benefits tracking during the project.
* Explicitly the business processes which will be enhance/improved with this investment.
* Project organisation, planning and reporting requirements.

Based on the discussion with the Project Manager, the motivation for the SAGE project was detailed in the user requirements document however, even though the motivation was documented in different documents, there is a concern that there is still no stand-alone formal business case for the SAGE project

1. *Lack of sufficient project documentation obtained for the SAGE implementation*

A number of scope changes were made over the years to the SAGE implementation and the SAGE project is still not finalised. The SAGE project started in 2013. The NDPW approved the following budget:

* The NDPW approved a budget of R15 million with Deloitte Consulting for the implementation of SAGE project modules signed in September 2013 for 30 months planned to be completed in April 2016. An extension was requested to postpone the go live of the implemented NDPW approved R1.2 million for this extension.
* Auditors could not obtain a copy of the project charter for the R15 million SAGE project and as such the deliverables of the initial project could not be evaluated to determine whether the initial project scope approved by the NDPW was completed or not.
* Furthermore, NDPW approved a variation order signed on 21 May 2016 for the configuration and implementation of the Archibus lease management module including implementation of the interface required to the SAGE project, and this was for a budget of R2.7 million.

Lack of project documentation could result in difficulties to trace the project changes, and decision made on the project resulting in mismanagement of the SAGE project. This could further result in the decisions made on the project that are not authorised and approved by the correct authority. The benefits for the SAGE project may not be realised without strict monitoring of the timelines and the budget against deliverables anticipated.

28.3 *Ineffective project governance*

No evidence of obtained with regard to the minutes for the weekly project meetings, and steering committee meetings held on a monthly basis for the initial SAGE project started in September 2013, Auditors only obtained minutes of the meetings for the period 2016- 2017 for the Lease and Procurement modules (latest project).

Lack of project documentation could result in difficulties to trace the project changes, and decision made on the project resulting in mismanagement of the SAGE project. This could further result in the decisions made on the project that are not authorised and approved by the correct authority.

28.4 *Ineffective risk and issue management and tracking for the SAGE implementation*

A risks register for SAGE project was reviewed and it was noted that it only contained seven (7) risks logged against the project. Auditors could not obtain the issues log and the defect logged when testing was conducted for this project. From the project minutes reviewed, it was noted that project risks are discussed at the project meetings however, Auditors noted additional risks that were not included in the main risks register. Thus, project risks and issues are not always maintained and captured in a risks register which poses risks on whether all risks are included in the risk treatment plan for mitigation.

In addition, out of the seven (7) risks logged, 5 risks were noted to be still open with no further comments documented, and these risks were logged during the period of December 2015, March 2016, and April 2016. There was no evidence of the risks and issues logged for the period of 2017 since this project is still in progress. The noted risks were found open and were rated as significant risks to the project (given high and medium rating).

Lack of continuously maintaining of the risks register could result in critical risks and issues that are not monitored and addressed by the project team resulting in a compromised quality of the solution, budget overruns, and missed timelines of the project. Reporting of the project health status with regard to the progress may not be accurate and decisions could be made on inaccurate information.

1. Findings on ARCHIBUS
   1. *Lack of a business case for the Archibus project*

No evidence that there was a formal business case that was developed during the start-up of the Archibus projects. Based on the NDPW project methodology, it is a requirement for the Project management office to develop a business case based on the defined user requirements and the feasibility study conducted.

As no business case was developed the following critical project controls were not addressed before the project activities commenced:

* No detailed cost, benefit and risk analysis of the investment.
* No clear stipulation of business value to be achieved from such an investment.
* The business benefits, in a traceable format, in support of benefits tracking during the project.
* Explicitly the business processes which will be enhance/improved with this investment.
* Project organisation, planning and reporting requirements.

Lack of business justification results in the purchase of a system that does not meet business needs. In addition, the expected benefits from the solution may not be measured.

* 1. *Delays noted in the delivery of project deliverables against project timelines*

The NDPW in partnership with the service provider LDM implemented an enterprise resource planning system and a management tool focused around the core activities such as asset management, property management, finance, project management and facility management. The project was implemented based on the NDPW need to implement a GRAP compliant property management system.

The Archibus project commenced on the 2015/09/25 and was planned for completion by 05 May 2017. The contract with the service provider LDM expired in March 2017. However, it was noted that a number of deliverables for this project have not been completed. In addition, there was no evidence provided of an updated/ current project plan for this project for the deliverables that the NDPW that are outstanding.

The following modules were part of the scope of implementation:

* Immovable and moveable asset management
* Lease management
* Integration into ESRI GIS
* Facilities management (Call centre, Planned, and Unplanned maintenance)
* KAM user needs
* Infrastructure Budgeting and Construction Project Management
* Supply Chain Management

**SECTION 9: Emerging risks**

**Treasury Regulations**

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

**SECTION 10: Ratings of detailed audit findings**

* For the purposes of this report, the detailed audit findings included in annexures A to C have been classified as follows:
* Matters to be included in the auditor’s report: These matters should be addressed as a matter of urgency.
* Other important matters: These matters should be addressed to prevent them from leading to material misstatements of the financial statements or material findings on the performance report and compliance with legislation in future.
* Administrative matters: These matters are unlikely to result in material misstatements of the financial statements or material findings on the performance report and compliance with legislation.

**SECTION 11: Conclusion**

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

Dipallo Shea

Senior Manager: National A

[Date of signature]

Enquiries: Danvon van der Berg

Telephone: 012 426 8000

Email: danvonv@agsa.co.za

**Distribution:**

Audit committee

Head of internal audit unit