



AUDITOR - GENERAL
SOUTH AFRICA

PFMA 2023-24

Material Irregularities of Department of Public Works and Infrastructure (Portfolio and Sector)

28 February 2024

A culture of accountability will improve service delivery



MISSION

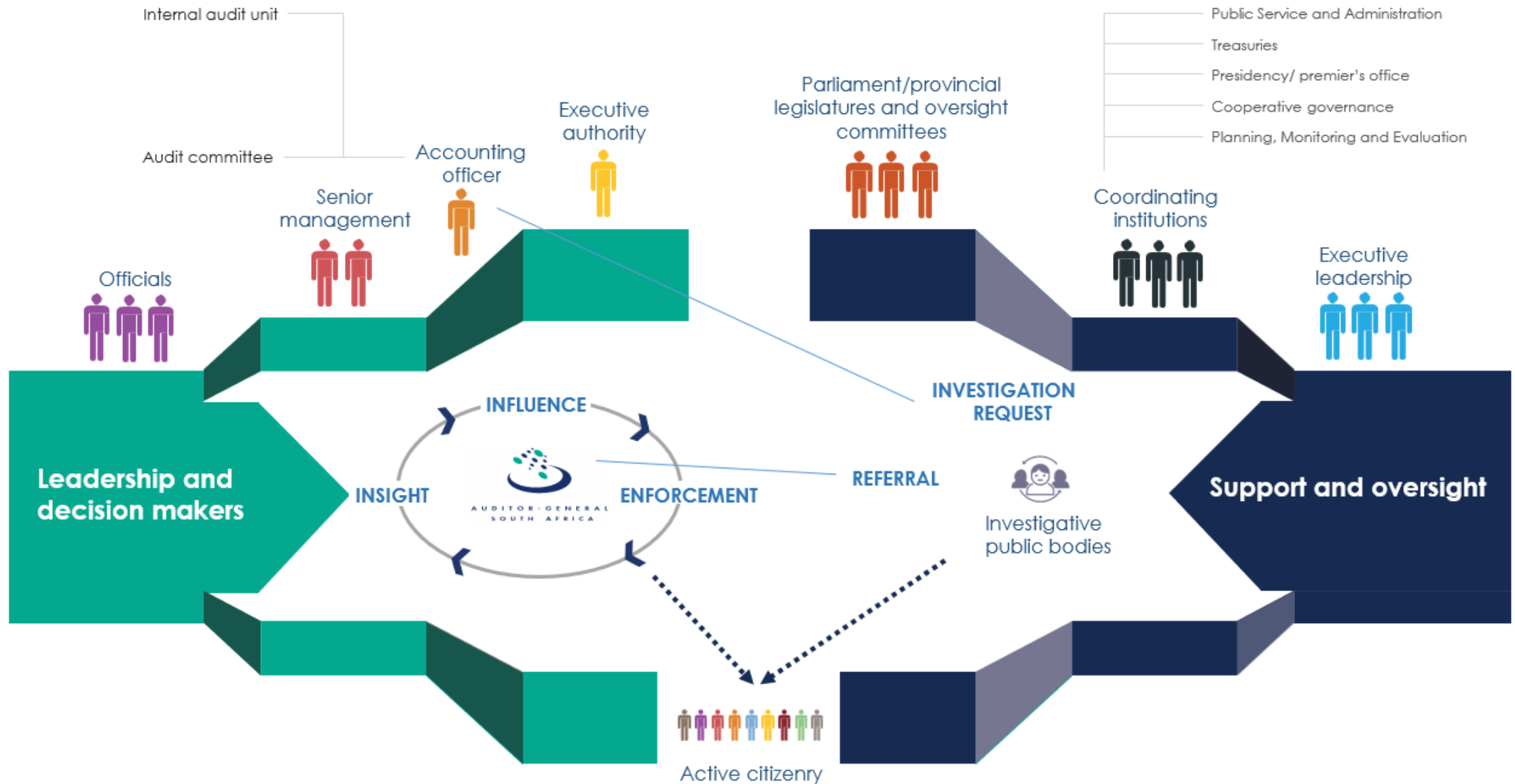
The Auditor-General of South Africa has a constitutional mandate and, as the supreme audit institution of South Africa, exists to strengthen our country's democracy by enabling oversight, **accountability** and governance in the public sector through auditing, thereby building public confidence



VISION

To be recognised by all our stakeholders as a relevant supreme audit institution that enhances public sector **accountability**

All have a role to play in accountability ecosystem

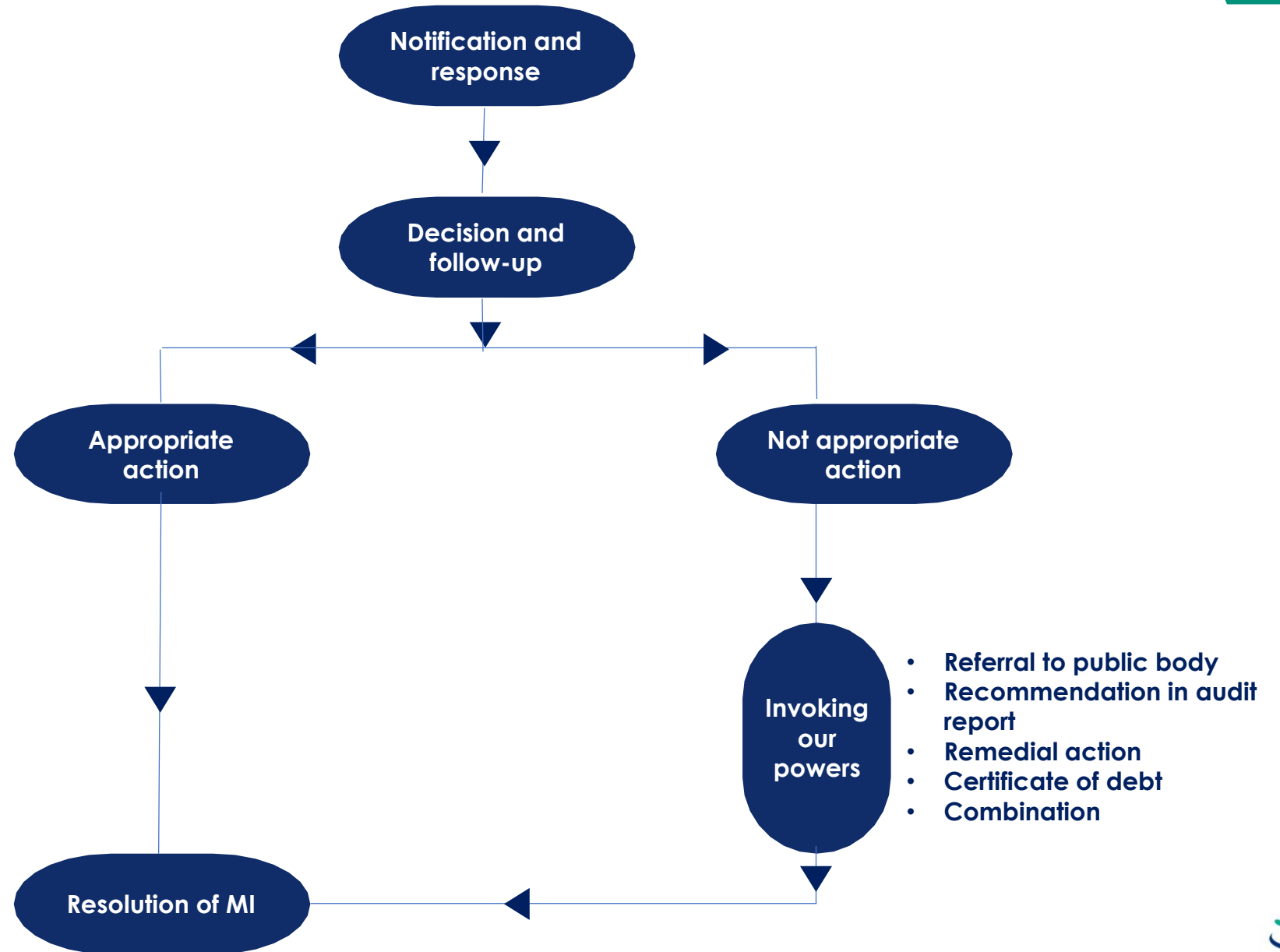


Material Irregularities on DPWI Portfolio



AUDITOR-GENERAL
SOUTH AFRICA

Any **non-compliance** with, or **contravention** of, legislation, **fraud**, **theft** or a **breach of a fiduciary duty** identified during an audit performed under the Public Audit Act that **resulted in or is likely to result in a material financial loss**, the **misuse or loss of a material public resource**, or **substantial harm** to a **public sector institution** or the **general public**



12 MIs on non-compliance and suspected fraud resulting in:

- 11** material **financial loss**
- 1** **misuse** of material **public resource**

Impact made

R19,1m

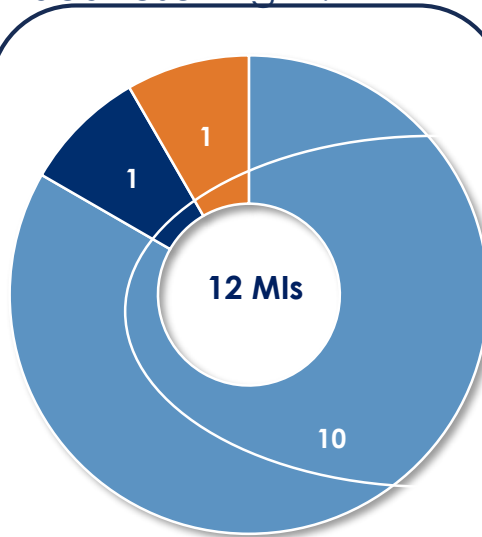
Financial loss **recovered**
(PMTE – Leases MIs)

R17m

Financial loss **prevented**
(PMTE – Beitbridge MI)

R15,9m

Financial loss **in process of being recovered**
(PMTE – Mamelodi Magistrate
DPWI – State events, State
funerals and Welizwe bridges)



- Procurement and payment
- Interest and penalties
- Misuse of material public resources

Status of MIs



4

Resolved MI – The AO has taken sufficient and appropriate steps within his powers to resolve the MI (PMTE and DPWI)



5

Appropriate actions being taken – The AO making adequate progress to resolve the M (PMTE and DPWI)

2

Recommendations included in audit report (PMTE and IDT)



1

Response received on notification – in process of assessing action (PMTE)

4 **Internal controls improved** to prevent reoccurrence

11 Responsible officials identified and **disciplinary process** completed or in process

4 **Fraud / criminal investigations** instituted

2 **Supplier contracts stopped** where money was being lost



New Material irregularity – Misuse of material public resource

| Dept/ Entity | Notified | Type | MI Description | Actions taken | Status |
|--------------|-----------------|--|---|--|--|
| PMTE | 18 January 2024 | Misuse of material Public Resource (Telkom Towers complex) | <p>PMTE purchased the Telkom Towers complex on 07 April 2016 for the value of R694 million with the objective to move the South African Police Services (SAPS) head office operations in Pretoria to one central location.</p> <p>The complex consists of nine (9) buildings, which were functional at the time of purchase.</p> <p>The utilisation of the complex was intended to alleviate the pressure on the private lease budget and to enhance the delivery of services to ordinary citizens by SAPS.</p> <p>However, seven (7) years later, only one (1) out of the nine (9) buildings are being occupied and utilised by SAPS as intended.</p> <p>This leaves eight (8) buildings with a total cost of R592 million vacant and unutilised.</p> <p>Irregularity: Non-compliance with Treasury Regulation 10.1.2 Impact: Misuse of material public resource</p> | We received the AO's response on the 16 February 2024 and the audit team is still assessing the response to determine if appropriate steps are being taken. | Response received on notification – in process of assessing action |



Material irregularities – AO taking appropriate steps

| Dept/ Entity | Notified | Type | MI Description | Status as at 30 September 2023 | Actions taken by AO as at 23 February 2024 | Current Status |
|--------------|------------------|--|---|---|---|---|
| DPWI | 31 July 2023 | Financial loss (Weliszwe bridge project) | Differences in the actual lengths and weights of bridge materials when compared with the BoQ and the invoices resulted in overpayments for both bridge material and transport cost between July 2022 and November 2022. Irregularity: Non-compliance with TR 8.1.1 Impact: AO to quantify the loss. | An amount of R2 904 700.23 was deducted and credited to the Department. | <ul style="list-style-type: none"> The identification of responsible officials is still in progress. Standard Operation Procedures on the programme is still in process of finalisation. Additional follow-ups were done in the current year and we are still assessing the AO responses. | AO is taking appropriate steps |
| PMTE | 10 November 2022 | Financial loss (Lease no: 139901) | Between September 2019 and July 2021, payments made on lease of office accommodation and parking (lease no:139901) were higher than those provided for in the lease agreement. Irregularity: Non-compliance with TR 8.1.1 Impact: Likely Material financial loss of R4,5 million | <ul style="list-style-type: none"> Disciplinary actions have been taken. Only R1,5 million was recovered | <p>We followed up with the AO on the progress made to resolve the lease material irregularities on 01 February 2024 :</p> <p>Concerns in the control environment remain as the current controls are not yet fully effective in preventing overpayments.</p> <p>The AGSA is considering taking further actions that will influence change in the control environment to prevent the re-occurrence of further lease overpayments</p> <p>As at 30 September 2023, similar instances of lease overpayments were noted by the internal audit unit on other lease contracts.</p> | AGSA will evaluate the response to be submitted by AO for the remaining R3million that is being investigated by PMTE. |

Material irregularities – AO taking appropriate steps

| Dept/ Entity | Notified | Type | MI Description | Status as at 30 September 2023 | Actions taken by AO as at 23 February 2024 | Current Status |
|--------------|-----------------|--|---|--|---|---------------------------------|
| PMTE | 03 June 2022 | Financial loss (Lease no:140277) | <p>Between September 2019 and March 2021, payments made on lease of office accommodation and parking (lease no:140277) were higher than those provided for in the lease agreement.</p> <p>Irregularity: Non-compliance with TR 8.1.1 Impact: Likely Material financial loss of R3,8 million</p> | <ul style="list-style-type: none"> Disciplinary actions have been taken The financial loss of R3,8 million has been recovered Concerns in the control environment remain | <p>We followed up with the AO on the progress made to resolve the lease material irregularities on 01 February 2024 :</p> <p>Concerns in the control environment remain as the current controls are not yet fully effective in preventing overpayments.</p> <p>The AGSA is considering taking further actions that will influence change in the control environment to prevent the re-occurrence of further lease overpayments</p> <p>As at 30 September 2023, similar instances of lease overpayments were noted by the internal audit unit on other lease contracts.</p> | Appropriate actions being taken |
| PMTE | 15 October 2021 | Financial loss (Mamelodi Magistrate Court) | <p>PMTE approved the contract extensions in the construction of the Mamelodi Magistrate's Court, with adjustments to the contract value, which were not in line with the contract Joint Building Construction Committee (JBCC).</p> <p>Irregularity: Non-compliance with section 45(a) of the PFMA</p> <p>Impact: Likely Material financial loss of R3 011 124,24</p> | <p>The AO received responses from the senior officials who were identified (Project Manager, Director and Chief Director) as the responsible parties that caused the MI. On 25 March 2022, the accounting officer took further action and referred the matter to Labour Relations to conduct an investigation to prepare charge sheets and institute disciplinary action against the identified officials.</p> <p>PMTE sent a letter of demand to the service provider on 27 March 2023, requesting a refund for R3 011 124, 24 (VAT exclusive) due to application for extension of contract which were erroneously approved within cost</p> | <p>We followed up with the AO on the progress made to resolve the MI on 01 February 2024:</p> <p>AO is the process of recovering the financial loss through the State Attorney. However, no monies have been recovered to date.</p> <p>The disciplinary actions against the responsible officials is ongoing.</p> | AO is taking appropriate steps |

| Dept/ Entity | Notified | Type | MI Description | Status as at 30 September 2023 | Actions taken by AO as at 23 February 2024 | Current Status |
|-----------------|----------------|---|--|--|---|---------------------------------|
| PMTE | 27 August 2021 | Financial loss (Lease no: 140280) | <p>Payments made on the lease of office accommodation and parking (lease no:140280) were based on the expired lease agreements which had higher rates than those provided for in the renewed lease agreement.</p> <p>Non-compliance with TR 8.1.1</p> <p>Impact: Likely Material financial loss of R10,9 million</p> | <ul style="list-style-type: none"> - Disciplinary actions have been taken - The financial loss of R10,9 million has been recovered • Concerns in the control environment remain | <p>We followed up with the AO on the progress made to resolve the lease material irregularities on 01 February 2024 :</p> <p>Concerns in the control environment remain as the current controls are not yet fully effective in preventing overpayments.</p> <p>The AGSA is considering taking further actions that will influence change in the control environment to prevent the re-occurrence of further lease overpayments</p> <p>As at 30 September 2023, similar instances of lease overpayments were noted by the internal audit unit on other lease contracts.</p> | Appropriate actions being taken |



Material irregularities – Recommendations issued

| Dept/ Entity | Notified | Type | MI Description | Status as at 30 September 2023 | Actions taken by AO as at 23 February 2024 | Current Status |
|--------------|----------------|---|---|---|---|-----------------|
| PMTE | 26 August 2021 | Financial loss (Leeuwkop Prison) | Boilers at Leeuwkop Prison were not appropriately safeguarded during construction, resulting in them being damaged due to exposure to severe weather conditions . Irregularity: Non-compliance with TR 10.1.1 (a) Impact: Likely Material financial loss of R1 851 108,31 | The AO did not take appropriate action to resolve the MI. We have included the following recommendations in the 2021-22 audit report, which should be implemented by January 2023: <ul style="list-style-type: none"> to determine if any official should be held responsible. quantify the financial loss relating to the boilers – take appropriate actions against the responsible officials Implement controls to prevent any further losses on account of inadequate safeguarding or other damage in relation to construction site. | We wrote to the Hon. Minister on the 16 October 2023 to his seek intervention on the matter. The responses received on the 15 of February 2024 from the AO are being assessed by the MI unit | Recommendation |
| IDT | 01 July 2022 | Financial loss (Penalties and interest on VAT) | On numerous occasions from March 2020 until October 2021, VAT payments were made late by trust, which resulted in penalties and interest being charged by SARS Irregularity: Non-compliance with section 28(1)(b) of the value added Tax Act Impact: Material financial loss of R1,8 million | Notified the AO of the following recommendations which should be implemented by 7 December 2023j Take appropriate steps to assess the reasons and circumstances that led to the non-compliance with : Invoke Section 28(1)(b) of the VAT Act ,for the purposes of taking appropriate corrective actions and to address the internal control weaknesses. Determine whether any official is liable by law for the losses suffered by the entity for the purpose of recovery. Effective and appropriate disciplinary steps should commence. Appropriate action should be taken to develop and commence with the implementation of a budget and cash flow management plan, to address the timely payments to SARS. The plan should include realistic timeframes and milestones to be achieved. | In response to the recommendations, the AAI has provided responses on the 7 December 2023 and 26 January 2024.. The AGSA Material Irregularity Business Unit is currently evaluating the responses from AA. | Recommendations |



Material irregularities resolved and tracked outside MI process

| Dept/ Entity | Notified | Type | MI Description | Status as at 30 September 2023 | Further actions being taken |
|--------------|-------------------|---|--|--|--|
| PMTE | 13 November 2020 | Financial loss (Beitbridge 1) | Competitive bidding processes were not followed to appoint contractors and consultants for the Beitbridge borderline infrastructure project in March 2020. As a result, market-related prices were not secured. Irregularity: Noncompliance with TR 16A3.2(a) Impact: Likely Material financial loss of R17 million | Resolved on the 08 September 2023 <ul style="list-style-type: none"> SIU is in the process of recovering financial losses Disciplinary actions were taken | On the 12 December 2023 the High Court dismissed the appeal of the contractors and ordered that they be divested of the profits earned from the contracts concluded under contract number H16/022 and HP14/075 between the DPWI and the first and second defendants respectively ("the contracts"). |
| PMTE | 13 November 2020 | Financial loss (Beitbridge 2) | Establishment costs were incorrectly included in the bill of quantities due to ineffective internal controls to prevent the inclusion and payment thereof. Irregularity: Non compliance with TR 8.1.1 Impact: Likely Material financial loss of R1,09 million. | Resolved on the 08 September 2023 <ul style="list-style-type: none"> SIU is in the process of recovering financial losses Disciplinary actions were taken | The disciplinary actions process against senior officials is being dealt with through state attorney. On the 29 January 2024 , the state attorney wrote a formal letter to registrar for allocation of date. |
| DPWI | 02 September 2020 | Financial loss (State funerals) | Expenditure on state funerals between May 2018 and December 2018 exceeded the contract amount and the services paid for differed from those provided for in the contracts. Irregularity: Noncompliance with TR 8.1.1 Impact: Material financial loss of R9,1 million | Resolved on the 31 July 2023 <ul style="list-style-type: none"> SIU is in the process of recovering financial losses Disciplinary actions were taken SCM control environment has improved | The matter is being dealt with by SIU. No progress to report to date. |
| DPWI | 02 September 2020 | Financial loss (State events) | Expenditure on state events The prices charged on the invoices for three state events from July 2018 to November 2018 differed from the prices quoted on the pricing schedule submitted by the supplier during the tender process. irregularity: Non-compliance with TR 8.1.1 Impact: Material financial loss of R0,8 million | Resolved on the 31 July 2022 <ul style="list-style-type: none"> State attorney is in the process of recovering financial losses Disciplinary actions were taken SCM control environment has improved | The matter is being dealt with by state attorneys. No progress to report to date. |

Material Irregularities - Provincial Public Works

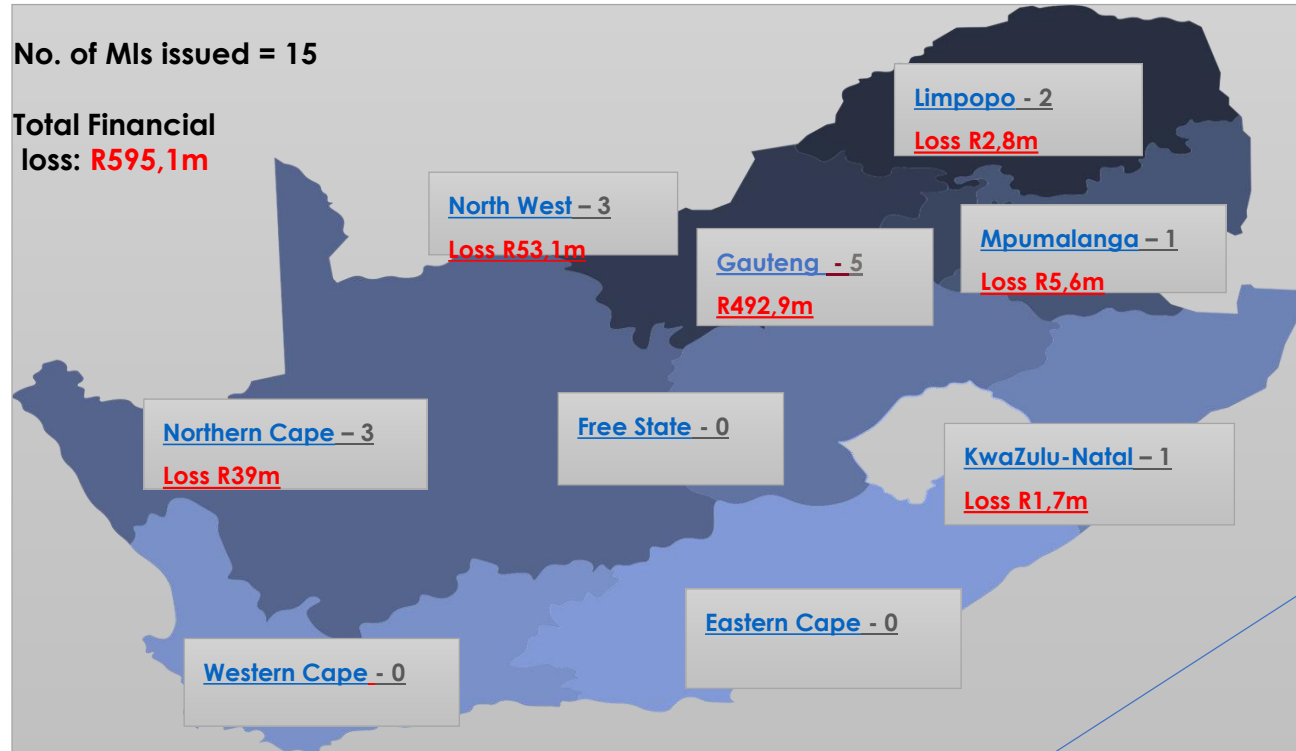


AUDITOR-GENERAL
SOUTH AFRICA

Provincial departments: Material irregularities resulting to financial losses

No. of MIs issued = 15

Total Financial loss: **R595,1m**



1

Responses received & assessing actions = 2

NW (1) - Supplier with highest points not appointed – **R3,3 million**
 MP(1) - Overpayment made by exceeding BoQ quantities – **R5,6 million**

2

Appropriate actions are being taken = 7

NW(1) : Contractor not paid within 30 days – **R3.5 million**
 GP (1): Refurbishment of a private hospital without re-compensation. Disciplinary actions and recovery process is in progress – **R492,9 million**
 GP (1): A **replacement contractor was not appointed for Mayibuye clinic project**. This has resulted in the **likely deterioration** of the **existing infrastructure** – **AO to quantify the financial loss**
 GP (1): A **replacement contractor was not appointed for Nancefield primary school project**. This has resulted in **likely deterioration of the existing infrastructure**
 GP (1): A **replacement contractor was not appointed for Khutsong South clinic**. This has resulted in **likely deterioration of the existing infrastructure** – **AO to quantify the financial losses**
 GP (1): A **replacement contractor was not appointed for Mayibuye Primary School project**. This has resulted in **likely deterioration** of the existing infrastructure – **AO to quantify the financial loss**
 LP (1): **Electricity paid for government officials who are obligated** in terms of their lease agreements **to cover this cost** – **R1,2 million**.

3

Appropriate actions have been taken = 2

NW (1): Prepayment made to contractor for addressing **flood damaged road infrastructure**. SIU is in the process of recovering financial losses of **R46,3 million**
 LP (1) - Tender awarded to a bidder who did not score the highest points for road maintenance – **R1.6 million**

4

Recommendations = 4

KZN (1) - Payment for unutilised software licenses - **R1.7 million**
 NC (1) - Tender awarded to a bidder who did not score the highest points – **R1 million**
 NC (1) - Standing time and settlement costs claimed by the contractor – **R38 million**
 NC (1) - Suppliers appointed using the panel without applying PPPFA requirements - **Unquantified**

Overall Observations, Recommendations and Commitments



Improved service delivery enabled by capable, cooperative, accountable and responsive institutions delivering on their mandates

Activate the accountability ecosystem to address the current realities

Our Observations,

Identification of a high number of material irregularities in the Public Works sector exposes the **leakages from the fiscus**. The ripple effect is that infrastructures meant to improve key service delivery to the ordinary citizens of South Africa are **delayed** and **not realised on time** nor within budget.

Additionally, it **takes significant time** for the AO/AA to address the **material irregularities**. This is mainly due to a **lack of accountability** and **consequential actions** taken against the responsible officials.

Recommendations

We recommend the portfolio committee **to evaluate and monitor the effectiveness of consequence management systems** that are employed by the **departments and entities** to deal with instances of **material irregularities**. The growing number continues to **raise questions** on the **effectiveness** of the **consequential actions** in place used to signal **a strong message** to those who intend to cause drainage to the **Fiscus**.

Follow up on commitments

The portfolio committee to **share its observations** on the **construction** of **Welisizwe bridges**.

Refer transactions relating to **overpaid leases** to the **Special Investigating Unit** for investigation in order to unearth the real root causes of irregularities in the lease environment, and drive sustainable solutions to deal with this significant matter.





AUDITOR - GENERAL
SOUTH AFRICA

Stay in touch with the AGSA



www.agsa.co.za



@AuditorGen_SA



Auditor-General of South Africa



Auditor-General of South Africa

THANK
YOU