**`SECTION 11: Summary of detailed audit findings**

| **Page no.** | **Finding** | **Classification** | | | | | **Rating** | | | **Number of times reported in previous three years** | **Status of implementation of previous year(s) recommendation** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Misstatements in financial statements** | **Misstatements in annual performance report** | **Non-compliance with legislation** | **Internal control deficiency** | **Service delivery** | **Matters affecting the auditor’s report** | **Other important matters** | **Administrative matters** |
| **Operating Expenditure** | | | | | | | | | | | |
|  | Coff 01 – HO: Payments not made within 30 days |  |  | X |  |  |  | X |  | 3 | In progress |
|  | Coff 03 – PTA: Possible overstatement of property expenditure | X |  |  |  |  |  | X |  | 1 | In progress |
|  | Coff 02 – PTA: Fruitless and wasteful expenditure | X |  |  |  |  |  | X |  | 3 | In progress |
|  | Coff 03 – PLK: Sundry Expenditure – Payments not authorised by delegated official |  |  | X |  |  |  | X |  | 3 | In progress |
| **Human Resource Management** | | | | | | | | | | | |
|  | Coff PTA 6, NEL 1, CPT 3, JHB 1, BLM 1, PLK 4 - Payroll certificates not certificate and returned timeously. |  |  | X |  |  |  | X |  | 3 | In progress |
|  | Coff 02 - BLM: Performance work plans not signed timeously. |  |  | X |  |  |  | X |  | 3 | In progress |
|  | Coff 02 - NEL: Scope limitation on payroll reports |  |  | X |  |  |  | X |  | 3 | In progress |
| **Contract and Procurement Management** | | | | | | | | | | | |
|  | Coff 05 – PTA: Quotation awarded to a tax non-compliant bidder |  |  | X |  |  |  | X |  | 3 | In progress |
|  | Coff 02 – DBN: Bids not cancelled and  re-advertised |  |  | X |  |  |  | X |  | - | - |
|  | Coff 03 – DBN : Three quotations not obtained |  |  | X |  |  |  | X |  | 3 | In progress |
|  | Coff 01 – DBN: Evaluation criteria not stipulated |  |  | X |  |  |  | X |  | 3 | In progress |
|  | Names of bidders and winning bidders not published on the Public Works website (CPT – Coff 2, DBN – Coff 04, PTA- Coff 07,NSP- Coff 01) |  |  | X |  |  |  | X |  | 3 | In progress |
|  | Coff 01 – CPT: Procurement process not followed |  |  | X |  |  |  | X |  | 3 | In progress |
| **Predetermined objectives** | | | | | | | | | | | |
|  | Coff 2 Differences between the reported result for quarter 2 and portfolio of evidence submitted for audit |  | X |  |  |  |  | X |  | 3 | In progress |
| **Information systems** | | | | | | | | | | | |
|  | SAGE - Lack of a business case for the SAGE project |  |  |  | X |  |  | X |  | 1 | In progress |
|  | SAGE - Lack of sufficient project documentation obtained for the SAGE implementation. |  |  |  | X |  |  | X |  | 1 | In progress |
|  | SAGE - Ineffective project governance |  |  |  | X |  |  | X |  | 1 | In progress |
|  | SAGE - Ineffective risk and issue management and tracking for the SAGE implementation |  |  |  | X |  |  | X |  | 1 | In progress |
|  | ARCHIBUS - Lack of a business case for the Archibus project |  |  |  | X |  |  | X |  | 1 | In progress |
|  | ARCHIBUS - Delays noted in the delivery of project deliverables against project timelines |  |  |  | X |  |  | X |  | 1 | In progress |

**Detailed audit findings**

**ANNEXURE B: OTHER IMPORTANT MATTERS**

**Expenditure**

1. **Invoices not paid within 30 days from receipt of the invoice**

**Audit finding**

Laws, rules and legislation:

1. Public Finance Management Act (PFMA) section 38(1)(f) requires that;

“*The accounting officer for a department, trading entity or constitutional institution must settle all contractual obligations and pay all money owing, including inter-governmental claims, within the prescribed or agreed period;”*

1. Treasury Regulation 8.2.3requires that;

*“Unless determined otherwise in a contract or other agreement, all payments due to creditors must be settled within 30 days from receipt of an invoice or, in the case of civil claims, from the date of settlement or court judgment.”*

c) Instruction note 34 of National Treasury dated 30 November 2011require that;

“*4.1 The accounting officer’s responsibility [in terms of section 38(1)(f)] to settle all*

*contractual obligations and to pay all money owing, including intergovernmental claims, within the prescribed (30 days) or agreed period is hereby re-iterated.*

*“4.2 Within thirty days (30) days from the date of this Instruction Note, all departments are required to have in place systems (processes and procedures) that will enable the tracking of each invoice received from the various service providers.”*

*“4.3 The system referred to in paragraph 4.2 above may either be manual or electronic in nature and such a system must also be able to track progress with the processing of each invoice.”*

*“4.4 At any given time, such a system must be able to provide information related to the date on which an invoice was received, the date on which it was paid and the time period between the date of receipt and the date of payment, if the invoice was indeed paid.*

*“4.6 The information required in paragraph 4.5 above must be submitted to the*

*National Treasury within seven (7) days after the end of the preceding month in the format prescribed in the enclosed Annexure A.”*

*“4.7 The accuracy of information in paragraph 4.5 must be confirmed by signature of the department’s accounting officer prior to its submission to the National Treasury.*

*“4.11 If accounting officers of national and provincial departments delegate the power to confirm the accuracy of information in paragraph 4.5 to their respective department’s chief financial officer or to any other functionary, the accounting officers are not divested of the responsibility concerning the exercising of the delegated power, as provided in section 44(1)(d) of the PFMA.”*

The following payment was not made within 30 days from the date of receipt of the invoice:

**Property Rates**

| **Region** | **Supplier** | **Batch number/FA number** | **Date invoice received** | **Payment date** | **No. of days** | **Amount [R]** |
| --- | --- | --- | --- | --- | --- | --- |
| Cape Town | Saldanha Bay Municipality | 6443 | 2017/05/11 | 217/06/27 | 47 | 8 762.06 |
| Cape Town | Swellendam Municipality | 6447 | 2017/03/20 | 2017/06/29 | 101 | 127,18 |
| Cape Town | City Of Cape Town Municipality | 6452 | 2017/03/20 | 2017/06/29 | 101 | 1 461 201,80 |
| Cape Town | Prince Albert Municipality | 6518 | 2017/08/02 | 2017/09/14 | 43 | 10 993,95 |
| Cape Town | Prince Albert Municipality | 6518 | 2017/08/02 | 2017/09/14 | 43 | 4 207,50 |
| Cape Town | Bergrivier Municipality | 6543 | 2017/07/31 | 2017/09/27 | 58 | 11 354,70 |
| Cape Town | Saldanha Bay Municipality | 6443 | 2017/05/11 | 2017/06/27 | 47 | 8 762,06 |
| Cape Town | Swellendam Municipality | 6447 | 2017/03/20 | 2017/06/29 | 101 | 127,18 |
| Durban | Umshwathi municipality | 0154\*2200000001 | 2017/04/25 | 2017/06/08 | 44 | 62 974,2 |
| Durban | Nongoma municipality | 0154\*2191000001 | 2017/03/24 | 2017/04/25 | 32 | 1 052,64 |
| Nelspruit | Thaba Chweu Municipality | 8989\*0641000001 | 2016/08/19 | 2017/04/20 | 244 | 4 965.42 |
| Nelspruit | Mkhondo Municpality | 8989\*0644000001 | 2017/02/13 | 2017/05/12 | 88 | 40 735.72 |
| Nelspruit | Steve Tshwete Municipality | 8989\*0658000001 | 2017/08/30 | 2017/10/18 | 49 | 232 744.2 |
| Nelspruit | Steve Tshwete Municipality | 8989\*0656000001 | 2017/08/30 | 2017/10/11 | 42 | 80 326.92 |
| Nelspruit | Msukaligwa Municipality |  | 2017/09/01 | 2017/12/12 | 104 | 157 628.6 |
| Port Elizabeth | Buffalo City Metro | 0153\*2497\*000001 | 2017/08/21 | 2017/10/11 | 51 | 29 442,92 |

**Property Maintenance**

| **Region** | **Supplier** | **Batch number/FA number** | **Date invoice received** | **Payment date** | **No. of days** | **Amount [R]** |
| --- | --- | --- | --- | --- | --- | --- |
| Durban | Umbusi consulting serv | ZAPNV1704S1004336791 | 2017/03/16 | 2017/04/20 | 36 | 52 276,81 |
| Durban | Schoombie hartmann | ZAPNV1705S1004347287 | 2017/04/06 | 2017/05/12 | 37 | 19 670,17 |
| Pretoria | Leteketa Construction | 7969 | 2016/07/08 | 2017/05/23 | 316 | 10 018.32 |
| Pretoria | Dambuwo Engineering | 9570 | 2017/04/25 | 2017/08/12 | 109 | 37 444.21 |

The aforementioned findings may result in:

1. Non-compliance with Section 38 of the Public Finance Management Act
2. Non-compliance with Treasury Regulations 8.2.3
3. Non-compliance with Instruction Note 34 of National Treasury

**Internal control deficiency**

*Leadership*

Management does not effectively establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities

Monitoring controls did not ensure that creditors were paid within the required 30 days of receipt of the invoice.

**Recommendation**

It is recommended that payments be processed in a speedy manner without compromising internal controls.

The department should ensure that the implementation and roll out of the invoice tracking system occurs timeously.

**Management response**

Management comments not yet received

*Name:*

*Position:*

*Date:*

**Auditor’s conclusion**

1. **Possible overstatement of property maintenance ( PTA COFF 3)**

**Audit finding**

Public Finance Management Act section 40(1)(a), and 40(1)(b) of the PFMA states that the accounting officer for a department, trading entity or constitutional institution must prepare financial statements for each financial year in accordance with generally recognized accounting practice.

The following discrepancies were identified:

|  |  |  |  |
| --- | --- | --- | --- |
| **Supplier name** | **Service** | **Payment number** | **Amount** |
| Tlhabo ya letsatsi trading and projects | Repair of submersible pump | 1670 | 258 758.80 |

Job card

Job card received from Tlhabo ya letsatsi trading and project was blank, however invoice was certified that goods and services were received, therefore we could not confirm whether the goods and service were actually delivered.

This finding results in possible overstatement of expenditure.

**Internal control deficiency**

*Financial and performance management*

The entity did not implement a proper financial and reporting system to enable proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

**Recommendation**

Management should ensure payments made are supported by completed and signed job card by client department and also internal official.

**Management response**

The management is in agreement with the finding as far as the blank Job Card is concerned. It was an oversight from the project manager to have not let the service provider complete the job card and on part of Finance to have authorized a payment with a blank job card. The project manager has confirmed that the pump was taken out for repair and subsequently been put back and is now working. Furthermore, the project manager was satisfied with the job done hence the certification of invoice was completed.

Management will ensure that officials check the payment batches and all supporting documents before processing and final authorization. Management will ensure that there is consequence management in this regard.

Name: Ms Tebogo Phiri

Position: Regional Manager

Date: 23/03/2018

**Auditor’s conclusion**

**Tlhabo ya Letsatsi**

Management agrees with the finding. The finding will remain in the management report because the departmental procedure was not followed as the invoice was certified and payment processed while the job card was blank.

1. **Expenditure – Property maintenance – Fruitless and wasteful expenditure (PTA COFF 2)**

**Audit finding**

Public Finance Management Act section 40(1)(a), and 40(1)(b) of the PFMA states that the accounting officer for a department, trading entity or constitutional institution must prepare financial statements for each financial year in accordance with generally recognized accounting practice.

VAT Act section 4 states that except as the commissioner may otherwise allow , and subject to this section, a tax invoice (full tax invoice) shall be in the currency of the Republic and shall contain the following particulars:

1. The words “tax invoice’ in a prominent place;
2. The name, address and VAT registration number of the supplier;
3. The name, address and, where the recipient

Public Management Finance Act defines fruitless and wasteful expenditure as an expenditure which was made in vain and would have been avoided had reasonable care been exercised

The following discrepancies were identified:

The service provider had made a mistake of mixing up the wires, had care been taken, the entity wouldn’t have incurred an additional cost as it was the service provider negligence.

It was also found that VAT amount of R593.33 claimed and paid by PMTE, however the service provider is not VAT registered and also the Tax invoice did not have a VAT number as required by Value Added Tax Act, furthermore had the entity confirmed that the service provider is not VAT compliant then the further they would have identified that the service provider is not a VAT vendor

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Number** | **Supplier name** | **Payment number** | **Amount per quotation** | **Amount paid** | **Difference** |
| 1 | Kharibean new electric | 8946 | 2 479.50 | 4 845.00 | 2 365.50 |

Possible fruitless and wasteful expenditure on VAT amount paid and also the additional amount spend due to the poor performance of the service provider on the job that was previously performed.

**Internal control deficiency**

*Financial and performance management*

The entity did not implement a proper financial and reporting system to enable proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

**Recommendation**

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

**Management response**

Management acknowledges the finding in so far as payment for VAT is concerned. However, this expenditure will not be regarded as fruitless and wasteful expenditure but rather a receivable which is claimable from the service provider. To this end management has taken steps to recover the money overpaid to the service provider by issuing a letter of demand requesting the service provider to pay back the money. See attached marked annexure A. and B. Furthermore, the overpayment was discovered by management during the month of February 2018 through its internal control processes.

The additional amount incurred does not constitute fruitless and wasteful expenditure. There is no conclusive evidence to confirm that the “mixing up the wires” was as a result of the service provider. Management is satisfied that the expenditure incurred as result was just and the service provider was due for the payment. The quotation was revised after the service provider found electrical faults with the wiring.

Finance officials will ensure that invoices are accurately checked against the job card before authorization of payments. Furthermore, payments will be checked against SARS website to validate the VAT payable if the supplier is a VAT vendor.

Name: Ms Tebogo Phiri

Position: Regional Manager

Date: 22 March 2018

**Auditor’s conclusion**

Management comments are noted however the amount overpaid is fruitless and wasteful as it would have been avoided had reasonable care been taken before payment was processed. In addition, the Annexure A attached by management represents a letter to the supplier and is claiming an overpayment of R2 485.00 therefore management does acknowledge that there was overpayment over and above the VAT amount. The finding will therefore remain in the management report.

1. **Sundry Expenditure: Payments not authorized (PLK COFF 3)**

**Audit finding**

Laws, rules and Regulations:

Public Finance Management Act section 40(1)(a), and 40(1)(b) of the PFMA states the following:

(a)the accounting officer for a department, trading entity or constitutional institution-

(b)  must prepare financial statements for each financial year in accordance with generally recognized accounting practice;”

Chapter 5 of the Public Finance Management Act (PFMA) section 40(1)(a) stipulates that

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

During the performance of our audit for Sundry expenditure, we identified that the following payment batches have not been authorised for payment:

| **Supplier Name** | **Batch no.** | **Invoice Description** | **Invoice amount (R)** |
| --- | --- | --- | --- |
| City of Polokwane | 22489 | Sewage | 318.58 |
| City of Polokwane | 32505 | Refuse basic charge | 201.89 |
| **Total** |  |  | **520.47** |

Possible non compliance

**Internal control deficiency**

Financial Management and performance

Review and monitor compliance with applicable laws and regulations

**Recommendation**

Management should ensure that all payments are authorized by the duly delegated official before payment is made

**Management response**

Management agrees with finding.

Payments for Polokwane Municipality have not been authorized before final payment effected. However subsequent to payments the authorization was made by duly delegated official

The Payments was made due to unavailability of officials to authorize payments and municipal services invoices are pressing with deadline to avoid cut off or Payments of interest.

Auditors’ recommendation will be implemented and continuous monitoring will be done to ensure compliance with relevant prescript.

Name: Gudson Rangolo

Position: ASD Payment

Date: 04/04/2018

**Auditor’s conclusion**

Management response is noted, the finding remains and will be reported in the management report

Human resource management

1. **Payroll certificate certified after the payment date and not returned timeously (COFF PTA 6, NEL 2, CPT 3, JHB 1, BLM 1, PLK 5)**

**Audit finding**

Laws, rules and regulations

1. In terms of Treasury Regulation 8.3.4 states that:

“For all employees, the person in charge at the respective pay-points must certify on the date of payment that all persons listed on the payroll report are entitled to payment. Employees paid by cheque must sign the payroll report when collecting their cheques.”

b) Paragraph 8.3.5

“Within ten days of being certified, the payroll report must be returned to the chief financial officer. The accounting officer must ensure that all pay-point certificates have been received on a monthly basis.”

 (1)The following payroll certificates were certified by the person in charge of the pay point after payment date.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **No** | **Coff no:** | **Region** | **Pay point number** | **Period** | **Date payroll certificate signed** |
| 1 | 6 | Pretoria | 3110 | 15/11/2017 | 20/11/2017 |
| 3180 | 15/11/2017 | 07/02/2018 |
| 3153 | 15/11/2017 | 23/11/2017 |
| 3162 | 15/11/2017 | 06/02/2018 |
| 2 | 3 | Cape Town | 1093 | 31/07/2017 | 10/08/2017 |
| 1093 | 15/07/2017 | 29/08/2017 |
| 1100 | 15/07/2017 | 25/08/2017 |
| 3 | 1 | JHB | 1108 | 15-Jul-17 | 17-Jul-17 |
| 4 | 1 | Bloem | 1141 | 15-May-17 | 18-May-17 |
| 5 | 5 | Polokwane | 1211 | 15-Apr-17 | 02-May-17 |

(2) There was no evidence that the following payroll certificates were returned to the finance section within ten days of being certified.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **No** | **Coff no:** | **Region** | **Pay point number** | **Period** | **Date payroll certificate signed** |
| 1 | 6 | Pretoria | 3110 | 15/11/2017 | 20/11/2017 |
| 3180 | 15/11/2017 | 07/02/2018 |
| 3153 | 15/11/2017 | 23/11/2017 |
| 3162 | 15/11/2017 | 06/02/2018 |
| 2 | 3 | Cape town | 1093 | 31/07/2017 | 10/08/2017 |
| 1093 | 15/07/2017 | 29/08/2017 |
| 1100 | 15/07/2017 | 25/08/2017 |

Impact of finding:

1. Non-compliance with section 8.3.4 of the Treasury Regulation.
2. Should incorrect payments be present on the payroll reports, they will not be timeously detected and corrected, might lead to possible fictitious payments or losses to the state.

The prior year action plan stated that the different units will reconcile payroll register to the actual payrolls and that non-compliance report will be submitted to Branch Heads at Head Office and Regional Managers in Regions.

**Internal control deficiency**

Financial and Performance Management

1. The department did not implement controls over daily and monthly processing and reconciling of transactions

**Recommendation**

1. The department must investigate the possibility of printing the payrolls from another provincial department in their province.
2. The department needs to improve their current record keeping system relating to the payrolls certificates as the current system in place is insufficient, and no records are kept of the date of return for payroll certificates.
3. No accurate register is in place that documents all the payroll certificates received
4. Review the monthly payroll expense reports and ensure that payrolls that have been certified will be returned within ten days to finance department

**Management response**

**Cape Town response:**

I am in agreement with the finding.

1. The following payroll certificates were certified by the person in charge of the pay point after payment date.

The payroll certificate for pay point 001093 and 001100 were only received after the payment date hence it was signed by the responsible official after the payment date. This matter was also raised in previous audits and the proposal made by the auditor to have payrolls printed at a provincial department were escalated to Head Office who has indicated that this is not possible. There has however been an improvement in receiving the payroll certificates before the payment date since the beginning of 2018.

1. There was no evidence that the following payroll certificates were returned to the finance section within ten days of being certified.

A payroll register has been implemented effective from April 2018, and on the register it provides for an e-mail reminder to be sent 5 days after the payroll certificates have been distributed and then also for follow-ups to be done for outstanding payroll certificates at intervals of 10 days to try and comply with the requirement that signed payroll certificates must be returned to the Finance Section within 10 days. The mentioned register will address the shortcomings as identified by the auditor in the management of payroll certificates.

Name: Nomnandi Ndiyane

Position: ASD: Financial Accounting

Date: 29 March 2018

**Johannesburg response:**

I am in agreement with the finding for the following reasons and hereby supply the following/attached information as per Annexure A, B & C in support of this management response:

1. The JHB Regional Office Registry went to Head Office to collect the Payroll Sheets and Payslips on Thursday, 06 July 2018. They were taken to the Payroll Office the following day on Friday, 07 July 2017. The Payroll Office created the Payroll Control Sheet as per “Annexure A” and sorted the payslips according to the pay points on Friday, 07 July 2017 and Monday, 10 July 2017.
2. It took Payroll Office one and half days to create and update the Payroll Control Sheet and start distributing the payroll sheets and payslips because of capacity constraints. The reason for the time taken, is because the Payroll Office is presently being manned by one official, who is the Senior State Accountant (SSA)- Revenue, instead of two because the position of the State Accountant: Payroll is still vacant;
3. On 11 July 2018, all the payroll sheets and their corresponding payslips were distributed to the respective Line Managers for certification. The payroll sheet and corresponding payslips in question were also distributed to the Office of the Regional Manager (RM) on the same date, 11 July 2017, but the Payroll Office did not find anybody to accept the payroll sheet and payslips. The SSA-Revenue official went back again on 12 July 2017 for certification of the payroll sheet as per attached “Annexure B”. The payroll sheet and payslips were left with the officials from her Office, pending her coming back from sick leave and certify it. Refer to attached “Annexure A” as Proof of Evidence (POE).
4. The following day, Thursday, 13 February 2017, the RM was on sick leave until Friday, 14 July 2017 as per attached “Annexure C” Unfortunately, there was nobody who was appointed to act on her behalf due to the fact that at that time only the Minister could appoint an acting RM. This made it difficult to appoint an acting RM for a short period of 2 days. However, the Department has now amended the delegations to enable the RM’s supervisor to appoint acting RM’s.
5. The RM came back from her sick leave on Monday, 17 July 2017 and then certified the said payroll sheet on the same date, 17 July 2017. The payroll Office collected the certified payroll sheet the same day, Monday, 17 July 2017 as per “Annexure A”.
6. That was the reason why the payroll sheet in question was certified, just one (1) working day from payday on Friday, 14 July 2017, since the 15 and 16 July 2018 fell on a weekend.
7. Finance Directorate will ensure that the filling of the vacant post of SA-Payroll is expedited.
8. The current delegations will be used to ensure that when the Regional manager is absent the acting will ensure that the payroll is signed on time.

1. Finance will also enhance the system of managing the certification of payroll sheets, by-among other things- ensuring that any certification of payroll sheets done after payday is accompanied by a memorandum from the affected Line Manager, explaining the reason for such a delay.
2. We shall also implement the schedule of monitoring the certification of such.

Name: Mr. NG Mudau

Position: Acting Director: Finance

**Polokwane response:**

Management acknowledges the audit finding and wishes to respond as follows:

Payroll certificates are only received from the head office after the payment date, Regional office is unable to provide further details in terms of corrective action to be taken as the printing of payroll is centralised. Management disagrees with the impact identified by the audit team that *“Should incorrect payments be present on the payroll reports, they will not be timeously detected and corrected, might lead to possible fictitious payments or losses to the state.”* The certification, as a control measure, is not meant to “…timeously detected and corrected…which might lead to fictitious or losses to the state” since the certification of the payroll must be done on the date of payment, at which stage no fictitious payment would not be detected.

Name: Lucas Serepo

Position: DD Finance

Date: 03/04/2018

**Pretoria response:**

The management is in agreement with this finding for the following reasons; it is a challenge to certify the payroll certificates before the payday due to unavailability of some of the employees to sign for their payslips. The certification can only be done when all the payslips have been taken by their owners. Management will from now on ensure that the managers responsible for pay points sign the payroll sheet, and in case where employees are not available to sign for their payslip, responsible managers will sign the payroll on their behalf.

Management disagrees with the impact identified by the audit team that “Should incorrect payments be present on the payroll reports, they will not be timeously detected and corrected, might lead to possible fictitious payments or losses to the state.” The certification, as a control measure, is not meant to “…timeously detected and corrected…which might lead to fictitious or losses to the state” since the certification of the payroll must be done on the date of payment, at which stage no fictitious payment would not be detected.

Management will ensure that the payroll certificates are certified by respective Heads of units as soon as they are received from Head Office and returned timeously to Finance. Managers in respective units must correct their payroll certificates and internal communication will be issued within the Pretoria regional Office.

Name: Tebogo Phiri

Position: Regional Manager

Date: 2018/03/20

**Bloemfontein response**:

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

1. The Payroll Certificates are only received from Head Office after the actual Payment date and thus resulting in this Office being unable to comply with the requirements of TR 8.3.4.

This matter as indicated above was reported on since the 2015/16 financial year as well and escalated to Head Office; however no feedback or improvement has been noted. This office will once again raise the Coff with HO to sensitize HO regarding the current non-compliance based on TR 8.3.4.

In addition the office is doing a monthly reconciliation to ensure that all payroll certificates are signed by the relevant managers to ensure that there are no fictitious payments, as a control to address the concern raised by the AGSA.

Note that the Internal Control Deficiency regarding the “not effectively communicate policies” is not correct as the root cause is related to the actual late distribution of the Payroll’s from Head Office and not the policy itself.

Corrective action to be taken: Escalate the matter to HO

HO to investigate other options to ensure that Payroll certificates are provided to Regions before the actual pay date.

Name: T Zulu

Position: Regional Manager

Date: 8 March 2018

**Auditor conclusion**

Management comments are noted. The finding will remain as there was non-compliance with the Treasury Regulations.

1. **Performance work plans not signed on time (COFF 2 BLM)**

**Audit finding**

Laws, rules and legislation:

Performance Management and Development System Policy Paragraph 7.2 *Performance planning and work plans state that,*

*Existing employees shall have entered into performance agreement and signed work plans on or before the 15th April of each performance cycle starting from o1 April to 31 March of the following year.*

Non-compliance with the Performance Management Development System Policy as a result of the employees listed below having signed their performance work plan after the 15th April 2017.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No** | **Surname** | **Initials** | **Persal number** | **Date the employee signed the performance work plan** |
| 1 | 'DE VILLIERS | PA | 12549291 | 01 June 2017 |
| 2 | MOFOLO | NA | 12746720 | 12 June 2017 |

The aforementioned findings may result in:

1. This will lead to non-compliance with Performance Management Development System Policy

**Internal control deficiency**

*Leadership*

Management does not effectively communicate policies and procedures to enable and support understanding and execution of internal control objectives and processes.

Monitoring controls did not ensure that Non –SMS member sign their performance work plan timely.

**Recommendation**

Performance work plan should be signed timely to ensure compliance with Performance Management Development System Policy

**Management response**

I am in agreement with the finding as the work plans were not submitted within the timeline required.

It must however be noted that Human Resources did make follow-ups with the relevant unit managers via emails as per attached POE.

A number of reasons could have contributed to the delays being, amongst other;

* Late distribution of the APP 2017/18 by HO.
* Disputes between officials and supervisors regarding specific targets.
* Possibility that officials were on leave or sick leave.
* Workload, due to the high vacancy rate could also have contributed to the late submission.

Human Resources will continue to sensitise staff and supervisors regarding the different timelines and will monitor compliance.

Relevant Line Managers (P Zweni and D Manus) to be held accountable by the delegated authority for the non-compliance.   
All late submissions to be recorded by HR and these are to be communicated to the AO for intervention as required.

Name: T Zulu

Position: Regional Manager

Date: 8 March 2018

**Auditor conclusion**

Management agrees with the finding. The finding will remain in the management report.

1. **Scope limitation on payroll certificates (COFF 2 NEL)**

**Audit finding**

Section 40 of the Public Finance Management Act (PFMA) states that: “The accounting officer for a department, trading entity or constitutional institution –

1. must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;
2. must prepare financial statements for each financial year in accordance with generally recognized accounting practice”

Section 41 furthermore states that an accounting officer of a department, trading entity or constitutional institution must submit to the relevant Treasury or the Auditor-General such information, returns, documents, explanations and motivations as may be prescribed or as the relevant Treasury or the Auditor-General may require.

During the performance of the audit, the below information was not provided to auditors as per RFI 13 sent.

|  |  |  |  |
| --- | --- | --- | --- |
| **No.** | **Pay point** | **Period** | **Region** |
| 1 | 002840 | 15-09-2017 | Nelspruit |
| 2 | 002840 | 30-09-2017 | Nelspruit |

**Impact of the finding**

Possible Non compliance

**Internal control deficiency**

## *Financial and performance management*

Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting

**Recommendation**

The required information should be provided as a matter of urgency.

**Management response**

No management response received

**Auditor conclusion**

No management response received. Finding remains.

**Procurement and contract management**

1. **Quotation awarded to a tax non-compliant bidder (PTA COFF 5)**

**Audit finding**

Treasury Regulations 16A9.1(d) states that the accounting officer or accounting authority must reject any bid from a supplier who fails to provide written proof from the South African Revenue Service that that supplier either has no outstanding tax obligations or has made arrangements to meet outstanding tax obligations;

The following discrepancies were identified:

The supplier was selected from National Treasury's central supplier database, however the supplier's tax status was confirmed to be invalid at the time of award but the supplier was still awarded the quotation:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Number** | **Supplier name** | **Quotation number** | **Contract amount** | **Expenditure** |
| 1 | Matlolobe Business Enterprise | PTQ17/217 | 405 000.00 | 45 000.00 |

Non-compliance with laws and regulations resulting in irregular expenditure

**Internal control deficiency**

Leadership

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

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

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

**Recommendation**

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

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

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

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

**Management response**

Management is in agreement with the finding since the CSD system is a “live” and up to date tax status. This was an oversight on the part of SCM official during the period of award as they relied on the tax clearance certificate that was attached.

Management will ensure that SCM officials verify the CSD report is tax compliant before award. The transaction will be reported to Internal Control as Irregular Expenditure and also it will be referred to Labour Relations to institute disciplinary actions against the affected official(s).

The potential irregular expenditure will be reported to Internal Controls for validation and reporting.

Name: Ms Tebogo Phiri

Position: Regional Manager

Date: 23 March 2018

**Auditor’s conclusion**

Management agrees with the finding. The finding will remain in the management report.

1. **Bid not cancelled and re-advertised as per PPR 8(2)(a) of 2011 (DBN COFF 2)**

**Audit finding**

a) Treasury Regulation 16A6.3(b) states that: The Accounting Officer must ensure that the bid document include the evaluation and adjudication criteria including the criteria prescribed in terms of the Preferential Policy Framework Act.

(b) PPPFA Act Section 2(1)(a) Framework for implementation of preferential procurement policy states that an organ of state must determine its preferential procurement policy and implement it

(c) PPR paragraph 5 and 6 state:

1. The 80/20 preference point system for acquisition of services, works or goods up to a Rand value of R1 million
2. The 90/10 preference point system for acquisition of services, works or goods with Rand value above R1 million

(d) PPR 8(2)(a) of 2011 states the following:

1. In the application of the 90/10 preference point system, if all bids received are equal to or below R1 000 000, the bid must be cancelled.
2. If one or more of the acceptable bid(s) received are above the R1 000 000 threshold, all bids received must be evaluated on the 90/10 preference point system

During of our audit on procurement, the following non-compliance was identified:

Through inspection of the tender file DBN16/04/32, It was noted that the scoring model used was 90/10 preference point system. However, all the bids received relating to this tender were all below R1 000 000.00 and thus the tender should have been cancelled and re-advertised. In this case the tender process still continued and was awarded.

|  |  |  |  |
| --- | --- | --- | --- |
| **Supplier Name** | **Tender Number** | **Tender Description** | **Award Value** |
| True Space (Pty) Ltd | DBN16/04/32 | Ladysmith 5 S.A.I Battalion, Upgrading of kitchen equipment : Architectural Services | R515 565.96 |

List of bids received:

|  |  |
| --- | --- |
| **Supplier Name** | **Tender Price** |
| Iqhayiya Design Workshop (Pty) Ltd | R694 607.96 |
| Baganala Consulting (Pty) Ltd | R991 372.50 |
| MG Architects & Projects Manager cc | R641 176.58 |
| Ukuza Consulting (Pty) Ltd | R507 598.13 |
| Sakhisizwe Architects | R641 176.59 |
| Muller Neumeister Internal Mini Architects | R748 039.34 |
| Creative Axis Architects KZN | R853 293.20 |
| Bartsch Consulting (Pty) Ltd | R748 039.33 |
| Tru Space (Pty) Ltd | R515 565.96 |
| Timocraft Consulting (Pty) Ltd | R566 370.63 |
| Izingodla Engineering (Pty) Ltd | R782 662.50  . |
| True Space (Pty) Ltd | R515 565.96 |

The aforementioned findings may result in:

a) Non-compliance with *PPPFA Sec 2(1)(e)*

b) Non-compliance with *PPPR*

c) Irregular expenditure

**Internal control deficiency**

*Leadership*

Management did not exercise oversight responsibility regarding compliance with laws and regulations.

*Financial and performance management*

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

**Recommendation**

Management should ensure that that if all bids received are equal to or below R1 000 000, the bid are cancelled.

A compliance checklist should be completed and reviewed before bids are awarded to ensure that the correct procurement process is followed.

**Management response**

Management agrees with the finding in that this project should have been lapsed and re-advertised indicating a correct preference point system of 80/20. This was an oversight which SCM will avoid going forward by ensuring that all submissions for approval by the delegated authorities are verified by an SCM official from an ASD level upwards to ensure compliance with all SCM prescript and that processes are correctly followed.   
However, this is an isolated case as all services or tenders advertised within this financial year comply with all SCM regulations and prescripts from strategy to award.

Name: Ms Nomkhosi Mthethwa

Position: DD SCM

Date: 2018/03/27

**Auditor’s conclusion**

Management comments are noted and therefore the finding remains and will be included in the management letter.

1. **Three quotations not obtained**

**Audit finding**

Practice Note 8 of 2007/08 par 3.3.3 & Treasury Regulations16A6.4 states that

*If three written price quotations were not obtained, the reasons:-*

1. *were recorded and approved by a delegated official;*
2. *appears reasonable/ justified on the basis that it was impossible/ impractical to obtain 3 written quotations;*

During the audit of procurement, we noted the following:

* As per the payment batch, three quotations were received however one of the three quotes were received after the closing date. Therefore, resulting in only two quotations received.

|  |  |  |  |
| --- | --- | --- | --- |
| **No** | **Supplier** | **Description** | **Amount [R]** |
| 1 | Kemba Enterprise (Pty) Ltd | PURCHASE OF MOVABLE ASSETS: GRINDER LARGE ANGLE GRINDER METABO W 25\*230, HAMMER ANY. | **44 007,35** |

The aforementioned findings may result in:

* Non-compliance resulting in irregular expenditure

**Internal control deficiency**

Financial and performance management

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

**Recommendation**

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

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

**Management response**

Management is in agreement with the finding as there is no proof that the 3rd quotations from Lentshwe Risk Solutions was delivered on time. Reasons provided that this quotation was deposited in the wrong box *(box number 16 instead of box number 6)*, was not accepted by AG.

SCM will disregard all documents received late if it cannot be proven that they were received on time by the department. For services closing on the same day, SCM will record all documents received from each quotation box and that will serve as proof.

Name: Ms Nomkhosi Mthethwa

Position: DD SCM

Date: 2018/03/27

**Auditor’s conclusion**

Management agrees with the finding, therefore the finding remains unresolved and will be included in the management letter.

1. **Quotations – Evaluation criteria not stipulated**

**Audit finding**

*Laws, rules and legislation:*

a) PPPFA Sec 2(1)(e); PPPR 4 (3) Para 3.3 of NT Instruction Note September 2010

requires that;

“All evaluation criteria for functionality, price and/or preference points must be stipulated in the request for quotations/bids.”

“Any specific goal, for which a point may be awarded, must be clearly specified in the invitation to submit a tender.”

1. GNR.225 Sec 16A3.2 requires that;

“A supply chain management system referred to in paragraph16A3.1 must -

1. be fair, equitable, transparent, competitive and cost effective;
2. be consistent with the Preferential Procurement Policy Framework Act, 2000 (Act No.5 of 2000)”

During the performance of our audit it was noted that evaluation criteria applied in evaluating the below quotations for price and/or preference points (80/20) were not stipulated in the request/invitation for quotations*.*

|  |  |  |  |
| --- | --- | --- | --- |
| **No** | **Supplier** | **Description** | **Amount [R]** |
| 1 | SP Mkhize | SAPS ChartsworthTraining College: Servicing of aircons | 92 500 |
| 2 | Iqholo Boiler Plants | DCS Westville: Operation and Maintenance | 397 000 |
| 3 | Nokwazisbu Trading Enterprise | DCS Ncome: Operation and maintenance of Boilers | 429 000 |
| 4 | Siyasiza Investments cc | DCS Mtunzini: Operation and maintenance of sewer | 362 700 |

The aforementioned findings may result in:

1. Non-compliance with *PPPFA Sec 2(1)(e*
2. Non-compliance with *PPPR 4 (3) Para 3.3 of NT Instruction Note September 2010*

**Internal control deficiency**

*Leadership*

Management does not effectively establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities

**Recommendation**

It is recommended that all invitations for quotations must specify the evaluation criteria for functionality, price and/or preference points must in the request for quotations.

**Management response**

Management is not in agreement with the finding as the evaluation criteria for price and preference was indicated on the request for quotations (DRO2).

As portfolio of evidence, copies of the DR02 used as invitation to quote are attached for each service mentioned above, and all indicate the preferential point system for evaluation in line with PPPFA 2017.

Name: Ms Nomkhosi Mthethwa

Position: DD SCM

Date: 2018/03/27

**Auditor’s conclusion**

Management comments and the supporting documents provided are acknowledged.

However, the following disagreements are not appropriately supported by the relevant documentations.

|  |  |  |  |
| --- | --- | --- | --- |
| **No** | **Supplier** | **Description** | **Amount [R]** |
| 1 | SP Mkhize | SAPS ChartsworthTraining College: Servicing of aircons | 92 500 |
| 2 | Iqholo Boiler Plants | DCS Westville: Operation and Maintenance | 397 000 |
| 3 | Nokwazisbu Trading Enterprise | DCS Ncome: Operation and maintenance of Boilers | 429 000 |
| 4 | Siyasiza Investments cc | DCS Mtunzini: Operation and maintenance of sewer | 1. 700 |

1. - DR-02 form not attached to support the disagreement

2 - DR-02 form not attached to support the disagreement

3 - DR-02 form not attached to support the disagreement

4 - DR-02 form attached does not relate to this work reference (Dur-0717-115725) and also the amount quoted by Siyasiza Investments was R362 700 not per attached form.

Therefore, the finding remains unresolved and will therefore be included in the management report.

1. **Names of bidders and winning Bidder information not published on the Public Works website**

**Audit finding**

Laws, rules and Regulations:

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

Instruction note 32 par 3.7.2 states that the following information on the successful bids must be made available on the

institution’s website and in the Government Tender Bulletin and also in the media

where the bid was originally advertised:

(a) Contract numbers and description;

(b) Names of the successful bidder(s) and preferences claimed;

(c) The contract price(s); and if possible

(d) Brand names and dates for completion of contracts.

Treasury Regulation 16A6.3 (d) states that the accounting officer must ensure that awards are published in the Government Tender Bulletin and other media by means of which the bids are advertised.

The following non-compliance was identified:

* + - 1. No evidence was provided that the names of all bidders who submitted bids in relation to the advertisement were published on the website within ten (10) working days after the closure of the advertised bid and remained on the website for a minimum of thirty (30) days.

| **No** | **Supplier name** | **Tender Number** | **Tender value** |
| --- | --- | --- | --- |
| 1 | CSM Consulting | PT17/003 | 459 260.00 |
| 2 | Matebello cleaning and catering | PT17/021 | 3 245 993.00 |
| 3 | Matebello cleaning and catering | PT17/023 | 3 531 435.00 |
| 4 | Health care cleaning and catering | PT17/022 | 6 782 352.00 |
| 5 | Matebello cleaning and catering | PT17/025 | 2 078 988.00 |
| 6 | Elihle group | PT17/001 | 1 476 613.00 |
| 7 | Themba Consultant | PT17/004 | 292 562.00 |
| 8 | Imbeu development engineers | PT17/006 | 1 183 871.00 |
| 9 | Falcon Supplies | PT17/012 | 44 628 649.00 |
|  |  |  |  |
| 10 | BVI Consulting | CPTC016/16 | R2 854 606,02 |
| 11 | Rubiquant cc | CPTC009/16 | R9 850 762,80 |
| 12 | Atvantage Projects Managers | CPTC015/16 | R19 699 200,00 |
| 13 | EBESA Architectures | CPTC014/16 | R10 694 103,50 |
| 14 | MK Cooling and Electrical cc | CPTC1020/16 | R2 220 520,00 |
| 15 | Augementum Construction | CPTC1034/16 | R1 153 360,00 |
| 16 | Baseline Civil Contractors | CPTC1019/16 | R13 719 874,00 |
| 17 | The Construction Co. | CPTC1035/16 | R5 908 602,06 |
| 18 | Funulwazi Protection Services | NST 17/017 | R1 161 806 |

* + - 1. No evidence could be obtained that the details of the winning bidder was published on the departmental website:

|  |  |  |  |
| --- | --- | --- | --- |
| **No** | **Supplier Name** | **Tender Number** | **Award Value [R]** |
| 1 | Siyazenzela Textile | DBN16/10/10 | 741 199.00 |
| 2 | Shazi Njomane Trading Enterprise (Pty) Ltd | DBN16/10/11 | 720 000.00 |
| 3 | Dunge Production (Pty) Ltd | DBN 16/10/21 | 565 320.00 |
| 4 | BVI Consulting | CPTC013/16 | R3 765 000,00 |
| 5 | BVI Consulting | CPTC010/16 | R4 605 338,99 |
| 6 | MK Cooling and Electrical cc | CPTC1020/16 | R2 220 520,00 |
| 7 | Augementum Construction | CPTC1034/16 | R1 153 360,00 |
| 8 | Baseline Civil Contractors | CPTC1019/16 | R13 719 874,00 |
| 9 | The Construction Co. | CPTC1035/16 | R5 908 602,06 |

The aforementioned findings may result in:

* Non-compliance with SCM regulations.

**Internal control deficiency**

*Leadership*

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

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

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

*Financial and performance management*

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

**Recommendation**

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

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

A compliance checklist should be completed and reviewed to ensure that the correct procurement process was followed at each stage of the procurement process.

**Management response**

**Pretoria**

Management is in agreement with the finding, however, Emails were sent to Head Office to publish the list of bids received on the Departmental website within 10 working days, however, there was an oversight from the Region as they did not remind ICT about the publication of the awards.

Management will ensure that responsible SCM practitioner/s log a call to request that received bids are published within 10 working days after the award. SCM officials will ensure that follow up and monitoring is done after a call has been logged.

Name: Ms Tebogo Phiri

Position: Regional Manager

Date: 27 March 2018

**Durban**

Management agrees with the finding as awards for the mentioned services were not published due to lack of controls in terms of obtaining response from Facilities regarding the appointment letters. SCM delegations for 2018 will assist in improving compliance as appointment letters are now issued by Legal Services and SCM and Legal services have always maintained the level of compliance in publishing of awards within the set timeframes. Monitoring process has improved, as communication will be at an ASD level from Legal Services and SCM.

Appointment letter were followed up and received from Facilities and request to publish was sent and awards are expected to be published by 23-03-2018 on bulletin then SCM will ensure it is published on public works website a request will sent to Head Office by 23-03-2018.

Name: Ms Nomkhosi Mthethwa

Position: DD SCM

Date: 2018/03/27

**Cape Town**

I am in agreement with the audit finding.

Two officials have been assigned to solely deal with compliance issues for SCM processes to ensure that the existing checklists are completed and reviewed accordingly.

Name: N Khubana

Position: DD: Provisioning

Date: 06 April 2018

**Nelspruit**

Management comments not yet received

Name:

Position:

Date:

**Auditors’ conclusion**

**Pretoria**

Management agrees with the finding. The finding will remain and be reported in the management report.

**Durban**

Management agrees with the finding. The finding will remain and be reported in the management report.

**Cape Town**

Management comments are noted. The finding will remain.

**Nelspruit**

Management comments not yet received

1. **Procurement process not followed – Quotations (CPT COFF 1)**

**Audit finding**

Laws, rules and Regulations:

Treasury regulation 16A6.4 states that *“If in a specific case it is impractical to invite competitive bids, the accounting officer or the accounting authority may procure the required goods or services by other means, provided that the reasons for deviating from inviting competitive bids must be recorded and approved by the accounting officer or accounting authority.”*

Practice Note 8 of 2007/08 states that *“If it is not possible to obtain at least three (3) written price quotations, the reasons should be recorded and approved by the accounting officer/authority or his/her delegate.”*

Practice Note 8 of 2007/8 paragraph 3.5 states that “*goods, works or services may not deliberately be split into parts or items of lesser value merely for the sake of procuring the goods, works or services otherwise than through the prescribed procurement process. When determining transaction values, a requirement for goods, works or services consisting of different parts or items must as far as possible be treated and dealt with as a single transaction.”*

Treasury Regulations 16A.6.1 states *that procurement of goods and services, either by way of quotations or through a bidding process, must be between threshold values as determined by the National Treasury.*

Public Finance Management Act paragraph 38(1)(c)(ii) states *that the accounting officer for a department, trading entity or constitutional institution must take effective and appropriate steps to prevent unauthorized , irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct; and*

Public Finance Management Act Paragraph 38(1)(a)(i) and 38(1)(a)(iii) *states that the accounting officer for a department, trading entity or constitutional institution must ensure that the department, trading entity or constitutional institution has and maintains*

1. *Effective, efficient and transparent systems of financial and risk management and internal control;*
2. *(iii)  An appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective;”*

During the performance of our audit we identified that a deviated process was followed for sewerage works: site supervision and plant operation. The reason for the deviation provided was that the department would be in contravention of the Department of Water and Sanitation’s rules and regulations if there is no site supervision.

The department should have started the procurement process before the current supplier’s contract came to an end.

The awards were in effect just an extension of four months to the current supplier to allow for the procurement process to take place; therefore it was not impractical and impossible to follow the proper procurement process if planned properly:

| **Order number** | **Supplier** | **Description** | **Amount (R)** |
| --- | --- | --- | --- |
| A – 325840 | Zana Mani Services | Paarberg Prison: Sewerage Works – Site supervision and plant operation (June, July, August and September 2017) | 341 644.32 |
| A – 325842 | Zana Mani Services | Drakenstein Prison: Sewerage Works – Site supervision and plant operation (June, July, August and September 2017) | 417 708.54 |
| A – 325843 | Zana Mani Services | Helderstroom Prison: Sewerage Works – Site supervision and plant operation (June, July, August and September 2017) | 436 433.04 |
| A – 325844 | Zana Mani Services | Riebeeck West Prison: Sewerage Works – Site supervision and plant operation (June, July, August and September 2017) | 403 892.88 |
| **Total Value** | | | R 1 599 678.78 |

Furthermore, from the table above the procurement of sewerage works –site supervision and plant operation appears to have been deliberately split into different parts to avoid going out on a tender process. The total value is above R 500 000 for the same supplier and for the same service.

**Impact**

Non-compliance with laws and regulations.

Misstatement of Irregular Expenditure of R 1 599 678.78

**Internal control deficiency**

*Leadership*

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

*Financial and Performance Management*

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

**Recommendation**

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

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

**Management response:**

Management disagrees with the finding for the following reasons:

* All four prison facilities are in different areas which are wide apart, it would have been impractical to combine the areas. The reason for using same service provider was that Zana Manzi was already on site at all plants of which a project for a service contract had expired. It must also be noted that at the time Zana Manzi was the only service provider accredited by the department of Water and Sanitation. Due to the fact that this is a specialized service, the negotiated procedure was entered into with Zana Manzi to ensure continuity of the service to curb potential health hazard.
* It must also be highlighted that the department didn’t follow the normal procurement processes due to the fact the scope of works had to be reviewed hence as an interim measure the department negotiated with the service provider already on site.

Name: Ziyanda Nghona

Position: DD: FM

Date: 03/04/2018

**Auditor’s conclusion**

Management comments are noted however based on the documents inspected and the reasons provided by the official the expenditure is split to avoid going on open procedure, the auditors have concluded that the finding remains for the management report.

**Predetermined objectives**

1. **Predetermined objectives: Differences between the reported result for quarter 2 and portfolio of evidence submitted for audit**

**Audit Finding**

Laws, rules and legislation:

*In terms of the Public Finance Management Act section 40. Accounting officers’ reporting responsibilities. - (1) The accounting officer for a department, trading*

*entity or constitutional institution -*

*(a) must keep full and proper records of the financial affairs of the department, trading entity or*

*constitutional institution in accordance with any prescribed norms and standards;*

*(b) must prepare financial statements for each financial year in accordance with generally recognized accounting practice;*

*(3) The annual report and audited financial statements referred to in subsection (1) (d) must -*

*(a) fairly present the state of affairs of the department, trading entity or constitutional institution, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned;*

*The Framework for Strategic Plans and Annual Performance plan paragraph 4.4 states that:*

*A quarterly performance report provides the executive authority, the National Treasury and provincial treasuries with information on performance against plans. It also provides the accounting officer with an opportunity to indicate measures that will be taken to ensure that implementation of the Annual Performance Plan remains on track.*

*Timeframe*

*Quarterly reports must be prepared within 30 days after the end of each quarter.*

**Nature**

During our audit of performance information relating to programme 6: Facilities Management the following issues were noted:

1. Differences were identified between the quarter 2 performance report and the portfolio of evidence submitted for audit:

| **Programme 6:Facilities management** | | | | |
| --- | --- | --- | --- | --- |
| **No.** | **Indicator** | **Reported Achievement per Q2 report** | **Achievement per recalculation performed** | **Difference** |
| 1 | Number of facilities with scheduled maintenance contracts in place | 0 | 139 | 139 |
| 2 | Percentage of unscheduled reported maintenance incidents resolved within agreed timeframes | 0 | 5% | 5% |
| 3 | Reduction in energy consumption (kilowatt hours) in identified property portfolio | 0 | 13 844 834.79 | 13 844 834.79 |
| 4 | Reduction in water consumption (kilolitres) in identified property portfolio | 0 | 1 406 674 | 1 406 674 |

1. The following differences were noted between savings per the first quarter performance report and the savings per the listing:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Programme 6: Facilities Management** | | | | |
| **No.** | **Indicator** | **Savings per First Quarter Report** | **Savings per Listing** | **Difference** |
| 1 | Reduction in water consumption (kilolitres) in  identified property portfolio | 1 099 343 | 1 382 904 | 283 561 |

**Impact**

The impact of this finding is that reported result in understatement of the reported results.

**Internal control deficiency**

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.

**Recommendation**

Management should implement processes to ensure that actual achievements reported on the quarterly reports and ultimately the annual report is accurately reported.

Management must ensure that the reported result agrees to the supporting schedules.

Management response

Management comments not yet received

Name:

Position:

Date:

Auditor’s conclusion:

**Information Systems**

**System Development Life Cycle (SAGE)**

1. **SAGE - Lack of a business case for the SAGE project**

Audit finding

No evidence that there was a formal business case that was developed during the start-up of the SAGE project. Based on the National Department of Public Works (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 trackable 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

Lack of a formally documented business case may results in a non-value adding investment that does not meet business needs nor yields efficiency improvements resulting in wasteful expenditure.

Root cause

Some of the business case requirements have been covered in the user requirements document. Management did not compile a business case document.

Recommendation

It is recommended that a business case should be defined, and it should include the following:

* Current state of business process, identifying any control weaknesses
* Expected future state of business process (consider future growth)
* Addresses corporate / department strategic goals.
* Description of the application systems reviewed (e.g. proof of concepts, demos).
* Reason behind system recommended to be implemented (e.g. feasibility study).
* Cost benefit analysis
* Potential risks of the project and significance of risks.
* Potential impact to critical systems.
* Regulatory concerns / approvals.
* End user feedback.

Furthermore the business case should include the following details:

* The business case should include the reason behind the system recommended to be implemented (e.g. feasibility study including the risk and cost benefit).
* The business case should include a high level analysis of the possible alternatives considered in order to bridge a gap between the current (as is) situation and the proposed (to be) solution.
* The business case should demonstrate that the SAGE project management team considered all available options to address the problem statement, and per option considered the following information should be addressed, namely the benefits, costs, risks, stakeholder impact, issues, and other evaluations or filter criteria.
  + SAGE cost benefit analysis;
  + Potential impact to critical NDPW systems by the implementation of the SAGE;
  + Description of the application system reviewed (e.g. proof of concepts and demos relating to the SAGE)
  + Potential risks associated with the procurement of the SAGE system.

This will ensure that tangible business value realisation, de-briefing and close out sessions being do-able at post implementation.

Management response

Management agrees that the business case was not completed. The User Requirements document which was signed does contain most of the required information that is ordinarily contained in the business case except for the financial projections. The financial projections are contained in the Enterprise Architecture report (developed in 2012 before the actual procurement of the system)

The department also received approval from National Treasury to procure the systems.

In future projects, the department will develop a single business case instead of having the information in different documents.

Name and Surname: Masutu Ramatlotlo

Position: Director IT Projects

Implementation Date:

Auditor’s conclusion:

Management comments acknowledged.

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

Audit finding

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 R1.2M 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.

Root cause

Non-adherence to the project management methodology defined. The project team does not maintain a project library where all the project documentation is stored. The review of the project deliverables through project governance forums were not always adhered to for an example the use of the steering committee meetings to discuss project progress. Auditors could not obtain copies of the minutes of the meetings from the project governance meetings. The current CIO took over the project in 2015 while the project was already in progress.

Recommendation

The following is recommended:

* Changes to time lines/ milestones should be discussed and approved (change control process should be effected).The business stakeholders should be notified of the changes in the times lines.
* Progress on the SAGE project should be evaluated and discussed at the various platforms defined such as the steering committee with the project sponsor.
* The SAGE project deliverables should be continuously measured and evaluated against set timelines and project budget.
* The scope changes should be implemented with the knowledge and approval of the steering committee or executive sponsors, and a change management process should be followed.
* Project library should be maintained and the project documentation should be updated as the project progresses. It is recommended that a contract with supplier should be defined and kept for future reference.

Management response

Four (4) modules on SAGE have been implemented as per the original bid document and bid requirement, however management notes that proper documentation was not kept or signed off during this phase when the project was managed by the business unit. Proper documentation started when the project was taken over by the ICT Projects office and we will continue to make sure that all projects are properly documented.

The bid document will be made available to the auditor.

Name and Surname: Masutu Ramatlotlo

Position: Director IT Projects

Implementation Date: Immediate

Auditor’s conclusion:

Management comments acknowledged

1. **SAGE - Ineffective project governance (SAGE)**

Audit finding

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.

Root cause

The project was handed over to the current CIO in 2015. PMTE Finance Project Manager did not maintain a project library where all SAGE project documentation is kept.

Recommendation

The following is recommended:

* Changes to time lines/ milestones should be discussed and approved (change control process should be effected). The business stakeholders should be notified of the changes in the times lines.
* The scope changes should be implemented with the knowledge and approval of the steering committee or executive sponsors, and a change management process should be followed.
* Project library should be maintained and the project documentation should be updated as the project progresses

Management response

Management agrees with the finding, and as demonstrated, such short comings of not signing of minutes and the upkeep of documents was addressed when the project was moved to ICT Project Office

Name and Surname: Masutu Ramatlotlo

Position: Director IT Project

Implementation Date: Immediate

Auditor’s conclusion

Management comments acknowledged.

1. **SAGE - Ineffective risk and issue management and tracking for the SAGE implementation**.

Audit finding

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.

Root cause

The project has not been managed according to the project management framework or methodology defined.

Recommendation

The following is recommended for the Project Manager:

* The Project Manager should perform project risk assessment of identifying and quantifying risks continuously throughout the project. The risks and issues should be communicated within the project governance structure.
* The Project Manager should assess project risks periodically, including at entry into each major project phase and as part of major change request assessments.
* The Project Manager should identify risk and issue owners for responses to avoid, accept or mitigate risks.
* The Project Manager should maintain and review a project risk register of all potential project risks, and maintain a log of all project issues and their resolution. The Project Manager should analyse the log periodically for trends and recurring problems, to ensure that root causes are corrected.

Management response

Management does not agree with the auditors. All minutes show that the risks are discussed and mitigated during all project meetings, however having a mitigation strategy in place does not necessarily reduce the risk and thus the risk may or may not be perpetual hence some risk will not be removed from the register.

Management acknowledges the recommendations of the auditor.

Name and Surname: Masutu Ramatlotlo

Position: Director IT Projects

Implementation Date: Immediate

Auditor’s response

Management comments acknowledged; however the management comments do not address the weaknesses noted with regard to the maintenance of the risks register and the risk treatment plan. As lesson learned since the SAGE project is not yet completed, it is recommended that the risk register should be maintained continuously and the risks treatment controls should be updated for accurate reporting.

Auditor’s conclusion

The below risks and issues were highlighted in the minutes of the meeting reviewed but were not captured in the risk register:

Copy of the risks register provided:

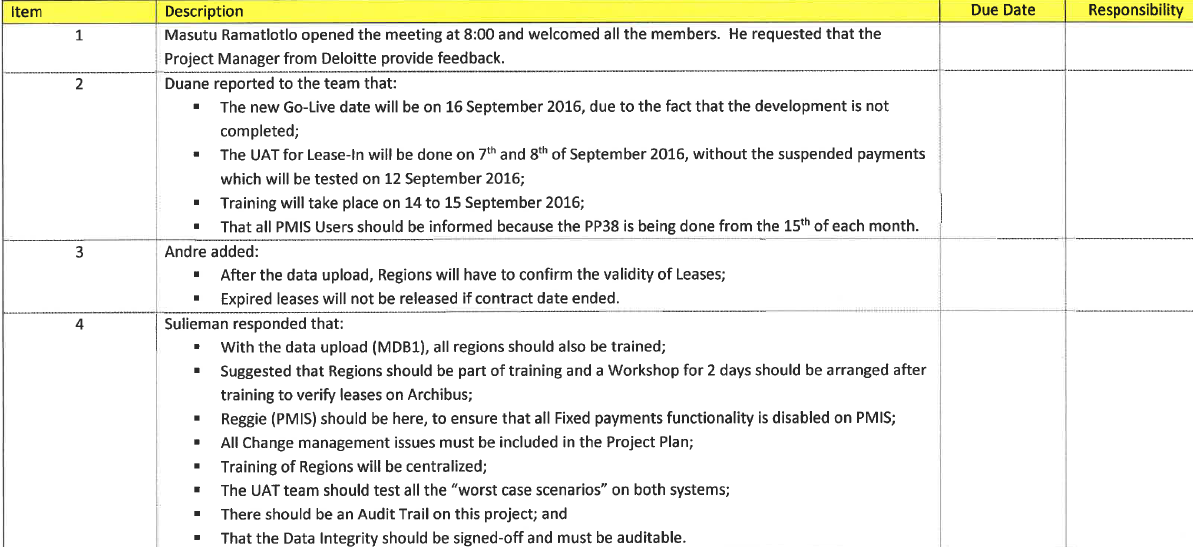
|  |  |  |  |
| --- | --- | --- | --- |
| **No** | **Risks and issue** | **Dates from the minutes it was reported (Minutes)** | **Resolution/ captured in the risks register (Yes or No)** |
| 1 | A postponement of a go live date was noted because of the development that was not completed. | 25 August 2016 | Not included in the risk register |
| 2 | The risks about the Archibus (Pilot and UAT) that was reported as not in sync. | 29 September 2016 | Not included in the risk register |
| 3 | Risk on the departmental resource shortage was not included in the risk register | 29 September 2016 | Not included in the risk register. |
| 4 | Lack of commitment of the service provider. | 29 September 2016 | Not included in the risk register. |
| 5 | A number of issues were identified from the testing performed. | 24 October 2016 | Not included in the risk register. |
| 6 | Issues with SAGE integration and the payment file that was not successfully processed. | 24 October 2016 | Not included in the risk register. |
| 7 | The split payment functionality that did not work because they had to de-active the journal entry process on SAGE. | 24 October 2016 | Not included in the risk register. |
| 8 | The issue about a Property numbers. | 24 October 2016 | Not included in the risk register. |
| 9 | Issue with variable payments (3 types of payments) and the end to end solution that did not work due to problems on SAGE. | 24 October 2016 | Not included in the risk register. |

The risk and issues from the minutes of the meetings were compared with the risk logged in the risks register, attached below:

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From the review of the project team minutes, Auditors noted that the actions were not always assigned to a risk owner and there were no dates allocated.

Extract from the minutes of the meetings:



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**System Development Life Cycle (ARCHIBUS)**

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

Audit finding

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 trackable 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.

Root cause

The business case was not defined, some of the requirements of the business case can be found in the user requirement document and the supply chain documentation.

Recommendation

It is recommended that a business case should be defined, and it should include the following:

* Current state of business process, identifying any control weaknesses
* Expected future state of business process (consider future growth)
* Addresses corporate / department strategic goals
* Description of the application systems reviewed (e.g. proof of concepts, demos)
* Reason behind system recommended to be implemented (e.g. feasibility study)
* Cost benefit analysis (dollar & labour cost / benefits, other benefits)
* Potential risks of the project and significance of risks
* Potential impact to critical systems
* Regulatory concerns / approvals
* End user feedback

Management response

Management agrees that the business case was not completed. The User Requirements document which was signed does contain most of the required information that is ordinarily contained in the business case except for the financial projections. The financial projections are contained in the Enterprise Architecture report (developed in 2012 before the actual procurement of the system)

For the implementation of the other ARCHIBUS module, a feasibility study was also documented and shows financial projections.

In future projects, the department will develop a single business case instead of having the information in different documents.

Name and Surname: Masutu Ramatlotlo

Position: Director IT Projects

Implementation Date: Immediate

Auditor’s conclusion

Management comments acknowledged;

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

Audit finding

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 DPW 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

Root cause

Non-compliance with the project management principles/ methodology defined in managing and tracking of the project deliverables against the defined timelines. The PMO experienced delays from the service provider.

Recommendation

The following is recommended:

* Project timelines should be monitored along with the project budgets.
* Deviations or variances to the project timelines from scope changes should be documented and submitted for approval to the sponsor and owner of the ARCHIBUS project.
* A formal schedule management plan should be defined and dependencies should be defined and mapped accordingly to the overall schedule management plan.
* Changes to time lines/ milestones should be discussed and approval at a forum. (Change control process should be affected). The business stakeholders should be notified of the changes in the times lines.

Management response

Management agrees with the findings. Some of the delays experienced were not within the control of ICT (e.g. data).

Management will continue implementing all such projects in line with the auditor’s recommendation.

Name and Surname: Masutu Ramatlotlo

Position: Director IT Projects

Date: Immediate

Auditor’s conclusion

Management comments acknowledged;